

OAO NOVATEK

**IFRS CONSOLIDATED INTERIM CONDENSED
FINANCIAL INFORMATION (UNAUDITED)**

**AS OF AND FOR THE THREE
MONTHS ENDED 31 MARCH 2014**

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Report on Review of Interim Financial Information

To the Shareholders and Board of Directors of OAO NOVATEK

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO NOVATEK and its subsidiaries (the "Group") as of 31 March 2014 and the related consolidated condensed statements of income, comprehensive income, changes in equity and cash flows for the for the three-month period then ended. Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

28 April 2014
Moscow, Russian Federation


OAO NOVATEK
Consolidated Interim Condensed Statement of Financial Position (unaudited)

(in millions of Russian roubles)

	Notes	At 31 March 2014	At 31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	5	253,343	243,688
Investments in joint ventures	6	175,954	210,066
Long-term loans and receivables	7	42,947	49,337
Other non-current assets	8	15,705	12,478
Total non-current assets		487,949	515,569
Current assets			
Inventories		4,847	5,953
Current income tax prepayments		1,169	157
Trade and other receivables	9	64,774	49,522
Prepayments and other current assets	10	20,824	18,905
Cash and cash equivalents	11	43,344	7,889
Total current assets		134,958	82,426
Total assets		622,907	597,995
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	12	166,812	141,595
Deferred income tax liabilities		20,563	18,219
Asset retirement obligations		2,530	3,397
Other non-current liabilities		2,183	1,854
Total non-current liabilities		192,088	165,065
Current liabilities			
Short-term debt and current portion of long-term debt	13	1,619	24,026
Trade payables and accrued liabilities	14	22,200	21,260
Current income tax payable		159	7,365
Other taxes payable		9,826	7,222
Total current liabilities		33,804	59,873
Total liabilities		225,892	224,938
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(4,073)	(2,406)
Additional paid-in capital		31,297	31,297
Currency translation differences		1,304	683
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		359,733	334,614
Total equity attributable to OAO NOVATEK shareholders	15	394,271	370,198
Non-controlling interest		2,744	2,859
Total equity		397,015	373,057
Total liabilities and equity		622,907	597,995

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

Approved for issue and signed on behalf of the Board of Directors on 28 April 2014:


 L. Mikhelson
 Chairman of the Management Committee


 M. Gyetvay
 Chief Financial Officer

OAQ NOVATEK**Consolidated Interim Condensed Statement of Income (unaudited)**

(in millions of Russian roubles, except for share and per share amounts)

	Notes	Three months ended 31 March:	
		2014	2013
Revenues			
Oil and gas sales	16	88,533	80,448
Other revenues		143	117
Total revenues		88,676	80,565
Operating expenses			
Transportation expenses	17	(27,657)	(29,230)
Purchases of natural gas and liquid hydrocarbons	18	(9,052)	(8,432)
Taxes other than income tax	19	(7,508)	(4,717)
Depreciation, depletion and amortization		(4,056)	(3,157)
General and administrative expenses		(2,612)	(2,419)
Materials, services and other		(2,340)	(1,677)
Change in natural gas, liquid hydrocarbons and work-in-progress		(1,228)	(1,293)
Exploration expenses		(8)	(135)
Net impairment reversals		586	4
Total operating expenses		(53,875)	(51,056)
Net gain (loss) on disposal of interests in joint ventures	4	2,623	-
Other operating income (loss)		(41)	691
Profit from operations		37,383	30,200
Finance income (expense)			
Interest expense	20	(1,436)	(1,364)
Interest income	20	790	478
Foreign exchange gain (loss)		(3,674)	(1,038)
Total finance income (expense)		(4,320)	(1,924)
Share of profit (loss) of joint ventures, net of income tax	6	(1,762)	163
Profit before income tax		31,301	28,439
Income tax expense			
Current income tax expense		(4,836)	(4,000)
Net deferred income tax expense		(1,356)	(1,626)
Total income tax expense	21	(6,192)	(5,626)
Profit (loss)		25,109	22,813
Profit (loss) attributable to:			
Non-controlling interest		(6)	(13)
Shareholders of OAQ NOVATEK		25,115	22,826
Basic and diluted earnings per share (in Russian roubles)		8.30	7.53
Weighted average number of shares outstanding (in thousands)		3,027,308	3,033,104

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

ОАО NOVATEK**Consolidated Interim Condensed Statement of Comprehensive Income (unaudited)**

(in millions of Russian roubles)

	Three months ended 31 March:	
	2014	2013
Profit (loss)	25,109	22,813
Other comprehensive income (loss) that will not be reclassified subsequently to profit (loss)		
Remeasurement of pension obligations	(3)	-
Other comprehensive income (loss) that may be reclassified subsequently to profit (loss), net of income tax		
Currency translation differences	621	217
Total other comprehensive income (loss)	618	217
Total comprehensive income (loss)	25,727	23,030
Total comprehensive income (loss) attributable to:		
Non-controlling interest	(6)	(13)
Shareholders of ОАО NOVATEK	25,733	23,043

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

OAO NOVATEK
Consolidated Interim Condensed Statement of Cash Flows (unaudited)

(in millions of Russian roubles)

	Notes	Three months ended 31 March:	
		2014	2013
Profit before income tax		31,301	28,439
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		4,056	3,157
Net impairment expenses (reversals)		(586)	(4)
Net foreign exchange loss (gain)		3,674	1,038
Net loss (gain) on disposal of assets		(3,259)	(3)
Interest expense		1,436	1,364
Interest income		(790)	(478)
Share of loss (profit) in joint ventures, net of income tax	6	1,762	(163)
Revaluation of financial instruments through loss (profit)		731	(509)
Net change in other non-current assets and long-term receivables		14	28
Other adjustments		28	(149)
Working capital changes			
Decrease (increase) in long-term advances for transportation		(3,335)	(1,541)
Decrease (increase) in trade and other receivables, prepayments and other current assets		527	(3,259)
Decrease (increase) in inventories		1,093	1,192
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		1,402	481
Increase (decrease) in taxes other than income tax		2,109	883
Total effect of working capital changes		1,796	(2,244)
Income taxes paid		(13,073)	(4,944)
Net cash provided by operating activities		27,090	25,532
Cash flows from investing activities			
Purchases of property, plant and equipment		(13,977)	(9,642)
Prepayments for participation in auction for mineral license		-	(1,100)
Purchases of materials intended for construction		(129)	(314)
Acquisition of subsidiaries net of cash acquired		-	(520)
Proceeds from disposal of stake in joint venture	9	18,641	-
Additional capital contributions to joint ventures	6	-	(1,436)
Repayments of long-term receivables from disposals of subsidiaries in previous years		-	105
Interest paid and capitalized		(915)	(839)
Loans provided to joint ventures		(765)	(5,472)
Repayments of loans provided to joint ventures		11,735	847
Interest received		387	439
Net cash (used for) provided by investing activities		14,977	(17,932)
Cash flows from financing activities			
Proceeds from long-term debt		15,551	13,860
Proceeds from short-term debt		1,619	-
Repayments of long-term debt		(10,000)	(22,028)
Repayments of short-term debt		(6,656)	-
Interest paid		(1,309)	(837)
Dividends paid		-	(4)
Purchase of treasury shares		(1,671)	(642)
Sale of treasury shares		35	-
Acquisition of non-controlling interest	4	(102)	-
Net cash (used for) provided by financing activities		(2,533)	(9,651)

ОАО NOVATEK**Consolidated Interim Condensed Statement of Cash Flows (unaudited)**

(in millions of Russian roubles)

	Notes	Three months ended 31 March:	
		2014	2013
Net effect of exchange rate changes on cash, cash equivalents and bank overdrafts		3,490	538
Net increase (decrease) in cash, cash equivalents and bank overdrafts		43,024	(1,513)
Cash, cash equivalents and bank overdrafts at beginning of the period	11	320	18,420
Cash and cash equivalents at end of the period		43,344	16,907

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

OAO NOVATEK**Consolidated Interim Condensed Statement of Changes in Equity (unaudited)**

(in millions of Russian roubles, except for number of shares)

	<i>Number of ordinary shares (in thousands)</i>	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
<i>For the three months ended 31 March 2013</i>										
1 January 2013	3,033,413	393	(584)	31,220	(202)	5,617	253,606	290,050	1,251	291,301
Currency translation differences	-	-	-	-	217	-	-	217	-	217
Profit (loss)	-	-	-	-	-	-	22,826	22,826	(13)	22,813
Total comprehensive income (loss)	-	-	-	-	217	-	22,826	23,043	(13)	23,030
Purchase of treasury shares (Note 15)	(1,969)	-	(642)	-	-	-	-	(642)	-	(642)
31 March 2013	3,031,444	393	(1,226)	31,220	15	5,617	276,432	312,451	1,238	313,689

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

ОАО NOVATEK
Consolidated Interim Condensed Statement of Changes in Equity (unaudited)

(in millions of Russian roubles, except for number of shares)

	<i>Number of ordinary shares (in thousands)</i>	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
<i>For the three months ended 31 March 2014</i>										
1 January 2014	3,028,082	393	(2,406)	31,297	683	5,617	334,614	370,198	2,859	373,057
Currency translation differences	-	-	-	-	621	-	-	621	-	621
Remeasurement of pension obligations	-	-	-	-	-	-	(3)	(3)	-	(3)
Profit (loss)	-	-	-	-	-	-	25,115	25,115	(6)	25,109
Total comprehensive income (loss)	-	-	-	-	621	-	25,112	25,733	(6)	25,727
Acquisition of non-controlling interest (Note 4)	-	-	-	-	-	-	7	7	(109)	(102)
Purchase of treasury shares (Note 15)	(4,469)	-	(1,667)	-	-	-	-	(1,667)	-	(1,667)
31 March 2014	3,023,613	393	(4,073)	31,297	1,304	5,617	359,733	394,271	2,744	397,015

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

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 on the Russian domestic market by all producers is sold at prices regulated by the Federal Tariffs Service, a governmental agency of the Russian Federation. The Group’s natural gas sales volumes 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 processes its gas condensate on its Purovsky Gas Condensate Processing Plant located close proximity to its fields into stable gas condensate and liquefied petroleum gas. Stable gas condensate is then further processed at the Group’s Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea into higher-value refined products (naphtha, jet fuel, gasoil and fuel oil). 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.

The Group purchases and sells natural gas on the European market under long-term and short-term supply contracts to carry out its foreign commercial trading activities.

As part of the agreement in principle with OAO Gazprom Neft to achieve parity shareholdings in the SeverEnergia joint venture, on 31 March 2014, the Group sold a 20 percent interest in Artic Russia B.V. to Yamal Development, the Group’s joint venture with Gazprom Neft (see Note 4).

In February 2014, the Group acquired an additional 15 percent participation interest in NOVATEK-Kostroma and increased its participation interest to 100 percent (see Note 4).

2 BASIS OF PRESENTATION

The consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*, and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards (“IFRS”).

Use of estimates and judgments. The critical accounting estimates and judgments followed by the Group in the preparation of consolidated interim condensed financial information are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2013. Estimates have principally been made in respect to useful lives of property, plant and equipment, fair values of assets and liabilities, deferred income taxes, estimation of oil and gas reserves, impairment provisions, pension obligations, asset retirement obligations and investments.

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

OAO NOVATEK

Selected Notes to the Consolidated Interim Condensed Financial Information (unaudited)

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

2 BASIS OF PRESENTATION (CONTINUED)

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

Russian roubles to one currency unit	At 31 March 2014	At 31 December 2013	At 31 March 2013	At 31 December 2012	Average rate for the three months ended 31 March:	
					2014	2013
US dollar (USD)	35.69	32.73	31.08	30.37	34.96	30.41
Polish zloty (PLN)	11.77	10.85	9.52	9.87	11.46	9.69

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.

Comparative figures adjustment. The following adjustment has been made to the comparative figures to reflect the final fair value assessment of the identifiable assets and liabilities of ZAO Nortgas after the Group acquired it in November 2012. The revisions made to the preliminary assessment based on independent appraisal completed in July 2013 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies and methods of computation followed by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2013, except for income tax expense as described below and for the effects of the adoption of new accounting standards (see Note 26).

Income tax expense is recognized based on management's estimate of the expected annual income tax rate for the full financial year.

4 ACQUISITIONS AND DISPOSALS

Disposal of 20 percent ownership interest in Artic Russia B.V.

In March 2014, NOVATEK and OAO Gazprom Neft agreed in principle to conduct a series of transactions to achieve parity shareholdings in the SeverEnergia joint venture. As part of such agreement, on 31 March 2014, the Group sold a 20 percent ownership interest in Artic Russia B.V. to OOO Yamal Development, the Group's joint venture with Gazprom Neft for total cash consideration of RR 34,972 million (USD 980 million), which cash funds were received on 1 April 2014. Both Artic Russia and Yamal Development hold participation interests in SeverEnergia. As a result of the transaction, the Group's effective participation interest in SeverEnergia decreased from 59.8 percent to 54.9 percent. Further restructuring procedures to achieve parity shareholdings in SeverEnergia are subject to formal corporate approvals and are expected to be completed within 12 months.

ОАО NOVATEK**Selected Notes to the Consolidated Interim Condensed Financial Information (unaudited)**

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

The gain on disposal of the 20 percent ownership interest in Artic Russia was determined based on the carrying value of the Group's investment in Artic Russia, which is treated as a legally separate joint venture by the Group, as detailed below:

	RR million
Consideration (USD 980 million at exchange rate of 35.69 to USD 1.00)	34,972
Less: carrying amount of the Group's disposed 20 percent interest in Artic Russia B.V.	(29,726)
Less: the Group's unrealized gain on disposal	(2,623)
Gain on the disposal recognized in the consolidated statement of income before income tax	2,623

As a result of the transaction NOVATEK recognized a gain in the amount of RR 4,198 million, net of associated income tax expense of RR 1,048 million. Due to the fact that NOVATEK sold the equity stake in Artic Russia to the Group's joint venture Yamal Development, in which it holds a 50 percent participation interest, the Group eliminated an unrealized gain on the disposal on the consolidation level in the amount of RR 2,099 million net of associated deferred income tax expense in the amount of RR 524 million.

Acquisition of an additional equity stake in OOO NOVATEK-Kostroma

On 20 February 2014, the Group acquired an additional 15 percent participation interest in OOO NOVATEK-Kostroma for total cash consideration of RR 102 million. As a result of the transaction the Group increased its share in the subsidiary to 100 percent, reduced the carrying value of non-controlling interest by RR 109 million and recorded a difference of RR 7 million directly to retained earnings.

OAO NOVATEK

Selected Notes to the Consolidated Interim Condensed Financial Information (unaudited)

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

5 PROPERTY, PLANT AND EQUIPMENT

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

<i>For the three months ended 31 March 2013</i>	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	202,420	35,295	8,031	245,746
Accumulated depreciation, depletion and amortization	(46,810)	-	(1,560)	(48,370)
Net book value at 1 January 2013	155,610	35,295	6,471	197,376
Additions	123	11,141	-	11,264
Transfers	1,728	(1,891)	163	-
Depreciation, depletion and amortization	(2,950)	-	(133)	(3,083)
Disposals, net	(31)	(25)	(2)	(58)
Cost	204,224	44,520	8,183	256,927
Accumulated depreciation, depletion and amortization	(49,744)	-	(1,684)	(51,428)
Net book value at 31 March 2013	154,480	44,520	6,499	205,499
<i>For the three months ended 31 March 2014</i>				
Cost	249,933	46,626	8,254	304,813
Accumulated depreciation, depletion and amortization	(59,432)	-	(1,693)	(61,125)
Net book value at 1 January 2014	190,501	46,626	6,561	243,688
Additions	442	14,072	123	14,637
Change in estimates of capitalized asset retirement cost	(910)	-	-	(910)
Transfers	14,471	(14,509)	38	-
Depreciation, depletion and amortization	(3,855)	-	(108)	(3,963)
Disposals, net	(70)	(38)	(1)	(109)
Cost	263,849	46,151	8,403	318,403
Accumulated depreciation, depletion and amortization	(63,270)	-	(1,790)	(65,060)
Net book value at 31 March 2014	200,579	46,151	6,613	253,343

OAO NOVATEK**Selected Notes to the Consolidated Interim Condensed Financial Information (unaudited)**

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

5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in additions to property, plant and equipment for the three months ended 31 March 2014 and 2013 are capitalized interest and foreign exchange differences of RR 1,132 million and RR 988 million, respectively.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 3,895 million and RR 2,805 million at 31 March 2014 and 31 December 2013, respectively.

During the three months ended 31 March 2014, the major transfer to oil and gas properties and equipment in the amount of RR 9,437 million represented the completion of Purovsky Gas Condensate Plant expansion project increasing the plant capacity from five (5) to 11 million tons per annum.

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:

	<u>At 31 March 2014</u>	<u>At 31 December 2013</u>
Proved properties acquisition costs	44,148	43,938
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(13,395)	(13,061)
Unproved properties acquisition costs	6,545	6,420
Total acquisition costs	37,298	37,297

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

Capital commitments are disclosed in Note 23.

6 INVESTMENTS IN JOINT VENTURES

	<u>At 31 March 2014</u>	<u>At 31 December 2013</u>
<i>Joint ventures:</i>		
OAO Yamal LNG	76,087	77,875
ZAO Nortgas	46,787	45,605
Artic Russia B.V.	29,726	59,315
OOO Yamal Development	20,154	23,720
ZAO Terneftegas	3,200	3,551
Total investments in joint ventures	175,954	210,066

The Group considers that its investments in Yamal LNG, Nortgas, Artic Russia, Yamal Development and Terneftegas constitute jointly controlled entities on the basis of the existing contractual arrangements. The Charters and Shareholders' agreements of these entities stipulate that strategic and/or key decisions of a financial, operating and capital nature require effectively the unanimous approval by all shareholders. The Group accounts for its shares in joint ventures under the equity method.

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 (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.

OAO NOVATEK**Selected Notes to the Consolidated Interim Condensed Financial Information (unaudited)**

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

6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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-Urengoykoye field, located in the YNAO.

Artic Russia B.V. At 31 December 2013, the Group held a direct 40 percent ownership interest in Artic Russia B.V., domiciled in the Netherlands. On 31 March 2014, the Group sold a 20 percent ownership interest in Artic Russia to Yamal Development (see Note 4).

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 SeverEnergiya and an 80 percent ownership interest in Artic Russia (at 31 December 2013: 60 percent in Artic Russia). Artic Russia holds the other 49 percent participation interest in SeverEnergiya, which through its wholly owned subsidiary OAO Arcticgas operates the Samburgskoye field and conducts exploration activities on the Urengoykoye, Yaro-Yakhinskoye, Evo-Yakhinskoye and North-Chaselskoye fields, located in the YNAO. Subsequent to the balance sheet date, in April 2014, Arcticgas started to operate the Urengoykoye field.

ZAO Terneftegas. The Group holds a 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 table below summarizes the movements in the carrying amounts of the Group's joint ventures:

	Three months ended 31 March:	
	2014	2013
At 1 January	210,066	189,136
Share of profit (loss) of joint ventures before income tax	(2,188)	553
Share of income tax expense	426	(390)
Share of profit (loss) of joint ventures, net of income tax	(1,762)	163
Disposal of stakes in joint venture	(32,350)	-
Contributions to equity	-	1,436
Effect from remeasurement of the shareholders' loans (see Note 7)	-	849
At 31 March	175,954	191,584

In March 2014, the Group disposed of its 20 percent ownership interest in Artic Russia at cost of RR 32,350 million including unrealized gain on disposal (see Note 4).

In March 2013, the equity of Terneftegas was increased through proportional contribution by its participants totalling RR 2,816 million, of which RR 1,436 million was attributable to NOVATEK. The Group's shareholding did not change as a result of the proportional contributions.

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7 LONG-TERM LOANS AND RECEIVABLES

	<u>At 31 March 2014</u>	<u>At 31 December 2013</u>
US dollar denominated loans	38,009	45,415
Russian rouble denominated loans	2,965	2,200
Total long-term loans	40,974	47,615
Long-term receivables	428	412
Long-term interest receivable	1,545	1,310
Total long-term loans and receivables	42,947	49,337

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

	<u>At 31 March 2014</u>	<u>At 31 December 2013</u>
OAO Yamal LNG	35,129	42,804
OOO Yamal Development	2,965	2,200
ZAO Terneftegas	2,880	2,611
Total long-term loans	40,974	47,615

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 joint venture's Board of Directors. The loans bore an interest rate of 5.09 percent per annum, which was reduced to 4.46 percent per annum effective 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 interim condensed statement of financial position (see Note 24).

In January 2014, Yamal LNG repaid to the Group part of the loan in the amount of RR 12,045 million (USD 364 million) due to the entering of the new shareholder (CNPC) into the Yamal LNG Project.

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 available to withdraw within 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 interim condensed statement of financial position (see Note 24). The repayment schedule can be extended during subsequent years subject to certain conditions.

ZAO Terneftegas. In 2010 and 2011, in accordance with the Shareholders' agreement, the Group provided 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 joint venture's Board of Directors. The loans bore an interest rate of 3.88 percent per annum, which was increased to 4.52 percent per annum effective 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 interim condensed statement of financial position (see Note 24).

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 initially remeasured based on commercial market borrowing rates (Level 3 in the fair value measurement hierarchy described in Note 22). The effect of RR 849 million from remeasurement to fair values in the three months ended 31 March 2013 was allocated to increase the Group's investments in the joint ventures (see Note 6).

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7 LONG-TERM LOANS AND RECEIVABLES (CONTINUED)

No provisions for impairment of long-term loans and receivables were recognized in the consolidated interim condensed statement of financial position at 31 March 2014 and 31 December 2013. The carrying values of long-term loans and receivables approximate their respective fair values.

8 OTHER NON-CURRENT ASSETS

	<u>At 31 March 2014</u>	<u>At 31 December 2013</u>
<i>Financial assets</i>		
Commodity derivatives	198	470
Long-term bank deposits	7	7
<i>Non-financial assets</i>		
Long-term advances	6,466	3,131
Materials for construction	4,573	5,284
Deferred income tax assets	2,419	1,514
Intangible assets, net	1,957	1,990
Other	85	82
Total other non-current assets	15,705	12,478

At 31 March 2014 and 31 December 2013, the long-term advances included advances to OAO Russian Railways in the amount of RR 6,094 million and RR 2,792 million, respectively. The advances were paid in accordance with the Strategic Partnership Agreement signed with OAO Russian Railways in 2012.

9 TRADE AND OTHER RECEIVABLES

	<u>At 31 March 2014</u>	<u>At 31 December 2013</u>
Trade receivables (net of provision of RR 202 million and RR 718 million at 31 March 2014 and 31 December 2013, respectively)	28,938	29,984
Other receivables (net of provision of RR 28 million and RR 3 million at 31 March 2014 and 31 December 2013, respectively)	35,836	19,538
Total trade and other receivables	64,774	49,522

At 31 March 2014, other receivables included RR 34,972 million (USD 980 million) relating to the disposal of a 20 percent stake in Artic Russia B.V. to OOO Yamal Development, which was fully paid in April 2014 (see Note 4).

At 31 December 2013, other receivables included RR 18,420 million (USD 563 million) relating to the disposal of a 20 percent stake in OAO Yamal LNG to CNPC, which was fully paid in January 2014.

The Group holds letters of credit in banks with investment grade rating as security for trade receivables in the amount RR 3,165 million and RR 5,015 million at 31 March 2014 and 31 December 2013, respectively. The Group does not hold any other collateral as security for trade and other receivables (see Note 22 for credit risk disclosures).

The carrying values of trade and other receivables approximate their respective fair values. Trade and other receivables were categorized as Level 3 in the fair value measurement hierarchy described in Note 22.

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10 PREPAYMENTS AND OTHER CURRENT ASSETS

	<u>At 31 March 2014</u>	<u>At 31 December 2013</u>
<i>Financial assets</i>		
Commodity derivatives	1,403	316
Short-term bank deposits (with original maturity over three months)	39	36
US dollar denominated loans	25	23
<i>Non-financial assets</i>		
Prepaid taxes other than income tax	6,307	3,418
Recoverable value-added tax	3,845	3,814
Deferred export duties for liquid hydrocarbons	2,844	2,255
Prepayments and advances to suppliers (net of provision of RR nil and RR 5 million at 31 March 2014 and 31 December 2013, respectively)	2,740	2,536
Deferred transportation expenses for natural gas	1,667	4,527
Deferred transportation expenses for liquid hydrocarbons	1,215	858
Prepaid customs duties	613	1,023
Other current assets	126	99
Total prepayments and other current assets	20,824	18,905

11 CASH AND CASH EQUIVALENTS

	<u>At 31 March 2014</u>	<u>At 31 December 2013</u>
Cash at current bank accounts	14,769	4,472
US dollar denominated deposits (interest rate from 0.05% to 0.6% p.a.)	27,954	1,486
Russian rouble denominated deposits (interest rate from 4.7% to 7.4% p.a.)	331	1,684
Other currency denominated deposits	290	247
Total cash and cash equivalents per the consolidated statement of financial position	43,344	7,889
Less: bank overdrafts (see Note 13)	-	(7,569)
Cash, cash equivalents and bank overdrafts per the consolidated statement of cash flows	43,344	320

All deposits have original maturities of less than three months (see Note 22 for credit risk disclosures).

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12 LONG-TERM DEBT

	<u>At 31 March 2014</u>	<u>At 31 December 2013</u>
US dollar denominated bonds	79,987	73,341
US dollar denominated loans	52,930	34,363
Russian rouble denominated bonds	33,895	33,891
Russian rouble denominated loans	-	9,911
Total	166,812	151,506
Less: current portion of long-term debt	-	(9,911)
Total long-term debt	166,812	141,595

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

	<u>At 31 March 2014</u>	<u>At 31 December 2013</u>
Syndicated term US dollar credit line facility	52,930	34,363
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	35,546	32,595
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	23,081	21,163
Eurobonds – Five-Year Tenor (par value USD 600 million, repayable in 2016)	21,360	19,583
Russian bonds – Three-Year Tenor (par value RR 20 billion, repayable in 2015)	19,983	19,980
Eurobonds – Four-Year Tenor (par value RR 14 billion, repayable in 2017)	13,912	13,911
Sberbank Russian rouble credit line facility	-	9,911
Total	166,812	151,506

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 at an interest rate of 8.9 percent per annum which was reduced to 7.9 percent effective from August 2013. The remaining part of the credit line was not utilized. In March 2014, the loan was fully repaid ahead of its maturity schedule.

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12 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 March 2014, the Group withdrew the full amount under the facility at an interest rate of LIBOR plus 1.75 percent per annum (2.0 percent at 31 March 2014 and 31 December 2013) repayable until July 2018 by quarterly installments starting from June 2015. The facility includes the maintenance of certain restrictive financial covenants.

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.

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

	At 31 March 2014	At 31 December 2013
Syndicated term US dollar credit line facility	50,803	35,043
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	31,813	30,176
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	24,334	23,382
Eurobonds – Five-Year Tenor (par value USD 600 million, repayable in 2016)	22,083	20,877
Russian bonds – Three-Year Tenor (par value RR 20 billion, repayable in 2015)	20,123	20,240
Eurobonds – Four-Year Tenor (par value RR 14 billion, repayable in 2017)	13,295	14,032
Sberbank Russian rouble credit line facility	-	10,038
Total	162,451	153,788

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 22). The fair value of other 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 22).

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

<i>Maturity period:</i>	At 31 March 2014
1 April 2015 to 31 March 2016	57,629
1 April 2016 to 31 March 2017	30,198
1 April 2017 to 31 March 2018	16,286
1 April 2018 to 31 March 2019	4,072
After 31 March 2019	58,627
Total long-term debt	166,812

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

	<u>At 31 March 2014</u>	<u>At 31 December 2013</u>
Russian rouble denominated loans	1,619	-
US dollar denominated loans	-	6,546
US dollar denominated bank overdrafts	-	7,569
Total	1,619	14,115
Add: current portion of long-term debt	-	9,911
Total short-term debt and current portion of long-term debt	1,619	24,026

Russian rouble denominated loans. In January 2014, one of the Group's subsidiaries obtained a Russian rouble denominated loan from its non-controlling shareholder in the amount of RR 1,619 million at an interest rate of 9 percent per annum until April 2014.

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. 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. 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 9,814 million (USD 275 million) and RR 2,740 million (USD 84 million) at 31 March 2014 and 31 December 2013, respectively, on variable interest rates subject to the specific type of credit facility.

The Group's available credit facilities with interest rates predetermined or negotiated at time of each withdrawal at 31 March 2014 were as follows:

	<u>Par value</u>	<u>Expiring</u>	
		<u>Within one year</u>	<u>Between 1 and 2 years</u>
Credit Agricole Corporate and Investment Bank	USD 100 million	3,569	-
BNP PARIBAS Bank	USD 100 million	3,569	-
UniCredit Bank	USD 48 million	-	1,706
Total available credit facilities		7,138	1,706

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14 TRADE PAYABLES AND ACCRUED LIABILITIES

	<u>At 31 March 2014</u>	<u>At 31 December 2013</u>
<i>Financial liabilities</i>		
Trade payables	15,247	14,372
Interest payable	1,869	1,857
Commodity derivatives	1,293	46
Other payables	39	1,382
<i>Non-financial liabilities</i>		
Advances received	904	916
Salary payables	207	206
Other liabilities and accruals	2,641	2,481
Trade payables and accrued liabilities	22,200	21,260

Trade and other payables were categorized as Level 3 in the fair value measurement hierarchy described in Note 22.

15 SHAREHOLDERS' EQUITY

Treasury shares. In accordance with the *Share buyback program* authorized by the Board of Directors, the Group's wholly owned subsidiary, Novatek Equity (Cyprus) Limited, purchases ordinary shares of OAO NOVATEK in the form of Global Depository Receipts (GDRs) on the London Stock Exchange (LSE) and ordinary shares on the Moscow Exchange MICEX-RTS through the use of independent brokers.

During the three months ended 31 March 2014 and 2013, the Group purchased 4,469 thousand and 1,969 thousand ordinary shares (both ordinary shares and GDRs) at a total cost of RR 1,667 million and RR 642 million, respectively. At 31 March 2014 and 31 December 2013, the Group held in total (both ordinary shares and GDRs) 12,694 thousand and 8,225 thousand ordinary shares at total cost of RR 4,073 million and RR 2,406 million, respectively. The Group has decided that these shares do not vote.

Dividends. Subsequent to the balance sheet date, on 18 April 2014, the Annual General Meeting of Shareholders of OAO NOVATEK approved the final 2013 dividend totaling RR 13,633 million (RR 4.49 per share and RR 44.9 per GDR), which is to be paid in cash not later than 10 working days to the shareholders which are professional securities market participants and not later 25 working days to other shareholders of record at the close of business on 29 April 2014.

16 OIL AND GAS SALES

	<u>Three months ended 31 March:</u>	
	<u>2014</u>	<u>2013</u>
Natural gas	58,714	55,483
Naphtha	16,474	-
Liquefied petroleum gas	5,907	4,014
Other gas and gas condensate refined products	4,419	73
Crude oil	2,575	1,547
Stable gas condensate	444	19,331
Total oil and gas sales	88,533	80,448

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17 TRANSPORTATION EXPENSES

	Three months ended 31 March:	
	2014	2013
Natural gas transportation to customers	22,403	23,402
Liquid hydrocarbons transportation by rail	3,741	3,995
Liquid hydrocarbons transportation by tankers	1,139	1,600
Crude oil transportation by pipeline	284	179
Other	90	54
Total transportation expenses	27,657	29,230

18 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Three months ended 31 March:	
	2014	2013
Unstable gas condensate	4,653	1,895
Natural gas	4,249	6,476
Other liquid hydrocarbons	150	61
Total purchases of natural gas and liquid hydrocarbons	9,052	8,432

Throughout 2013, the Group purchased 51 percent of the natural gas volumes produced by its joint venture OAO Sibneftegas (see Note 24). In December 2013, the Group terminated the natural gas purchase contract with Sibneftegas as a result of its disposal.

From January 2013, the Group began purchasing 50 percent of the natural gas volumes produced by its joint venture ZAO Nortgas (see Note 24).

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 24).

The Group purchases unstable gas condensate produced by its joint ventures Nortgas and OOO SeverEnergia (from March 2013 by 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 its transportation and processing (see Note 24).

19 TAXES OTHER THAN INCOME

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

	Three months ended 31 March:	
	2014	2013
Unified natural resources production tax	6,933	4,199
Property tax	525	458
Other taxes	50	60
Total taxes other than income tax	7,508	4,717

The unified natural resources production tax for natural gas was set at a rate of RR 471 per thousand cubic meters effective 1 January 2014 and at a rate of RR 265 per thousand cubic meters 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 647 per ton and RR 590 per ton effective 1 January 2014 and for 2013, respectively.

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20 FINANCE INCOME (EXPENSE)

<i>Interest expense (including transaction costs)</i>	Three months ended 31 March:	
	2014	2013
Interest expense on fixed rate debt	2,024	2,102
Interest expense on variable rate debt	255	42
Subtotal	2,279	2,144
Less: capitalized interest	(915)	(839)
Interest expense (on historical cost basis)	1,364	1,305
Provisions for asset retirement obligations: effect of the present value discount unwinding	72	59
Total interest expense	1,436	1,364
<i>Interest income</i>	Three months ended 31 March:	
	2014	2013
Interest income on loans receivable	518	292
Interest income on cash, cash equivalents and deposits	78	112
Interest income (on historical cost basis)	596	404
Long-term financial assets: effect of the present value discount unwinding	194	74
Total interest income	790	478

21 INCOME TAX

Effective income tax rate. The Group's Russian statutory income tax rate for 2014 and 2013 was 20 percent. For the three months ended 31 March 2014 and 2013, the consolidated Group's effective income tax rate was 19.8 percent and 19.8 percent, respectively.

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22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

<i>Financial assets</i>	At 31 March 2014		At 31 December 2013	
	Non-current	Current	Non-current	Current
<i>Loans and receivable</i>				
Loans receivable	40,974	25	47,615	23
Trade and other receivables	1,973	64,774	1,722	49,522
Bank deposits	7	39	7	36
Cash and cash equivalents	-	43,344	-	7,889
<i>At fair value through profit or loss</i>				
Commodity derivatives	198	1,403	471	316
Total	43,152	109,585	49,815	57,786
<i>Financial liabilities</i>				
<i>At amortized cost</i>				
Long-term debt	166,812	-	141,595	9,911
Short-term debt	-	1,619	-	14,115
Trade and other payables	-	17,155	-	17,611
<i>At fair value through profit or loss</i>				
Commodity derivatives	526	1,293	228	46
Total	167,338	20,067	141,823	41,683

Derivative instruments. The Group conducts natural gas foreign trading in active markets under long-term and short-term purchase and sales contracts, as well as purchases and sells various derivative instruments (with reference to the European natural gas hubs) for deliveries optimization and decrease exposure to the risk of negative changes in natural gas world prices.

These contracts include pricing terms that are based on a variety of commodities and indices, and/or volume flexibility options that collectively qualify them under the scope of IAS 39, *Financial instruments: recognition and measurement*, although the activity surrounding certain contracts involves the physical delivery of natural gas.

All contracts mentioned above are recognized in the consolidated interim condensed statement of financial position at fair value with movements in fair value recognized in the consolidated interim condensed statement of income.

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 long-term natural gas derivative contracts involving the physical delivery of natural gas is determined using internal models and other valuation techniques (the mark-to-market and mark-to-model methods) due to the absence of quoted prices or other observable, market-corroborated data, for the duration of the contracts. Due to the assumptions underlying their fair value, the gas contracts are categorized as Level 3 in the fair value hierarchy, described above.

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22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The fair value of short-term natural gas derivative contracts involving the physical delivery of natural gas and likewise contracts used for the price risk management and delivery optimization is determined based on available futures quotes in the active market (mark-to-market analysis) (Level 1).

The amounts recognized by the Group in respect to the commodity derivatives measured in accordance with IAS 39, *Financial instruments: recognition and measurement*, are as follows:

<i>Commodity derivatives</i>	At 31 March 2014	At 31 December 2013
Within other non-current and current assets	1,601	787
Within other non-current and current liabilities	(1,819)	(274)

<i>Included in other operating income (loss)</i>	Three months ended 31 March:	
	2014	2013
Operating income from natural gas foreign trading	101	87
Change in fair value and result from trading of natural gas commodity derivatives	(731)	509

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 245.26 (five Euros) by one megawatt-hour:

<i>Sensitivity summary (RR million)</i>	From price decrease	From price increase
Market shift from 2015 sensitivity	1,510	(2,442)
Market shift from 2020 sensitivity	2,583	(2,598)

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.

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22 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:

<i>At 31 March 2014</i>	Russian rouble	US dollar	Other	Total
<i>Financial assets</i>				
<i>Non-current</i>				
Long-term loans receivable	2,965	38,009	-	40,974
Trade and other receivables	465	1,488	20	1,973
Commodity derivatives	-	-	198	198
Long-term deposits	-	-	7	7
<i>Current</i>				
Short-term loans receivable	-	25	-	25
Trade and other receivables	14,703	47,153	2,918	64,774
Short-term bank deposits	26	7	6	39
Commodity derivatives	-	-	1,403	1,403
Cash and cash equivalents	5,771	36,629	944	43,344
<i>Financial liabilities</i>				
<i>Non-current</i>				
Long-term debt	(33,895)	(132,917)	-	(166,812)
Commodity derivatives	-	-	(526)	(526)
<i>Current</i>				
Short-term debt	(1,619)	-	-	(1,619)
Trade and other payables	(12,807)	(1,871)	(2,477)	(17,155)
Commodity derivatives	-	-	(1,293)	(1,293)
Net exposure at 31 March 2014	(24,391)	(11,477)	1,200	(34,668)

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22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

<i>At 31 December 2013</i>	Russian rouble	US dollar	Other	Total
<i>Financial assets</i>				
<i>Non-current</i>				
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
<i>Current</i>				
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
<i>Financial liabilities</i>				
<i>Non-current</i>				
Long-term debt	(33,891)	(107,704)	-	(141,595)
Commodity derivatives	-	-	(228)	(228)
<i>Current</i>				
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)

(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.

In 2013 the FTS reduced the regulated natural gas prices on the domestic market 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 increased by another 1.9 percent from 1 October 2013. Effective from 1 January 2014, the FTS set wholesale natural gas prices back to the August-September levels of 2013, decreasing them by 1.9% from the December 2013 price levels. 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 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.

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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 trading activities and its derivative instruments abroad. The Group purchases and sells natural gas on the European market under long-term and short-term supply contracts, as well as purchases and sells different derivative instruments 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 and derivative instruments foreign trading are subject to commodity price volatility based on fluctuations or changes in the respective benchmark reference prices.

Natural gas foreign trading activities and respective foreign derivative instruments 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 and USA markets are based on benchmark reference crude oil prices of Urals, 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.

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22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

	At 31 March 2014		At 31 December 2013	
	RR million	Percent	RR million	Percent
At fixed rate	115,501	69%	131,258	79%
At variable rate	52,930	31%	34,363	21%
Total debt	168,431	100%	165,621	100%

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

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

Credit risk is managed on a Group level and arises from cash and cash equivalents, including short-term deposits with banks, as well as credit exposures to customers, including outstanding trade receivables and committed transactions. Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to 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 the domestic regional natural gas trading activities, the Group is exposed to the risk of payment defaults of small and medium-sized industrial users and individuals. The Group monitors the recoverability of these debtors by analyzing ageing of receivables by type of customers and their respective prior payment history to minimize credit risk.

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

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.

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22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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:

<i>At 31 March 2014</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
<i>Principal</i> ^(*)	1,619	41,412	14,000	58,884	115,915
<i>Interest</i>	7,001	7,001	10,415	9,376	33,793
Debt at variable rate					
<i>Principal</i> ^(*)	-	16,471	37,060	-	53,531
<i>Interest</i>	1,076	934	933	-	2,943
Trade and other payables	17,155	-	-	-	17,155
Total financial liabilities	26,851	65,818	62,408	68,260	223,337

In addition, in March 2014, the Group issued a parent company guarantee for USD 240 million to third parties in favor of its joint venture Yamal LNG, valid until Yamal LNG completes ten loadings of tankers with LNG produced by the Yamal LNG Project.

In August 2013, the Group issued a parent company guarantee for USD 120 million to third parties in favor of its joint venture OAO Yamal LNG, which was in January 2014 renewed for USD 240 million, valid until May 2014, subject to certain conditions.

In December 2013, the Group issued a financial guarantee in the amount of USD 400 million to third party in favor of its joint venture OOO Yamal Development, valid until 23 December 2017.

<i>At 31 December 2013</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
<i>Principal</i> ^(*)	24,115	20,000	33,638	54,003	131,756
<i>Interest</i>	7,379	6,649	10,707	9,301	34,036
Debt at variable rate					
<i>Principal</i> ^(*)	-	8,082	26,938	-	35,020
<i>Interest</i>	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

^(*) – differs from long-term debt for transaction costs (see Note 12).

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22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

<i>At 31 March 2014</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Cash inflow	26,080	27,194	79,572	88,456	221,302
Cash outflow	(25,590)	(27,231)	(79,730)	(88,654)	(221,205)
Net cash flows	490	(37)	(158)	(198)	97
<i>At 31 December 2013</i>					
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

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.

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. Subsequent to the balance sheet date, in April 2014, the Board of Directors of NOVATEK approved the new dividend policy that distributes not less than 30 percent of the Group's consolidated net profit determined according to IFRS, adjusted for one-off profits (losses) not related to current activities of NOVATEK.

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 three months ended 31 March 2014. At 31 March 2014 and 31 December 2013, the Group's capital totalled RR 519,358 million and RR 527,930 million, respectively.

23 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.

23 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Commitments. At 31 March 2014, the Group had contractual capital expenditures commitments aggregating approximately RR 39,745 million (at 31 December 2013: RR 36,142 million) mainly for development at the Yarudeyskoye field (through 2017) and ongoing development activities at the East-Tarkosalinskoye (through 2015), the Salmanovskoye (Utrenneye) (through 2017), the Yurkharovskoye (through 2015), the Khancheyskoye (through 2016), the North-Khancheyskoye (through 2015) fields and the Olimpiyskiy license area (through 2015) all in accordance with duly signed agreements.

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 interim condensed financial information.

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

The Group's oil and gas fields and license areas are situated on land located in the Yamal-Nenets Autonomous Region. Licenses are issued by the Federal Agency for the Use of Natural Resources 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.

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

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

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24 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 this consolidated interim condensed financial information, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence 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.

<i>Related parties – joint ventures</i>	Three months ended 31 March:	
	2014	2013
Transactions		
<i>OAO Sibneftegas (until December 2013):</i>		
Interest income on loans issued	-	203
Purchases of natural gas	-	(1,735)
<i>OOO SeverEnergiya and its subsidiary:</i>		
Purchases of unstable gas condensate	(1,790)	(1,123)
<i>ZAO Terneftegas:</i>		
Interest income on loans issued	67	15
<i>OAO Yamal LNG:</i>		
Interest income on loans issued	579	99
<i>ZAO Nortgas:</i>		
Purchases of natural gas	(448)	(723)
Purchases of unstable gas condensate	(2,863)	(772)
<i>OOO Yamal Development:</i>		
Interest income on loans issued	50	-
<hr/>		
<i>Related parties – joint ventures</i>	At 31 March 2014	At 31 December 2013
Balances		
<i>OOO SeverEnergiya and its subsidiary:</i>		
Trade payables and accrued liabilities	734	753
<i>ZAO Terneftegas:</i>		
Long-term loans receivable	2,880	2,611
Interest on long-term loans receivable	180	135
<i>OAO Yamal LNG:</i>		
Long-term loans receivable	35,129	42,804
Interest on long-term loans receivable	1,308	1,169
<i>ZAO Nortgas:</i>		
Trade payables and accrued liabilities	1,733	1,856
<i>OOO Yamal Development:</i>		
Other receivables	34,973	-
Long-term loans receivable	2,965	2,200
Interest on long-term loans receivable	57	6

The terms and conditions of the loans receivable from the related parties are disclosed in the Note 7.

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24 RELATED PARTY TRANSACTIONS (CONTINUED)

The Group issued parent company and financial guarantees in favour of its joint ventures as described in Note 22.

<i>Related parties – parties under control of key management personnel</i>	Three months ended 31 March:	
	2014	2013
Transactions		
<i>ОАО SIBUR Holding and its subsidiaries:</i>		
Natural gas sales	897	684
Liquid hydrocarbons sales	1,004	195
Purchases of natural gas and liquid hydrocarbons	(3,466)	(4,018)
Energy expense	(80)	-
<i>ООО Transoil:</i>		
Liquid hydrocarbons transportation by rail	(865)	(1,178)
<i>Gunvor Group (under joint control until March 2014):</i>		
Liquid hydrocarbons sales	2,023	-
Liquid hydrocarbons transportation (transshipment services)	(266)	-
<i>ООО Nova:</i>		
Purchases of construction services (capitalized within property, plant and equipment)	(1,449)	(240)
<hr/>		
<i>Related parties – parties under control of key management personnel</i>	At 31 March 2014	At 31 December 2013
Balances		
<i>ОАО Pervobank:</i>		
Cash and cash equivalents	9,933	2,040
<i>ОАО SIBUR Holding and its subsidiaries:</i>		
Trade and other receivables	597	119
Trade payables and accrued liabilities	380	274
<i>ООО Transoil:</i>		
Prepayments and other current assets	456	288
Trade payables and accrued liabilities	321	176
<i>Gunvor Group (under joint control until March 2014):</i>		
Trade and other receivables	-	2,903
Prepayments and other current assets	-	69
Trade payables and accrued liabilities	-	118
<i>ООО Nova:</i>		
Advances for construction	410	309
Trade payables and accrued liabilities	451	228

On 19 March 2014, a member of the Board of Directors of NOVATEK sold its shares in Gunvor Group to a third party and as the result, Gunvor Group ceased to be a related party of the Group from that date.

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24 RELATED PARTY TRANSACTIONS (CONTINUED)

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

<i>Related parties – members of the key management personnel</i>	Three months ended 31 March:	
	2014	2013
Board of Directors	19	19
Management Committee	465	475
Total compensation	484	494

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.

25 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 interim condensed financial information 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 three months ended 31 March 2014 is as follows:

<i>For the three months ended 31 March 2014</i>	References	Exploration, production and marketing	Segment information as reported to CODM	Reconciling items	Total per consolidated interim condensed financial information
External revenues		88,683	88,683	(7)	88,676
Operating expenses	<i>a - e</i>	(55,404)	(55,404)	1,529	(53,875)
Other operating income (loss)	<i>f</i>	2,713	2,713	(131)	2,582
Interest expense	<i>g, h</i>	(1,960)	(1,960)	524	(1,436)
Interest income	<i>g</i>	596	596	194	790
Foreign exchange gain (loss)	<i>h</i>	(3,960)	(3,960)	286	(3,674)
Segment result		30,668	30,668	2,395	33,063
Share of profit (loss) of joint ventures, net of income tax					(1,762)
Profit before income tax					31,301
Depreciation, depletion and amortization	<i>a</i>	5,276	5,276	(1,220)	4,056
Capital expenditures	<i>h</i>	11,321	11,321	2,406	13,727

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25 SEGMENT INFORMATION (CONTINUED)

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 1,235 million in operating expenses under IFRS;
- b. different methodology in recognizing expenses relating to natural gas storage services and payroll (including pension obligation, discounting loans to employee and bonus accruals) between IFRS and management accounting, which resulted in reversal transportation expenses of RR 466 million and in additional recognition of payroll expenses of RR 259 million recorded in operating expenses under IFRS;
- c. different methodology in recognizing bad debt provision under IFRS and management accounting, which resulted in reversal of operating expenses of RR 505 million under IFRS;
- d. different methodology in valuation of inventory balances under IFRS and management accounting, which resulted in additional recognition of operating expenses of RR 510 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 180 million under IFRS;
- f. different methodology in valuation of commodity derivatives and recognition discounting effect on financial assets under IFRS and management accounting, which requires additional recognition of other operating loss for RR 630 million and additional recognition of other operating income for RR 648 million under IFRS;
- g. 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 194 million and additional recognition of interest expense of RR 72 million under IFRS; and
- h. different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting, which resulted in additional capitalized interest and foreign exchange differences of RR 967 million and additional recognition of capital expenditures of RR 1,439 million under IFRS.

Segment information for the three months ended 31 March 2013 is as follows:

<i>For the three months ended 31 March 2013</i>	References	Exploration, production and marketing	Segment information as reported to CODM	Reconciling items	Total per consolidated interim condensed financial information
External revenues	<i>a</i>	80,122	80,122	443	80,565
Operating expenses	<i>b - d</i>	(53,488)	(53,488)	2,432	(51,056)
Other operating income (loss)	<i>e</i>	126	126	565	691
Interest expense	<i>f</i>	(2,007)	(2,007)	643	(1,364)
Interest income		404	404	74	478
Foreign exchange gain (loss)	<i>f</i>	(1,221)	(1,221)	183	(1,038)
Segment result		23,936	23,936	4,340	28,276
Share of profit (loss) of joint ventures, net of income tax					163
Profit before income tax					28,439
Depreciation, depletion and amortization	<i>b</i>	4,418	4,418	(1,261)	3,157
Capital expenditures	<i>f</i>	9,317	9,317	1,947	11,264

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25 SEGMENT INFORMATION (CONTINUED)

Reconciling items mainly related to:

- a. different methodology of stable gas condensate sales recognition under IFRS and management accounting, which requires additional recognition of external revenues for RR 428 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 1,243 million in operating expenses under IFRS;
- c. different methodology in recognizing expenses relating to natural gas storage services and payroll (including share-based payments, pension obligation, discounting loans to employee and bonus accruals) between IFRS and management accounting, which resulted in the reversal in transportation expenses of RR 493 million and additional payroll expenses of RR 233 million recorded in operating expenses under IFRS;
- d. different methodology in recognizing of exploration expenses, which resulted in the reversal of operating expenses of RR 930 million under IFRS;
- e. different methodology in recognizing valuation of commodity derivatives under IFRS and management accounting, which requires additional recognition of other operating income for RR 509 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 783 million and additional capital expenditures of RR 1,164 million under IFRS.

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

- *Russian Federation* – exploration, development, production and processing of hydrocarbons, and sales of natural gas, stable gas condensate, liquefied petroleum gas, crude oil and gas refined products;
- *Taiwan, South Korea, Japan, Thailand, Finland, Poland, Denmark, Netherlands and other European and Asian-Pacific Region countries, USA* – sales of liquid hydrocarbons.

The Group's geographical information is presented below:

<i>For the three months ended 31 March 2014</i>	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	58,714	444	2,690	1,675	75	63,598
Taiwan	-	7,083	-	-	-	7,083
South Korea	-	4,251	-	-	-	4,251
Japan	-	4,222	-	-	-	4,222
Finland	-	1,027	952	-	1,675	3,654
Thailand	-	3,271	-	-	-	3,271
Poland	-	-	2,852	-	-	2,852
Denmark	-	-	-	-	2,042	2,042
USA	-	1,963	-	-	-	1,963
Netherlands	-	1,819	-	-	-	1,819
Other	-	2,356	481	1,789	2,366	6,992
Less: export duties	-	(9,518)	(1,068)	(889)	(1,739)	(13,214)
Total outside Russia	-	16,474	3,217	900	4,344	24,935
Total	58,714	16,918	5,907	2,575	4,419	88,533

OAO NOVATEK**Selected Notes to the Consolidated Interim Condensed Financial Information (unaudited)**

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

25 SEGMENT INFORMATION (CONTINUED)

<i>For the three months ended 31 March 2013</i>	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	55,483	569	1,835	894	73	58,854
Netherlands	-	12,338	-	-	-	12,338
South Korea	-	8,432	-	-	-	8,432
Singapore	-	5,256	-	-	-	5,256
USA	-	3,609	-	-	-	3,609
Poland	-	-	1,896	-	-	1,896
Germany	-	1,787	-	-	-	1,787
United Kingdom	-	1,752	-	-	-	1,752
Hungary	-	-	195	1,345	-	1,540
Finland	-	-	446	-	-	446
Other	-	-	359	-	-	359
Less: export duties	-	(14,412)	(717)	(692)	-	(15,821)
Total outside Russia	-	18,762	2,179	653	-	21,594
Total	55,483	19,331	4,014	1,547	73	80,448

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 three months ended 31 March 2014, the Group had one major customer to whom individual revenues exceeded 10 percent of total external revenues, which represented 16 percent (RR 14,194 million) of total external revenues. For the three months ended 31 March 2013, the Group had two customers to whom individual revenue exceeded 10 percent of total external revenues, which represented 17 percent and 12 percent (RR 13,915 million and RR 9,966 million) of total external revenues, respectively. All of the Group's major customers reside within the Russian Federation.

26 NEW ACCOUNTING PRONOUNCEMENTS

The following new and amended standards and interpretations became effective for the Group from 1 January 2014:

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. Adoption of these amendments has no material impact on the Group's consolidated interim condensed financial information.

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. Adoption of these amendments has no material impact on the Group's consolidated interim condensed financial information.

26 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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.

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 interim condensed financial information:

- 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 interim condensed financial information.

OAO NOVATEK
Contact Information

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

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