OAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

AND INDEPENDENT AUDITOR’S REPORT

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Independent Auditor's Report

To the shareholders and Board of Directors of OAO NOVATEK

We have audited the accompanying consolidated financial statements of OAO NOVATEK and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for 2013, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

25 February 2014

Moscow, Russian Federation

Independent Auditor's Report (Continued)

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

Audited entity: OAO NOVATEK

State registration certificate №1461/94, issued by the administration of Oktyabrskiy district of Samara on 16 August 1994.

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

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

Independent auditor: ZAO PricewaterhouseCoopers Audit

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

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

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

(in millions of Russian roubles)

	Notes	At 31 December 2013	At 31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	6	243,688	197,376
Investments in joint ventures	7	210,066	189,136
Long-term loans and receivables	8	49,337	13,150
Other non-current assets	9	12,478	5,228
Total non-current assets		**515,569**	**404,890**
Current assets			
Inventories	10	5,953	3,091
Current income tax prepayments		157	1,756
Trade and other receivables	11	49,522	16,409
Prepayments and other current assets	12	18,905	18,567
Cash and cash equivalents	13	7,889	18,420
Total current assets		**82,426**	**58,243**
Total assets		**597,995**	**463,133**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	14	141,595	97,805
Deferred income tax liabilities	27	18,219	13,969
Asset retirement obligations		3,397	2,879
Other non-current liabilities		1,854	2,049
Total non-current liabilities		**165,065**	**116,702**
Current liabilities			
Short-term debt and current portion of long-term debt	16	24,026	34,682
Trade payables and accrued liabilities	17	21,260	15,925
Current income tax payable		7,365	198
Other taxes payable		7,222	4,325
Total current liabilities		**59,873**	**55,130**
Total liabilities		**224,938**	**171,832**
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(2,406)	(584)
Additional paid-in capital		31,297	31,220
Currency translation differences		683	(202)
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		334,614	253,606
Total equity attributable to OAO NOVATEK shareholders	18	**370,198**	**290,050**
Non-controlling interest		**2,859**	**1,251**
Total equity		**373,057**	**291,301**
Total liabilities and equity		**597,995**	**463,133**

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 25 February 2014:

L. Mikhelson
Chairman of the Management Committee

M. Gyetvay
Chief Financial Officer

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

	Notes	Year ended 31 December: 2013	2012
Revenues			
Oil and gas sales	20	297,499	210,246
Other revenues		659	727
Total revenues		**298,158**	**210,973**
Operating expenses			
Transportation expenses	21	(103,245)	(60,848)
Purchases of natural gas and liquid hydrocarbons	22	(34,707)	(17,483)
Taxes other than income tax	23	(21,645)	(16,846)
Depreciation, depletion and amortization	6	(13,503)	(11,499)
General and administrative expenses	24	(11,029)	(10,622)
Materials, services and other	25	(8,282)	(7,216)
Net impairment expenses		(2,611)	(325)
Exploration expenses		(427)	(2,022)
Change in natural gas, liquid hydrocarbons and work-in-progress		2,688	1,086
Total operating expenses		**(192,761)**	**(125,775)**
Net gain (loss) on disposal of interest in subsidiaries and joint ventures	5	37,649	(60)
Other operating income (loss)		880	196
Profit from operations		**143,926**	**85,334**
Finance income (expense)			
Interest expense	26	(5,347)	(3,236)
Interest income	26	2,341	1,731
Foreign exchange gain (loss)		(3,678)	4,491
Total finance income (expense)		**(6,684)**	**2,986**
Share of profit (loss) of joint ventures, net of income tax	7	(112)	(2,105)
Profit before income tax		**137,130**	**86,215**
Income tax expense			
Current income tax expense		(23,392)	(16,142)
Net deferred income tax expense		(3,793)	(632)
Total income tax expense	27	**(27,185)**	**(16,774)**
Profit (loss)		**109,945**	**69,441**
Profit (loss) attributable to:			
Non-controlling interest		(61)	(17)
Shareholders of OAO NOVATEK		**110,006**	**69,458**
Basic and diluted earnings per share (in Russian roubles)		36.31	22.89
Weighted average number of shares outstanding (in thousands)		*3,029,532*	*3,034,245*

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

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

	Notes	Year ended 31 December: 2013	2012
Profit (loss)		**109,945**	**69,441**
Other comprehensive income (loss) that will not be reclassified subsequently to profit (loss)			
Remeasurement of pension obligations	15	(11)	-
Other comprehensive income (loss) that may be reclassified subsequently to profit (loss), net of income tax			
Currency translation differences		885	(395)
Total other comprehensive income (loss)		**874**	**(395)**
Total comprehensive income (loss)		**110,819**	**69,046**
Total comprehensive income (loss) attributable to:			
Non-controlling interest		(61)	(17)
Shareholders of OAO NOVATEK		**110,880**	**69,063**

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

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

	Notes	Year ended 31 December: 2013	2012
Profit before income tax		**137,130**	**86,215**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		13,503	11,499
Net impairment expenses		2,611	325
Net foreign exchange loss (gain)		3,678	(4,491)
Net loss (gain) on disposal of assets		(37,517)	101
Interest expense		5,347	3,236
Interest income		(2,341)	(1,731)
Share of loss (profit) in joint ventures, net of income tax	7	112	2,105
Revaluation of financial instruments through loss (profit)		(549)	36
Net change in other non-current assets and long-term receivables		323	780
Other adjustments		104	514
Working capital changes			
Decrease (increase) in long-term advances for transportation		(2,923)	-
Decrease (increase) in trade and other receivables, prepayments and other current assets		(16,491)	(8,122)
Decrease (increase) in inventories		(2,830)	(1,425)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		(212)	5,014
Increase (decrease) in taxes other than income tax		3,257	(624)
Total effect of working capital changes		**(19,199)**	**(5,157)**
Income taxes paid		(14,677)	(17,607)
Net cash provided by operating activities		**88,525**	**75,825**
Cash flows from investing activities			
Purchases of property, plant and equipment		(51,127)	(37,378)
Purchases of materials intended for construction		(6,654)	(1,938)
Acquisition of subsidiaries net of cash acquired	5	(556)	184
Acquisition of joint ventures	7	-	(42,697)
Acquisition of additional stakes in joint ventures	7	(1,703)	-
Additional capital contributions to joint ventures	7	(2,247)	(5,213)
Repayments of long-term receivables from disposals of subsidiaries in previous years		1,623	302
Interest paid and capitalized		(3,460)	(2,698)
Loans provided to joint ventures		(45,801)	(4,818)
Repayments of loans provided to joint ventures		8,564	8,102
Interest received		869	2,030
Net cash (used for) provided by investing activities		**(100,492)**	**(84,124)**
Cash flows from financing activities			
Proceeds from long-term debt		47,778	81,149
Proceeds from short-term debt		9,089	-
Repayments of long-term debt		(34,964)	(40,412)
Repayments of short-term debt		(2,500)	-
Interest paid		(4,430)	(2,320)
Dividends paid	18	(22,002)	(19,718)
Purchase of treasury shares		(1,854)	(303)
Sale of treasury shares		85	-
Acquisition of non-controlling interest in previous years		-	(16,290)
Additional capital contributions to the Group's subsidiaries by non-controlling shareholders		1,666	497
Net cash (used for) provided by financing activities		**(7,132)**	**2,603**

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2013	2012
Net effect of exchange rate changes on cash, cash equivalents and bank overdrafts		999	285
Net increase (decrease) in cash, cash equivalents and bank overdrafts		**(18,100)**	**(5,411)**
Cash and cash equivalents at beginning of the year		18,420	23,831
Cash, cash equivalents and bank overdrafts at end of the year	13	**320**	**18,420**

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**
For the year ended 31 December 2012										
1 January 2012	***3,034,338***	**393**	**(281)**	**31,220**	**193**	**5,617**	**203,871**	**241,013**	**669**	**241,682**
Currency translation differences	-	-	-	-	(395)	-	-	(395)	-	(395)
Profit (loss)	-	-	-	-	-	-	69,458	69,458	(17)	69,441
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(395)**	**-**	**69,458**	**69,063**	**(17)**	**69,046**
Dividends (Note 18)	-	-	-	-	-	-	(19,723)	(19,723)	-	(19,723)
Impact of additional shares subscription in subsidiaries on non-controlling interest	-	-	-	-	-	-	-	-	497	497
Purchase of treasury shares (Note 18)	*(925)*	-	(303)	-	-	-	-	(303)	-	(303)
Acquisition of subsidiaries (Note 5)	-	-	-	-	-	-	-	-	102	102
31 December 2012	***3,033,413***	**393**	**(584)**	**31,220**	**(202)**	**5,617**	**253,606**	**290,050**	**1,251**	**291,301**

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**
For the year ended 31 December 2013										
1 January 2013	***3,033,413***	**393**	**(584)**	**31,220**	**(202)**	**5,617**	**253,606**	**290,050**	**1,251**	**291,301**
Currency translation differences	-	-	-	-	885	-	-	885	-	885
Remeasurement of pension obligations (Note 15)	-	-	-	-	-	-	(11)	(11)	-	(11)
Profit (loss)	-	-	-	-	-	-	110,006	110,006	(61)	109,945
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**885**	**-**	**109,995**	**110,880**	**(61)**	**110,819**
Dividends (Note 18)	-	-	-	-	-	-	(21,999)	(21,999)	-	(21,999)
Reassessment of investments in joint ventures (Note 5)	-	-	-	-	-	-	(6,988)	(6,988)	-	(6,988)
Impact of additional shares subscription in subsidiaries on non-controlling interest	-	-	-	-	-	-	-	-	1,669	1,669
Purchase of treasury shares (Note 18)	*(5,603)*	-	(1,854)	-	-	-	-	(1,854)	-	(1,854)
Sales of treasury shares (Note 18)	*272*	-	32	77	-	-	-	109	-	109
31 December 2013	***3,028,082***	**393**	**(2,406)**	**31,297**	**683**	**5,617**	**334,614**	**370,198**	**2,859**	**373,057**

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

OAO NOVATEK (hereinafter referred to as “NOVATEK”) and its subsidiaries (hereinafter jointly referred to as the “Group”) is an independent oil and gas company engaged in the acquisition, exploration, development, production, processing, and marketing 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 delivers its natural gas on the Russian Federation’s domestic market and liquid hydrocarbons on both the Russian domestic and international markets.

The Group sells its natural gas on the domestic market at unregulated market prices (except for deliveries to residential customers); however, the majority of natural gas sold in a whole on the Russian domestic market is sold at prices regulated by the Federal Tariffs Service, a governmental agency of the Russian Federation. The Group’s natural gas sales fluctuate on a seasonal basis mostly due 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 liquid hydrocarbons sales are subject to fluctuations in underlying benchmark crude oil, naphtha and other gas condensate refined products prices. The Group’s liquids sales volumes remain relatively stable from period to period.

In October 2012, the Group signed long-term natural gas purchase and sales contracts with third parties to commence commercial trading activities in the European market. The contracts were signed for a period of ten years starting from 1 October 2012 with the expected total volume of natural gas traded over this period of approximately 20 billion cubic meters. Correspondingly, the Group entered into short-term natural gas purchase and sales contracts in the European market to support and optimize its long-term trading activities.

In December 2013, NOVATEK exchanged its 51 percent ownership in OAO Sibneftegas, the Group’s joint venture, for a 40 percent equity stake in Artic Russia B.V., which holds a direct 49 percent participation interest in OOO SeverEnergia, the Group’s joint venture. In addition, OOO Yamal Development, the Group’s joint venture, acquired the remaining 60 percent equity stake in Artic Russia B.V. Following the completion of these transactions, the Group’s effective interest in SeverEnergia increased from 25.5 to 59.8 percent (see Note 5).

In December 2013, the Group disposed its 20 percent stake in OAO Yamal LNG, the Group’s joint venture, to China National Petroleum Corporation, which became a partner of the Group in the Yamal LNG project (see Note 5).

In 2013, the Group’s wholly owned subsidiary, OOO NOVATEK-Ust-Luga, launched the Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea with annual capacity of six million tons. The Ust-Luga Complex processes stable gas condensate into higher-value refined products (naphtha, jet fuel, gasoil and fuel oil) and thus expands the Group’s vertically integrated production and sales value chain. The Group commenced gas condensate refined products sales from July 2013.

In December 2012, the Group acquired an 82 percent participation interest in OOO Gazprom mezhregiongas Kostroma, a Russian regional natural gas trader, to support and expand natural gas sales opportunities in the Kostroma Region of the Russian Federation (see Note 5). In 2013, the Group continued the legal process of renaming its subsidiaries to create a uniform brand image for NOVATEK and, as a result, the Group’s subsidiary, OOO Gazprom mezhregiongas Kostroma, was renamed to OOO NOVATEK-Kostroma. Subsequent to the balance sheet date, in February 2014, the Group acquired an additional 15 percent participation interest in OOO NOVATEK-Kostroma.

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

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

In November 2012, the Group acquired a 49 percent ownership interest in ZAO Nortgas, an oil and gas producing company, which holds the license for the North-Urengoyskoye field located in the YNAO. In June 2013, the Group increased its equity share in Nortgas to 50 percent through a subscription to the entity’s additional share emission (see Note 5).

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

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, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. In the absence of specific IFRS guidance for oil and gas producing companies, the Group has developed accounting policies in accordance with other generally accepted accounting principles for oil and gas producing companies, mainly US GAAP, insofar as they do not conflict with IFRS principles. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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

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

			Average rate for the year ended 31 December:	
Russian roubles to one currency unit	**At 31 December 2013**	**At 31 December 2012**	**2013**	**2012**
US dollar ("USD")	32.73	30.37	31.85	31.09
Polish Zloty ("PLN")	10.85	9.87	10.08	9.56

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

Reclassifications. Certain reclassifications have been made to the comparative figures to conform to the current period presentation with no effect on profit for the period or shareholder's equity. Depreciation, depletion and amortization expenses are presented including depreciation of administrative buildings, which was previously disclosed within general and administrative expenses; accordingly, depreciation of administrative buildings expenses in the amount of RR 314 million were reclassified from general and administrative expenses to depreciation, depletion and amortization expenses for the year ended 31 December 2012.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies. In 2013, the Group adopted all IFRS, amendments and interpretations which are effective 1 January 2013 and which are relevant to its operations:

- A set of standards on consolidation: IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, IFRS 12, *Disclosure of Interests in Other Entities*. The set of new standards introduces the new model of control and treatment of joint arrangements and also new disclosure requirements. Adoption of these standards has no material impact on the Group's consolidated financial statements.

- Amendment to IAS 1, *Presentation of Financial Statements*, regarding other comprehensive income. The main change resulting from this amendment is a requirement to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. Adoption of this amendment has affected the presentation of consolidated statement of comprehensive income.

- IFRS 13, *Fair Value Measurement,* establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has no material impact to the fair value measurements of the Group.

- Revision to IAS 19, *Employee Benefits*, made changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The revised IAS 19 requires the elimination of the corridor approach previously used by the Group, the elimination of the depreciation of past service costs and the recognition of remeasurement (among others actuarial gains and losses) in other comprehensive income. All changes need to be applied retrospectively from January 2013. These reclassifications had no material impact on the Group's consolidated financial statements and therefore the comparative periods were not restated in accordance with the transition rules of the standard.

Principles of consolidation. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvements with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

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

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

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

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

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Joint arrangements. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. An investment in a joint venture is initially recognized at cost. The difference between the cost of an acquisition and the share of the fair value of the joint venture's identifiable net assets represents goodwill upon acquiring the joint venture.

Dividends received from joint ventures reduce the carrying value of the investment in joint ventures. The carrying amount of joint ventures includes goodwill identified on acquisition less accumulated impairment losses, if any. Other post-acquisition changes in the Group's share of net assets of a joint venture are recognized as follows: (a) the Group's share of profits or losses is recorded in the consolidated profit or loss for the year as share of financial result of joint ventures; (b) the Group's share of other comprehensive income is recognized in other comprehensive income and presented separately; (c) all other changes in the Group's share of the carrying value of net assets of joint ventures are recognized within retained earnings in the statement of changes in equity. When the Group's share of losses in a joint ventures equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

Accounting policies of 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Held-to-maturity investments

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

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

(c) Loans and receivables

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

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

(d) Available-for-sale financial assets

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(b) Financial liabilities measured at amortized cost

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

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

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

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

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

Income taxes. Effective 1 January 2012, Russian tax legislation introduced an option to prepare and file a single, consolidated income tax declaration. According to the new legislation, the taxpayers' group should be comprised of a holding company and any number of entities with at least 90 percent ownership in each (direct or indirect). To be eligible for registration, the taxpayers' group must be registered with tax authorities and meet certain conditions and criteria. The tax declaration can be submitted then by any member of the group. Management has chosen to adopt this option, as discussed in Note 27. In prior periods, Russian legislation did not contain the concept of a "consolidated tax payer" and, accordingly, the Group's entities were subject to Russian taxation on an individual company basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Inventories. Natural gas, gas condensate, crude oil and gas condensate refined products 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 oil and gas refined 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, less provision for impairment if applicable. 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, reissued or disposed. Where such shares are subsequently reissued or disposed, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to OAO NOVATEK shareholders. Treasury shares are recorded at weighted average cost. Gains or losses resulting from subsequent sales of shares are recorded in the consolidated statement of changes in equity, net of associated costs including taxation.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

Interest income is recognized as the interest accrues based on the net carrying amount of the financial asset.

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Pension obligations. The Group operates a non-contributory post-employment defined benefit plan based on employees' years of service and average salary (see Note 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. The present value of the pension obligations are determined by discounting the estimated future cash outflows and then attributing such present value to years of service of the respective employees. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The discount rate was determined by reference to Russian rouble denominated bonds issued by the Government of the Russian Federation chosen to match the duration of the post-employment benefit obligations.

In accordance with the revised IAS 19, *Employee benefits*, applicable from 1 January 2013, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the consolidated statement of financial position immediately, with a charge or credit to other comprehensive income in the periods in which they occur. They are not recycled subsequently. Past-service costs are recognized in profit or loss in the period when a plan is amended, and curtailment gains and losses are accounted for as a past-service cost.

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Consolidated financial statements prepared in accordance with IFRS require 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 experience and other factors considered as reasonable which form the basis for assessing the book values of assets and liabilities. Adjustments to accounting estimates are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected. Management also makes certain judgments, apart from those involving estimations, in the process of applying the Group's accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Fair values of financial assets and liabilities. The fair value of financial assets and liabilities, other than financial instruments that are traded in an active market, is determined by applying various valuation methodologies. Management uses its judgment to make assumptions primarily based on market conditions existing at each reporting 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 financial 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 financial instruments available adjusted for the Group's specific risk premium estimated by management. For derivative contracts where observable information is not available, fair value estimations are determined using mark-to-market models and other acceptable valuation methods, for which the key inputs include future prices, volatility, price correlation, counterparty credit risk and market liquidity. Fair values of the Group's derivative commodity contracts and sensitivities are presented in Note 28.

Deferred income tax asset recognition. Management assesses deferred income tax assets at each reporting 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, require professional judgment 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 expenses, impairment assessments and asset retirement obligations that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs. Furthermore, estimates of proved reserves only include volumes for which access to market is assured with reasonable certainty. All proved reserves estimates are subject to revision, either downward or upward, 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 3-D seismic surveys and 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 expenses and, therefore, reported net profit for the year, it is expected that in the normal course of business the diversity of the Group's asset portfolio will mitigate the likelihood of this occurring.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

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

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

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

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

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

Pension obligations. The costs 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 reporting date in accordance with the guidelines of IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the consolidated statement of financial position 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Fair value assessment of investments. The Group applies discounted cash flow model when it is required to determine the fair value of investments (see Note 5). The projection of discounted cash flows requires management to use its judgment to make a number of key assumptions. Such assumptions include forecasted prices for natural gas or gas condensate; anticipated production volumes; future capital expenditures required to build necessary infrastructure and drill production wells; and the discount factor used in the fair value calculation.

Assessment of joint arrangements. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures will continue to be accounted for using the equity method.

5 ACQUISITIONS AND DISPOSALS

Disposal of 20 percent stake in OAO Yamal LNG

On 5 September 2013, NOVATEK and China National Petroleum Corporation ("CNPC") signed the Share Purchase Agreement on purchase of a 20 percent stake in Yamal LNG, the Group's joint venture, by CNPC. The Share Purchase Agreement contained a set of conditions precedents and in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, the stake has been disclosed as assets held for sale at 30 September 2013. By the end of 2013, the transaction received all necessary approvals from regulatory bodies of the Russian Federation, the People's Republic of China and European Union and in December 2013 the Group recognized the disposal of a 20 percent stake in Yamal LNG.

Total consideration for the 20 percent stake in Yamal LNG in accordance with the Share Purchase Agreement and the Shareholders' agreement to be paid by CNPC comprises the following:

i. *first tranche* – a cash payment of USD 468 million to NOVATEK (payment received in January 2014);
ii. *second tranche* – a cash payment of USD 410 million through capital contribution to the equity of Yamal LNG (payment received in January 2014); and
iii. *third tranche* – an additional cash payment of USD 143 million through capital contribution to the equity of Yamal LNG (payment received in February 2014).

In addition, CNPC compensates past costs and investments in the amount of USD 95 million, incurred by NOVATEK in respect of the Project prior to CNPC entering it. Payment received in January 2014.

The Shareholders' agreement stipulates that financing for the Yamal LNG Project will be exercised in a form of proportional and disproportional loans from shareholders as well as project finance.

In accordance with the Shareholders' Agreement part of the proceeds provided by CNPC in a form of shareholders loans will be used by Yamal LNG to repay the loans to NOVATEK provided as finance on behalf of foreign partners prior to the transaction. Subsequent to the balance sheet date, In January 2014, Yamal LNG repaid RR 12,045 million (USD 364 million) of the loan to NOVATEK.

As part of the transaction, in September 2013, NOVATEK, CNPC and a consortium of Chinese financial institutions concluded a memorandum on Yamal LNG project financing. In accordance with the memorandum the Chinese commercial banks will consider actively participating in the project financing. In October 2013, Yamal LNG and CNPC entered into the heads of agreement for the supply of liquefied natural gas no less than three million tons per annum at DES terms for a period of 15 years with possible supply extension.

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

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

	RR million
First tranche (USD 468 million at exchange rate of 32.95 to USD 1.00)	15,421
Compensation of past costs and investments (USD 95 million at average exchange rate of 32.84 to USD 1.00)	3,120
Second tranche (60 percent of USD 410 million at exchange rate of 32.95 to USD 1.00)	8,109
Third tranche (60 percent of USD 143 million at exchange rate of 32.95 to USD 1.00)	2,826
Total consideration	**29,476**
Less: carrying amount of the Group's disposed 20 percent interest in the equity investments previously classified as held for sale	(24,306)
Costs to sell	(1,325)
Gain on the sale of ownership interest before income tax	**3,845**

Consequently, the Group recognized a gain on the transaction of RR 3,070 million, net of associated income tax of RR 775 million.

As a result of the transaction, the Group's interest in Yamal LNG became 60 percent; however, the Shareholders' agreement stipulates that key financial and operating policy decisions regarding the entity's business activities are subject to approval by majority of participants, which effectively means that none of the participants have a preferential voting right. As a result, the Group continues recognising Yamal LNG to be a joint venture and accounts for this investment under the equity method.

Reassessment of investment in Yamal LNG

In October 2011, the Group sold a 20 percent stake in OAO Yamal LNG to TOTAL, the strategic partner of the Group in the Yamal LNG project, with a deferred payment in a form of the third tranche, subject to the shareholders' agreed amount of the project's capital expenditures. On 18 December 2013, the Board of Directors of Yamal LNG approved the project's Final Investment Decision ("FID"), determining the amount of capital expenditures of USD 26.9 billion. As a result, the third tranche, subject to additional capital contributions by TOTAL to the ordinary share capital of Yamal LNG, upon approval of FID, decreased by USD 357 million; correspondingly, the Group reassessed its investment in Yamal LNG and decreased the investment by RR 6,988 million, with the corresponding effect recognized within the consolidated statement of changes in equity in accordance with the Group's accounting policy. The third tranche was paid by TOTAL in February 2014.

Assets swap

On 20 December 2013, NOVATEK signed an assets swap agreement with Rosneft and exchanged 51 percent ownership in OAO Sibneftegas, the Group's joint venture, for a 40 percent interest in Artic Russia B.V. at agreed value of USD 1.8 billion. Artic Russia B.V., incorporated in the Netherlands, holds a 49 percent participation interest in OOO SeverEnergia, the Group's joint venture. The transaction did not involve any cash settlements and subsequently increased the Group's effective interest in SeverEnergia from 25.5 to 45.1 percent.

The following table shows the gain on the disposal of the interest in Sibneftegas:

	RR million
Fair value of the Group's 51 percent interest in net assets of Sibneftegas (USD 1,800 million at exchange rate of 32.95 to USD 1.00)	59,315
Less: carrying amount of the Group's 51 percent interest in net assets of Sibneftegas	(25,511)
Gain on the disposal of ownership interest before income tax	**33,804**

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

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

As a result, the Group recognized a gain on the transaction of RR 27,111 million, net of associated income tax of RR 6,693 million.

The fair value of the investment in Sibneftegas was determined based on a discounted cash flow model. The significant assumptions in the discounted cash flow model are: forecasted prices for natural gas; anticipated production volumes; future capital expenditures required to build necessary infrastructure and drill production wells; and the discount factor. The key sensitivities in relation to the discounted cash flows are:

- future natural gas prices were based on FTS prices and using growth rates as forecasted by the Ministry of Economic Development. If these estimated future prices were to decrease by one percent for each year in the cash flow projection then, assuming that other parameters remain unchanged, the fair value of the disposed stake and the associated gain on the disposal would be reduced by RR 921 million;
- future production was based on estimates of proved and probable reserves. If production volumes were to be one percent lower in the cash flow projection then, assuming that other parameters remain unchanged, the fair value of the disposed stake and the associated gain on the disposal would be reduced by RR 794 million; and
- the discount rate was assumed to be 13.77 percent. If the discount rate was increased by half of one percent (to 14.27 percent) then, assuming that other parameters remain unchanged, the fair value of the disposed stake and the associated gain on the disposal would be reduced by RR 2,444 million.

In accordance with IAS 28, *Investments in Associates and Joint Ventures*, the Group assessed the preliminary fair values of the identified assets and liabilities of SeverEnergia at the acquisition date. In these consolidated financial statements the fair value of the identifiable acquired assets and liabilities of SeverEnergia is 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 identifiable assets and liabilities of SeverEnergia and its subsidiary:

OOO SeverEnergia and its subsidiary	**Preliminary fair values at the acquisition date**
Property, plant and equipment	467,479
Other non-current assets	2,140
Cash and cash equivalents	3,025
Other current assets	7,458
Long-term debt	(78,232)
Other non-current liabilities	(76,884)
Other current liabilities	(22,358)
Total identifiable net assets	**302,628**
Purchase consideration	59,315
Fair value of the Group’s interest in net assets (RR 302,628 million at 19.6 percent ownership)	(59,315)
Preliminary goodwill	**-**

As part of the transaction the Group terminated the natural gas purchase contract with Sibneftegas.

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

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

Acquisition of ownership interest in Artic Russia B.V.

On 20 November 2013, OOO Yamal Development, the Group's joint venture, entered into the purchase agreement on acquisition of a 60 percent participation interest in Artic Russia B.V. for total cash consideration of RR 96,846 million (USD 2,939 million). Artic Russia B.V., incorporated in the Netherlands, is a holding company for a 49 percent participation interest in OOO SeverEnergia, the Group's joint venture. At the end of 2013 transaction received all necessary regulatory approvals of the Russian Federation, and the Group recognised the acquisition of a 60 percent participation interest in Artic Russia B.V. in December 2013.

As a result, the Group increased its effective interest in SeverEnergia by 14.7 percent and, along with the acquisition of a 40 percent stake in Artic Russia B.V. under the terms of assets swap agreement, the acquisition increased the Group's effective interest ownership in SeverEnergia to 59.8 percent. The Charter agreement of SeverEnergia stipulates that key financial and operating policy decisions regarding the entity's business activities are subject to approval by six out of the seven members of the Board of Directors, i.e. effectively none of the participants have a preferential voting right and the Group continues to determine SeverEnergia to be a joint venture.

In accordance with IAS 28, *Investments in Associates and Joint Ventures*, the Group assessed the preliminary fair values of the identified assets and liabilities of SeverEnergia at the acquisition date. In these consolidated financial statements the fair value of the identifiable assets and liabilities is 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.

Management has assessed the fair value of identifiable assets and liabilities and calculated that goodwill arose on the acquisition:

	Preliminary fair values at the acquisition date
Purchase consideration (USD 2,939 million at exchange rate of 32.95 to USD 1.00)	96,846
Fair value of OOO Yamal Development's interest in net assets of OOO SeverEnergia (RR 302,628 million at 29.4 percent ownership)	(88,973)
Preliminary goodwill	**7,873**
The Group's interest in preliminary goodwill	**3,937**

Acquisition of ownership interest in ZAO Nortgas

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

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

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

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

At 31 December 2012, in accordance with IAS 31, *Interest in Joint Ventures (*replaced by IAS 28, *Investments in Associates and Joint Ventures,* in 2013*)*, the Group assessed the preliminary fair values of the identified assets and liabilities of Nortgas as of the acquisition date and recorded provisional figures for those items. In March 2013, an independent appraiser was engaged to assess the fair values of the identifiable assets and liabilities, which was completed in July 2013. As a result, the preliminary fair values of non-current assets and non-current liabilities were not changed, and no goodwill was included in the carrying amount of the investment in the joint venture. However, a purchase price allocation within oil and gas properties resulted in the decrease of depreciation for the three months ended 31 March 2013 in the amount of RR 235 million, net of deferred income tax. The revisions made to the preliminary assessment were reflected as of the acquisition date, and consequently, the Group's share of profit (loss) of joint ventures net of income tax for the three months ended 31 March 2013 was increased by RR 115 million due to the reversal of depreciation in Nortgas.

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

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

Acquisition of an additional equity stake in ZAO Nortgas

In June 2013, the Group increased its equity share in ZAO Nortgas to 50 percent through a subscription to the entity's additional share emission (registered with the Federal Service for Financial Markets in June) for a cash consideration of RR 1,703 million (USD 52 million). In accordance with IAS 28, *Investment in Associates and Joint Ventures*, the Group assessed the fair value of identifiable assets and liabilities of the company and calculated that no goodwill arose on the acquisition of an additional stake in Nortgas. After the transaction, the Group continues to account its share in the company under the equity method.

Acquisition of OOO Gazprom mezhregiongas Kostroma

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

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

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

Disposal of OOO Purovsky Terminal

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

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

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

6 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment, for the reporting periods are as follows:

	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	177,788	17,647	8,603	204,038
Accumulated depreciation, depletion and amortization	(35,824)	-	(1,430)	(37,254)
Net book value at 1 January 2012	**141,964**	**17,647**	**7,173**	**166,784**
Acquisition of subsidiaries	24	33	23	80
Additions	1,564	41,522	468	43,554
Transfers	21,608	(22,414)	806	-
Depreciation, depletion and amortization	(10,882)	-	(503)	(11,385)
Disposal of subsidiaries, net	(14)	-	(32)	(46)
Disposals, net	(69)	(1,493)	(49)	(1,611)
Reclassifications	1,415	-	(1,415)	-
Cost	202,420	35,295	8,031	245,746
Accumulated depreciation, depletion and amortization	(46,810)	-	(1,560)	(48,370)
Net book value at 31 December 2012	**155,610**	**35,295**	**6,471**	**197,376**
Additions	4,999	57,318	133	62,450
Transfers	44,999	(45,615)	616	-
Depreciation, depletion and amortization	(12,716)	-	(459)	(13,175)
Impairment	(2,181)	(106)	-	(2,287)
Disposals, net	(210)	(266)	(200)	(676)
Cost	249,933	46,626	8,254	304,813
Accumulated depreciation, depletion and amortization	(59,432)	-	(1,693)	(61,125)
Net book value at 31 December 2013	**190,501**	**46,626**	**6,561**	**243,688**

Included in additions to property, plant and equipment for the year ended 31 December 2013 and 2012 are capitalized interest and foreign exchange differences of RR 4,021 million and RR 2,839 million, respectively. The interest capitalization rates for 2013 and 2012 used for additions were 7.0 percent and 6.8 percent, respectively.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 2,805 million and RR 3,836 million at 31 December 2013 and 31 December 2012, respectively.

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

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The table below summarizes the Group's carrying values of total acquisition costs of proved and unproved properties included in oil and gas properties and equipment:

	At 31 December 2013	At 31 December 2012
Proved properties acquisition costs	43,938	39,949
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(13,061)	(11,744)
Unproved properties acquisition costs	6,420	7,753
Total acquisition costs	**37,297**	**35,958**

The Group's management believes these costs are recoverable as the Group has plans to explore and develop the respective fields.

In March 2013, the Group purchased through participation in an auction an oil and gas exploration and production license for the East-Tazovskoye field located in the YNAO for a payment of RR 3,196 million, which was included in additions to oil and gas properties. At 31 December 2013, proved reserves of the field appraised by DeGolyer and MacNaughton SEC reserve methodologies totaled approximately 17.1 billion cubic meters of natural gas and 2.5 million tons of liquids.

In 2013, the transfers to oil and gas properties and equipment included the completion and launch of the Gas Condensate Fractional and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea in the amount of RR 20,924 million (see Note 1).

Reconciliation of depreciation, depletion and amortization (DDA):

	Year ended 31 December:	
	2013	2012
Depreciation, depletion and amortization of property, plant and equipment	13,175	11,385
Add: DDA of intangible assets	466	244
Less: DDA capitalized in the course of intra-group construction services	(138)	(130)
DDA as presented in the consolidated statement of income	**13,503**	**11,499**

At 31 December 2013 and 2012, no property, plant and equipment was pledged as security for the Group's borrowings. Impairment of RR 2,287 million and RR nil was recognized in respect of oil and gas properties and equipment for the years ended 31 December 2013 and 2012, respectively.

Capital commitments are disclosed in Note 29.

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

7 INVESTMENTS IN JOINT VENTURES

	At 31 December 2013	At 31 December 2012
Joint ventures:		
OAO Yamal LNG	77,875	96,736
Artic Russia B.V.	59,315	-
ZAO Nortgas	45,605	42,586
OOO Yamal Development	23,720	24,430
ZAO Terneftegas	3,551	1,224
OAO Sibneftegas	-	24,160
Total investments in joint ventures	**210,066**	**189,136**

***OAO Yamal LNG*.** The Group holds a 60 percent ownership in OAO Yamal LNG, its joint venture with TOTAL S.A. (20 percent) and China National Petroleum Corporation (CNPC) (20 percent). The joint venture is responsible for implementing the Yamal LNG Project including the construction of production facilities for natural gas, gas condensate and liquefied natural gas based on the resources of the South-Tambeyskoye field, located in the YNAO. At 31 December 2013, the Group held 80 percent of the company's shares and in December 2013 sold 20 percent to CNPC (see Note 5).

The voting mechanism before and after the entering CNPC into the Project stipulates that the key operating and financial policy decisions regarding the entity's business activities are subject to unanimous approval by all shareholders and consequently, establishes joint control over Yamal LNG. The Group accounts for it under the equity method during both reporting periods.

Artic Russia B.V. The Group holds a direct 40 percent ownership in Artic Russia B.V., domiciled in Netherlands. Artic Russia B.V. holds a 49 percent participation interest in OOO SeverEnergia, which through its wholly owned subsidiary OAO Arcticgas operates the Samburgskoye field and conducts exploration activities on the Urengoyskoye, Yaro-Yakhinskoye, Evo-Yakhinskoye and North-Chaselskoye fields, located in the YNAO.

The Charter of Artic Russia B.V. stipulates that key operating and financial policy decisions regarding the entity's business activities are subject to unanimous approval by the Board of Directors. Consequently, the voting mechanism effectively establishes joint control over Artic Russia B.V. The Group accounts for it under the equity method.

OOO Yamal Development. The Group holds a 50 percent participation interest in OOO Yamal Development, its joint venture with OAO Gazprom neft (50 percent). Yamal Development holds a 51 percent participation interest in OOO SeverEnergia and 60 percent ownership in Artic Russia B.V.

The Charter of SeverEnergia stipulates that key operating and financial policy decisions regarding the entity's business activities are subject to approval by six out of the seven members of the Board of Directors, which effectively means that none of the participants have a preferential voting right. As a result, the Group has determined SeverEnergia to be a joint venture of Yamal Development and accounts for its share in SeverEnergia under the equity method.

ZAO Nortgas. The Group holds a 50 percent ownership in ZAO Nortgas, its joint venture with OAO Gazprom and OAO Gazprombank, which operates the North-Urengoyskoye field, located in the YNAO. The Charter of Nortgas stipulates that key operating and financial policy decisions regarding the entity's business activities are subject to unanimous approval by the Board of Directors. Consequently, the voting mechanism effectively establishes joint control over Nortgas. The Group accounts for it under the equity method.

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

OAO Sibneftegas. For the whole 2012 and throughout December 2013, the Group held a 51 percent ownership in OAO Sibneftegas, its joint venture with OAO Rosneft. In December 2013, the Group disposed its 51 percent stake in Sibneftegas under the assets swap agreement (see Note 5).

ZAO Terneftegas. The Group holds a 51 percent (in 2012: 51 percent) ownership in ZAO Terneftegas, its joint venture with TOTAL S.A. (49 percent), which conducts exploration activities on the Termokarstovoye field, located in the YNAO. The Shareholders' agreement stipulates that key operating and financial policy decisions regarding the entity's business activities are subject to approval by both shareholders and none of the participants have a preferential voting right. Consequently, the voting mechanism effectively establishes joint control over Terneftegas. The Group accounts for it under the equity method.

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

	Year ended 31 December:	
	2013	**2012**
At 1 January	**189,136**	**123,029**
Share of profit (loss) of joint ventures before income tax	830	(2,221)
Share of income tax (expense) benefit	(942)	116
Share of profit (loss) of joint ventures, net of income tax	**(112)**	**(2,105)**
Acquisition of joint ventures	59,315	42,697
Future shareholders' contributions to equity	10,935	-
Effect from remeasurement of the shareholders' loans (see Note 8)	3,647	-
Contributions to equity	2,247	25,515
Acquisition of additional stakes in joint ventures	1,703	-
Disposal of joint ventures	(25,511)	-
Disposal of stakes in joint ventures	(24,306)	-
Reassessment of investments in joint ventures (see Note 5)	(6,988)	-
At 31 December	**210,066**	**189,136**

In December 2013, the Group under the assets swap agreement disposed its 51 percent ownership in Sibneftegas at cost of RR 25,511 million and acquired a 40 percent interest in Artic Russia B.V. for RR 59,315 million (see Note 5).

In December 2013, the Group's investments in Yamal LNG were increased through recognition of future shareholders' contributions to be made by CNPC in the amount of RR 10,935 million (see Note 5), which were paid in January and February 2014.

In 2013, the equity of Terneftegas was increased through proportional contributions by its participants totalling RR 4,406 million, of which RR 2,247 million were attributable to NOVATEK. The Group's shareholding did not change as a result of the proportional contributions.

In June 2013, the Group increased its equity stake in Nortgas by one percent to 50 percent through a subscription to the entity's additional shares emission for cash consideration of RR 1,703 million (see Note 5).

In December 2013, the Group disposed its 20 percent interest in Yamal LNG at cost of RR 24,306 million (see Note 5).

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

In 2012, the Group acquired 49 percent of the outstanding ordinary shares of Nortgas, an oil and gas company holding the production license for the North-Urengoyskoye field located in the YNAO for RR 42,697 million (see Note 5).

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

In 2012, the charter capital of Yamal Development was increased by converting RR 32,697 million of loans provided to the company by its participants, of which RR 16,348 million was attributable to NOVATEK. The Group's shareholding did not change as a result of the loan conversion.

Through its joint ventures Yamal Development (50 percent) and Artic Russia B.V. (49 percent) the Group holds a 59.8 percent participation interest in SeverEnergia, which through its wholly owned subsidiary OAO Arcticgas operates the Samburgskoye field and conducts exploration activities on the Urengoyskoye, Yaro-Yakhinskoye and North-Chaselskoye fields, located in the YNAO. Consolidated financial information and the statement of comprehensive income of SeverEnergia are presented below, as Yamal Development and Artic Russia B.V. are holding companies.

The summarized financial information for the Group's principal joint ventures was as follows:

At 31 December 2013	**Yamal LNG**	**Nortgas**	**SeverEnergia**
Non-current assets	**167,908**	**144,758**	**360,059**
Cash and cash equivalents	2,120	767	3,025
Other current assets	9,749	3,131	7,458
Total current assets	**11,869**	**3,898**	**10,483**
Non-current financial liabilities	(54,807)	(30,964)	(78,232)
Other non-current liabilities	(15,161)	(22,737)	(54,949)
Total non-current liabilities	**(69,968)**	**(53,701)**	**(133,181)**
Current liabilities	**(2,904)**	**(3,746)**	**(22,358)**
Net assets	**106,905**	**91,209**	**215,003**
At 31 December 2012			
Non-current assets	**120,989**	**132,458**	**166,639**
Cash and cash equivalents	657	290	724
Other current assets	3,310	3,585	4,460
Total current assets	**3,967**	**3,875**	**5,184**
Non-current financial liabilities	(3,661)	(24,297)	(41,444)
Other non-current liabilities	(15,497)	(22,311)	(24,434)
Total non-current liabilities	**(19,158)**	**(46,608)**	**(65,878)**
Current financial liabilities	-	(1,207)	-
Other current liabilities	(886)	(1,607)	(11,737)
Total current liabilities	**(886)**	**(2,814)**	**(11,737)**
Net assets	**104,912**	**86,911**	**94,208**

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

The summarized statements of comprehensive income of the Group's principal joint ventures are presented below:

For the year ended 31 December 2013	Yamal LNG	Nortgas	SeverEnergia
Revenue	-	11,361	15,832
Depreciation, depletion and amortization	-	(3,195)	(6,179)
Profit (loss) before income tax	(2,064)	3,397	3,764
Income tax expense	132	(802)	(984)
Profit (loss), net of income tax	**(1,932)**	**2,595**	**2,780**

For the year ended 31 December 2012	Yamal LNG	Nortgas	SeverEnergia
Revenue	-	746	5,088
Depreciation, depletion and amortization	(14)	(132)	(1,604)
Profit (loss) before income tax	(2,604)	(27)	480
Income tax expense	340	(198)	(435)
Profit (loss), net of income tax	**(2,264)**	**(225)**	**45**

The information above reflects the amounts presented in the financial statements of the joint venture adjusted for differences in accounting policies between the Group and the joint venture. All of the joint ventures listed above are registered in the Russian Federation.

Reconciliation of the summarized financial information presented to the Group's share in net assets of the joint ventures:

As at and for the year ended 31 December 2013	Yamal LNG	Nortgas	SeverEnergia
Net assets at 1 January 2013	**104,912**	**86,911**	**94,208**
Profit (loss), net of income tax	(1,932)	2,595	2,780
Acquisition of additional stakes in joint ventures and other equity movements	3,925	1,703	118,015
Net assets at 31 December 2013	**106,905**	**91,209**	**215,003**
Ownership	60%	50%	59.8%
Group's share in net assets	**64,143**	**45,605**	**128,572**

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

As at and for the year ended 31 December 2012	**Yamal LNG**	**Nortgas**	**SeverEnergia**
Net assets at 1 January 2012	**83,366**	**-**	**94,163**
Profit (loss), net of income tax	(2,264)	(225)	45
Acquisition of joint ventures and additional capital contributions	23,810	87,136	-
Net assets at 31 December 2012	**104,912**	**86,911**	**94,208**
Ownership	80%	49%	25.5%
Group's share in net assets	**83,930**	**42,586**	**24,023**

At 31 December 2013 and 2012, the Group's investment in Yamal LNG totaled RR 77,875 million and RR 96,736 million, respectively, which differed from its share in the net assets. These differences of RR 13,732 million and RR 12,806 million, respectively, relate to the Group's share in the second and third tranches recognized as part of the considerations for the disposal of the 20 percent interests in Yamal LNG to Total S.A. and CNPC (see Note 5). The tranches are recognized in the Group's investment in Yamal LNG.

At 31 December 2013, the Group's cumulative investments in Artic Russia B.V. and Yamal Development totaled RR 83,035 million, which differed from the Group's share in the net assets of SeverEnergia. The difference of RR 45,537 million relates to the Group's interest in other liabilities and goodwill, disclosed in the financial information of Artic Russia B.V. and Yamal Development, through which entities the Group holds the investments in SeverEnergia.

In December 2013, Yamal Development, the Group's joint venture, provided an effective 25.5 percent ownership in SeverEnergia as a pledge. The acquired 14.7 percent ownership is in process of pledge registration as a collateral for loans received by Yamal Development for financing of the acquisition. The carrying amount of the pledged effective equity stake 40.2 percent equals to RR 73,156 million.

8 LONG-TERM LOANS AND RECEIVABLES

	At 31 December 2013	**At 31 December 2012**
US dollar denominated loans	45,415	4,366
Russian rouble denominated loans	2,200	8,564
Total	**47,615**	**12,930**
Less: current portion of long-term loans	-	(428)
Total long-term loans	**47,615**	**12,502**
Long-term receivables	412	394
Long-term interest receivable	1,310	254
Total long-term loans and receivables	**49,337**	**13,150**

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

8 LONG-TERM LOANS AND RECEIVABLES (CONTINUED)

The Group's long-term loans by facility are as follows:

	At 31 December 2013	At 31 December 2012
OAO Yamal LNG	42,804	2,915
ZAO Terneftegas	2,611	1,451
OOO Yamal Development	2,200	-
OAO Sibneftegas	-	8,564
Total	**47,615**	**12,930**

OAO Yamal LNG. In August 2012, in accordance with the Shareholders' agreement, the Group provided a US dollar credit line facility to Yamal LNG, the Group's joint venture. Under the terms of the credit line agreement the Group provides loans in tranches based on the annual budget of Yamal LNG approved by the Board of Directors. Throughout December 2013, the loan bore an interest rate of 5.09 percent per annum, which was reduced to 4.46 percent per annum effective from 1 January 2014. The interest rate can be adjusted during subsequent years subject to certain conditions. The principal and interest are repayable after the commencement of commercial production by Yamal LNG and are both included within non-current assets in the consolidated statement of financial position (see Note 31). Subsequent to the balance sheet date, in January 2014, Yamal LNG repaid part of the loan in the amount of RR 12,045 million (USD 364 million) due to the entering of the new shareholder (CNPC) to the Yamal LNG Project.

ZAO Terneftegas. In 2010 and 2011, in accordance with the Shareholders' agreement, the Group opened a US dollar credit line facility to Terneftegas, the Group's joint venture. Under the terms of the credit line agreement the Group provides loans in tranches based on the annual budget of Terneftegas approved by the Board of Directors. The loans bore an interest rate of 3.88 percent per annum, which was subsequently increased to 4.52 percent per annum effective from 1 July 2013. The interest rate can be adjusted during subsequent years subject to certain conditions. The principal and interest are repayable after the commencement of commercial production by Terneftegas and are both included within non-current assets in the consolidated statement of financial position (see Note 31).

OOO Yamal Development. In December 2013, the Group provided a credit line facility to Yamal Development, the Group's joint venture, up to RR 13 billion for the terms of one year. The loan bore an interest rate of 9.25 percent per annum. The principal and interest are repayable until December 2015 and are both included within non-current assets in the consolidated statement of financial position. The repayment schedule can be extended during subsequent years subject to certain conditions (see Note 31).

OAO Sibneftegas**.** In December 2010, the Group provided loans to Sibneftegas, the Group's joint venture, in the aggregate amount of RR 11,038 million. The loans were issued at an annual interest rates varying from 9.5 to 10 percent. In April and May 2013, the loans were fully repaid ahead of their maturity schedules. In December 2013, the Group disposed its stake in Sibneftegas (see Note 5).

Remeasurement of the shareholders' loans to joint ventures. In accordance with IAS 39, *Financial instruments: recognition and measurement*, the carrying value of the loans provided by the Group to its joint ventures, Yamal LNG and Terneftegas, was remeasured based on commercial market borrowing rates (Level 3 in the fair value measurement hierarchy described in Note 28). The effect from measurement to fair values in the amount of RR 3,647 million was allocated to increase the Group's investments in the joint ventures (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 2013 and 2012. The carrying values of long-term loans and receivables approximate their respective fair values.

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

9 OTHER NON-CURRENT ASSETS

	At 31 December 2013	At 31 December 2012
Financial assets		
Commodity derivatives	470	148
Long-term bank deposits	7	3
Non-financial assets		
Materials for construction	5,284	1,479
Long-term advances	3,131	208
Intangible assets, net of amortization	1,990	2,248
Deferred income tax assets	1,514	1,062
Other	82	80
Total other non-current assets	**12,478**	**5,228**

At 31 December 2013, the long-term advances included advances to OAO Russian Railways in the amount of RR 2,792 million. The advances were paid in accordance with Strategic Partnership Agreement signed with OAO Russian Railways that stipulates increasing the capacity of the “Limbey – Surgut – Tobolsk” section of the Sverdlovsk railways. The Group will provide RR 30.5 billion as advances until 2017 according to the approved financing and construction schedule. The Group’s advance balance will be reimbursed against payments for transportation services provided by OAO Russian Railways with certain discount until 2022.

10 INVENTORIES

	At 31 December 2013	At 31 December 2012
Natural gas and hydrocarbon liquids at cost	4,932	2,239
Materials and supplies at cost	615	583
Materials and supplies at net realizable value (net of provision of nil and RR 29 million at 31 December 2013 and 2012, respectively)	362	256
Other inventories	44	13
Total inventories	**5,953**	**3,091**

No impairment expenses were recorded during the years ended 31 December 2013 and 2012. No inventories were pledged as security for the Group’s borrowings or payables at both dates.

11 TRADE AND OTHER RECEIVABLES

	At 31 December 2013	At 31 December 2012
Trade receivables (net of provision of RR 718 million and RR 406 million at 31 December 2013 and 2012, respectively)	29,984	14,250
Other receivables (net of provision of RR 3 million and RR 4 million at 31 December 2013 and 2012, respectively)	19,538	2,158
Interest on loans receivable	-	1
Total trade and other receivables	**49,522**	**16,409**

The carrying values of trade and other receivables approximate their respective fair values. The related exposure to credit risk at the consolidated statement of financial position date is the carrying value of each class of receivables mentioned above. Trade and other receivables were categorized as Level 3 in the fair value measurement hierarchy described in Note 28.

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

11 TRADE AND OTHER RECEIVABLES (CONTINUED)

At 31 December 2013, other receivables included RR 18,420 million (USD 563 million) relating to disposal of 20 percent stake in OAO Yamal LNG, the Group's joint venture, to CNPC, which was fully repaid in January 2014 (see Note 5).

The Group holds letters of credit in banks with investment grade rating as security for trade receivables in the amount RR 5,015 million and RR 1,610 million at 31 December 2013 and 2012, respectively. The Group does not hold any other collateral as security for trade and other receivables (see Note 28 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 2,169 million and RR 277 million at 31 December 2013 and 2012, respectively, were past due but not impaired. The Group has assessed the payment history of these accounts and recognized impairment where deemed necessary.

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

	At 31 December 2013	At 31 December 2012
Up to 90 days past-due	1,968	185
91 to 360 days past-due	200	85
Over 360 days past-due	1	7
Total past due but not impaired	**2,169**	**277**
Not past due and not impaired	47,353	16,132
Total trade and other receivables	**49,522**	**16,409**

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

	Year ended 31 December:	
	2013	2012
At 1 January	**410**	**147**
Additional provision recorded	421	272
Acquisition of subsidiaries	-	124
Disposal of subsidiaries	-	(3)
Receivables written off as uncollectible	(26)	(130)
Provision reversed	(84)	-
At 31 December	**721**	**410**

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

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

12 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 December 2013	At 31 December 2012
Financial assets		
Commodity derivatives	316	451
Short-term bank deposits (with original maturity over three months)	36	10
US dollar denominated loans	23	-
Russian rouble denominated loans	-	428
Cash restricted in the form of guarantee	-	1,959
Non-financial assets		
Deferred transportation expenses for natural gas	4,527	1,902
Recoverable value-added tax	3,814	1,992
Prepaid taxes other than income tax	3,418	1,523
Prepayments and advances to suppliers (net of provision of RR 5 million and RR 13 million at 31 December 2013 and 2012, respectively)	2,536	3,140
Deferred export duties for liquid hydrocarbons	2,255	2,718
Prepaid customs duties	1,023	3,339
Deferred transportation expenses for liquid hydrocarbons	858	1,067
Other current assets	99	38
Total prepayments and other current assets	**18,905**	**18,567**

13 CASH AND CASH EQUIVALENTS

	At 31 December 2013	At 31 December 2012
Cash at current bank accounts	4,472	8,206
Russian rouble denominated deposits (average interest rate 5.1% p.a. and 4.7% p.a. for 2013 and 2012, respectively)	1,684	4,223
US dollar denominated deposits (average interest rate 0.2% p.a. and 0.6% p.a. for 2013 and 2012, respectively)	1,486	5,686
Other currency denominated deposits	247	305
Total cash and cash equivalents per the consolidated statement of financial position	**7,889**	**18,420**
Less: bank overdrafts (see Note 16)	(7,569)	-
Cash, cash equivalents and bank overdrafts per the consolidated statement of cash flows	**320**	**18,420**

All deposits have original maturities of less than three months (see Note 28 for credit risk disclosures).

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

14 LONG-TERM DEBT

	At 31 December 2013	At 31 December 2012
US dollar denominated bonds	73,341	67,998
US dollar denominated loans	34,363	9,708
Russian rouble denominated bonds	33,891	29,960
Russian rouble denominated loans	9,911	24,821
Total	**151,506**	**132,487**
Less: current portion of long-term debt	(9,911)	(34,682)
Total long-term debt	**141,595**	**97,805**

The Group's long-term debt by facility is as follows:

	At 31 December 2013	At 31 December 2012
Syndicated term credit line facility	34,363	-
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	32,595	30,232
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	21,163	19,620
Russian bonds – Three-Year Tenor (par value RR 20 billion, repayable in 2015)	19,980	19,969
Eurobonds – Five-Year Tenor (par value USD 600 million, repayable in 2016)	19,583	18,146
Eurobonds – Four-Year Tenor (par value RR 14 billion, repayable in 2017)	13,911	-
Sberbank credit line facility	9,911	9,837
Sberbank three-year loan (repayable in 2013)	-	14,984
Russian bonds – Three-Year Tenor (par value RR 10 billion repayable in 2013)	-	9,991
Nordea Bank	-	6,075
Sumitomo Mitsui Banking Corporation Europe Limited	-	3,633
Total	**151,506**	**132,487**

Eurobonds. In February 2013, the Group issued Russian rouble denominated Eurobonds in the amount of RR 14 billion. The Russian rouble denominated Eurobonds were issued with an annual coupon rate of 7.75 percent, payable semi-annually. The bonds have a four-year tenor and are repayable in February 2017.

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

In February 2011, the Group issued US dollar denominated Eurobonds in an aggregate amount of USD 1,250 million. The US dollar denominated Eurobonds were issued at par in two tranches, a five-year USD 600 million bond with an annual coupon rate of 5.326 percent and a ten-year USD 650 million bond with an annual coupon rate of 6.604 percent. The coupons are payable semi-annually. The bonds are repayable in February 2016 and February 2021, respectively.

Sberbank. In December 2011, the Group obtained up to a RR 40 billion credit line facility from OAO Sberbank available to withdraw until March 2012 which was subsequently extended until January 2013. In June 2012, the Group withdrew RR 10 billion under the facility until December 2014 at an interest rate of 8.9 percent per annum. The remaining part of the credit line was not utilized. In August 2013, the Group reduced the stated interest rate to 7.9 percent per annum. The facility includes the maintenance of certain restrictive financial covenants.

In December 2010, the Group obtained a three-year Russian rouble denominated loan from Sberbank in the amount of RR 15 billion at an interest rate of 7.5 percent per annum. In February 2013, the loan was fully repaid ahead of its maturity schedule.

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

14 LONG-TERM DEBT (CONTINUED)

Syndicated term credit line facility. In June 2013, the Group obtained a USD 1.5 billion unsecured syndicated term credit line facility from a range of international banks available to withdraw until June 2014. At 31 December 2013, the Group withdrew USD 1,070 million under the facility at an interest rate of LIBOR plus 1.75 percent per annum (2.0 percent at 31 December 2013) repayable until July 2018 by quarterly installments starting from June 2015. The facility includes the maintenance of certain restrictive financial covenants.

Sumitomo Mitsui Banking Corporation Europe Limited. In April 2011, the Group obtained a US dollar denominated loan from Sumitomo Mitsui Banking Corporation Europe Limited in the amount of USD 300 million at an interest rate of LIBOR plus 1.45 percent per annum. In December 2013, the loan was fully repaid in accordance with its maturity schedule.

Nordea Bank. In November 2010, the Group obtained a US dollar denominated loan from OAO Nordea Bank in the amount of USD 200 million at an interest rate of LIBOR plus 1.9 percent per annum. In March 2013, the loan was fully repaid ahead of its maturity schedule.

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

In June 2010, the Group issued non-convertible Russian rouble denominated bonds in the amount of RR 10 billion with a coupon rate of 7.5 percent per annum, payable semi-annually. In June 2013, the bonds were fully repaid in accordance with the maturity date.

The fair values of long-term debt were as follows:

	At 31 December 2013	At 31 December 2012
Syndicated term credit line facility	35,043	-
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	30,176	30,543
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	23,382	23,201
Eurobonds – Five-Year Tenor (par value USD 600 million, repayable in 2016)	20,877	19,567
Russian bonds – Three-Year Tenor (par value RR 20 billion, repayable in 2015)	20,240	20,198
Eurobonds – Four-Year Tenor (par value RR 14 billion, repayable in 2017)	14,032	-
Sberbank credit line facility	10,038	9,928
Sberbank three-year loan (repayable in 2013)	-	14,745
Russian bonds – Three-Year Tenor (par value RR 10 billion repayable in 2013)	-	10,005
Nordea Bank	-	6,041
Sumitomo Mitsui Banking Corporation Europe Limited	-	3,617
Total	**153,788**	**137,845**

The fair value of the long-term loans was determined based on future cash flows discounted at the estimated risk-adjusted discount rate (Level 3 in the fair value measurement hierarchy described in Note 28). The fair value of the corporate bonds was determined based on market quote prices (Level 1 in the fair value measurement hierarchy described in Note 28).

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

14 LONG-TERM DEBT (CONTINUED)

Scheduled maturities of long-term debt at the reporting date were as follows:

Maturity period:	At 31 December 2013
1 January to 31 December 2015	27,913
1 January to 31 December 2016	30,155
1 January to 31 December 2017	24,483
1 January to 31 December 2018	5,286
After 31 December 2018	53,758
Total long-term debt	**141,595**

15 PENSION OBLIGATIONS

In 2007, the Group announced implementation of a post-employment benefit program for its retired employees. Under the current terms of pension program, employees who are employed by the Group for more than five years and retire from the Group on or after the statutory retirement age will receive lump sum retirement benefit and monthly payments from NOVATEK for life unless they are actively employed. The amounts of payments to be disbursed depend on the employee's average salary, duration and location of employment.

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

	Year ended 31 December:	
	2013	2012
At 1 January	**1,532**	**810**
Interest cost	90	54
Current service cost	61	91
Benefits paid	(67)	(18)
Remeasurement of actuarial gains (loss) arising from:		
changes in financial assumptions	(74)	239
changes in demographic assumptions	12	(15)
experience adjustment	73	32
Lump sum retirement benefit	-	339
At 31 December	**1,627**	**1,532**
Defined benefit plan (benefits) costs were recognized in:		
Materials, services and other (as employee compensation)	123	278
General and administrative expenses (as employee compensation)	160	475
Other comprehensive income (loss)	11	-

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

15 PENSION OBLIGATIONS (CONTINUED)

The Group recognized a loss of RR 73 million and RR 32 million as a result of experience adjustments on plan liabilities during the years ended 31 December 2013 and 2012, respectively, included in actuarial (gain) loss.

The principal actuarial assumptions used are as follows:

	At 31 December 2013	At 31 December 2012
Weighted average discount rate	6.6%	6.4%
Projected annual increase in employee compensation	5.1%	5.2%
Expected increases to pension benefits	5.1%	5.2%

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 5.4 percent for 2014 to 4.8 percent in 2018 and subsequent years.

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

Management has assessed that reasonable changes in the principal significant actuarial assumptions will not have a significant impact on the consolidated statement of income or the consolidated statement of comprehensive 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 2013	At 31 December 2012
US dollar denominated loans	6,546	-
US dollar denominated bank overdrafts	7,569	-
Total	**14,115**	**-**
Add: current portion of long-term debt	9,911	34,682
Total short-term debt and current portion of long-term debt	**24,026**	**34,682**

US dollar denominated loans. In December 2013, the Group withdrew USD 200 million under credit line facilities with BNP PARIBAS Bank (USD 100 million) and Credit Agricole Corporate and Investment Bank (USD 100 million) at the interest rates of 1.46 percent and 1.9 percent per annum, respectively. Subsequent to the balance sheet date, in January 2014, the loans were fully repaid.

Bank overdrafts and available credit line facilities. In December 2013, the Group withdrew USD 231 million under available credit line facility in the form of bank overdrafts with BNP PARIBAS Bank at an interest rate of 2.32 percent per annum. Subsequent to the balance sheet date, in January 2014, the bank overdraft with BNP PARIBAS Bank was fully repaid. Available funds under short-term credit lines in the form of bank overdrafts with various international banks totaled RR 2,740 million (USD 84 million) and RR 7,327 million (USD 175 million and EUR 50 million) at 31 December 2013 and 2012, respectively, on variable interest rates subject to the specific type of credit facility.

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

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

The Group's available credit facilities with interest rates predetermined or negotiated at time of each withdrawal at 31 December 2013 were as follows:

		Expiring	
	Par value	**Within one year**	**Between 1 and 3 years**
Syndicated term credit line facility	USD 430 million	14,074	-
UniCredit Bank	USD 55 million	-	1,810
Total available credit facilities		**14,074**	**1,810**

17 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 December 2013	**At 31 December 2012**
Financial liabilities		
Trade payables	14,372	9,959
Interest payable	1,857	1,464
Other payables	1,382	718
Commodity derivatives	46	43
Non-financial liabilities		
Advances from customers	916	1,227
Salary payables	206	251
Other liabilities and accruals	2,481	2,263
Trade payables and accrued liabilities	**21,260**	**15,925**

Trade and other payables were categorized as Level 3 in the fair value measurement hierarchy described in Note 28.

18 SHAREHOLDERS' EQUITY

Ordinary share capital. Share capital issued and paid in consisted of 3,036,306,000 ordinary shares with a par value of RR 0.1 each at 31 December 2013 and 2012. The total authorized number of ordinary shares was 10,593,682,000 shares at both dates.

Treasury shares. In accordance with the *Share Buyback Programs* authorized by the Board of Directors, the Group's wholly-owned subsidiary, Novatek Equity (Cyprus) Limited, during 2013 and earlier has purchased ordinary shares of OAO NOVATEK in the form of Global Depository Receipts ("GDRs") on the London Stock Exchange ("LSE") and ordinary shares on Moscow Interbank Currency Exchange ("MICEX") through the use of independent brokers. At 31 December 2013 and 2012, the Group held in total (both shares and GDRs) 8,225 thousand and 2,894 thousand ordinary shares at a total cost of RR 2,406 million and RR 584 million, respectively. The Group has decided that these shares do not vote.

During the years ended 31 December 2013 and 2012, the Group purchased 5,603 thousand and 925 thousand ordinary shares (both shares and GDRs) at a total cost of RR 1,854 million and RR 303 million, respectively. Also, in 2013, the Group sold 27,184 GDRs (272 thousand ordinary shares) for RR 109 million, recognizing a gain of RR 77 million, which was recorded within additional paid-in capital in the consolidated statement of changes in equity.

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

18 SHAREHOLDERS' EQUITY (CONTINUED)

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

	Year ended 31 December:	
	2013	**2012**
Dividends payable at 1 January	5	-
Dividends declared (*)	21,999	19,723
Dividends paid (*)	(22,002)	(19,718)
Dividends payable at 31 December	**2**	**5**
Dividends per share declared during the year (in Russian roubles)	7.26	6.50
Dividends per GDR declared during the year (in Russian roubles)	72.6	65.0

(*) – excluding treasury shares.

The Group declares and pays dividends in Russian roubles. Dividends declared in 2013 and 2012 were as follows:

Final for 2012: RR 3.86 per share or RR 38.6 per GDR declared in April 2013	11,720
Interim for 2013: RR 3.4 per share or RR 34.0 per GDR declared in October 2013	10,323
Total dividends declared in 2013	**22,043**
Final for 2011: RR 3.50 per share or RR 35.0 per GDR declared in April 2012	10,627
Interim for 2012: RR 3.00 per share or RR 30.0 per GDR declared in October 2012	9,109
Total dividends declared in 2012	**19,736**

Distributable retained earnings. In accordance with Russian legislation, NOVATEK distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. Russian legislation identifies the net profit as basis of distribution. For 2013 and 2012, the closing balances of the accumulated profit including the respective years net statutory profit totalled RR 199,934 million and RR 149,719 million at 31 December 2013 and 2012, respectively.

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

19 SHARE-BASED COMPENSATION PROGRAM

In February 2010, the Management Committee of NOVATEK approved a share-based compensation program (the "Program") for a limited number of the Group's senior and key management, as well as high-potential managers, but excluding the members of the Management Committee, which aims to encourage participants to take an active interest in the future development of the Group and to provide material incentive to create shareholders value in OAO NOVATEK. The Program was established for three one-year vesting periods ending 31 January 2011, 2012, and 2013 in accordance with the *Concept of the Long-Term Incentive of Senior Employees* and the *Share Buyback Program*. The grant date was defined as 31 March 2010 and represented the date when all participants agreed to a share-based payment arrangement. In November 2012, the Group extended the Program's term for an additional one-year vesting period ending 31 January 2014 with no change to other terms and conditions.

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

19 SHARE-BASED COMPENSATION PROGRAM (CONTINUED)

The Program was established as a cash-settled payment program and referenced to the Group's GDRs, which are publicly traded on the LSE under the ticker symbol "NVTK". At inception, each participant was 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. Each payment was based on the sale of the allocated GDRs and was 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 cash-settled payments were only awarded if the participant was employed with the Group at the date of payment. At 31 December 2013 and 2012, the Program covered 23 (who transferred GDRs) and 134 employees, respectively.

	Number of GDRs	*Weighted average or closing price (LSE), USD per GDR*
Total amount of GDRs granted at 31 December 2011	**240,656**	**125.2**
Granted	-	-
Exercised	(112,305)	144.2
Forfeited	(11,140)	-
Total amount of GDRs granted at 31 December 2012	**117,211**	**119.3**
Granted	-	-
Exercised	(89,136)	116.0
Forfeited	(891)	-
Total amount of GDRs granted at 31 December 2013	**27,184**	**132.2**

At 31 December 2013, 27,184 GDRs, assigned to the participants, were sold on the LSE, and the Group recognized other payables to the participants in the amount of RR 70 million in the consolidated statement of financial position. The payment was made in January 2014.

In accordance with IFRS 2, *Share-based payment*, the Group remeasures the employees' services rendered and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures 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.

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

	Year ended 31 December:	
Expenses included in	**2013**	**2012**
General and administrative expenses	25	121

Liabilities included in	**At 31 December 2013**	**At 31 December 2012**
Other non-current liabilities	-	57
Trade payables and accrued liabilities	70	181
Total share-based compensation program liabilities	**70**	**238**

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

20 OIL AND GAS SALES

	Year ended 31 December:	
	2013	2012
Natural gas	204,969	142,613
Stable gas condensate	32,847	46,684
Naphtha	26,789	-
Liquefied petroleum gas	18,770	15,599
Crude oil	7,443	5,000
Other gas and gas condensate refined products	6,681	350
Total oil and gas sales	**297,499**	**210,246**

21 TRANSPORTATION EXPENSES

	Year ended 31 December:	
	2013	2012
Natural gas transportation to customers	83,884	45,925
Liquid hydrocarbons transportation by rail	13,996	10,537
Liquid hydrocarbons transportation by tankers	4,291	3,742
Crude oil transportation by pipeline	885	527
Other	189	117
Total transportation expenses	**103,245**	**60,848**

22 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Year ended 31 December:	
	2013	2012
Natural gas	23,992	14,706
Unstable gas condensate	10,304	2,498
Other liquid hydrocarbons	411	279
Total purchases of natural gas and liquid hydrocarbons	**34,707**	**17,483**

In 2012 and throughout 2013, the Group purchased 51 percent of the natural gas volumes produced by its joint venture OAO Sibneftegas (see Note 31). In December 2013, the Group terminated the natural gas purchase contract with Sibneftegas as a result of its disposal (see Note 5).

From January 2013, the Group began purchasing 50 percent of the natural gas volumes produced by its joint venture ZAO Nortgas (see Note 31).

The Group purchases natural gas from its related party OAO SIBUR Holding at prices based on the market prices in the region of purchases (see Note 31).

From November 2012, the Group began purchasing the majority of the unstable gas condensate produced by its joint venture Nortgas, at ex-field prices based on benchmark crude oil and gas condensate refined products market quotes adjusted for quality and respective tariffs for transportation and processing (see Note 31).

From April 2012, the Group began purchasing all of the volumes of the unstable gas condensate produced by its joint venture OOO SeverEnergia (from March 2013 from its wholly owned subsidiary, OAO Arcticgas), at ex-field prices based on benchmark crude oil and gas condensate refined products market quotes adjusted for quality and respective tariffs for transportation and processing (see Note 31).

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

23 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:	
	2013	2012
Unified natural resources production tax	19,619	14,833
Property tax	1,790	1,754
Other taxes	236	259
Total taxes other than income tax	**21,645**	**16,846**

The unified natural resources production tax for natural gas was set at a rate of RR 251 per thousand cubic meters for 2012 and at a rate of RR 265 and RR 402 per thousand cubic meters effective 1 January 2013 and 1 July 2013, respectively.

The unified natural resources production tax for gas condensate was set at a rate of RR 590 and RR 556 per ton for 2013 and 2012, respectively.

Under the Tax Code, the tax rate for the unified natural resources production tax for crude oil is calculated by reference to an average price for Urals blend and an average exchange rate over the relevant tax period. According to the amendments to the Tax Code, effective from 1 January 2012, a zero UPT rate is set for crude oil produced at fields located in the YNAO to the north of the 65th degree of the northern latitude. All the Group's oil production fields are located within the applicable geographical area; therefore, the zero UPT rate was applied for the crude oil produced at these fields effective from 1 January 2012.

24 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:	
	2013	2012
Employee compensation	6,983	6,869
Social expenses and compensatory payments	1,178	1,001
Legal, audit, and consulting services	924	1,347
Business trips expense	363	292
Fire safety and security expenses	231	199
Advertising expenses	213	60
Insurance expense	191	86
Other	946	768
Total general and administrative expenses	**11,029**	**10,622**

Auditors' fees and services. ZAO PricewaterhouseCoopers Audit has served as the Group's independent external auditor for each of the reported financial years. The independent external auditor is subject to 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:	
	2013	2012
Audit services fee (audit of the Group's consolidated financial statements and the statutory audit of the parent company)	31	40
Non-audit services	9	4
Total auditors' fees and services	**40**	**44**

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

25 MATERIALS, SERVICES AND OTHER

	Year ended 31 December:	
	2013	**2012**
Employee compensation	3,920	3,808
Repair and maintenance	1,755	1,598
Materials and supplies	698	412
Electricity and fuel	638	457
Transportation services	368	186
Security services	327	271
Other	576	484
Total materials, services and other	**8,282**	**7,216**

26 FINANCE INCOME (EXPENSE)

	Year ended 31 December:	
Interest expense (including transaction costs)	**2013**	**2012**
8.35% RR 20 billion Bonds October 2015	1,681	355
4.422% USD 1 billion Eurobonds December 2022	1,427	69
6.604% USD 650 million Eurobonds February 2021	1,387	1,355
5.326% USD 600 million Eurobonds February 2016	1,045	1,022
7.9-8.9% RR 10 billion Sberbank December 2014	959	520
7.75% RR 14 billion Eurobonds February 2017	958	-
LIBOR+1.75% Syndicated term credit line facility	423	-
7.5% RR 10 billion Bonds June 2013	371	772
7.5% RR 15 billion Sberbank December 2013	198	1,143
LIBOR+1.45% USD 300 million Sumitomo Mitsui Banking Corporation Europe Limited until December 2013	53	148
LIBOR+1.9% USD 200 million Nordea Bank until November 2013	21	133
LIBOR+3.25% USD 200 million UniCredit Bank October 2012	-	71
8% RR 10 billion Gazprombank November 2012	-	42
Other interest expenses	36	72
Subtotal	**8,559**	**5,702**
Less: capitalized interest	(3,460)	(2,698)
Interest expense (on historical cost basis)	**5,099**	**3,004**
Provisions for asset retirement obligations: effect of the present value discount unwinding	248	232
Total interest expense	**5,347**	**3,236**

	Year ended 31 December:	
Interest income	**2013**	**2012**
Interest income on loans receivable	1,537	1,051
Interest income on cash, cash equivalents and deposits	373	444
Interest income (on historical cost basis)	**1,910**	**1,495**
Long-term financial assets: effect of the present value discount unwinding	431	236
Total interest income	**2,341**	**1,731**

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

27 INCOME TAX

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

	Year ended 31 December:	
	2013	**2012**
Profit before income tax	137,130	86,215
Theoretical income tax expense at statutory rate of 20 percent	27,426	17,243
Increase (decrease) due to:		
Non-temporary differences in respect of share of losses of joint ventures	22	421
Non-deductible expenses	469	546
Russian entities' taxation at lower income tax rate	(95)	(117)
Foreign entities' taxation at lower income tax rate	(229)	(107)
Deferred taxes write-off	71	(21)
Tax benefits relating to priority investment projects	(508)	(1,709)
Other non-temporary differences	29	518
Total income tax expense	**27,185**	**16,774**

In 2013 and 2012, a number of the Group's investment projects were included by the government authorities in the list of priority projects, in respect of them the Group was able to apply a reduced income tax rate of 15.5 percent.

Domestic and foreign components of current income tax expense were:

	Year ended 31 December:	
	2013	**2012**
Russian Federation income tax	23,141	16,011
Foreign income tax	251	131
Total current income tax expense	**23,392**	**16,142**

Effective income tax rate. The Group's Russian statutory income tax rate for 2013 and 2012 was 20 percent. For the years ended 31 December 2013 and 2012, the consolidated Group's effective income tax rate was 19.8 percent and 19.5 percent, respectively.

Effective 1 January 2012, Russian tax legislation introduced an option to submit a single consolidated income tax return, and, accordingly, in April 2012, the Group's management registered NOVATEK and its core Russian producing subsidiaries as a consolidated group of taxpayers for 2012 and thereafter.

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.

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

27 INCOME TAX (CONTINUED)

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

	At 31 December 2013	At 31 December 2012
Long-term deferred income tax asset (other non-current assets)	1,514	1,062
Long-term deferred income tax liability	(18,219)	(13,969)
Net deferred income tax liability	**(16,705)**	**(12,907)**

Deferred income tax assets expected to be realized within twelve months of 31 December 2013 and 2012 were RR 701 million and RR 983 million, respectively. Deferred tax liabilities expected to be reversed within twelve months of 31 December 2013 and 2012 were RR 319 million and RR 629 million, respectively.

Movements in deferred income tax assets and liabilities during the years ended 31 December 2013 and 2012 are as follows:

	At 31 December 2013	Statement of Income effect	Statement of Comprehensive Income effect	At 31 December 2012
Property, plant and equipment	(19,090)	(3,188)	-	(15,902)
Intangible assets	(325)	73	-	(398)
Other	(1,029)	(315)	-	(714)
Deferred income tax liabilities	**(20,444)**	**(3,430)**	**-**	**(17,014)**
Less:deferred tax assets offset	*2,225*	*(820)*	-	*3,045*
Total deferred income tax liabilities	**(18,219)**	**(4,250)**	**-**	**(13,969)**
Tax losses carried forward	1,692	218	-	1,474
Inventories	556	(521)	-	1,077
Asset retirement obligation	680	103	-	577
Trade payables and accrued liabilities	548	(253)	(8)	809
Other	263	90	3	170
Deferred income tax assets	**3,739**	**(363)**	**(5)**	**4,107**
Less: deferred tax liabilities offset	*(2,225)*	*820*	-	*(3,045)*
Total deferred income tax assets	**1,514**	**457**	**(5)**	**1,062**
Net deferred income tax liabilities	**(16,705)**	**(3,793)**	**(5)**	**(12,907)**

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

27 INCOME TAX (CONTINUED)

	At 31 December 2012	Statement of Income effect	Acquisitions	Disposals	At 31December 2011
Property, plant and equipment	(15,902)	(1,124)	-	11	(14,789)
Intangible assets	(398)	51	(125)	-	(324)
Other	(714)	(496)	(5)	-	(213)
Deferred income tax liabilities	**(17,014)**	**(1,569)**	**(130)**	**11**	**(15,326)**
Less:deferred tax assets offset	*3,045*	*524*	-	-	*2,521*
Total deferred income tax liabilities	**(13,969)**	**(1,045)**	**(130)**	**11**	**(12,805)**
Tax losses carried forward	1,474	95	4	-	1,375
Inventories	1,077	438	-	(15)	654
Asset retirement obligation	577	30	-	-	547
Trade payables and accrued liabilities	809	327	-	-	482
Other	170	47	-	-	123
Deferred income tax assets	**4,107**	**937**	**4**	**(15)**	**3,181**
Less: deferred tax liabilities offset	*(3,045)*	*(524)*	-	-	*(2,521)*
Total deferred income tax assets	**1,062**	**413**	**4**	**(15)**	**660**
Net deferred income tax liabilities	**(12,907)**	**(632)**	**(126)**	**(4)**	**(12,145)**

At 31 December 2013, the Group had recognized deferred income tax assets of RR 1,692 million (31 December 2012: RR 1,474 million) in respect of unused tax loss carry forwards of RR 8,460 million (31 December 2012: RR 7,370 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.

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

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

	At 31 December 2013		At 31 December 2012	
Financial assets	**Non-current**	**Current**	**Non-current**	**Current**
Loans and receivable				
Loans receivable	47,615	23	12,502	428
Trade and other receivables	1,722	49,522	648	16,409
Bank deposits	7	36	3	10
Cash restricted in the form of guarantee	-	-	-	1,959
Cash and cash equivalents	-	7,889	-	18,420
At fair value through profit or loss				
Commodity derivatives	471	316	148	451
Total	**49,815**	**57,786**	**13,301**	**37,677**
Financial liabilities				
At amortized cost				
Long-term debt	141,595	9,911	97,805	34,682
Short-term debt	-	14,115	-	-
Trade and other payables	-	17,611	-	12,141
At fair value through profit or loss				
Commodity derivatives	228	46	592	43
Total	**141,823**	**41,683**	**98,397**	**46,866**

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

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

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

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

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

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The Group employs services of independent appraisers to estimate fair value of financial instruments recognised at fair value through profit or loss. Valuation procedures and its results are reconsidered by the Group's management on a quarterly basis.

The amounts recognized by the Group in respect to the long-term and short-term natural gas contracts measured in accordance with IAS 39, *Financial instruments: recognition and measurement,* are as follows:

Commodity derivatives	**At 31 December 2013**	**At 31 December 2012**
Within other non-current and current assets	787	599
Within other non-current and current liabilities	(274)	(635)

Included in other operating income (loss)	**Year ended 31 December:**	
	2013	**2012**
Operating income from natural gas foreign trading	180	112
Change in fair value of commodity derivatives	549	(36)

The fair value of natural gas derivative contracts is sensitive to forward pricing changes in the event of a one-off shift step in the market. The table below represents the effect on the fair value estimation of these derivative contracts that would occur from price changes by RR 224.85 (five Euros) by one megawatt-hour:

Sensitivity summary (RR million)	**From price decrease**	**From price increase**
Market shift from 2015 sensitivity	3,141	(4,090)
Market shift from 2020 sensitivity	2,315	(3,142)

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

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

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

The Group is exposed to market price movements relating to changes in commodity prices such as crude oil, oil and gas condensate refined 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.

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

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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 2013	Russian rouble	US dollar	Other	Total
Financial assets				
Non-current				
Long-term loans receivable	2,200	45,415	-	47,615
Trade and other receivables	402	1,303	17	1,722
Commodity derivatives	-	-	471	471
Long-term deposits	-	-	7	7
Current				
Short-term loans receivable	-	23	-	23
Trade and other receivables	9,981	37,707	1,834	49,522
Short-term bank deposits	26	9	1	36
Commodity derivatives	-	-	316	316
Cash and cash equivalents	5,131	2,052	706	7,889
Financial liabilities				
Non-current				
Long-term debt	(33,891)	(107,704)	-	(141,595)
Commodity derivatives	-	-	(228)	(228)
Current				
Current portion of long-term debt	(9,911)	-	-	(9,911)
Short-term debt	-	(14,115)	-	(14,115)
Trade and other payables	(12,573)	(3,570)	(1,468)	(17,611)
Commodity derivatives	-	-	(46)	(46)
Net exposure at 31 December 2013	**(38,635)**	**(38,880)**	**1,610**	**(75,905)**

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

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

The sensitivity analysis depicted in the table below reflects the hypothetical loss that would occur assuming a 10 percent increase in exchange rates and no changes in the portfolio of instruments and other variables at 31 December 2013 and 2012, respectively:

		Year ended 31 December:	
Effect on pre-tax profit	Increase in exchange rate	2013	2012
RUB / USD	10%	(3,888)	(5,818)

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

(b) Commodity price risk

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

Natural gas supplies on the Russian domestic market. As an independent natural gas producer, the Group is not subject to the government's regulation of natural gas prices, except for those volumes sold to residential customers. Nevertheless, the Group's prices for natural gas sold are strongly influenced by the prices regulated by the Federal Tariffs Service (FTS), a governmental agency of the Russian Federation.

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

In 2012, according to the domestic natural gas market liberalization plan, the FTS increased the regulated natural gas prices by 15 percent effective 1 July 2012. In 2013, the regulated natural gas prices were reduced by 3 percent from 1 April 2013, increased by 15 percent from 1 July 2013, increased by 3.1 percent from 1 August 2013 and by another 1.9 percent from 1 October 2013. Based on the Ministry of Economic Development Forecast published in September 2013, in 2014 wholesale natural gas prices on the domestic market (excluding residential customers) will remain at the same price level as the August-September 2013 prices, and, accordingly, in July 2015 and 2016, will be increased by 4.8 percent and 4.9 percent, respectively. Currently, the Russian Federation government is discussing various scenarios for the growth rate of natural gas prices on the Russian domestic market for the subsequent years.

Management believes it has limited downside commodity price risk for natural gas and does not use commodity derivative instruments for trading purposes. All of the Group’s natural gas purchase and sales contracts in the domestic market are entered to meet supply requirements to fulfil contract obligations or for own consumption and are not within the scope of IAS 39, *Financial instruments: recognition and measurement*. However, to effectively manage the margins achieved through its natural gas trading activities, management has established targets for volumes sold to wholesale traders, end-customers and eventually to the natural gas exchange when trading commences.

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

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

Liquid hydrocarbons. The Group sells its crude oil, stable gas condensate and gas condensate refined products under spot contracts. Naphtha and stable gas condensate volumes sold to the Asian-Pacific Region, European, US and South American markets are based on benchmark reference crude oil prices of WTI, Brent IPE and Dubai and/or naphtha prices of Naphtha Japan and Naphtha CIF NWE or a combination thereof, plus a margin or discount, depending on current market situation. Other gas condensate refined products volumes sold mainly to the European market are based on benchmark reference jet fuel prices of Jet CIF NWE, gasoil prices of Gasoil 0.1 percent CIF NWE and fuel oil prices of Fuel Oil 1 percent CIF NWE, 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 and gas condensate refined products benchmark reference prices. All of the Group’s liquid hydrocarbon purchase and sales contracts are entered to meet supply requirements to fulfill contract obligations or for own consumption and are not within the scope of IAS 39, *Financial instruments: recognition and measurement*.

(c) Cash flow and fair value interest rate risk

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

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

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

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

	At 31 December 2013	At 31 December 2012
At fixed rate	131,258	122,779
At variable rate	34,363	9,708
Total debt	**165,621**	**132,487**

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

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

	Year ended 31 December:	
Effect on pre-tax profit	**2013**	**2012**
Increase by 100 basis points	344	97

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 2013 and 2012, or during 2013 and 2012.

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 have 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 hydrocarbons sales are made to customers with independent external ratings; however, if the customer has a credit rating below BBB, the Group requires the collateral for the trade receivable to be in the form of letters of credit from banks with an investment grade rating. All domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis. Although the Group generally does not require collateral in respect of trade and other receivables, it has developed standard credit payment terms and constantly monitors the status of trade receivables and the creditworthiness of the customers.

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

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

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

Moody's, Fitch and/or Standard & Poor's	At 31 December 2013	At 31 December 2012
Investment grade rating	26,966	7,208
Non-investment grade rating	7,603	4,825
No external rating	14,953	4,376
Total trade and other receivables	**49,522**	**16,409**

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

Moody's, Fitch and/or Standard & Poor's	At 31 December 2013	At 31 December 2012
Investment grade rating	5,835	16,887
Non-investment grade rating	2,040	1,526
No external rating	14	7
Total cash and cash equivalents	**7,889**	**18,420**

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

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

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

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

At 31 December 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
Principal (*)	24,115	20,000	33,638	54,003	131,756
Interest	7,379	6,649	10,707	9,301	34,036
Debt at variable rate					
Principal (*)	-	8,082	26,938	-	35,020
Interest	708	654	750	-	2,112
Trade and other payables	17,611	-	-	-	17,611
Total financial liabilities	**49,813**	**35,385**	**72,033**	**63,304**	**220,535**

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

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

In December 2013, the Group issued a financial guarantee in the amount of USD 400 million (RR 13,092 million) to third party in favor of its joint venture, Yamal Development, valid until 23 December 2014.

In August 2013, the Group issued a parent company guarantee for USD 120 million (RR 3,927 million) to third parties in favor of its joint venture Yamal LNG until 28 February 2014. Subsequent to the balance sheet date, in January 2014, the Group increased the amount of the guarantee issued to USD 240 million.

The Group has unrecognized commitments to provide funding to its joint ventures, if called, in the undiscounted aggregated amount of approximately RR 11 billion and USD 0.7 billion for 2014 and USD 1.5 billion for the period 2015-2018, subject to further adjustments and/or revisions by shareholders.

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

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

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

At 31 December 2013	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
Cash inflow	27,156	26,231	75,411	89,464	218,262
Cash outflow	(26,750)	(26,155)	(75,184)	(89,163)	(217,252)
Net cash flows	**406**	**76**	**227**	**301**	**1,010**
At 31 December 2012					
Cash inflow	23,150	23,600	69,289	108,742	224,781
Cash outflow	(22,678)	(23,175)	(68,593)	(107,598)	(222,044)
Net cash flows	**472**	**425**	**696**	**1,144**	**2,737**

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

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

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

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

The Group defines the term "capital" as equity attributable to OAO NOVATEK shareholders plus net debt (total debt less cash and cash equivalents). There were no changes to the Group's approach to capital management during the year ended 31 December 2013. At 31 December 2013 and 2012, the Group's capital totalled RR 527,930 million and RR 404,117 million, respectively.

29 CONTINGENCIES AND COMMITMENTS

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

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

Commitments. At 31 December 2013, the Group had contractual capital expenditures commitments aggregating approximately RR 36,142 million (at 31 December 2012: RR 22,476 million) mainly for development at the Yarudeyskoye field (through 2015) and ongoing development activities at the Yurkharovskoye (through 2015), the Salmanovskoye (Utrenneye) (through 2017), the East-Tarkosalinskoye (through 2015), the Khancheyskoye (through 2014), the North-Khancheyskoye (through 2014) fields and the Olimpiyskiy license area (through 2015) all in accordance with duly signed agreements. Furthermore, the Group's share in capital commitments for its interests in joint ventures aggregates approximately RR 52,247 million (at 31 December 2012: RR 31,411 million) for development at the South-Tambeyskoye (through 2020), the Samburgskoye (through 2014), the Termokarstovoye (through 2016) and the North-Urengoyskoye (through 2015) fields.

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

Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued in the consolidated financial statements.

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

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

29 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

Field	License holder	License expiry date
	Subsidiaries:	
Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2034
Salmanovskoye (Utrenneye)	OOO NOVATEK-Yurkharovneftegas	2031
Geofizicheskoye	OOO NOVATEK-Yurkharovneftegas	2031
East-Tarkosalinskoye	OOO NOVATEK-Tarkosaleneftegas	2043
North-Russkoye	OOO NOVATEK-Tarkosaleneftegas	2031
Khancheyskoye	OOO NOVATEK-Tarkosaleneftegas	2044
East-Tazovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
North-Khancheyskoye	OOO NOVATEK-Tarkosaleneftegas	2029
Urengoyskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2026
Dobrovolskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2026
Malo-Yamalskoye	OOO NOVATEK-Yarsaleneftegas	2019
Yarudeyskoye	OOO Yargeo	2029
	Joint ventures:	
South-Tambeyskoye	OAO Yamal LNG	2045
North-Urengoyskoye	ZAO Nortgas	2018
Urengoiskoye (within the Samburgskiy and Yevo-Yakhinskiy license areas)	OAO Arcticgas (Subsidiary of OOO SeverEnergia)	2018
Samburgskoye	OAO Arcticgas (Subsidiary of OOO SeverEnergia)	2018
Yaro-Yakhinskoye	OAO Arcticgas (Subsidiary of OOO SeverEnergia)	2018
North-Chaselskoye	OAO Arcticgas (Subsidiary of OOO SeverEnergia)	Life of field
Termokarstovoye	ZAO Terneftegas	2021

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

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

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

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

30 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

The principal subsidiaries and joint ventures of the Group and respective effective ownership in the ordinary share capital at 31 December 2013 and 2012 are set out below:

	Ownership percent at 31 December:		Country of incorporation	Principal activities
	2013	2012		
Subsidiaries:				
OOO NOVATEK-Yurkharovneftegas	100	100	Russia	Exploration and production
OOO NOVATEK-Tarkosaleneftegas	100	100	Russia	Exploration and production
OOO NOVATEK-Purovsky ZPK	100	100	Russia	Gas Condensate Processing Plant
OOO NOVATEK-Transervice	100	100	Russia	Transportation services
OOO NOVATEK-Ust-Luga	100	100	Russia	Transshipment and fractionation Complex
OOO NOVATEK-AZK	100	100	Russia	Wholesale and retail trading
OOO NOVATEK-Chelyabinsk	100	100	Russia	Trading and marketing
OOO NOVATEK-Kostroma	84.54	84.54	Russia	Trading and marketing
OOO NOVATEK-Perm	100	100	Russia	Trading and marketing
OOO NOVATEK Moscow Region	100	100	Russia	Trading and marketing
OOO Yargeo	51	51	Russia	Exploration and development
Novatek Gas & Power GmbH	100	100	Switzerland	Trading and marketing
Novatek Polska Sp. z o.o.	100	100	Poland	Trading and marketing
Joint ventures:				
OAO Yamal LNG	60	80	Russia	Exploration and development
OAO Sibneftegas	-	51	Russia	Exploration and production
ZAO Terneftegas	51	51	Russia	Exploration and development
OOO Yamal Development	50	50	Russia	Holding company
Artic Russia B.V.	70	-	Netherland	Holding company
OOO SeverEnergia (includes a producing subsidiary, see Note 7)	59.8	25.5	Russia	Holding company
ZAO Nortgas	50	49	Russia	Exploration and production

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

31 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 or joint control 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.

	Year ended 31 December:	
Related parties – joint ventures	**2013**	**2012**
Transactions		
OAO Sibneftegas (until December 2013):		
Interest income on loans issued	307	901
Purchases of natural gas	(7,017)	(5,272)
OOO SeverEnergia and its subsidiary:		
Interest income on loans issued	-	145
Purchases of unstable gas condensate	(5,975)	(1,956)
ZAO Terneftegas:		
Interest income on loans issued	129	45
OAO Yamal LNG:		
Interest income on loans issued	1,253	17
Other revenues (operator services sales)	96	97
ZAO Nortgas (from 27 November 2012):		
Purchases of natural gas	(3,565)	-
Purchases of unstable gas condensate	(4,329)	(312)

Related parties – joint ventures	**At 31 December 2013**	**At 31 December 2012**
Balances		
OAO Sibneftegas (until December 2013):		
Long-term loans receivable	-	8,136
Interest on long-term loans receivable	-	187
Current portion of long-term loans	-	428
Trade payables and accrued liabilities	-	705
OOO SeverEnergia and its subsidiary:		
Trade payables and accrued liabilities	753	398

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

31 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – joint ventures	At 31 December 2013	At 31 December 2012
Balances		
ZAO Terneftegas:		
Long-term loans receivable	2,611	1,451
Interest on long-term loans receivable	135	50
OAO Yamal LNG:		
Long-term loans receivable	42,804	2,915
Interest on long-term loans receivable	1,169	17
ZAO Nortgas (from 27 November 2012):		
Trade payables and accrued liabilities	1,856	368
OOO Yamal Development:		
Long-term loans receivable	2,200	-

All the terms and conditions of the loans receivable from the related parties are disclosed in the Note 8.

In addition, as disclosed in Note 28, in August 2013, the Group issued a parent company guarantee in favor of Yamal LNG, the Group's joint venture. In December 2013, the Group issued a financial guarantee to third party in favor of Yamal Development, the Group's joint venture.

	Year ended 31 December:	
Related parties – parties under control of key management personnel	2013	2012
Transactions		
OAO SIBUR Holding and its subsidiaries:		
Natural gas sales	2,785	2,042
Liquid hydrocarbons sales	482	-
Purchases of natural gas and liquid hydrocarbons	(12,960)	(9,479)
Energy expense	(145)	-
OOO Transoil:		
Liquid hydrocarbons transportation by rail	(3,434)	(472)
Gunvor Group (under joint control):		
Liquid hydrocarbons sales	2,911	-
Liquid hydrocarbons transportation (transshipment services)	(439)	-
Purchases of liquid hydrocarbons	(102)	-

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

31 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – parties under control of key management personnel	At 31 December 2013	At 31 December 2012
Balances		
OAO Pervobank:		
Cash and cash equivalents	2,040	1,224
OAO SIBUR Holding and its subsidiaries:		
Trade and other receivables	119	1,568
Trade payables and accrued liabilities	274	826
Prepayments and other current assets	14	1,690
OOO Transoil:		
Trade payables and accrued liabilities	176	170
Prepayments and other current assets	288	61
Gunvor Group (under joint control):		
Trade and other receivables	2,903	-
Trade payables and accrued liabilities	118	-
Prepayments and other current assets	69	-

In December 2013, the Group signed an agreement for the sale of naphtha with Gunvor Group, an entity under joint control of a member of the Board of Directors of NOVATEK. The Group's balances and transactions with this company are disclosed above as related parties – parties under joint control of key management personnel of the Group.

In October 2012, the Group signed an agreement for the transport of stable gas condensate (cisterns supply and dispatching services) from the Purovsky Gas Condensate Processing Plant to the ports of Vitino and Ust-Luga with OOO Transoil, an entity under control of a member of the Board of Directors of NOVATEK. The Group's balances and transactions with this company are disclosed above as related parties – parties under control of key management personnel of the Group.

In December 2012, the Group signed an agreement for transshipment of stable gas condensate at the port of Ust-Luga with Gunvor Group, an entity under joint control of a member of the Board of Directors of NOVATEK. The Group's balances and transactions with this company are disclosed above as related parties – parties under joint control of key management personnel of the Group.

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

	Year ended 31 December:	
Related parties – members of the key management personnel	2013	2012
Board of Directors	106	105
Management Committee	1,593	1,282
Total compensation	**1,699**	**1,387**

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

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

32 SEGMENT INFORMATION

The Group's activities are considered by the chief operating decision maker (hereinafter referred to as "CODM", represented by the Management Committee of NOVATEK) to comprise one operating segment: "exploration, production and marketing".

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

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

Segment information for the year ended 31 December 2013 is as follows:

For the year ended 31 December 2013	**References**	**Exploration, production and marketing**	**Segment information as reported to CODM**	**Reconciling items**	**Total per consolidated financial statements**
External revenues		298,166	298,166	(8)	298,158
Operating expenses	*a - e*	(196,794)	(196,794)	4,033	(192,761)
Other operating income (loss)	*e - g*	37,103	37,103	1,426	38,529
Interest expense	*h - j*	(8,081)	(8,081)	2,734	(5,347)
Interest income	*i*	1,893	1,893	448	2,341
Foreign exchange gain (loss)	*j*	(4,197)	(4,197)	519	(3,678)
Segment result		**128,090**	**128,090**	**9,152**	**137,242**
Share of profit (loss) of joint ventures, net of income tax					(112)
Profit before income tax					**137,130**
Depreciation, depletion and amortization	*a*	18,554	18,554	(5,051)	13,503
Capital expenditures	*j*	59,796	59,796	2,654	62,450

Reconciling items mainly related to:

a. different methodology in calculating depreciation, depletion and amortization for intangible assets and for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method), which resulted in reversal of RR 5,071 million in operating expenses under IFRS;

b. different methodology in recognizing expenses relating to natural gas storage services and payroll (including share-based payments, pension obligation, discounting loans to employee and bonus accruals) between IFRS and management accounting, which resulted in additional transportation expenses of RR 438 million and additional payroll expenses of RR 557 million recorded in operating expenses under IFRS;

c. different methodology in recognizing impairment expenses on oil and gas properties between IFRS and management accounting, which resulted in additional recognition of operating expenses of RR 2,304 million under IFRS;

d. different methology in valuation of inventory balances under IFRS and management accounting, which resulted in reversal of operating expenses of RR 438 million under IFRS;

e. different methodology in recognizing exploration expenses between IFRS and management accounting, which resulted in the reversal of operating expenses of RR 1,884 million and other operating loss of RR 413 million under IFRS;

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

32 SEGMENT INFORMATION (CONTINUED)

f. different methodology in recognizing valuation of commodity derivatives under IFRS and management accounting, which requires additional recognition of other operating income for RR 549 million under IFRS;

g. different methodology in recognition of disposal 51 percent ownership in OAO Sibneftegas, the Group's joint venture, between IFRS and management accounting, which resulted in additional recognition of other operating income of RR 338 million under IFRS;

h. different methodology in recognizing borrowing transaction costs between IFRS and management accounting, which resulted in the reversal of interest expense of RR 603 million under IFRS;

i. different methodology in recognizing effect of the present value discount unwinding of long-term financial assets and effect of the present value discount unwinding of provisions for asset retirement obligations under IFRS and management accounting, which requires additional recognition of interest income of RR 431 million and additional recognition of interest expense of RR 248 million under IFRS; and

j. different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting, which resulted in additional capitalized interest and foreign exchange differences of RR 2,977 million and reversal of capital expenditures of RR 323 million under IFRS.

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

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

Reconciling items mainly related to:

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

b. different methodology in calculating depreciation, depletion and amortization for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method), which resulted in reversal of RR 3,987 million in operating expenses under IFRS;

c. different methodology in the classification of depreciation, depletion and amortization for operating assets, which have not completed their statutory registration, between IFRS and management accounting, which resulted in the reclassification of RR 147 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS;

32 SEGMENT INFORMATION (CONTINUED)

d. different methodology in recognizing expenses relating to natural gas storage services and payroll (including share-based payments, pension obligation, discounting loans to employees and bonus accruals) between IFRS and management accounting, which resulted in additional transportation expenses of RR 216 million and additional payroll expenses of RR 1,962 million recorded in operating expenses under IFRS;

e. different methodology in recognizing of exploration expenses, which resulted in the reversal of operating expenses of RR 2,364 million under IFRS; and

f. different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting, which resulted in additional capitalized interest and foreign exchange differences of RR 2,156 million and additional capital expenditures of RR 5,377 million under IFRS.

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

32 SEGMENT INFORMATION (CONTINUED)

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

- *Russian Federation* – exploration, development, production and processing of hydrocarbons, and sales of natural gas, stable gas condensate, liquefied petroleum gas, crude oil and gas refined products;
- *Asian-Pacific Region, Europe, USA, Brazil* – sales of stable gas condensate, naphtha, liquefied petroleum gas, crude oil and other gas condensate refined products.

The Group's geographical information is presented below:

For the year ended 31 December 2013	**Natural gas**	**Stable gas condensate and naphtha**	**Liquefied petroleum gas**	**Crude oil**	**Other gas and gas condensate refined products**	**Total oil and gas sales**
Russia	204,969	1,867	7,296	4,683	359	219,174
South Korea	-	29,173	-	-	-	29,173
Netherlands	-	17,184	-	-	-	17,184
Taiwan	-	12,212	-	-	-	12,212
Poland	-	-	8,373	-	-	8,373
Japan	-	7,100	-	-	-	7,100
Singapore	-	7,019	-	-	-	7,019
China	-	6,284	-	-	-	6,284
Slovakia	-	-	432	4,289	-	4,721
Sweden	-	-	-	-	4,511	4,511
Other	-	18,431	4,769	1,346	4,124	28,670
Less: export duties	-	(39,634)	(2,100)	(2,875)	(2,313)	(46,922)
Total outside Russia	-	57,769	11,474	2,760	6,322	78,325
Total	**204,969**	**59,636**	**18,770**	**7,443**	**6,681**	**297,499**

For the year ended 31 December 2012	**Natural gas**	**Stable gas condensate and naphtha**	**Liquefied petroleum gas**	**Crude oil**	**Other gas and gas condensate refined products**	**Total oil and gas sales**
Russia	142,613	319	5,968	3,215	350	152,465
South Korea	-	26,939	-	-	-	26,939
Singapore	-	15,804	-	-	-	15,804
Netherlands	-	13,877	-	-	-	13,877
USA	-	8,614	-	-	-	8,614
Poland	-	-	7,880	-	-	7,880
Norway	-	4,829	-	-	-	4,829
Hungary	-	-	758	3,661	-	4,419
Brazil	-	3,597	-	-	-	3,597
Finland	-	714	2,121	-	-	2,835
Other	-	7,045	1,378	-	-	8,423
Less: export duties	-	(35,054)	(2,506)	(1,876)	-	(39,436)
Total outside Russia	-	46,365	9,631	1,785	-	57,781
Total	**142,613**	**46,684**	**15,599**	**5,000**	**350**	**210,246**

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

32 SEGMENT INFORMATION (CONTINUED)

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

Major customers. For the year ended 31 December 2013, the Group has two major customers to whom individual revenues exceed 10 percent of total external revenues, which represent 19 percent and 13 percent (RR 55,517 million and RR 39,568 million) of total external revenues, respectively. For the year ended 31 December 2012, the Group had one customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 19 percent (RR 40,060 million) of total external revenues. All of the Group's major customers reside within the Russian Federation.

33 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

	Year ended 31 December:	
	2013	**2012**
Net book value of assets value at 1 January	**8,747**	**16,251**
Additions	3,852	1,212
Disposals (recognized within consolidated statement of income)	(1,966)	(940)
Reclassification in proved properties	(3,196)	(7,192)
Other movements	(648)	(584)
Net book value of assets at 31 December	**6,789**	**8,747**
Liabilities	80	1,483
Cash flows used for operating activities	339	1,174
Cash flows used for investing activities	3,272	1,730

34 SUBSEQUENT EVENTS

In February 2014, the Group entered into the agreement to acquire an additional 15 percent participation interest in OOO NOVATEK-Kostroma for total cash consideration of RR 102 million. The transaction increased the Group's effective participation interest in OOO NOVATEK-Kostroma to 100 percent.

35 NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Group has not early adopted:

IFRS 9, *Financial Instruments: Classification and Measurement.* Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

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

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

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

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

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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

Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets* (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a cash-generating unit contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on the disclosures in its consolidated financial statements.
Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The following changes may impact the Group's consolidated financial statements:

- IFRS 3, *Business Combinations*, was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11, *Joint Arrangements*. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

- The amendment of IFRS 13, *Fair Value Measurement*, clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39, *Financial Instruments: Recognition and Measurement*, or IFRS 9, *Financial Instruments*.

The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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, these costs do not include LNG liquefaction and transportation operations (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2013	**2012**
Costs incurred in exploration and development activities		
Acquisition of unproved properties	49	-
Acquisition of proved properties	3,196	-
Exploration costs	1,861	2,028
Development costs	39,894	29,988
Total costs incurred in exploration and development activities	**45,000**	**32,016**
The Group's share in joint ventures' acquisition costs of exploration and development activities	160,383	63,708
The Group's share in joint ventures' cost incurred in exploration and development activities	33,017	17,069

	At 31 December 2013	At 31 December 2012
Capitalized costs relating to oil and gas producing activities		
Wells and related equipment and facilities	177,319	157,048
Support equipment and facilities	46,572	38,922
Uncompleted wells, equipment and facilities	45,282	17,312
Total capitalized costs relating to oil and gas producing activities	**269,173**	**213,282**
Less: accumulated depreciation, depletion and amortization	(57,541)	(46,131)
Net capitalized costs relating to oil and gas producing activities	**211,632**	**167,151**
The Group's share in joint ventures' capitalized costs relating to oil and gas producing activities	322,259	226,887

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Results of Operations for Oil and Gas Producing Activities

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

	Year ended 31 December:	
	2013	**2012**
Revenues from oil and gas sales	236,364	184,629
Lifting costs	(9,030)	(7,599)
Transportation expenses	(87,157)	(57,888)
Taxes other than income tax	(21,296)	(16,546)
Depreciation, depletion and amortization	(12,274)	(10,589)
Exploration expenses	(427)	(2,022)
Total production costs	**(130,184)**	**(94,644)**
Results of operations for oil and gas producing activities before income tax	106,180	89,985
Less: related income tax expenses	(21,236)	(17,997)
Results of operations for oil and gas producing activities	**84,944**	**71,988**
Share of profit (loss) of joint ventures	4,077	1,401
Total results of operations for oil and gas producing activities	**89,021**	**73,389**

Proved Oil and Gas Reserves

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

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

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

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

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2013 and 2012.

Extensions of production licenses are assumed to be at the discretion of the Group. Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group’s production licenses. The Group’s licenses for exploration and production expire between 2014 and 2045, with the most significant licenses for Yurkharovskoye and East-Tarkosalinskoye fields, expiring in 2034 and 2043, respectively. Legislation of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Management intends to extend its licenses for properties expected to produce beyond the license expiry dates.

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

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

Net reserves exclude quantities due to others when produced.

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

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

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Net proved reserves of natural gas are presented below.

	Net proved reserves		Group's share in joint ventures		Total net proved reserves	
	Billions of cubic feet	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*
Reserves at 31 December 2011	**26,547**	**752**	**20,236**	**573**	**46,783**	**1,325**
Changes attributable to:						
Revisions of previous estimates	231	6	(9)	-	222	6
Extension and discoveries	738	21	1,018	29	1,756	50
Acquisitions	12,717	360	2,729	77	15,446	437
Production	(1,781)	(50)	(211)	(6)	(1,992)	(56)
Reserves at 31 December 2012	**38,452**	**1,089**	**23,763**	**673**	**62,215**	**1,762**
Changes attributable to:						
Revisions of previous estimates	(417)	(12)	1,716	49	1,299	37
Extension and discoveries	154	4	1,446	41	1,600	45
Acquisitions (1) (2)	605	17	5,094	144	5,699	161
Disposals(3) (4)	-	-	(7,073)	(200)	(7,073)	(200)
Production	(1,842)	(52)	(315)	(9)	(2,157)	(61)
Reserves at 31 December 2013	**36,952**	**1,046**	**24,631**	**698**	**61,583**	**1,744**
Net proved developed reserves (included above)						
At 31 December 2011	20,763	588	2,348	66	23,111	654
At 31 December 2012	20,053	568	3,222	91	23,275	659
At 31 December 2013	18,729	530	3,588	102	22,317	632
Net proved undeveloped reserves (included above)						
At 31 December 2011	5,784	164	17,888	507	23,672	671
At 31 December 2012	18,399	521	20,541	582	38,940	1,103
At 31 December 2013	18,223	516	21,043	596	39,266	1,112

The net proved reserves reported in the table above included reserves of natural gas attributable to non-controlling interest of 128 billion of cubic feet and four billion of cubic meters and 128 billion of cubic feet and four billion of cubic meters at 31 December 2013 and 2012, respectively.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

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

	Net proved reserves		Group's share in joint ventures		Total net proved reserves	
	Millions of barrels	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*
Reserves at 31 December 2011	**485**	**59**	**283**	**34**	**768**	**93**
Changes attributable to:						
Revisions of previous estimates	2	-	(37)	(4)	(35)	(4)
Extension and discoveries	13	1	40	3	53	4
Acquisitions	78	9	85	10	163	19
Production	(35)	(4)	(1)	-	(36)	(4)
Reserves at 31 December 2012	**543**	**65**	**370**	**43**	**913**	**108**
Changes attributable to:						
Revisions of previous estimates	(33)	(4)	23	2	(10)	(2)
Extension and discoveries	7	1	101	11	108	12
Acquisitions (1) (2)	21	3	215	24	236	27
Disposals(3) (4)	-	-	(34)	(4)	(34)	(4)
Production	(36)	(5)	(4)	-	(40)	(5)
Reserves at 31 December 2013	**502**	**60**	**671**	**76**	**1,173**	**136**
Net proved developed reserves (included above)						
At 31 December 2011	282	33	-	-	282	33
At 31 December 2012	269	32	26	3	295	35
At 31 December 2013	244	29	78	9	322	38
Net proved undeveloped reserves (included above)						
At 31 December 2011	203	26	283	34	486	60
At 31 December 2012	274	33	344	40	618	73
At 31 December 2013	258	31	593	67	851	98

The net proved reserves reported in the table above included reserves of crude oil, gas condensate and natural gas liquids attributable to non-controlling interest of 17 million of barrels and two million of metric tons and 17 million of barrels and two million of metric tons at 31 December 2013 and 2012, respectively.

(1) – In March 2013, the Group acquired an oil and gas exploration and production license for the East-Tazovskoye field.

(2) (3) – In December 2013, the Group disposed its 51 percent ownership in OAO Sibneftegas and acquired a 40 percent interest in Artic Russia B.V., which is a holding company for 49 percent participation interest in OOO SeverEnergia. Additionaly, in December 2013, OOO Yamal Development, the Group's joint venture, acquired 60 percent of the ownership interest in Arctic Russia B.V. As a result, the Group's effective participation interest in SeverEnergia increased to 59.8 percent (see Note 5).

In November 2012, the Group acquired 49 percent of the outstanding ordinary shares of ZAO Nortgas, which holds license on North-Urengoyskoye field. In June 2013, the Group increased its equity share in Nortgas to 50 percent through a subscription to the entity's additional share emission (see Note 5).

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

(4) – In December 2013, the Group sold a 20 percent stake in OAO Yamal LNG, the Group's joint venture, to China National Petroleum Corporation ("CNPC"). As a result, the Group's share has decreased to 60 percent interest in Yamal LNG after the transaction (see Note 5).

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

The Group's registered office is:

Ulitsa Pobedy 22a
629850 Tarko-Sale
Yamal-Nenets Autonomous Region
Russian Federation

The Group's office in Moscow is:

Ulitsa Udaltsova 2
119415 Moscow
Russian Federation

Telephone:	7 (495) 730-60-00
Fax:	7 (495) 721-22-53

www.novatek.ru