OAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

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Independent Auditor's Report

To the shareholders and Board of Directors of OAO NOVATEK

1 We have audited the accompanying consolidated financial statements of OAO NOVATEK and its subsidiaries (the "Group") set out on pages 4 to 72, which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

6 In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of OAO NOVATEK and its subsidiaries as at 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
5 March 2012

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

	Notes	At 31 December: 2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	6	166,784	185,573
Investments in joint ventures	7	123,029	27,026
Long-term loans and receivables	8	32,130	40,151
Other non-current assets		3,173	2,858
Total non-current assets		**325,116**	**255,608**
Current assets			
Inventories	9	1,683	1,868
Current income tax prepayments		1,153	285
Trade and other receivables	10	16,699	8,670
Prepayments and other current assets	11	14,950	8,504
Cash and cash equivalents	12	23,831	10,238
Total current assets		**58,316**	**29,565**
Total assets		**383,432**	**285,173**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	13	75,180	47,074
Deferred income tax liabilities	26	12,805	9,473
Other non-current liabilities		917	917
Asset retirement obligations		2,734	2,482
Total non-current liabilities		**91,636**	**59,946**
Current liabilities			
Short-term debt and current portion of long-term debt	15	20,298	25,152
Trade payables and accrued liabilities	16	24,922	28,479
Current income tax payable		611	1,212
Other taxes payable		4,283	2,598
Total current liabilities		**50,114**	**57,441**
Total liabilities		**141,750**	**117,387**
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(281)	(446)
Additional paid-in capital		31,220	30,865
Currency translation differences		193	(120)
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		203,871	110,810
Total equity attributable to OAO NOVATEK shareholders	17	**241,013**	**147,119**
Non-controlling interest		**669**	**20,667**
Total equity		**241,682**	**167,786**
Total liabilities and equity		**383,432**	**285,173**

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

Approved for issue and signed on behalf of the Board of Directors on 5 March 2012:

L. Mikhelson
General Director

M. Gyetvay
Financial Director

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

	Notes	Year ended 31 December: 2011	2010
Revenues			
Oil and gas sales	19	175,602	115,162
Sales of polymer and insulation tape		-	1,699
Other revenues		462	163
Total revenues		**176,064**	**117,024**
Operating expenses			
Transportation expenses	20	(48,176)	(37,200)
Taxes other than income tax	21	(17,557)	(10,077)
Depreciation, depletion and amortization	6	(9,277)	(6,616)
General and administrative expenses	22	(8,218)	(6,733)
Materials, services and other	23	(5,947)	(6,072)
Purchases of natural gas and liquid hydrocarbons	24	(5,994)	(154)
Exploration expenses		(1,819)	(1,595)
Net impairment expenses		(782)	(541)
Change in natural gas, liquid hydrocarbons, polymer products and work-in-progress		105	470
Total operating expenses		**(97,665)**	**(68,518)**
Net gain on disposal of interest in subsidiaries		62,948	1,329
Other operating income (loss)		261	396
Profit from operations		**141,608**	**50,231**
Finance income (expense)			
Interest expense	25	(2,150)	(437)
Interest income	25	3,392	598
Foreign exchange gain (loss)		(3,945)	1,036
Total finance income (expense)		**(2,703)**	**1,197**
Share of profit (loss) of equity investments, net of income tax	7	(3,880)	(346)
Profit before income tax		**135,025**	**51,082**
Income tax expense			
Current income tax expense		(12,467)	(9,405)
Net deferred income tax expense		(3,267)	(1,399)
Total income tax expense	26	**(15,734)**	**(10,804)**
Profit (loss)		**119,291**	**40,278**
Profit (loss) attributable to:			
Non-controlling interest		(364)	(255)
Shareholders of OAO NOVATEK		**119,655**	**40,533**
Basic and diluted earnings per share (in Russian roubles)		39.45	13.37
Weighted average number of shares outstanding (in thousands)		*3,033,302*	*3,032,218*

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

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2011	2010
Other comprehensive income (loss) after income tax:			
Currency translation differences		313	(8)
Other comprehensive income (loss)		**313**	**(8)**
Profit (loss)		**119,291**	**40,278**
Total comprehensive income (loss)		**119,604**	**40,270**
Total comprehensive income (loss) attributable to:			
Non-controlling interest		(364)	(255)
Shareholders of OAO NOVATEK		**119,968**	**40,525**

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

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

	Notes	Year ended 31 December: 2011	2010
Profit before income tax		**135,025**	**51,082**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		9,475	6,757
Net impairment expenses		782	541
Net foreign exchange loss (gain)		3,945	(1,036)
Net loss (gain) on disposal of assets		(62,811)	(1,253)
Interest expense		2,150	437
Interest income		(3,392)	(598)
Share of loss (profit) in equity investments, net of income tax		3,880	346
Net change in other non-current assets and long-term receivables		1,132	1,063
Share-based compensation	17	-	68
Other adjustments		202	241
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(6,103)	(2,675)
Decrease (increase) in inventories		(132)	(479)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		567	(1,821)
Increase (decrease) in other taxes payable		1,120	765
Total effect of working capital changes		**(4,548)**	**(4,210)**
Income taxes paid		(13,933)	(8,575)
Net cash provided by operating activities		**71,907**	**44,863**
Cash flows from investing activities			
Purchases of property, plant and equipment		(25,317)	(21,360)
Acquisition of mineral licenses		(6,888)	(76)
Purchases of inventories intended for construction		(773)	(1,200)
Acquisition of subsidiaries net of cash acquired		(4,188)	(1,718)
Acquisition of and capital contribution to equity investments		(25,131)	(4,660)
Proceeds from disposals of subsidiaries net of cash disposed		11,796	1,173
Interest paid and capitalized		(3,508)	(2,002)
Loans provided		(6,729)	(39,402)
Repayments of loans provided		13,166	219
Interest received		929	184
Net cash (used for) provided by investing activities		**(46,643)**	**(68,842)**
Cash flows from financing activities			
Proceeds from long-term debt		44,885	35,018
Proceeds from short-term debt		3,700	20,331
Repayments of long-term debt		(8,552)	(18,718)
Repayments of short-term debt		(21,321)	(2,729)
Interest paid		(818)	(301)
Dividends paid	17	(15,166)	(9,868)
Acquisition of non-controlling interest	5	(14,817)	(629)
Additional capital contribution into subsidiaries	5	-	337
Proceeds from sale of treasury shares	17	354	341
Net cash (used for) provided by financing activities		**(11,735)**	**23,782**
Net effect of exchange rate changes on cash, cash equivalents and bank overdrafts		64	(45)
Net increase (decrease) in cash, cash equivalents and bank overdrafts		**13,593**	**(242)**
Cash and cash equivalents at beginning of the period		10,238	10,532
Net decrease (increase) in cash and cash equivalents reclassified to assets classified as held for sale		-	(52)
Cash, cash equivalents and bank overdrafts at end of the period		**23,831**	**10,238**

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

Consolidated Statement of Changes in Equity
(in millions of Russian roubles, except for number of shares)

	Number of ordinary shares (in thousands)	Ordinary share capital	Treasury shares	Additional paid- in capital	Asset revaluation surplus on acquisitions	Currency translation differences	Retained earnings	Equity attributable to OAO NOVATEK shareholders	Non-controlling interest	Total equity
For the year ended 31 December 2010										
1 January 2010	***3,032,114***	**393**	**(599)**	**30,609**	**5,617**	**(112)**	**78,393**	**114,301**	**19,139**	**133,440**
Currency translation differences	-	-	-	-	-	(8)	-	(8)	-	(8)
Profit (loss)	-	-	-	-	-	-	40,533	40,533	(255)	40,278
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**(8)**	**40,533**	**40,525**	**(255)**	**40,270**
Dividends (Note 17)	-	-	-	-	-	-	(9,855)	(9,855)	-	(9,855)
Acquisition of subsidiaries (Note 5)	-	-	-	-	-	-	-	-	2,414	2,414
Impact of additional shares subscription in subsidiaries on non- controlling interest (Note 5)	-	-	-	-	-	-	-	-	1,818	1,818
Acquisition of non- controlling interest (Note 5)	-	-	-	-	-	-	1,739	1,739	(2,368)	(629)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(81)	(81)
Share- based compensation funded by shareholders	-	-	-	68	-	-	-	68	-	68
Sales of treasury shares (Note 17)	*1,070*	-	153	188	-	-	-	341	-	341
31 December 2010	***3,033,184***	**393**	**(446)**	**30,865**	**5,617**	**(120)**	**110,810**	**147,119**	**20,667**	**167,786**

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

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

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

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

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

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

In November 2011 and December 2010, the Group acquired OOO Gazprom mezhregiongas Chelyabinsk and OOO Yamalgazresurs-Chelyabinsk, respectively, both Russian regional natural gas traders, to support and expand natural gas sales opportunities in the Chelyabinsk Region of the Russian Federation (see Note 5).

In September 2011, the Group increased its ownership in OAO Yamal LNG from 51 percent to 100 percent. In October 2011, the Group disposed a 20% stake in the company to TOTAL S.A., the strategy partner of the Group in the Yamal LNG project (see Note 5).

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

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

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

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

In August 2010, the Group acquired Intergaz-System Sp.z o.o., domiciled in Poland, to support and extend the wholesale and retail trading of liquefied petroleum gas in Polish market (see Note 5). In December 2010, Intergaz-System was merged into Novatek Polska, the Group's wholly owned subsidiary.

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

In May 2010, the Group established OOO NOVATEK-Perm, a wholly owned subsidiary, to support the Group's current natural gas deliveries to the Perm region, one of the largest industrial centers in the Russian Federation, as well as to expand potential sales opportunities in the territory. Furthermore, in April 2011, the Group acquired OOO Yamalenergogaz, a Russian regional natural gas trader, to support and expand natural gas sales opportunities in the Perm Region for RR 75 million. In January 2012, Yamalenergogaz was merged into NOVATEK-Perm.

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

2 BASIS OF PRESENTATION

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

Most of the Group entities prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The Group's consolidated financial statements are based on the statutory records with adjustments and reclassifications recorded in the consolidated financial statements for the fair presentation in accordance with IFRS. The principal adjustments primarily relate to (1) depreciation, depletion and amortization, and valuation of property, plant and equipment, (2) consolidation of subsidiaries, (3) business combinations, (4) accounting for income taxes, and (5) valuation of unrecoverable assets, expense recognition and other provisions.

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

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

	At 31 December:		Average annual rate	
For one currency unit to one Russian rouble	2011	2010	2011	2010
US dollar ("USD")	32.20	30.48	29.39	30.37
Polish Zloty ("PLN")	9.47	10.17	9.94	10.09

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of Revised IAS 24. Effective 1 January 2011 the Group adopted revised of IAS 24, *Related Party Disclosures* which simplified the definition of a related party and eliminated inconsistencies and contradictions in the standard. In accordance with the revised standard, parties under significant influence of key management personnel are not related parties of the Group (see Note 30).

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

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

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

Derivative instruments. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value except for derivatives that are linked to and must be settled by delivery of investments in equity instruments that do not have a quoted, market price in an active market and whose fair value cannot be reliably determined. Derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year.

Derivatives that are linked to and must be settled by delivery of investments in equity instruments that do not have a quoted, market price in an active market and whose fair value cannot be reliably determined, are measured at cost.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

The Group did not hold any instruments qualifying for hedging accounting during both reporting periods.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

(b) Held-to-maturity investments

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

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

(c) Loans and receivables

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

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

(d) Available-for-sale financial assets

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Derivative instruments, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category. These financial liabilities are carried on the consolidated statement of financial position at fair value with gains or losses recognized in the consolidated statement of income. There were no financial liabilities designated at fair value through profit or loss held by the Group at the reporting dates.

(b) Financial liabilities measured at amortized cost

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Management reviews these estimates and assumptions on a continuous basis, by reference to past experiences and other factors considered as reasonable which form the basis for assessing the book values of assets and liabilities. Adjustments to accounting estimates are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected. Management also makes certain judgments, apart from those involving estimations, in the process of applying the Group's accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Fair values of financial assets and liabilities. The fair value of financial assets and liabilities, other than financial instruments that are traded in an active market, is determined by applying various valuation methodologies. Management uses its judgment to make assumptions based on market conditions existing at each balance sheet date. Discounted cash flow analysis is used for various loans and receivables as well as debt instruments that are not traded in active markets. The effective interest rate is determined by reference to the interest rates of instruments available to the Group in active markets. In the absence of such instruments, the effective interest rate is determined by reference to the interest rates of active market instruments available adjusted for the Group's specific risk premium estimated by management.

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

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

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

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

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

5 MERGERS, ACQUISITIONS AND DISPOSALS

Acquisition of OOO Gazprom mezhregiongas Chelyabinsk

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

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

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

The financial and operational activities of Gazprom mezhregiongas Chelyabinsk would have had an effect of an additional RR 12.1 billion on the Group's revenues and increased the Group's profit before tax by RR 1.3 billion if the acquisition occurred in January 2011. These figures do not include adjustments for the following: (a) depreciation, depletion and amortization was not increased to reflect the higher carrying values of intangible assets after fair value adjustments; (b) intercompany eliminations; and (c) income tax.

Acquisition of additional equity stake in OAO Yamal LNG

In May 2009, the Group signed a call option agreement, which provided the Group with the right, but not the obligation, to purchase an additional 23.9 percent equity stake in Yamal LNG for USD 450 million until 4 June 2012. To enter into this call option agreement, the Group paid RR 325 million (USD 10 million) in July 2009, which was recorded as a decrease in retained earnings in the consolidated statement of changes in equity.

In February 2011, the Group reassigned the call option to purchase a 23.9 percent equity stake in Yamal LNG from its foreign subsidiary to its Russian subsidiary. As a result of a change in the functional currency from US dollars to Russian roubles, the call option was no longer considered an equity instrument and was reclassified to a financial asset with a value of RR 284 million (USD 10 million).

In March 2011, the Group signed a second call option agreement, which provides the Group with the right, but not the obligation, to purchase an additional 25.1 percent equity stake in Yamal LNG for USD 526 million until 1 July 2012. To enter into this call option agreement, the Group paid RR 422 million (USD 15 million), which was to be offset against total consideration.

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

On 28 September 2011, the Group increased its equity stake in Yamal LNG from 51 percent to 100 percent by exercising the two aforementioned call options. The following table summarizes the total purchase consideration for the acquisition of an additional 49 percent stake:

	USD million	Exchange rate	RR million
23.9% call option:			
Cash	10	28.43	284
Accrued liability	450	32.22	14,499
25.1% call option:			
Cash	15	28.16	422
Accrued liability	511	32.22	16,465
Total purchase consideration	**986**		**31,670**

As a result of these two transactions, the Group reduced non-controlling interest by RR 19,920 million and recorded a difference of RR 11,750 million directly to retained earnings.

In accordance with the aforementioned transactions, the Group recorded an aggregated liability of USD 961 million, payable in instalments with the final payment due by 30 June 2012. At 31 December 2011, the balance due on these two transactions was RR 16,244 million (USD 505 million) (see Note 16).

Disposal of ownership interest in OAO Yamal LNG

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

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

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

i. *first tranche* – a cash payment of USD 425 million to NOVATEK upon the contract conclusion (payment received in October 2011);
ii. *second tranche* – a cash payment of USD 375 million through additional capital contributions to the ordinary share capital of Yamal LNG, of which USD 204 million was received in 2011 and the remainder is expected to be received throughout 2012; and
iii. *third tranche* – an additional cash payment ranging from USD nil to USD 500 million depending on the amount of the Project's capital expenditure through additional capital contribution to the ordinary share capital of Yamal LNG; the final amount of the additional payment will be determined based on the result of the Final Investment Decision. Management has assessed that it is most likely that the full USD 500 million will need to be paid. If the actual amount is less than the amount assessed then the associated consideration and gain recognized for the disposal of the 20 percent stake would need to be adjusted.

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

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

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

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

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

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

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

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

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

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

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

Acquisition of OOO Yamalgazresurs-Chelyabinsk

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

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

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

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

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

Acquisition of OAO Sibneftegas

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

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

As described above, the Group acquired 51 percent of the outstanding ordinary shares of Sibneftegas; however, the Charter agreement stipulates that key financial and operational decisions regarding its business activities are subject to approval by nine out of the eleven members of the Board of Directors, representing unanimous approval by both shareholders and, consequently, the voting mechanism effectively establishes joint control over Sibneftegas. The Group accounts for it under the equity method.

At 31 December 2010, in accordance with IAS 31 *"Interests in Joint ventures",* the Group assessed preliminary fair values of the identified assets and liabilities of Sibneftegas and recorded provisional figures for those items. During 2011, an independent appraiser was engaged to assess the company's fair values of identifiable assets and liabilities at the acquisition date, which was completed in December 2011. As a result, the provisional values of non-current assets and non-current liabilities were increased by RR 16,305 million and RR 3,264 million, respectively, with a corresponding decrease in goodwill. The principal changes to the preliminary fair value assessment related to changes in the assessment of the fair value of the production assets and mineral licenses. Revisions made to the preliminary assessment were reflected as of the acquisition date and there was no goodwill included in the carrying amount of the investment in the joint venture. Finalization of purchase price allocation did not result in amendments to the comparative information.

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

OAO Sibneftegas	**Final fair values at the acquisition date**
Property, plant and equipment	83,128
Other non-current assets	107
Cash and cash equivalents	432
Other current assets	657
Long-term debt	(19,747)
Other non-current liabilities	(11,716)
Short-term debt	(1,766)
Other current liabilities	(456)
Total identifiable net assets	**50,639**
Purchase consideration	25,826
Fair value of the Group's interest in net assets (RR 50,639 million at 51% ownership)	(25,826)
Goodwill	**-**

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

Establishment of OOO Yamal Development and acquisition of OOO SeverEnergia

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

On 30 November 2010, Yamal Development acquired a 51 percent participation interest in OOO SeverEnergia for total cash consideration of RR 48,715 million paid upon acquisition. The acquisition was financed proportionally by its founders through the provision of loans in the total amount of RR 56,247 million (see Note 8). NOVATEK financed its part of the loan to Yamal Development through the use of a bridge loan facility (see Note 13).

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

Subsidiary of SeverEnergia	License area	Expiring date
OAO Arkticheskaya gazovaya kompaniya	Samburgskoye and Yevo-Yakhinskoye	2018
ZAO Urengoil Inc.	Yaro-Yakhinskoye	2018
OAO Neftegastehnologiya	North-Chaselskoye	Life of field

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

As part of the acquisition, Yamal Development also provided a loan in the amount of RR 7,532 million to SeverEnergia, which was used to fully repay the outstanding debt of the company to its previous shareholder ahead of its maturity schedule.

As described above, Yamal Development acquired a 51 percent participation interest in SeverEnergia; however, the Charter agreement of SeverEnergia stipulates that key financial and operational decisions regarding its business activities are subject to approval by six out of the seven members of the Board of Directors, meaning that none of the participants have a preferential voting right. As a result, the Group has determined that SeverEnergia is a joint venture of Yamal Development; the assets and liabilities of SeverEnergia and its financial results are included in the assets, liabilities and financial results of Yamal Development under the equity method in the disclosure of summarized financial information about the Group's investments in joint ventures (see Note 7). The transaction provides the Group with an effective interest ownership of 25.5 percent in SeverEnergia.

At 31 December 2010, in accordance with IAS 31 *"Interests in Joint ventures",* the Group assessed preliminary fair values of the identified assets and liabilities of SeverEnergia and its subsidiaries and recorded provisional figures for those items. During 2011, an independent appraiser was engaged to assess the fair values of identifiable assets and liabilities of the company at the acquisition date, which was completed in December 2011. As a result, the provisional values of non-current assets and non-current liabilities were decreased by RR 735 million and RR 622 million, respectively, with the remaining RR 113 million recorded as changes in other items. The principal changes to the preliminary fair value assessment related to changes in the assessment of the fair value of the production assets and mineral licenses. Revisions made to the preliminary assessment were reflected as of the acquisition date and there was no goodwill included in the carrying amount of the investment in the joint venture. Finalization of purchase price allocation did not result in amendments to the comparative information.

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

The following table represents the final net fair values comprising 100 percent of the identifiable assets and liabilities of SeverEnergia and its subsidiaries:

SeverEnergia and its subsidiaries	**Final fair values at the acquisition date**
Property, plant and equipment	136,493
Cash and cash equivalents	1,515
Other current assets	2,427
Deferred income tax liabilities	(22,060)
Other non-current liabilities	(268)
Short-term debt	(19,613)
Other current liabilities	(2,974)
Total identifiable net assets	**95,520**
Purchase consideration	48,715
Fair value of the Yamal Development's interest in net assets of SeverEnergia (RR 95,520 million at 51% ownership)	(48,715)
Goodwill	**-**

Disposal of ownership interest in ZAO Terneftegas

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

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

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

- the sale of a 28 percent interest in Terneftegas for total consideration of USD 24.1 million, of which USD 16 million was paid at the date of title transfer and the remaining USD 8.1 million (deferred payment) was to be paid upon approval by TOTAL of the final investment decision (payment received in December 2011); and
- a further increase of TOTAL's equity share in Terneftegas to 49 percent through a subscription to the entity's additional shares emission for total consideration of USD 18 million.

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

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

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

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

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

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

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

Acquisition of controlling interests in associates

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

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

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

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

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

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

Acquisition of additional participation interest in subsidiaries

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

In December 2010, the Group merged its wholly owned subsidiary, Oiltechproduct-Invest into its wholly owned subsidiary OOO NOVATEK-Tarkosaleneftegas. In November 2011, the Group merged its wholly owned subsidiary, Tailiksneftegas into its wholly owned subsidiary OOO NOVATEK-Yurkharovneftegas. The aforementioned mergers did not affect the Group's consolidated financial and operational results.

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

Disposal of OOO NOVATEK-Polymer

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

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

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

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

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

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

Acquisition of OAO Tambeyneftegas

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

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

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

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

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

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

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

6 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment, for the years ended 31 December 2011 and 2010 are as follows:

	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	157,955	19,885	5,319	183,159
Accumulated depreciation, depletion and amortization	(20,436)	-	(1,275)	(21,711)
Net book value at 1 January 2010	**137,519**	**19,885**	**4,044**	**161,448**
Acquisition of subsidiaries	5,960	1,875	70	7,905
Additions	3,265	22,828	13	26,106
Transfers	27,018	(27,722)	704	-
Depreciation, depletion and amortization	(6,461)	-	(367)	(6,828)
Disposal of subsidiaries, net	-	(319)	(1,298)	(1,617)
Impairment	(321)	-	-	(321)
Disposals, net	(495)	(525)	(100)	(1,120)
Cost	193,411	16,022	4,236	213,669
Accumulated depreciation, depletion and amortization	(26,926)	-	(1,170)	(28,096)
Net book value at 31 December 2010	**166,485**	**16,022**	**3,066**	**185,573**
Acquisition of subsidiaries	108	183	30	321
Additions	10,140	27,869	22	38,031
Transfers	15,455	(20,216)	4,761	-
Depreciation, depletion and amortization	(9,026)	-	(424)	(9,450)
Disposal of subsidiaries, net	(40,136)	(5,665)	(66)	(45,867)
Impairment	(513)	(107)	-	(620)
Disposals, net	(549)	(439)	(216)	(1,204)
Cost	177,788	17,647	8,603	204,038
Accumulated depreciation, depletion and amortization	(35,824)	-	(1,430)	(37,254)
Net book value at 31 December 2011	**141,964**	**17,647**	**7,173**	**166,784**

Included within the oil and gas properties and equipment balance at 31 December 2011 and 2010 are proved properties of RR 22,355 million and RR 62,509 million, net of accumulated depreciation, depletion and amortization of RR 10,300 million and RR 8,915 million, respectively.

Included within the oil and gas properties and equipment balance at 31 December 2011 and 2010 are unproved properties of RR 14,061 million and RR 6,991 million, respectively. The Group's management believes these costs are recoverable and has plans to explore and develop the respective unproved properties.

Included within assets under construction and advances for construction are advances to suppliers of equipment of RR 3,781 million and RR 2,676 million at 31 December 2011 and 2010, respectively.

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

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in additions to property, plant and equipment for the years ending 31 December 2011 and 2010 are capitalized interest and foreign exchange differences of RR 4,145 million and RR 2,621 million, respectively. The interest capitalization rates for 2011 and 2010 used for additions were 7.1 percent and 5.4 percent, respectively.

During 2011, the transfers to oil and gas properties and equipment include the completion of the third stage of the second phase development of the Yurkharovskoye field in the amount of RR 9,785 million. During 2010, the transfers to oil and gas properties and equipment included the second stage completion and third stage partial completion of the second phase development of the Yurkharovskoye field in the amount of RR 20,618 million.

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

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

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

	Year ended 31 December:	
	2011	**2010**
DD&A included in operating expenses (excluding RR 111 million and RR nil million for the years ended 31 December 2011 and 2010, respectively, related to Intangible assets)	9,166	6,616
DD&A included in general and administrative expenses (see Note 22)	198	141
DD&A capitalized in the course of intra-group construction services	86	71
Total depreciation, depletion and amortization	**9,450**	**6,828**

At 31 December 2011 and 2010, no property, plant and equipment were pledged as security for the Group's borrowings. Impairment of RR 620 million and RR 321 million was recognized in respect of oil and gas properties and equipment for the years ended 31 December 2011 and 2010, respectively.

Capital commitments are disclosed in Note 28.

Asset retirement obligations. Estimated costs of dismantling oil and gas production facilities, pipelines and related processing facilities, including abandonment and site restoration costs, amounting to RR 1,615 million and RR 1,115 million at 31 December 2011 and 2010, respectively, are included in the cost of oil and gas properties and equipment. The Group has estimated its liability based on current legislation using estimated costs and timing of when the expenses are expected to be incurred between the end of the reporting period and 2051. Governmental authorities are continually reviewing regulations and their enforcement. Consequently, the Group's ultimate liabilities may differ from the recorded amounts.

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

7 INVESTMENTS IN JOINT VENTURES

	At 31 December:	
	2011	**2010**
Joint ventures:		
OAO Yamal LNG	89,549	-
OAO Sibneftegas	24,187	25,758
OOO Yamal Development (consolidated)	8,100	-
ZAO Terneftegas	1,193	1,268
Total investments in joint ventures	**123,029**	**27,026**

In June 2011, the charter capital of OOO Yamal Development was increased by converting RR 20 billion of the loans, including accrued interest, provided to the company by its participants, of which RR 10 billion, including accrued interest in the amount of RR 225 million, is attributable to NOVATEK (see Note 8).

The Group's investment in Yamal Development at 31 December 2010 was valued at RR nil due to the Group's proportionate share of accumulated losses exceeding the Group's cost of investment. The excess of the accumulated losses over the Group's cost of investment in Yamal Development in the amount of RR 238 million were recorded as a reduction of long-term loans provided by the Group to the joint venture (see Note 8).

As discussed in Note 5, in October 2011, the Group's effective control over OAO Yamal LNG ceased and subsequent to that event, the Group's interest in this entity is accounted for using the equity method.

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

	Year ended 31 December:	
	2011	**2010**
At 1 January	**27,026**	**1,214**
Share of profit (loss) of equity investments before income tax	(4,725)	(412)
Share of income tax (expense) benefit	845	66
Share of profit (loss) of equity investments, net of income tax	**(3,880)**	**(346)**
Acquisition of equity investments	-	25,836
Contribution to charter capital	10,000	-
Losses (reversals) recognized in excess of equity investments, reclassified to long-term loans receivable for these companies	(238)	238
Disposals of subsidiaries resulting in recognition of equity investments	90,121	1,298
Acquisition of controlling stake resulting in derecognition of equity investments	-	(1,214)
At 31 December	**123,029**	**27,026**

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

At 31 December 2011 and 2010, the Group's interests in its joint ventures and their summarized financial information, relating to the Group's interest, were as follows:

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

As at and for the year ended 31 December 2010	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Net assets	Revenues	Profit (loss)	Interest held
Yamal Development (consolidated)	28,050	27	27,886	191	-	-	(248)	50%
SeverEnergia	35,076	1,005	5,962	5,812	24,307	-	(50)	25.5%
Less: investment and share of loss of Yamal Development in SeverEnergia	(24,307)	-	-	-	(24,307)	-	50	-
Sibneftegas	42,369	712	16,046	1,277	25,758	157	(68)	51%
Terneftegas	1,543	170	442	3	1,268	2	(30)	51%
Total	**82,731**	**1,914**	**50,336**	**7,283**	**27,026**	**159**	**(346)**	

At 31 December 2011, the Group's investment in Yamal LNG totaled RR 89,549 million which differed from its share in the net assets of RR 66,693 million as noted above. This difference of RR 22,856 million relates to the Group's share in the second and third tranches recognized as part of the consideration for the disposal of the 20 percent interest in Yamal LNG (see Note 5).

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

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

8 LONG-TERM LOANS AND RECEIVABLES

	At 31 December:	
	2011	**2010**
Russian rouble denominated loans	9,737	38,923
US dollar denominated loans	220	102
Total	**9,957**	**39,025**
Less: current portion of long-term loans	(634)	(968)
Total long-term loans	**9,323**	**38,057**
Long-term receivables	22,027	2,063
Long-term interest receivable	780	31
Total long-term loans and receivables	**32,130**	**40,151**

Russian rouble denominated loans. On 15 December 2010, the Group provided two loans to OAO Sibneftegas, the Group's joint venture, for RR 7,429 million and RR 3,609 million. The first loan was issued at an annual interest rate of 10 percent and is repayable in November 2014. The second loan was issued at an annual interest rate of 9.5 percent and is repayable quarterly in equal parts starting from March 2011 until November 2014. At 31 December 2011 and 2010, the loans provided to Sibneftegas amounted to RR 9,737 million and RR 11,038 million, respectively (see Note 30).

On 29 November 2010, the Group provided a loan to OOO Yamal Development, the Group's joint venture, in the amount of RR 28,123 million. The loan was issued at an annual interest rate of 8 percent and is repayable in November 2011; however, for the purpose of these financial statements, the loan was treated as part of the Group's net investment in its joint venture and classified as long-term. At 31 December 2010, the loan was recorded in the amount of RR 28,123 million, net of accumulated losses recognized by Yamal Development in excess of the Group's investment in the joint venture in the amount of RR 238 million (see Note 7). In June 2011, NOVATEK converted RR 9,775 million, excluding accrued interest, of this loan to equity (see Note 7).

In November 2011, the participants of Yamal Development made a decision to pro-rata increase its charter capital by converting the remaining unpaid part of the loan provided to the company in the amount of RR 32,697 million, including accrued interest, to equity. The legal procedures to register the new charter were not completed at 31 December 2011 and, accordingly, the Group's pro-rate share of RR 16,348 million, including accrued interest of RR 1,162 million, was recognized as long-term receivables.

In December 2011, the shareholders of OAO Yamal LNG, the Group's joint venture, made a decision to increase its charter capital through a subscription to the entity's additional shares emission in the amount of RR 10,780 million, which were fully paid. The legal procedures to register the new charter were not completed at 31 December 2011 and, accordingly, the Group's share of RR 3,955 million was recognized as long-term receivables. The Group's shareholding will not change after the share emission.

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

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

9 INVENTORIES

	At 31 December:	
	2011	2010
Natural gas and hydrocarbon liquids at cost	1,146	1,090
Materials and supplies at cost	400	575
Materials and supplies at net realizable value (net of provisions of RR 31 million and RR 33 million at 31 December 2011and 2010, respectively)	133	192
Other inventories	4	11
Total inventories	**1,683**	**1,868**

The Group recorded an impairment expense of nil and RR 8 million during the years ended 31 December 2011 and 2010, respectively, to write-down the carrying value of inventory due to obsolescence. No inventories were pledged as security for the Group's borrowings or payables at both dates.

10 TRADE AND OTHER RECEIVABLES

	At 31 December:	
	2011	2010
Trade receivables (net of provision of RR 133 million and RR nil million at 31 December 2011 and 2010, respectively)	14,900	7,031
Other receivables	1,703	1,445
Interest on loans receivable	96	194
Total trade and other receivables	**16,699**	**8,670**

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

The Group holds letters of credit in banks with investment grade rating as security for trade receivables in amount RR 1,706 million and RR 1,667 million at 31 December 2011 and 2010, respectively. Also the Group holds as a collateral 100 percent participation interest in OOO NOVATEK-Polymer for other receivables from ZAO SIBUR Holding (see Note 5). The Group does not hold any other collateral as security for trade and other receivables (see Note 27 for credit risk disclosures).

Trade and other receivables that are less than three months past due are generally not considered for impairment unless other indicators of impairment exist. Trade and other receivables of RR 478 million and RR 8 million at 31 December 2011 and 2010, respectively, were past due but not impaired.

The Group has expanded its natural gas sales to a larger number of mid- to small-sized customers as a result of the recent acquisitions of regional gas traders. The Group has assessed the payment history of these accounts and recognized impairments where deemed necessary.

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

	At 31 December:	
	2011	2010
Up to 90 days past-due	343	-
91 to 360 days past-due	135	-
Over 360 days past-due	-	8
Total past due but not impaired	**478**	**8**
Not past due and not impaired	16,221	8,662
Total trade and other receivables	**16,699**	**8,670**

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

10 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	Year ended 31 December:	
	2011	2010
At 1 January	**-**	**7**
Additional provision recorded	184	184
Acquisition of subsidiaries	76	-
Receivables written off as uncollectible	(107)	(191)
Provision reversed	(20)	-
At 31 December	**133**	**nil**

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

11 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 December:	
	2011	2010
Financial assets		
Russian rouble denominated loans	6,859	969
Short-term bank deposits	17	-
Non-financial assets		
Recoverable value-added tax	1,550	1,340
Prepayments and advances to suppliers (net of provision of RR 12 million and RR 89 million at 31 December 2011 and 2010, respectively)	3,322	2,388
Deferred export duties for stable gas condensate	922	1,151
Prepaid taxes other than income tax	668	912
Deferred transportation expenses for natural gas	1,139	824
Deferred transportation expenses for stable gas condensate	413	514
Other current assets	60	406
Total prepayments and other current assets	**14,950**	**8,504**

On 29 April 2011, the direct and indirect shareholders of SeverEnergia, a joint venture of Yamal Development, provided proportionally a loan facility to SeverEnergia in the aggregated amount up to RR 31 billion, of which 25.5 percent or RR 7,905 million is attributable to NOVATEK. The facility bears interest rate of MosPrime plus three percent per annum (9.78 percent at 31 December 2011) and is repayable in April 2012. At 31 December 2011, NOVATEK provided RR 6,225 million under this loan facility included in Russian rouble denominated loans (see Note 30).

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

12 CASH AND CASH EQUIVALENTS

	At 31 December:	
	2011	2010
Cash at current bank accounts	7,958	4,509
Russian rouble denominated deposits (average interest rate 4.5% p.a. and 2.4% p.a. for 2011 and 2010, respectively)	4,986	4,105
US dollar denominated deposits (average interest rate 0.8% p.a. and 0.3% p.a. for 2011 and 2010, respectively)	10,822	1,584
Other current denominated deposits	65	40
Total cash and cash equivalents	**23,831**	**10,238**

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

13 LONG-TERM DEBT

	At 31 December:	
	2011	2010
US dollar denominated bonds	39,982	-
Russian rouble denominated loans	24,966	24,948
US dollar denominated loans	20,559	19,129
Russian rouble denominated bonds	9,971	9,949
Total	**95,478**	**54,026**
Less: current portion of long-term debt	(20,298)	(6,952)
Total long-term debt	**75,180**	**47,074**

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

	At 31 December:	
	2011	2010
Eurobonds – Ten-Year Tenor	20,776	-
Eurobonds – Five-Year Tenor	19,206	-
Sberbank	14,966	14,948
Gazprombank	10,000	10,000
Russian rouble denominated bonds	9,971	9,949
Sumitomo Mitsui Banking Corporation Europe Limited	7,685	-
Nordea Bank	6,439	6,095
UniCredit Bank	6,435	6,082
Syndicated term loan facility	-	6,952
Total	**95,478**	**54,026**

Eurobonds. In February 2011, the Group issued Eurobonds in an aggregate amount of USD 1,250 million. The Eurobonds were issued at par in two tranches, a five-year USD 600 million bond with a coupon rate of 5.326 percent and a ten-year USD 650 million bond with a coupon rate of 6.604 percent. The coupons are payable semi-annually. At 31 December 2011, the outstanding amount was RR 39,982 million (USD 1,242 million), net of unamortized transaction costs of RR 263 million.

Sberbank. On 16 December 2010, the Group obtained a RR 15 billion loan from Sberbank for general corporate purposes including the financing of capital expenditures. The loan bears an interest rate of 7.5 percent per annum and is repayable in December 2013. At 31 December 2011, the outstanding loan amount was RR 14,966 million, net of unamortized transaction costs of RR 34 million.

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

13 LONG-TERM DEBT (CONTINUED)

Gazprombank. On 3 November 2009, the Group signed a loan agreement with OAO Gazprombank, which provided the Group with a loan facility of RR 10 billion until November 2012. By the end of 2010, the Group withdrew the full amount of the loan facility. Throughout 2010 and the first three months of 2011, the Group gradually reduced the stated interest rate from the initial 13 percent to 8 percent per annum. At 31 December 2011, the outstanding amount was RR 10 billion. In January 2012, the loan was fully repaid ahead of its maturity schedule.

Russian rouble denominated bonds. In June 2010, the Group issued ten million three-year non-convertible Russian rouble denominated bonds, each with a nominal value RR 1,000 and an annual coupon rate of 7.5 percent, payable semi-annually. At 31 December 2011, the outstanding amount was RR 9,971 million, net of unamortized transaction costs of RR 29 million.

Sumitomo Mitsui Banking Corporation Europe Limited. On 5 April 2011, the Group obtained a USD 300 million credit line facility with Sumitomo Mitsui Banking Corporation Europe Limited at an interest rate of LIBOR plus 1.45 percent per annum (2.03 percent at 31 December 2011). In April 2011, the Group withdrew the full amount of the USD 300 million credit line facility payable until December 2013. The loan facility includes maintenance of certain restrictive financial covenants. At 31 December 2011, the outstanding amount was RR 7,685 million (USD 239 million), net of unamortized transaction costs of RR 42 million.

Nordea Bank. On 16 November 2010, the Group obtained a USD 200 million credit line facility with OAO Nordea Bank. The facility has a three-year tenure, an interest rate of LIBOR plus 1.9 percent per annum (2.18 percent and 2.16 percent at 31 December 2011 and 2010, respectively) and includes the maintenance of certain restrictive financial covenants. At 31 December 2011, the outstanding amount was RR 6,439 million (USD 200 million).

UniCredit Bank. At 31 December 2011 and 2010, the US dollar denominated loans included the outstanding loan under credit line facility with UniCredit Bank until October 2012 in the amount of RR 6,435 million (USD 200 million), net of unamortized transaction costs of RR 4 million, and RR 6,082 million (USD 200 million), net of unamortized transaction costs of RR 13 million, respectively. The loan bears an interest rate of LIBOR plus 4.65 percent per annum effective from 25 February 2010 and LIBOR plus 3.25 percent per annum effective from 11 January 2011 (3.52 percent and 4.92 percent at 31 December 2011 and 2010, respectively). The loan facility includes the maintenance of certain restrictive financial covenants.

Syndicated term loan facility. At 31 December 2010, the US dollar denominated loans included an unsecured syndicated term loan facility in the amount of RR 6,952 million (USD 228 million) net of unamortized transaction costs of RR 15 million. The facility paid an interest of LIBOR plus 1.5 percent per annum (1.79 percent at 31 December 2010). In April 2011, the loan facility was fully repaid in accordance with its maturity schedule.

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

	At 31 December:	
	2011	**2010**
Eurobonds – Ten-Year Tenor	21,150	-
Eurobonds – Five-Year Tenor	19,414	-
Sberbank	14,539	15,000
Gazprombank	9,928	10,122
Russian rouble denominated bonds	10,000	10,061
Sumitomo Mitsui Banking Corporation Europe Limited	7,561	-
UniCredit Bank	6,439	6,139
Nordea Bank	6,256	5,814
Syndicated term loan facility	-	6,885
Total	**95,287**	**54,021**

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

13 LONG-TERM DEBT (CONTINUED)

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

Maturity period:	**RR million**
1 January 2013 to 31 December 2013	35,198
1 January 2014 to 31 December 2014	-
1 January 2015 to 31 December 2015	-
1 January 2016 to 31 December 2016	19,206
After 31 December 2016	20,776
Total long-term debt	**75,180**

14 PENSION OBLIGATIONS

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

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

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

	At 31 December:	
	2011	**2010**
Present value of the defined benefit obligations	810	758
Unrecognized past service cost	(146)	(200)
Defined benefit plan liability recognized in the consolidated statement of financial position	**664**	**558**

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

	Year ended 31 December:	
	2011	**2010**
At 1 January	**758**	**620**
Interest cost	48	31
Benefits paid	(13)	(8)
Current service cost	88	66
Past services cost	-	51
Disposal of obligation due to disposal of subsidiary	-	(75)
Actuarial (gain) loss	(71)	73
At 31 December	**810**	**758**

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

14 PENSION OBLIGATIONS (CONTINUED)

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

	Year ended 31 December:	
	2011	**2010**
Current service cost	88	66
Interest cost	48	31
Disposal of obligation due to disposal of subsidiary	-	(75)
Actuarial (gain) loss	(71)	73
Amortization of past service cost	55	79
Defined benefit plan (benefits) costs recognized in operating expenses	**120**	**174**
of which the following amounts were included as employee compensation in:		
Materials, services and other	46	73
General and administrative expenses	74	101

The Group recognized a loss of RR 5 million and a gain of RR 5 million as a result of experience adjustments on plan liabilities during the years ended 31 December 2011 and 2010, respectively, included in actuarial (gain) loss.

The principal actuarial assumptions used at 31 December 2011 and 2010 are as follows:

	At 31 December:	
	2011	**2010**
Weighted average discount rate	7.4%	7.6%
Projected annual increase in employee compensation	5.8%	10%
Expected increases to pension benefits	5.8%	5%

The assumed average salary and pension payment increases for Group employees have been calculated on the basis of inflation forecasts, analysis of increases of past salaries and the general salary policy of the Group. Inflation forecasts have been estimated to reduce from 5.9 percent for 2012 to 4.7 percent in 2016 and on average equal to 4.4 percent thereafter.

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

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

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

	At 31 December:	
	2011	**2010**
US dollar denominated loans	-	18,200
Total	-	18,200
Add: current portion of long-term debt	20,298	6,952
Total short-term debt and current portion of long-term debt	**20,298**	**25,152**

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

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

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

Available credit facilities. The Group's available credit facilities at 31 December 2011 were as follows:

		Expiring	
	Par value	Within one year	Between 1 and 2 years
Credit Agricole Corporate and Investment Bank [a]	USD 100 million	3,220	-
BNP PARIBAS Bank [a]	USD 100 million	3,220	-
UniCredit Bank [a]	USD 150 million	4,829	-
Sberbank [b]	RR 40 billion	40,000	-
Total available credit facilities		**51,269**	**-**

[a] – interest rates are predetermined or negotiated at time of each withdrawal.
[b] – interest rate set to 9.2 percent per annum and the facility is repayable by December 2014.

The Group also maintained available funds under short-term credit lines in the form of bank overdrafts with various international banks for RR 6,278 million (USD 195 million) and RR 5,943 million (USD 195 million) at 31 December 2011 and 2010, respectively, on either fixed or variable interest rates subject to the specific type of credit facility.

16 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 December:	
	2011	2010
Financial liabilities		
Trade payables	5,187	2,194
Other payables	16,615	24,760
Interest payable	1,009	53
Non-financial liabilities		
Advances from customers	743	412
Salary payables	1,124	897
Other liabilities	244	163
Trade payables and accrued liabilities	**24,922**	**28,479**

At 31 December 2011, other payables included RR 16,244 million (USD 505 million) relating to the acquisition of a 49 percent equity stake in OAO Yamal LNG.

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

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

17 SHAREHOLDERS' EQUITY

Ordinary share capital. Share capital issued and paid in consisted of 3,036,306,000 ordinary shares at 31 December 2011 and 2010 with a par value of RR 0.1 each. The total authorized number of ordinary shares was 10,593,682,000 shares at both dates.

Treasury shares. In accordance with the *Share Buyback Program* authorized by the Board of Directors on 11 February 2008, the Group's wholly-owned subsidiary, Novatek Equity (Cyprus) Limited, during 2008 has purchased ordinary shares of OAO NOVATEK in the form of Global Depository Receipts (GDRs) on the London Stock Exchange through the use of independent brokers. At 31 December 2011 and 2010, the Group held 196,853 GDRs (1,969 thousand ordinary shares) and 312,277 GDRs (3,123 thousand ordinary shares) at a total cost of RR 281 million and RR 446 million, respectively. The Group has decided that these GDRs do not vote.

During the years ended 31 December 2011 and 2010, the Group sold 115,424 GDRs (1,154 thousand ordinary shares) and 106,956 GDRs (1,070 thousand ordinary shares) for RR 536 million and RR 341 million, recognizing gains of RR 355 million and RR 188 million, respectively, which were recorded within additional paid-in capital in the consolidated statement of changes in equity.

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

	Year ended 31 December:	
	2011	**2010**
Dividends payable at 1 January	-	13
Dividends declared (*)	15,166	9,855
Dividends paid (*)	(15,166)	(9,868)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year (in Russian roubles)	5.00	3.25
Dividends per GDR declared during the year (in Russian roubles)	50.0	32.5

(*) – excluding treasury shares.

The Group declares and pays dividends in Russian roubles. Dividends declared in 2011 and 2010 were as follows:

Final for 2010: RR 2.50 per share or RR 25.0 per GDR declared in April 2011	7,591
Interim for 2011: RR 2.50 per share or RR 25.0 per GDR declared in October 2011	7,591
Total dividends declared in 2011	**15,182**
Final for 2009: RR 1.75 per share or RR 17.5 per GDR declared in April 2010	5,314
Interim for 2010: RR 1.50 per share or RR 15.0 per GDR declared in October 2010	4,554
Total dividends declared in 2010	**9,868**

Distributable retained earnings. In accordance with Russian legislation, NOVATEK distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. Russian legislation identifies the net profit as basis of distribution. For 2011 and 2010, the net statutory profits of NOVATEK as reported in the published annual statutory reporting forms were RR 39,714 million and RR 21,323 million, respectively. The closing balances of the accumulated profit including the respective years net statutory profit totalled RR 120,889 million and RR 81,176 million at 31 December 2011 and 2010, respectively.

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

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

18 SHARE-BASED COMPENSATION PROGRAM

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

The Program is established as a cash-settled payment program and references the Group's GDRs, which are publicly traded on the London Stock Exchange ("LSE") under the ticker symbol "NVTK". At 31 December 2011 and 2010, the Program covered 146 and 164 employees, respectively. Each participant is assigned a pre-determined number of GDRs in accordance with their respective job classification grade and the entitlement for the cash-settled share-based payment cannot be transferred to another person. The cash-settled payments will only be awarded if the participant is employed with the Group at the date of payment.

	Number of GDRs	*Weighted average or closing price (LSE), USD per GDR*
Total amount of GDRs granted at 12 February 2010	**407,766**	**68.1**
Granted	5,352	94.1
Exercised	-	-
Forfeited	(30,750)	-
Total amount of GDRs granted at 31 December 2010	**382,368**	**119.5**
Granted	-	-
Exercised	(104,728)	105.0
Forfeited	(36,984)	-
Total amount of GDRs granted at 31 December 2011	**240,656**	**125.2**

The Program has three one-year vesting periods ending 31 January 2011, 2012, and 2013. Each participant is granted share appreciation rights, as part of their remuneration package, and may elect to get paid in cash at the end of each vesting period or to defer payment to the subsequent vesting periods during the Program life. Each payment is based on the sale of the allocated GDRs and is calculated as the difference between the GDRs market price at time of sale and the Program's pre-defined price set at USD 48.62 relating to the one-third of the total number of GDRs assigned to each participant during the vesting period, including any deferrals from prior vesting periods. The grant date is defined as 31 March 2010 and represents the date when all participants agreed to a share-based payment arrangement.

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

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

	2011	**2012**
Expected volatility	49.84%	49.84%
Risk-free interest rate	-	0.67%
Expected option life (years)	0.09	1.09
Exercise price per GDR (USD)	48.62	48.62

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

18 SHARE-BASED COMPENSATION PROGRAM (CONTINUED)

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

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

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

	Year ended 31 December:	
Expenses included in	2011	2010
General and administrative expenses	235	400

	At 31 December:	
Liabilities included in	2011	2010
Other non-current liabilities	226	236
Trade payables and accrued liabilities	244	164
Total share-based compensation program liabilities	**470**	**400**

19 OIL AND GAS SALES

	Year ended 31 December:	
	2011	2010
Natural gas	110,932	71,060
Stable gas condensate	46,778	29,754
Liquefied petroleum gas	15,227	12,747
Crude oil	2,479	1,458
Oil and gas products	186	143
Total oil and gas sales	**175,602**	**115,162**

20 TRANSPORTATION EXPENSES

	Year ended 31 December:	
	2011	2010
Natural gas transportation to customers	34,441	26,569
Liquids transportation by rail	9,638	7,350
Liquids transportation by tankers	3,647	2,771
Crude oil transportation to customers	281	190
Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines	-	307
Other	169	13
Total transportation expenses	**48,176**	**37,200**

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

21 TAXES OTHER THAN INCOME TAX

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

	Year ended 31 December:	
	2011	2010
Unified natural resources production tax	14,523	7,861
Property tax	1,742	1,482
Excise and fuel taxes	998	454
Other taxes	294	280
Total taxes other than income tax	**17,557**	**10,077**

The unified natural resources production tax for natural gas production was set at a rate of RR 237 and RR 147 per thousand cubic meters for 2011 and 2010.

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

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

22 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:	
	2011	2010
Employee compensation	4,650	3,874
Social expenses and compensatory payments	1,212	774
Legal, audit, and consulting services	774	504
Business trips expense	218	265
Depreciation – administrative buildings	198	141
Fire safety and security expenses	178	149
Rent expense	140	270
Board remuneration	103	93
Concession management services	63	125
Bank charges	58	59
Other	624	479
Total general and administrative expenses	**8,218**	**6,733**

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

	Year ended 31 December:	
	2011	2010
Audit services fee (audit of the Group's consolidated financial statements and the statutory audit of the parent company)	39	36
Non-audit services	1	4
Total auditors' fees and services	**40**	**40**

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

23 MATERIALS, SERVICES AND OTHER

	Year ended 31 December:	
	2011	2010
Employee compensation	2,953	2,572
Repair and maintenance services	1,435	640
Electricity and fuel	405	388
Materials and supplies	309	1,386
Security expenses	237	179
Transportation expenses	184	106
Processing fees	99	566
Rent expenses	43	27
Other	282	208
Total materials, services and other	**5,947**	**6,072**

24 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Year ended 31 December:	
	2011	2010
Natural gas	5,854	-
Liquid hydrocarbons	140	154
Total purchases of natural gas and liquid hydrocarbons	**5,994**	**154**

Natural gas purchases included volumes procured from Sibneftegas, the Group's joint venture, acquired in December 2010 (see Note 5), pro-rata to its total production in the amount of RR 3,661 million (see Note 30) and volumes procured from one of Gazprom's subsidiaries by the Group's regional gas trader, Gazprom mezhregiongas Chelyabinsk, post its acquisition by the Group in November 2011 (see Note 5) in the amount of RR 1,929 million.

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

25 FINANCE INCOME (EXPENSE)

Interest expense (including transaction costs)	Year ended 31 December: 2011	2010
6.604% USD 650 million Eurobonds February 2021	1,165	-
7.5% RR 15 billion Sberbank December 2013	1,144	46
5.326% USD 600 million Eurobonds February 2016	879	-
8% RR 10 billion Gazprombank November 2012 (1)	805	700
7.5% RR 10 billion Bonds June 2013	772	392
LIBOR+3.25% USD 200 million UniCredit Bank October 2012 (1)	215	325
LIBOR+1.45% USD 300 million Sumitomo Mitsui Banking Corporation Europe Limited December 2013	148	-
LIBOR+1.9% USD 200 million Nordea Bank November 2013	125	-
LIBOR+1.5% USD 800 million Syndicated term loan facility April 2011	37	318
8.5% RR 5 billion Sberbank February 2011 (1)	-	341
Other interest expenses (2)	132	70
Subtotal	**5,422**	**2,192**
Less: capitalised interest	(3,709)	(2,166)
Interest expense (on historical cost basis)	**1,713**	**26**
IAS 32 and IAS 39 *"Financial Instruments"* – fair value remeasurement	212	198
Provisions for asset retirement obligations: unwinding of the present value discount	225	213
Total interest expense	**2,150**	**437**

(1) – interest rates were reduced during the periods (see Note 13).
(2) – including credit facility with interest rates negotiated at time of each withdrawal (see Note 15).

Interest income	Year ended 31 December: 2011	2010
Interest income on cash and cash equivalents	355	170
Interest income on loans issued	2,828	328
Interest income (on historical cost basis)	**3,183**	**498**
IAS 32 and IAS 39 *"Financial Instruments"* – fair value remeasurement	209	100
Total interest income	**3,392**	**598**

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

26 INCOME TAX

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

	Year ended 31 December:	
	2011	2010
Profit before income tax	135,025	51,082
Theoretical income tax expense at statutory rate of 20 percent	27,005	10,216
Increase (decrease) due to:		
Non-temporary differences in respect of share of losses of equity investments	776	-
Non-deductible expenses	686	538
Russian entities' taxation at lower income tax rate	(118)	-
Foreign entities' taxation at lower income tax rate	(226)	(112)
Deferred taxes write-off	342	31
Disposal of 20% interest in Yamal LNG	(12,473)	-
Other non-temporary differences	(258)	131
Total income tax expense	**15,734**	**10,804**

Domestic and foreign components of current income tax expense were:

	Year ended 31 December:	
	2011	2010
Russian Federation income tax	12,364	9,289
Foreign income tax	103	116
Total current income tax expense	**12,467**	**9,405**

Effective income tax rate. The Group's Russian statutory income tax rate for 2011 and 2010 was 20 percent. For the years ended 31 December 2011 and 2010, the Group's effective income tax rate was 11.7 percent and 21.2 percent, respectively. Excluding the effect of 20% disposal of Yamal LNG, the Group's effective income tax rate for the year ended 31 December 2011 was 21.7 percent.

The Group did not file a consolidated tax return for 2010 and will not file one for 2011. Instead, each legal entity filed (and will file for 2011) separate tax returns with various tax authorities, primarily in the Russian Federation. As Russian tax legislation provided an option to submit a single consolidated income tax return starting from 1 January 2012, the Group's management assessed such opportunity and is going to register NOVATEK and its core Russian producing subsidiaries as a consolidated group of taxpayers for 2012 and thereafter.

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

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

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

26 INCOME TAX (CONTINUED)

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

	At 31 December: 2011	2010
Long-term deferred income tax asset (other non-current assets)	660	1,392
Long-term deferred income tax liability	(12,805)	(9,473)
Net deferred income tax liability	**(12,145)**	**(8,081)**

Deferred income tax assets expected to be realized within twelve months of 31 December 2011 and 2010 were RR 462 million and RR 747 million, respectively. Deferred tax liabilities expected to be reversed within twelve months of 31 December 2011 and 2010 were RR 199 million and RR 258 million, respectively.

Movements in deferred income tax assets and liabilities during the years ended 31 December 2011 and 2010 are as follows:

	At 31 December 2011	Statement of Income effect	Acquisitions	Disposals	At 31 December 2010
Property, plant and equipment	(14,388)	(3,426)	-	138	(11,100)
Intangible assets	(324)	23	(265)	-	(82)
Other	(180)	(20)	(13)	-	(147)
Total deferred income tax liabilities	(14,892)	(3,423)	(278)	138	(11,329)
Inventories	654	(167)	-	(83)	904
Tax losses carried forward	1,375	603	16	(519)	1,275
Asset retirement obligation	547	131	-	(80)	496
Other	171	(411)	11	(2)	573
Total deferred income tax assets	2,747	156	27	(684)	3,248
Net deferred income tax liabilities	**(12,145)**	**(3,267)**	**(251)**	**(546)**	**(8,081)**

	At 31 December 2010	Statement of Income effect	Acquisitions	Disposals	At 31 December 2009
Property, plant and equipment	(11,100)	(2,050)	(70)	282	(9,262)
Intangible assets	(82)	-	(82)	-	-
Other	(147)	(67)	-	11	(91)
Total deferred income tax liabilities	(11,329)	(2,117)	(152)	293	(9,353)
Inventories	904	(14)	299	102	517
Tax losses carried forward	1,275	487	38	(181)	931
Asset retirement obligation	496	12	38	-	446
Other	573	233	(49)	(109)	498
Total deferred income tax assets	3,248	718	326	(188)	2,392
Net deferred income tax liabilities	**(8,081)**	**(1,399)**	**174**	**105**	**(6,961)**

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

26 INCOME TAX (CONTINUED)

At 31 December 2011, the Group had recognized deferred income tax assets of RR 1,375 million (31 December 2010: RR 1,275 million) in respect of unused tax loss carry forwards of RR 6,875 million (31 December 2010: RR 6,375 million). Tax losses can be carried forward for relief against taxable profits for 10 years after they are incurred, subject to certain limitations. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

Financial assets	***Loans and receivables*** At 31 December: 2011	2010
Non-current		
Long-term loans receivable	9,323	38,057
Trade and other receivables	22,807	2,094
Current		
Trade and other receivables	16,699	8,670
Prepayments and other current assets	6,876	969
Cash and cash equivalents	23,831	10,238
Total carrying amount	**79,536**	**60,028**

Financial liabilities	***Measured at amortized cost*** At 31 December: 2011	2010
Non-current		
Long-term debt	75,180	47,074
Other non-current liabilities	-	110
Current		
Current portion of long-term debt	20,298	6,952
Short-term debt	-	18,200
Trade and other payables	22,811	27,007
Total carrying amount	**118,289**	**99,343**

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

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

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

(a) Foreign exchange risk

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

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

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

At 31 December 2011	Russian rouble	US dollar	Other	Total
Financial assets				
Non-current				
Long-term loans receivable	9,103	220	-	9,323
Trade and other receivables	22,761	14	32	22,807
Current				
Trade and other receivables	8,692	7,618	389	16,699
Prepayments and other current assets	6,859	-	17	6,876
Cash and cash equivalents	10,774	12,113	944	23,831
Financial liabilities				
Non-current				
Long-term debt	(24,937)	(50,243)	-	(75,180)
Current				
Current portion of long-term debt	(10,000)	(10,298)	-	(20,298)
Trade and other payables	(4,949)	(17,799)	(63)	(22,811)
Net exposure at 31 December 2011	**18,303**	**(58,375)**	**1,319**	**(38,753)**

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

The sensitivity analysis depicted in the table below reflects the hypothetical loss that would occur assuming a 10 percent change in exchange rates and no changes in the portfolio of instruments and other variables at 31 December 2011 and 2010, respectively:

		Year ended 31 December:	
Effect on pre-tax profit	Increase in exchange rate	2011	2010
RUR / USD	10%	(5,838)	(3,394)

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

(b) Commodity price risk

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

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

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

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

(c) Cash flow and fair value interest rate risk

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

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

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

	At 31 December:	
	2011	**2010**
At variable rate	20,559	37,327
At fixed rate	74,919	34,899
Total debt	**95,478**	**72,226**

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

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

Effect on pre-tax profit	Year ended 31 December: 2011	2010
Increase by 100 basis points	206	373

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

The Group is examining various ways to manage its cash flow interest rate risk by using a combination of floating and fixed interest rates. No swaps or other similar instruments were in place as of 31 December 2011 and 2010, or during 2011 and 2010.

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

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

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

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

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

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

Moody's and/or Fitch	At 31 December: 2011	2010
Investment grade rating	9,059	4,489
Non-investment grade rating	1,581	1,338
No external rating	6,059	2,843
Total trade and other receivables	**16,699**	**8,670**

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

Moody's and/or Fitch	At 31 December: 2011	2010
Investment grade rating	19,381	8,008
Non-investment grade rating	4,358	1,781
No external rating	92	449
Total cash and cash equivalents	**23,831**	**10,238**

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

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

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

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

At 31 December 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
Principal (*)	10,000	25,000	19,318	20,927	75,245
Interest	4,748	3,825	6,298	5,655	20,526
Debt at variable rate					
Principal (*)	10,303	10,302	-	-	20,605
Interest	366	135	-	-	501
Trade and other payables	22,811	-	-	-	22,811
Total financial liabilities	**48,228**	**39,262**	**25,616**	**26,582**	**139,688**

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

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

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

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

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

28 CONTINGENCIES AND COMMITMENTS

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

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

Commitments. At 31 December 2011, the Group had contractual capital expenditures commitments aggregating approximately RR 17,805 million (at 31 December 2010: RR 9,834 million) mainly for ongoing development activities at the Yurkharovskoye field (through 2013), development of the North-Russkoe field (through 2013) and Urengoiskoye field (within the Olimpiyskiy license area, through 2013), phase three construction of the Purovsky Gas Condensate Plant (through 2013), construction of the terminal for the transshipment and fractionation of stable gas condensate (through 2012) and development of the East-Tarkosalinskoye and Khancheyskoye fields (through 2012) all in accordance with duly signed agreements. Furthermore, the Group's share in capital commitments for its interests in joint ventures aggregates approximately RR 5,850 million for development of the South-Tambeyskoye (through 2013), Urengoiskoye (within the Samburgskiy license area, through 2012) and Termokarstovoye (through 2013) fields (at 31 December 2010: RR 2,661 million).

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

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

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

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

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

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

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

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

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

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

29 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

The principal subsidiaries and joint ventures of the Group and respective ownership in the ordinary share capital at 31 December 2011 and 2010 are set out below:

	Ownership percent at 31 December:		Country of	Principal
	2011	2010	incorporation	activities
Subsidiaries				
OOO NOVATEK-Yurkharovneftegas	100	100	Russia	Exploration and production
OOO NOVATEK-Tarkosaleneftegas	100	100	Russia	Exploration and production
OOO NOVATEK-Purovsky ZPK	100	100	Russia	Gas Condensate Plant
OOO NOVATEK-Transervice	100	100	Russia	Transportation services
OOO NOVATEK-AZK	100	100	Russia	Wholesale and retail trading
OOO NOVATEK Severo-Zapad	100	100	Russia	Trading and marketing
OOO NOVATEK-Ust-Luga	100	100	Russia	Construction of sea terminal
OAO Tambeyneftegaz	100	100	Russia	Exploration and production
OOO Gazprom mezhregiongas Chelyabinsk	100	-	Russia	Trading and marketing
OOO NOVATEK-Chelyabinsk (formerly OOO Yamalgazresurs-Chelyabinsk)	100	100	Russia	Trading and marketing
OOO Yamalenergogaz	100	-	Russia	Trading and marketing
Novatek Gas & Power GmbH (formerly Runitek GmbH)	100	100	Switzerland	Trading and marketing
Novatek Polska	100	100	Poland	Trading and marketing
Joint ventures				
OOO Yamal Development	50	50	Russia	Holding company
OOO SeverEnergia (through OOO Yamal Development)	25.5	25.5	Russia	Exploration and production
OAO Sibneftegas	51	51	Russia	Exploration and production
OAO Yamal LNG (subsidiary until October 2011)	80	51	Russia	Exploration and production

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

30 RELATED PARTY TRANSACTIONS

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

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

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

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

Related parties – OAO Gazprom and its subsidiaries (until December 2010)	Year ended 31 December: 2011	2010
Transactions		
OAO Gazprom:		
Natural gas sales	-	12,935
Natural gas transportation to customers	-	(26,550)
OOO Gazprom mezhregiongaz (formerly OOO Mezhregiongaz):		
Natural gas sales	-	1,055
Other Gazprom subsidiaries:		
Processing fees	-	(458)
Unstable gas condensate transportation	-	(307)

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

Related parties – equity investments	As at and for the year ended 31 December: 2011	2010
Transactions		
OAO Sibneftegas (from December 2010):		
Interest income on loans issued	1,023	45
Oil and gas products sales	39	-
Purchases of natural gas	(3,661)	-
OOO Yamal Development (from November 2010):		
Interest income on loans issued	1,325	191
OOO SeverEnergia (from November 2010):		
Interest income on loans issued	247	-
OAO Yamal LNG (from October 2011):		
Interest income on loans issued	167	-

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

30 RELATED PARTY TRANSACTIONS (CONTINUED)

	As at and for the year ended 31 December:	
Related parties – equity investments	**2011**	**2010**
Balances		
OAO Sibneftegas (from December 2010):		
Long-term loans receivable	9,103	10,070
Interest on long-term loans receivable	775	33
Short-term loans receivable	634	967
Trade payables and accrued liabilities	387	-
OOO Yamal Development (from November 2010):		
Long-term loans and receivables	16,348	27,886
Interest on long-term loans receivable	-	191
OOO SeverEnergia (from November 2010):		
Short-term loans receivable	6,225	-
Interest on short-term loans receivable	94	-
ZAO Terneftegas (from February 2010):		
Long-term loans receivable	220	102

As discussed in Note 5, in October 2011, the Group's effective control over OAO Yamal LNG ceased; therefore, subsequent to that event, the Group's balances and transactions with this entity are disclosed as related parties – equity investments.

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

In September 2011, the Chairman of the Management Committee of NOVATEK acquired a controlling stake in ZAO SIBUR Holding. As a result, the Group's balances with this company and its subsidiaries at 31 December 2011 were disclosed as related parties – parties under control of key management personnel.

	As at and for the year ended 31 December:	
Related parties – parties under control of key management personnel	**2011**	**2010**
Balances		
OAO Pervobank:		
Cash and cash equivalents	4,066	1,760
ZAO SIBUR Holding and its subsidiaries (from September 2011):		
Long-term receivable	1,424	-
Trade and other receivables	248	-

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

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

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

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

30 RELATED PARTY TRANSACTIONS (CONTINUED)

	Year ended 31 December:	
Related parties – members of the key management personnel	**2011**	**2010**
Board of Directors	103	93
Management Committee	1,242	1,049
Total compensation	**1,345**	**1,142**

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

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

In addition, RR 68 million was recognized during the year ended 31 December 2010 as part of the share-based compensation scheme and included in general and administrative expenses. In May 2010, share-based compensation to the key members of the Group's management team was fully recognized.

31 SEGMENT INFORMATION

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

- Exploration, production and marketing – acquisitions, exploration, development, production, processing, marketing and transportation of natural gas, gas condensate and related products; and
- Polymer products production and marketing – production and marketing of polymer insulation tape and other polymer products (disposed in September 2010).

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

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

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

31 SEGMENT INFORMATION (CONTINUED)

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

For the year ended 31 December 2011	**References**	**Exploration, production and marketing**	**Segment information as reported to CODM**	**Reconciling items**	**Total per consolidated financial statements**
External revenues	*a*	176,340	176,340	(276)	176,064
Operating expenses	*b, c, d, e*	(101,659)	(101,659)	3,994	(97,665)
Other operating income (loss)	*c, f*	12,950	12,950	50,259	63,209
Interest expense	*g*	(5,392)	(5,392)	3,242	(2,150)
Interest income		3,137	3,137	255	3,392
Foreign exchange gain (loss)	*g*	(4,368)	(4,368)	423	(3,945)
Segment result		**81,008**	**81,008**	**57,897**	**138,905**
Share of loss of equity investments, net of income tax					(3,880)
Profit before income tax					**135,025**
Depreciation, depletion and amortization	*b, c*	12,925	12,925	(3,450)	9,475
Capital expenditures	*g*	30,510	30,510	7,521	38,031

Reconciling items mainly related to:

a. different methodology of liquefied petroleum gas sales recognition under IFRS and the RAR which requires reversal of external revenues for RR 207 million under IFRS;

b. different methodology in calculating depreciation, depletion and amortization for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method), which resulted in reversal of RR 3,892 million in operating expenses under IFRS;

c. different methodology in the classification of depreciation, depletion and amortization for operating assets, which have not completed their statutory registration, between IFRS and management accounting, which resulted in the reclassification of RR 280 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS;

d. different methodology in recognizing expenses relating to natural gas storage services and payroll (including share-based payments, pension obligation, discounting loans to employee and bonus accruals) between IFRS and management accounting, which resulted in additional transportation expenses of RR 37 million and additional payroll expenses of RR 233 million recorded in operating expenses under IFRS;

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

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

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

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

31 SEGMENT INFORMATION (CONTINUED)

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

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

Reconciling items mainly related to:

a. different methodology in calculating depreciation, depletion and amortization for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method), which resulted in reversal of RR 3,049 million in operating expenses under IFRS;

b. different methodology in the classification of depreciation, depletion and amortization for operating assets, which have not completed their statutory registration, between IFRS and management accounting, which resulted in the reclassification of RR 464 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS;

c. different methodology in recognizing expenses relating to natural gas storage services and payroll (incl. share-based payments, pension obligation, discounting loans to employee and bonus accruals) between IFRS and management accounting, which resulted in additional transportation expenses of RR 149 million and additional payroll expenses of RR 708 million recorded in operating expenses under IFRS;

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

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

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

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

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

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

31 SEGMENT INFORMATION (CONTINUED)

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

Geographical information for the years ended 31 December 2011 and 2010 is as follows:

For the year ended 31 December 2011	Russian Federation	Outside Russian Federation						Total
		Europe	USA	APR	Other	Export duty	Subtotal	
Natural gas	110,932	-	-	-	-	-	-	110,932
Stable gas condensate	46	28,265	17,920	35,642	-	(35,095)	46,732	46,778
Liquefied petroleum gas	5,520	12,023	-	-	10	(2,326)	9,707	15,227
Crude oil	1,458	2,143	-	-	-	(1,122)	1,021	2,479
Oil and gas products	186	-	-	-	-	-	-	186
Oil and gas sales	**118,142**	**42,431**	**17,920**	**35,642**	**10**	**(38,543)**	**57,460**	**175,602**
Other revenues	323	139	-	-	-	-	139	462
Total external revenues	**118,465**	**42,570**	**17,920**	**35,642**	**10**	**(38,543)**	**57,599**	**176,064**

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

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

Major customers. For the years ended 31 December 2011 and 2010, the Group has two and three major customer to whom individual revenues represent 30 percent and 42 percent of total external revenues, respectively.

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

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

32 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

	Year ended 31 December:	
	2011	**2010**
Net book value of assets value at 1 January	**6,372**	**2,535**
Additions	13,500	1,394
Acquisition of subsidiaries	-	7,894
Disposals	(1,921)	(821)
Reclassification in proved properties	(1,700)	(4,630)
Net book value of assets at 31 December	**16,251**	**6,372**
Liabilities	650	3,026
Cash flows used for operating activities	1,469	1,151
Cash flows used for investing activities	10,093	2,112

33 NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later, and which the Group has not early adopted.

IFRS 9, *Financial Instruments: Classification and Measurement.* IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised 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 amortised 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 recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

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

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

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

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

33 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

IFRS 13, *Fair value measurement,* (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its consolidated financial statements.

IAS 27, *Separate Financial Statements,* (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, *Consolidated Financial Statements*. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IAS 28, *Investments in Associates and Joint Ventures,* (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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

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

Amended IAS 19, *Employee Benefits* (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

33 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES

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

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

Oil and Gas Exploration and Development Costs

The following tables set forth information regarding oil and gas acquisition, exploration and development activities. The amounts reported as costs incurred include both capitalized costs and costs charged to expense during the years ended 31 December 2011 and 2010 (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2011	2010
Costs incurred in exploration and development activities		
Acquisition cost	-	7,694
Acquisition of unproved properties	7,448	76
Exploration costs	2,447	2,042
Development costs	23,098	22,047
Total costs incurred in exploration and development activities	**32,993**	**31,859**
The share of the Group in its equity investees	2,051	78,300

	At 31 December:	
	2011	2010
Capitalized costs relating to oil and gas producing activities		
Wells and related equipment and facilities	145,063	163,130
Support equipment and facilities	30,717	29,222
Uncompleted wells, equipment and facilities	12,862	10,277
Total capitalized costs relating to oil and gas producing activities	188,642	202,629
Less: accumulated depreciation, depletion and amortization	(35,540)	(26,698)
Net capitalized costs relating to oil and gas producing activities	**153,102**	**175,931**
The share of the Group in its equity investees	150,449	78,220

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

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Results of Operations for Oil and Gas Producing Activities

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

	Year ended 31 December:	
	2011	2010
Revenues from oil and gas sales	163,765	115,008
Lifting costs	(5,236)	(4,854)
Transportation expenses	(46,064)	(37,187)
Taxes other than income tax	(17,287)	(9,831)
Depreciation, depletion and amortization	(8,878)	(6,384)
Exploration expenses	(1,819)	(1,595)
Total production costs	**(79,284)**	**(59,851)**
Results of operations for oil and gas producing activities before income tax	84,481	55,157
Less: related income tax expense	(16,896)	(11,031)
Results of operations for oil and gas producing activities	**67,585**	**44,126**

Proved Oil and Gas Reserves

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

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

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

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

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2011 and 2010.

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

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

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

Net reserves exclude quantities due to others when produced.

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

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

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Net proved reserves of natural gas are presented below.

	Net proved reserves		Group's share in equity companies		Total net proved reserves	
	Billions of cubic feet	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*
Reserves at 31 December 2009	**40,726**	**1,153**	**-**	**-**	**40,726**	**1,153**
Changes attributable to:						
Revisions of previous estimates	(54)	(1)	-	-	(54)	(1)
Extension and discoveries	3,097	88	-	-	3,097	88
Acquisitions	-	-	5,613	158	5,613	158
Disposals	(426)	(12)	-	-	(426)	(12)
Reclassifications	(444)	(13)	444	13	-	-
Production	(1,314)	(37)	-	-	(1,314)	(37)
Reserves at 31 December 2010	**41,585**	**1,178**	**6,057**	**171**	**47,642**	**1,349**
Changes attributable to:						
Revisions of previous estimates	(106)	(3)	370	11	264	8
Extension and discoveries	3,398	97	676	19	4,074	116
Disposals	(3,331)	(95)	-	-	(3,331)	(95)
Reclassifications	(13,323)	(377)	13,323	377	-	-
Production	(1,676)	(48)	(190)	(5)	(1,866)	(53)
Reserves at 31 December 2011	**26,547**	**752**	**20,236**	**573**	**46,783**	**1,325**
Net proved developed reserves (included above)						
At 31 December 2009	20,612	584	-	-	20,612	584
At 31 December 2010	22,515	638	2,536	71	25,051	709
At 31 December 2011	20,763	588	2,348	66	23,111	654
Net proved undeveloped reserves (included above)						
At 31 December 2009	20,114	569	-	-	20,114	569
At 31 December 2010	19,070	540	3,521	100	22,591	640
At 31 December 2011	5,784	164	17,888	507	23,672	671

The net proved reserves reported in the table above included reserves of natural gas attributable to non-controlling interest of 120 billion of cubic feet and 4 billion of cubic meters and 7,227 billion of cubic feet and 205 billion of cubic meters at 31 December 2011 and 2010, respectively.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

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

	Net proved reserves		Group's share in equity companies		Total net proved reserves	
	Millions of barrels	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*
Reserves at 31 December 2009	**589**	**70**	**-**	**-**	**589**	**70**
Changes attributable to:						
Revisions of previous estimates	(12)	(1)	-	-	(12)	(1)
Extension and discoveries	60	8	-	-	60	8
Acquisitions	-	-	83	10	83	10
Disposals	(20)	(2)	-	-	(20)	(2)
Reclassifications	(20)	(3)	20	3	-	-
Production	(31)	(4)	-	-	(31)	(4)
Reserves at 31 December 2010	**566**	**68**	**103**	**13**	**669**	**81**
Changes attributable to:						
Revisions of previous estimates	10	1	4	1	14	2
Extension and discoveries	116	14	38	4	154	18
Disposals	(34)	(4)	-	-	(34)	(4)
Reclassifications	(138)	(16)	138	16	-	-
Production	(35)	(4)	-	-	(35)	(4)
Reserves at 31 December 2011	**485**	**59**	**283**	**34**	**768**	**93**
Net proved developed reserves (included above)						
At 31 December 2009	272	33	-	-	272	33
At 31 December 2010	304	36	-	-	304	36
At 31 December 2011	282	33	-	-	282	33
Net proved undeveloped reserves (included above)						
At 31 December 2009	317	37	-	-	317	37
At 31 December 2010	262	32	103	13	365	45
At 31 December 2011	203	26	283	34	486	60

The net proved reserves reported in the table above included reserves of crude oil, gas condensate and natural gas liquids attributable to non-controlling interest of 16 million of barrels and 2 million of metric tons and 65 million of barrels and 8 million of metric tons at 31 December 2011 and 2010, respectively.

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

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

In February 2010, the Group's effective control over ZAO Terneftegas, the holder of the Termokarstovoye field, ceased. As a result, the Group's interest in Terneftegas is accounted for using the equity method.

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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