**OAO NOVATEK**

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

**AS OF AND FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2012**

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## *Report on review of consolidated interim condensed financial information*

To the shareholders and Board of Directors of OAO NOVATEK

**Introduction**

1. We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO NOVATEK and its subsidiaries (the "Group") as of 30 June 2012 and the related consolidated interim condensed statements of income and comprehensive income for the three and six months then ended, and the related consolidated interim condensed statements of cash flows and changes in equity for the six months then ended. Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

**Scope of Review**

2. We conducted our review in accordance with International Standard on Review Engagements No. 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
9 August 2012

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**OAO NOVATEK**
**Consolidated Interim Condensed Statement of Financial Position (unaudited)**
(in millions of Russian roubles)

| | Notes | At 30 June 2012 | At 31 December 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | 181,229 | 166,784 |
| Investments in joint ventures | 5 | 144,327 | 123,029 |
| Long-term loans and receivables | 6 | 11,904 | 32,130 |
| Other non-current assets | | 3,492 | 3,173 |
| **Total non-current assets** | | **340,952** | **325,116** |
| **Current assets** | | | |
| Inventories | | 2,189 | 1,683 |
| Current income tax prepayments | | 4,776 | 1,153 |
| Trade and other receivables | | 12,137 | 16,699 |
| Prepayments and other current assets | 7 | 9,996 | 14,950 |
| Cash and cash equivalents | 8 | 15,849 | 23,831 |
| **Total current assets** | | **44,947** | **58,316** |
| **Total assets** | | **385,899** | **383,432** |
| **LIABILITIES AND EQUITY** | | | |
| **Non-current liabilities** | | | |
| Long-term debt | 9 | 70,816 | 75,180 |
| Deferred income tax liabilities | | 13,632 | 12,805 |
| Other non-current liabilities | | 786 | 917 |
| Asset retirement obligations | | 2,579 | 2,734 |
| **Total non-current liabilities** | | **87,813** | **91,636** |
| **Current liabilities** | | | |
| Short-term debt and current portion of long-term debt | 10 | 22,851 | 20,298 |
| Trade payables and accrued liabilities | 11 | 9,913 | 24,922 |
| Current income tax payable | | 86 | 611 |
| Other taxes payable | | 2,710 | 4,283 |
| **Total current liabilities** | | **35,560** | **50,114** |
| **Total liabilities** | | **123,373** | **141,750** |
| **Equity attributable to OAO NOVATEK shareholders** | | | |
| Ordinary share capital | | 393 | 393 |
| Treasury shares | | (281) | (281) |
| Additional paid-in capital | | 31,220 | 31,220 |
| Currency translation differences | | 264 | 193 |
| Asset revaluation surplus on acquisitions | | 5,617 | 5,617 |
| Retained earnings | | 224,159 | 203,871 |
| **Total equity attributable to OAO NOVATEK shareholders** | 12 | **261,372** | **241,013** |
| **Non-controlling interest** | | **1,154** | **669** |
| **Total equity** | | **262,526** | **241,682** |
| **Total liabilities and equity** | | **385,899** | **383,432** |

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

Approved for issue and signed on behalf of the Board of Directors on 9 August 2012:

L. Mikhelson
General Director

M. Gyetvay
Financial Director

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

| | Notes | Three months ended 30 June: 2012 | Three months ended 30 June: 2011 | Six months ended 30 June: 2012 | Six months ended 30 June: 2011 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Oil and gas sales | 14 | 44,984 | 40,551 | 99,136 | 85,377 |
| Other revenues | | 161 | 75 | 382 | 143 |
| **Total revenues** | | **45,145** | **40,626** | **99,518** | **85,520** |
| **Operating expenses** | | | | | |
| Transportation expenses | 15 | (13,035) | (11,088) | (29,414) | (22,993) |
| Taxes other than income tax | 16 | (4,375) | (4,046) | (8,988) | (8,366) |
| Purchases of natural gas and liquid hydrocarbons | 17 | (3,423) | (932) | (6,774) | (1,895) |
| Depreciation, depletion and amortization | 4 | (2,483) | (1,987) | (5,028) | (4,016) |
| General and administrative expenses | | (2,594) | (2,117) | (4,990) | (4,112) |
| Materials, services and other | | (1,836) | (1,540) | (3,422) | (2,822) |
| Exploration expenses | | 597 | (273) | (299) | (999) |
| Net impairment expenses | | (39) | (619) | (64) | (631) |
| Change in natural gas, liquid hydrocarbons and work-in-progress | | 408 | 128 | 348 | (83) |
| **Total operating expenses** | | **(26,780)** | **(22,474)** | **(58,631)** | **(45,917)** |
| Other operating income (loss) | | (36) | (80) | 5 | (27) |
| **Profit from operations** | | **18,329** | **18,072** | **40,892** | **39,576** |
| **Finance income (expense)** | | | | | |
| Interest expense | 18 | (663) | (503) | (1,453) | (1,158) |
| Interest income | 18 | 365 | 810 | 899 | 1,729 |
| Foreign exchange gain (loss) | | (5,299) | 766 | 581 | 3,240 |
| **Total finance income (expense)** | | **(5,597)** | **1,073** | **27** | **3,811** |
| Share of profit (loss) of joint ventures, net of income tax | 5 | (521) | (1,076) | (1,512) | (1,686) |
| **Profit before income tax** | | **12,211** | **18,069** | **39,407** | **41,701** |
| **Income tax expense** | | | | | |
| Current income tax expense | | (2,179) | (3,741) | (8,007) | (7,610) |
| Net deferred income tax expense | | (375) | (113) | (504) | (1,160) |
| **Total income tax expense** | 19 | **(2,554)** | **(3,854)** | **(8,511)** | **(8,770)** |
| **Profit (loss)** | | **9,657** | **14,215** | **30,896** | **32,931** |
| Profit (loss) attributable to: | | | | | |
| Non-controlling interest | | (6) | (121) | (12) | (174) |
| **Shareholders of OAO NOVATEK** | | **9,663** | **14,336** | **30,908** | **33,105** |
| Basic and diluted earnings per share (in Russian roubles) | | 3.18 | 4.73 | 10.19 | 10.91 |
| *Weighted average number of shares outstanding (in thousands)* | | *3,034,338* | *3,033,184* | *3,034,338* | *3,033,184* |

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

(in millions of Russian roubles)

| | Three months ended 30 June: | | Six months ended 30 June: | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **Other comprehensive income (loss) after income tax:** | | | | |
| Currency translation differences | 537 | 11 | 71 | (186) |
| **Other comprehensive income (loss)** | **537** | **11** | **71** | **(186)** |
| **Profit (loss)** | **9,657** | **14,215** | **30,896** | **32,931** |
| **Total comprehensive income (loss)** | **10,194** | **14,226** | **30,967** | **32,745** |
| Total comprehensive income (loss) attributable to: | | | | |
| Non-controlling interest | (6) | (121) | (12) | (174) |
| **Shareholders of OAO NOVATEK** | **10,200** | **14,347** | **30,979** | **32,919** |

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

**OAO NOVATEK**
**Consolidated Interim Condensed Statement of Cash Flows (unaudited)**
(in millions of Russian roubles)

| | | Six months ended 30 June: | |
|---|---|---|---|
| | | **2012** | **2011** |
| **Profit before income tax** | | **39,407** | **41,701** |
| **Adjustments to profit before income tax:** | | | |
| Depreciation, depletion and amortization | | 5,175 | 4,084 |
| Net impairment expenses | | 64 | 631 |
| Net foreign exchange loss (gain) | | (581) | (3,240) |
| Net loss (gain) on disposal of assets | | 41 | 115 |
| Interest expense | | 1,453 | 1,158 |
| Interest income | | (899) | (1,729) |
| Share of loss (profit) in joint ventures, net of income tax | | 1,512 | 1,686 |
| Net change in other non-current assets and long-term receivables | | 189 | 526 |
| Other adjustments | | (188) | (30) |
| **Working capital changes** | | | |
| Decrease (increase) in trade and other receivables, prepayments and other current assets | | 2,997 | (3,177) |
| Decrease (increase) in inventories | | (515) | 78 |
| Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable | | (1,108) | 793 |
| Increase (decrease) in other taxes payable | | (1,123) | 728 |
| **Total effect of working capital changes** | | **251** | **(1,578)** |
| Income taxes paid | | (12,601) | (9,001) |
| **Net cash provided by operating activities** | | **33,823** | **34,323** |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | (15,528) | (10,555) |
| Prepayments for participation in tender for mineral licenses | | - | (6,870) |
| Purchases of inventories intended for construction | | (756) | (227) |
| Acquisition of subsidiaries net of cash acquired | | (109) | (3,098) |
| Capital contribution to joint ventures | 6 | (2,507) | (21,176) |
| Proceeds from disposals of subsidiaries net of cash disposed | | 105 | 124 |
| Interest paid and capitalized | | (1,047) | (1,594) |
| Loans provided | | (848) | (4,575) |
| Repayments of loans provided | | 7,592 | 4,419 |
| Interest received | | 396 | 475 |
| **Net cash (used for) provided by investing activities** | | **(12,702)** | **(43,077)** |
| **Cash flows from financing activities** | | | |
| Proceeds from long-term debt | | 9,889 | 44,895 |
| Proceeds from short-term debt | | - | 3,700 |
| Repayments of long-term debt | | (15,535) | (6,635) |
| Repayments of short-term debt | | - | (21,321) |
| Interest paid | | (1,294) | - |
| Dividends paid | 12 | (10,620) | (7,581) |
| Acquisition of non-controlling interest | | (16,290) | - |
| Capital contributions to the Group’s subsidiaries by non-controlling shareholders | | 497 | - |
| **Net cash (used for) provided by financing activities** | | **(33,353)** | **13,058** |
| Net effect of exchange rate changes on cash, cash equivalents and bank overdrafts | | 1,239 | (312) |
| **Net increase (decrease) in cash, cash equivalents and bank overdrafts** | | **(10,993)** | **3,992** |
| Cash and cash equivalents at beginning of the period | | 23,831 | 10,238 |
| **Cash, cash equivalents and bank overdrafts at end of the period** | | **12,838** | **14,230** |

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

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

| | *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 six months ended 30 June 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 | - | - | - | - | - | (186) | - | (186) | - | (186) |
| Profit (loss) | - | - | - | - | - | - | 33,105 | 33,105 | (174) | 32,931 |
| **Total comprehensive income (loss)** | **-** | **-** | **-** | **-** | **-** | **(186)** | **33,105** | **32,919** | **(174)** | **32,745** |
| Dividends (Note 12) | - | - | - | - | - | - | (7,583) | (7,583) | - | (7,583) |
| Equity call option reclassification | - | - | - | - | - | - | 284 | 284 | - | 284 |
| Impact of additional shares subscription in subsidiaries on non-controlling interest | - | - | - | - | - | - | - | - | 286 | 286 |
| **30 June 2011** | ***3,033,184*** | **393** | **(446)** | **30,865** | **5,617** | **(306)** | **136,616** | **172,739** | **20,779** | **193,518** |

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

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

| | *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 six months ended 30 June 2012*** | | | | | | | | | | |
| **1 January 2012** | ***3,034,338*** | **393** | **(281)** | **31,220** | **5,617** | **193** | **203,871** | **241,013** | **669** | **241,682** |
| Currency translation differences | - | - | - | - | - | 71 | - | 71 | - | 71 |
| Profit (loss) | - | - | - | - | - | - | 30,908 | 30,908 | (12) | 30,896 |
| **Total comprehensive income (loss)** | **-** | **-** | **-** | **-** | **-** | **71** | **30,908** | **30,979** | **(12)** | **30,967** |
| Dividends (Note 12) | - | - | - | - | - | - | (10,620) | (10,620) | - | (10,620) |
| Impact of additional shares subscription in subsidiaries on non-controlling interest | - | - | - | - | - | - | - | - | 497 | 497 |
| **30 June 2012** | ***3,034,338*** | **393** | **(281)** | **31,220** | **5,617** | **264** | **224,159** | **261,372** | **1,154** | **262,526** |

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

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

## 1 ORGANIZATION AND PRINCIPAL ACTIVITIES

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

The Group sells its natural gas on the Russian domestic market at unregulated market prices (except for deliveries to residential customers); however, the majority of natural gas sold on the domestic market is sold at prices regulated by the Federal 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 January and May 2012, the Group merged its wholly owned subsidiaries OOO YamalEnergoGaz and OOO Gazprom mezhregiongas Chelyabinsk into its wholly owned subsidiaries OOO NOVATEK-Perm and OOO NOVATEK-Chelyabinsk, respectively. The mergers did not affect the Group's consolidated financial and operational results.

## 2 BASIS OF PRESENTATION

The consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting* and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2011 prepared in accordance with International Financial Reporting Standards ("IFRS").

***Use of estimates and judgments.*** The critical accounting estimates and judgments followed by the Group in the preparation of consolidated interim condensed financial information are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2011. Estimates have principally been made in respect to useful lives of property, plant and equipment, fair values of assets and liabilities, deferred income taxes, estimation of oil and gas reserves, impairment provisions, pension obligations and assets retirement obligations.

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

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

| | | | **Average rate for the six months ended 30 June:** | |
|---|---|---|---|---|
| ***Russian roubles to one currency unit*** | **At 30 June 2012** | **At 31 December 2011** | **2012** | **2011** |
| US dollar ("USD") | 32.82 | 32.20 | 30.64 | 28.62 |
| Polish zloty ("PLN") | 9.71 | 9.47 | 9.37 | 10.16 |

## 2 BASIS OF PRESENTATION (CONTINUED)

***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.

***Comparative figures adjustment.*** The following adjustment has been made to the comparative figures to reflect the final fair value assessment of the identifiable assets and liabilities of OAO Sibneftegas, the Group's joint venture, after its acquisition in December 2010. At the acquisition date, the Group recorded the preliminary fair values for oil and gas properties and equipment, which were used as the basis for depreciation through the nine months of 2011. In December 2011, the Group completed an independent valuation of the fair values of Sibneftegas's identifiable net assets. Revisions made to the preliminary assessment were reflected as of the acquisition date and accordingly, the Group's share of profit (loss) of joint ventures, net of income tax, and as a result, profit attributable to shareholders of OAO NOVATEK for the three and six months ended 30 June 2011 was decreased by RR 85 million and RR 169 million, respectively, to reflect the revised depreciation of Sibneftegas' assets.

***Reclassifications.*** Certain reclassifications have been made to the comparative figures to conform to the current period presentation with no effect on profit for the period or equity.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies and methods of computation followed by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2011 except as described below.

As a result of an increase in the use of three-dimensional ("3-D") seismic surveys, and as allowed under the successful efforts method of accounting for oil and gas activities, in the three months ended 30 June 2012, the Group capitalized the cost of 3-D seismic surveys used to assist production, increase total recoverability and determine the desirability of drilling additional development wells within its proved reservoirs in the amount of RR 1,479 million for the six months ended 30 June 2012. Of this amount, RR 748 million was previously recognized as exploration expenses in the three months ended 31 March 2012 and if this amount was capitalized in that period, profit before income tax would have been higher by a corresponding amount. In 2011, 3-D seismic surveys were not material.

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

## 4 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment, for the six months ended 30 June 2012 and 2011 are as follows:

| *For the six months ended 30 June 2011* | Operating assets | Assets under construction and advances for construction | Total |
|---|---|---|---|
| Cost | 197,647 | 16,022 | 213,669 |
| Accumulated depreciation, depletion and amortization | (28,096) | - | (28,096) |
| **Net book value at 1 January 2011** | **169,551** | **16,022** | **185,573** |
| Additions | 1,289 | 12,664 | 13,953 |
| Transfers | 9,850 | (9,850) | - |
| Depreciation, depletion and amortization | (4,077) | - | (4,077) |
| Impairment | (509) | (107) | (616) |
| Disposals, net | (209) | (435) | (644) |
| Cost | 207,943 | 18,294 | 226,237 |
| Accumulated depreciation, depletion and amortization | (32,048) | - | (32,048) |
| **Net book value at 30 June 2011** | **175,895** | **18,294** | **194,189** |

| *For the six months ended 30 June 2012* | Operating assets | Assets under construction and advances for construction | Total |
|---|---|---|---|
| Cost | 186,391 | 17,647 | 204,038 |
| Accumulated depreciation, depletion and amortization | (37,254) | - | (37,254) |
| **Net book value at 1 January 2012** | **149,137** | **17,647** | **166,784** |
| Additions | 1,823 | 17,966 | 19,789 |
| Transfers | 1,989 | (1,989) | - |
| Depreciation, depletion and amortization | (5,113) | - | (5,113) |
| Disposals, net | (40) | (191) | (231) |
| Cost | 190,028 | 33,433 | 223,461 |
| Accumulated depreciation, depletion and amortization | (42,232) | - | (42,232) |
| **Net book value at 30 June 2012** | **147,796** | **33,433** | **181,229** |

Included in additions to property, plant and equipment for the six months ended 30 June 2012 and 2011 are capitalized interest and foreign exchange differences of RR 1,206 million and RR 1,783 million, respectively.

Included within the operating assets balance at 30 June 2012 and 31 December 2011 are proved properties of RR 21,640 million and RR 22,355 million, net of accumulated depletion of RR 11,059 million and RR 10,300 million, respectively.

Included within the operating assets balance at 30 June 2012 and 31 December 2011 are unproved properties of RR 15,959 million and RR 14,061 million, respectively. Management believes these costs are recoverable and has plans to explore and develop the respective properties.

In October 2011, the Group ceased control of OAO Yamal LNG and has recorded a disposal aggregating RR 45,867 million 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 5).

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

## 5 INVESTMENTS IN JOINT VENTURES

| | At 30 June 2012 | At 31 December 2011 |
|---|---|---|
| ***Joint ventures:*** | | |
| OAO Yamal LNG | 95,210 | 89,549 |
| OOO Yamal Development (consolidated) | 24,277 | 8,100 |
| OAO Sibneftegas | 23,686 | 24,187 |
| ZAO Terneftegas | 1,154 | 1,193 |
| **Total investments in joint ventures** | **144,327** | **123,029** |

In April 2012, in accordance with the Shareholders' agreement the equity of Yamal LNG was increased through disproportional contribution by its participants totalling RR 17,046 million, of which RR 6,462 million was attributable to NOVATEK (see Note 6). As a result of disproportional contributions, the Group's shareholding did not change notably.

In February 2012, the charter capital of Yamal Development was increased by converting RR 32,697 million of loans provided to the company by its participants, of which RR 16,348 million was attributable to NOVATEK (see Note 6). In June 2011, the charter capital of Yamal Development was increased by converting RR 20 billion of the loans, provided to the company by its participants, of which RR 10 billion was attributable to NOVATEK. As a result of each transaction, the participants pro-rata increased their shares in the joint venture.

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

| | Six months ended 30 June: | |
|---|---|---|
| | 2012 | 2011 |
| **At 1 January** | **123,029** | **27,026** |
| Share of profit (loss) of joint ventures before income tax | (1,652) | (2,159) |
| Share of income tax (expense) benefit | 140 | 473 |
| **Share of profit (loss) of joint ventures, net of income tax** | **(1,512)** | **(1,686)** |
| Contribution to equity | 22,810 | 10,000 |
| Losses (reversals) recognized in excess of investments in joint ventures, reclassified to long-term loans receivable for these companies | - | (238) |
| **At 30 June** | **144,327** | **35,102** |

## 6 LONG-TERM LOANS AND RECEIVABLES

| | At 30 June 2012 | At 31 December 2011 |
|---|---|---|
| Russian rouble denominated loans | 9,073 | 9,737 |
| US dollar denominated loans | 539 | 220 |
| **Total** | **9,612** | **9,957** |
| Less: current portion of long-term loans | (454) | (634) |
| **Total long-term loans** | **9,158** | **9,323** |
| Long-term receivables | 1,597 | 22,027 |
| Long-term interest receivable | 1,149 | 780 |
| **Total long-term loans and receivables** | **11,904** | **32,130** |

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

## 6 LONG-TERM LOANS AND RECEIVABLES (CONTINUED)

***Russian rouble denominated loans***. At 30 June 2012 and 31 December 2011, the Russian rouble denominated loans included loans to OAO Sibneftegas, the Group's joint venture, in the amount of RR 9,073 million and RR 9,737 million, respectively (see Note 22). The loans had interest rates ranging from 9.5 percent to 10 percent per annum (weighted average interest rate of 9.9 percent at 30 June 2012) and are repayable until November 2014.

***Long-term receivables***. In November 2011, the shareholders of OAO Yamal LNG, the Group's joint venture, made a decision to increase its equity through a disproportional subscription to the entity's additional shares emissions in the aggregated amount of RR 17,046 million. The legal procedures to register the new charter were not completed at 31 December 2011 and, accordingly, the Group's share of RR 3,955 million paid in 2011 was recognized as long-term receivables. In January 2012, the Group paid the remaining RR 2,507 million. In April 2012, the new charter was formally registered (see Note 5).

In November 2011, the participants of OOO Yamal Development, the Group's joint venture, made a decision to pro-rata increase its equity by converting the part of the loan provided to the company in the amount of RR 32,697 million to equity. The legal procedures to register the new charter were not completed at 31 December 2011 and, accordingly, the Group's share of RR 16,348 million was recognized as long-term receivables. In February 2012, the new charter was formally registered (see Note 5).

No provisions for impairment of long-term loans and receivables were recognized in the consolidated interim condensed statement of financial position at 30 June 2012 and 31 December 2011.

## 7 PREPAYMENTS AND OTHER CURRENT ASSETS

| | At 30 June 2012 | At 31 December 2011 |
|---|---|---|
| ***Financial assets*** | | |
| Russian rouble denominated loans | 454 | 6,859 |
| Short-term bank deposits | - | 17 |
| ***Non-financial assets*** | | |
| Deferred export duties for stable gas condensate | 2,688 | 922 |
| Recoverable value-added tax | 2,002 | 1,550 |
| Deferred transportation expenses for natural gas | 1,617 | 1,139 |
| Prepayments and advances to suppliers (net of provision of RR 13 million and RR 12 million at 30 June 2012 and 31 December 2011, respectively) | 1,557 | 3,322 |
| Prepaid taxes other than income tax | 990 | 668 |
| Deferred transportation expenses for stable gas condensate | 640 | 413 |
| Other current assets | 48 | 60 |
| **Total prepayments and other current assets** | **9,996** | **14,950** |

At 31 December 2011, the Russian rouble denominated loans included a loan provided proportionally with other participants by NOVATEK to OOO SeverEnergia, the Group's related party, in the amount of RR 6,225 million (see Note 22). The loan bore an annual interest rate of MosPrime plus three percent and was fully repaid in March 2012.

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

## 8 CASH AND CASH EQUIVALENTS

Cash, cash equivalents and bank overdrafts include the following for the purposes of the consolidated interim condensed statement of cash flows:

| | At 30 June 2012 | At 31 December 2011 |
|---|---|---|
| Cash and cash equivalents per the statement of financial position | 15,849 | 23,831 |
| Less: bank overdrafts | (3,011) | - |
| **Cash, cash equivalents and bank overdrafts per the statement of cash flows** | **12,838** | **23,831** |

## 9 LONG-TERM DEBT

| | At 30 June 2012 | At 31 December 2011 |
|---|---|---|
| US dollar denominated bonds | 40,780 | 39,982 |
| Russian rouble denominated loans | 24,826 | 24,966 |
| US dollar denominated loans | 15,070 | 20,559 |
| Russian rouble denominated bonds | 9,980 | 9,971 |
| **Total** | **90,656** | **95,478** |
| Less: current portion of long-term debt | (19,840) | (20,298) |
| **Total long-term debt** | **70,816** | **75,180** |

At 30 June 2012 and 31 December 2011 the Group's long-term debt by facility is as follows:

| | At 30 June 2012 | At 31 December 2011 |
|---|---|---|
| Sberbank | 24,826 | 14,966 |
| Eurobonds – Ten-Year Tenor | 21,188 | 20,776 |
| Eurobonds – Five-Year Tenor | 19,592 | 19,206 |
| Russian rouble denominated bonds | 9,980 | 9,971 |
| Nordea Bank | 6,563 | 6,439 |
| Sumitomo Mitsui Banking Corporation Europe Limited | 5,883 | 7,685 |
| UniCredit Bank | 2,624 | 6,435 |
| Gazprombank | - | 10,000 |
| **Total** | **90,656** | **95,478** |

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

***Sberbank.*** In December 2010, the Group received a Russian rouble denominated loan from OAO Sberbank in the amount of RR 15 billion at an interest rate of 7.5% per annum. The loan is repayable in December 2013.

In December 2011, the Group obtained a RR 40 billion credit line facility from OAO Sberbank available to withdraw until March 2012 which was subsequently extended until June. In June 2012, the Group withdrew RR 10 billion under the facility at an interest rate of 8.9 percent per annum and repayable in December 2014, and extended the remaining proportion of the credit facility until December 2012.

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

## 9 LONG-TERM DEBT (CONTINUED)

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

***Sumitomo Mitsui Banking Corporation Europe Limited***. In April 2011, the Group obtained a US dollar denominated loan from Sumitomo Mitsui Banking Corporation Europe Limited in the amount of USD 300 million at an interest rate of LIBOR plus 1.45 percent per annum (1.91 percent and 2.03 percent at 30 June 2012 and 31 December 2011, respectively). The loan is payable until December 2013 and includes the maintenance of certain restrictive financial covenants.

***Nordea Bank.*** In November 2010, the Group obtained a US dollar denominated loan from OAO Nordea Bank in the amount of USD 200 million at an interest rate of LIBOR plus 1.9 percent per annum (2.14 percent and 2.18 percent at 30 June 2012 and 31 December 2011, respectively). The loan is repayable in November 2013 and includes the maintenance of certain restrictive financial covenants.

***UniCredit Bank.*** In October 2009, the Group obtained a US dollar denominated loan from ZAO UniCredit Bank in the amount of USD 200 million at an interest rate of LIBOR plus 3.25 percent per annum (3.49 percent and 3.52 percent at 30 June 2012 and 31 December 2011, respectively). The loan is repayable in October 2012 and includes the maintenance of certain restrictive financial covenants.

***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 a coupon rate of 7.5 percent per annum, payable semi-annually. The bonds are repayable in June 2013.

The fair values of long-term debt at 30 June 2012 and 31 December 2011 were as follows:

| | At 30 June 2012 | At 31 December 2011 |
|---|---|---|
| Sberbank | 24,170 | 14,539 |
| Eurobonds – Ten-Year Tenor | 23,283 | 21,150 |
| Eurobonds – Five-Year Tenor | 20,502 | 19,414 |
| Russian rouble denominated bonds | 9,950 | 10,000 |
| Nordea Bank | 6,409 | 6,256 |
| Sumitomo Mitsui Banking Corporation Europe Limited | 5,776 | 7,561 |
| UniCredit Bank | 2,602 | 6,439 |
| Gazprombank | - | 9,928 |
| **Total** | **92,692** | **95,287** |

Scheduled maturities of long-term debt at 30 June 2012 were as follows:

| *Maturity period:* | RR million |
|---|---|
| 1 July 2013 to 30 June 2014 | 20,185 |
| 1 July 2014 to 30 June 2015 | 9,851 |
| 1 July 2015 to 30 June 2016 | 19,592 |
| 1 July 2016 to 30 June 2017 | - |
| After 30 June 2017 | 21,188 |
| **Total long-term debt** | **70,816** |

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

## 10 SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

| | At 30 June 2012 | At 31 December 2011 |
|---|---|---|
| US dollar denominated bank overdrafts | 3,011 | - |
| **Total** | **3,011** | **-** |
| Add: current portion of long-term debt | 19,840 | 20,298 |
| **Total short-term debt and current portion of long-term debt** | **22,851** | **20,298** |

***Available credit facilities.*** The Group's available credit facilities at 30 June 2012 were as follows:

| | | Expiring | |
|---|---|---|---|
| | Par value | Within one year | Between 1 and 2 years |
| BNP PARIBAS Bank [(a)] | USD 100 million | 3,282 | - |
| Credit Agricole Corporate and Investment Bank [(a)] | USD 100 million | 3,282 | - |
| UniCredit Bank [(a)] | USD 270 million | 8,861 | - |
| Sberbank [(a)] | RR 30 billion | 30,000 | - |
| **Total available credit facilities** | | **45,425** | **-** |

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

The Group also maintained available funds under short-term credit lines in the form of bank overdrafts with various international banks for RR 4,797 million (USD 83 million and EUR 50 million) and RR 6,278 million (USD 195 million) at 30 June 2012 and 31 December 2011, respectively, on variable interest rates subject to the specific type of credit facility.

## 11 TRADE PAYABLES AND ACCRUED LIABILITIES

| | At 30 June 2012 | At 31 December 2011 |
|---|---|---|
| ***Financial liabilities*** | | |
| Trade payables | 6,645 | 5,187 |
| Interest payable | 1,024 | 1,009 |
| Other payables | 87 | 16,615 |
| ***Non-financial liabilities*** | | |
| Advances from customers | 627 | 743 |
| Salary payables | 1,350 | 1,124 |
| Other liabilities | 180 | 244 |
| **Trade payables and accrued liabilities** | **9,913** | **24,922** |

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

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

## 12 SHAREHOLDERS' EQUITY

***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 30 June 2012 and 31 December 2011, the Group held 196,853 GDRs (1,969 thousand ordinary shares) at a total cost of RR 281 million. The Group has decided that these GDRs do not vote.

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

| | Six months ended 30 June: | |
|---|---|---|
| | **2012** | **2011** |
| Dividends payable at 1 January | - | - |
| Dividends declared (*) | 10,620 | 7,583 |
| Dividends paid (*) | (10,620) | (7,581) |
| **Dividends payable at 30 June** | **-** | **2** |
| Dividends per share declared during the period (in Russian roubles) | 3.50 | 2.50 |
| Dividends per GDR declared during the period (in Russian roubles) | 35.0 | 25.0 |

(*) – excluding treasury shares.

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

| | Three months ended 30 June: | | Six months ended 30 June: | |
|---|---|---|---|---|
| ***Expenses (reversals) included in*** | **2012** | **2011** | **2012** | **2011** |
| General and administrative expenses | (55) | 42 | 64 | 130 |

| ***Liabilities included in*** | **At 30 June 2012** | **At 31 December 2011** |
|---|---|---|
| Other non-current liabilities | - | 226 |
| Trade payables and accrued liabilities | 180 | 244 |
| **Total share-based compensation program liabilities** | **180** | **470** |

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

## 14 OIL AND GAS SALES

| | Three months ended 30 June: | | Six months ended 30 June: | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Natural gas | 29,272 | 24,325 | 66,577 | 52,655 |
| Stable gas condensate | 10,623 | 11,868 | 22,246 | 24,060 |
| Liquefied petroleum gas | 3,955 | 3,775 | 8,102 | 7,522 |
| Crude oil | 1,027 | 530 | 2,051 | 1,045 |
| Oil and gas products | 107 | 53 | 160 | 95 |
| **Total oil and gas sales** | **44,984** | **40,551** | **99,136** | **85,377** |

## 15 TRANSPORTATION EXPENSES

| | Three months ended 30 June: | | Six months ended 30 June: | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Natural gas transportation to customers | 8,883 | 7,633 | 21,942 | 16,201 |
| Liquid hydrocarbons transportation by rail | 2,837 | 2,437 | 5,247 | 4,782 |
| Liquid hydrocarbons transportation by tankers | 1,152 | 940 | 1,933 | 1,872 |
| Crude oil transportation to customers | 122 | 63 | 220 | 120 |
| Other | 41 | 15 | 72 | 18 |
| **Total transportation expenses** | **13,035** | **11,088** | **29,414** | **22,993** |

## 16 TAXES OTHER THAN INCOME TAX

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

| | Three months ended 30 June: | | Six months ended 30 June: | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Unified natural resources production tax | 3,656 | 3,333 | 7,501 | 6,890 |
| Property tax | 436 | 429 | 875 | 863 |
| Excise and fuel taxes | 221 | 235 | 497 | 478 |
| Other taxes | 62 | 49 | 115 | 135 |
| **Total taxes other than income tax** | **4,375** | **4,046** | **8,988** | **8,366** |

## 17 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

| | Three months ended 30 June: | | Six months ended 30 June: | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Natural gas | 2,954 | 893 | 6,263 | 1,825 |
| Unstable gas condensate | 393 | - | 393 | - |
| Other liquid hydrocarbons | 76 | 39 | 118 | 70 |
| **Total purchases of natural gas and liquid hydrocarbons** | **3,423** | **932** | **6,774** | **1,895** |

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

## 17 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS (CONTINUED)

Natural gas purchases included volumes procured from OAO Sibneftegas, the Group's joint venture, pro-rata to its total production (see Note 22). From January 2012, the Group began purchasing natural gas from its related party ZAO SIBUR Holding at prices based on the market prices in the region of purchases (see Note 22).

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

## 18 FINANCE INCOME (EXPENSE)

| | Three months ended 30 June: | | Six months ended 30 June: | |
|---|---|---|---|---|
| *Interest expense (including transaction costs)* | 2012 | 2011 | 2012 | 2011 |
| 6.604% USD 650 million Eurobonds February 2021 | 338 | 303 | 668 | 505 |
| 7.5% RR 15 billion Sberbank December 2013 | 284 | 286 | 568 | 568 |
| 5.326% USD 600 million Eurobonds February 2016 | 255 | 228 | 504 | 381 |
| 7.5% RR 10 billion Bonds June 2013 | 192 | 193 | 384 | 383 |
| LIBOR+1.45% USD 300 million Sumitomo Mitsui Banking Corporation Europe Limited December 2013 | 40 | 47 | 86 | 47 |
| LIBOR+1.9% USD 200 million Nordea Bank November 2013 | 33 | 29 | 65 | 60 |
| LIBOR+3.25% USD 200 million UniCredit Bank October 2012 (1) | 24 | 50 | 58 | 105 |
| 8% RR 10 billion Gazprombank November 2012 (1) | - | 199 | 42 | 402 |
| 8.9% RR 10 billion Sberbank December 2014 | 26 | - | 26 | - |
| Other interest expenses (2) | 1 | 30 | 1 | 167 |
| **Subtotal** | **1,193** | **1,365** | **2,402** | **2,618** |
| Less: capitalised interest | (590) | (920) | (1,065) | (1,783) |
| **Interest expense (on historical cost basis)** | **603** | **445** | **1,337** | **835** |
| IAS 32 and IAS 39 *"Financial Instruments"* – fair value remeasurement | - | - | - | 212 |
| Provisions for asset retirement obligations: unwinding of the present value discount | 60 | 58 | 116 | 111 |
| **Total interest expense** | **663** | **503** | **1,453** | **1,158** |

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

| | Three months ended 30 June: | | Six months ended 30 June: | |
|---|---|---|---|---|
| *Interest income* | 2012 | 2011 | 2012 | 2011 |
| Interest income on loans issued | 233 | 654 | 622 | 1,457 |
| Interest income on cash and cash equivalents | 97 | 140 | 199 | 194 |
| **Interest income (on historical cost basis)** | **330** | **794** | **821** | **1,651** |
| IAS 32 and IAS 39 *"Financial Instruments"* – fair value remeasurement | 35 | 16 | 78 | 78 |
| **Total interest income** | **365** | **810** | **899** | **1,729** |

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

## 19 INCOME TAX

***Effective income tax rate.*** The Group's Russian statutory income tax rate for 2012 and 2011 was 20 percent. For the six months ended 30 June 2012 and 2011, the consolidated Group's effective income tax rate was 21.6 percent and 21.0 percent, respectively. For the three months ended 30 June 2012 and 2011, the consolidated Group's effective income tax rate was 20.9 percent and 21.3 percent respectively.

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

## 20 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

| | ***Loans and receivables*** | |
|---|---|---|
| ***Financial assets*** | **At 30 June 2012** | **At 31 December 2011** |
| *Non-current* | | |
| Long-term loans receivable | 9,158 | 9,323 |
| Trade and other receivables | 2,746 | 22,807 |
| Long-term deposits | 3 | - |
| *Current* | | |
| Trade and other receivables | 12,137 | 16,699 |
| Prepayments and other current assets | 454 | 6,876 |
| Cash and cash equivalents | 15,849 | 23,831 |
| **Total carrying amount** | **40,347** | **79,536** |

| | ***Measured at amortized cost*** | |
|---|---|---|
| ***Financial liabilities*** | **At 30 June 2012** | **At 31 December 2011** |
| *Non-current* | | |
| Long-term debt | 70,816 | 75,180 |
| *Current* | | |
| Current portion of long-term debt | 19,840 | 20,298 |
| Short-term debt | 3,011 | - |
| Trade and other payables | 7,756 | 22,811 |
| **Total carrying amount** | **101,423** | **118,289** |

***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)

## 20 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

*(a) Foreign exchange risk*

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

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

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

| *At 30 June 2012* | Russian rouble | US dollar | Other | Total |
|---|---|---|---|---|
| ***Financial assets*** | | | | |
| *Non-current* | | | | |
| Long-term loans receivable | 8,619 | 539 | - | 9,158 |
| Trade and other receivables | 2,707 | 14 | 25 | 2,746 |
| Long-term deposits | - | - | 3 | 3 |
| *Current* | | | | |
| Trade and other receivables | 6,848 | 4,866 | 423 | 12,137 |
| Prepayments and other current assets | 454 | - | - | 454 |
| Cash and cash equivalents | 8,377 | 6,121 | 1,351 | 15,849 |
| ***Financial liabilities*** | | | | |
| *Non-current* | | | | |
| Long-term debt | (24,806) | (46,010) | - | (70,816) |
| *Current* | | | | |
| Current portion of long-term debt | (10,000) | (9,840) | - | (19,840) |
| Short-term debt | - | (3,011) | - | (3,011) |
| Trade and other payables | (6,463) | (1,219) | (74) | (7,756) |
| **Net exposure at 30 June 2012** | **(14,264)** | **(48,540)** | **1,728** | **(61,076)** |

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

## 20 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

| ***At 31 December 2011*** | **Russian rouble** | **US dollar** | **Other** | **Total** |
|---|---|---|---|---|
| ***Financial assets*** | | | | |
| *Non-current* | | | | |
| Long-term loans receivable | 9,103 | 220 | - | 9,323 |
| Trade and other receivables | 22,761 | 14 | 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)** |

*(b) Commodity price risk*

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

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

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 planned to be implemented on 1 January 2015; however, the Government reserves the right to amend or change the proposed timetable. As part of the plan, in June 2012, the FTS approved an increase of 15 percent in the regulated prices effective 1 July 2012. According to the Government's program, the regulation of the domestic natural gas price after 2015 will be based on the net-back parity of natural gas prices on the domestic and export markets.

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

***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 a combination thereof) or Naphtha Japan and Naphtha CIF NWE, respectively, plus a margin or discount, depending on current market situation. Crude oil sold internationally is based on benchmark reference crude oil prices of Brent dated, plus a discount and on a transaction-by-transaction basis for volumes sold domestically. As a result, the Group's revenues from the sales of liquid hydrocarbons are subject to commodity price volatility based on fluctuations or changes in the crude oil benchmark reference prices.

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

## 20 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

*(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 were as follows:

| | At 30 June 2012 | At 31 December 2011 |
|---|---|---|
| At variable rate | 15,070 | 20,559 |
| At fixed rate | 78,597 | 74,919 |
| **Total debt** | **93,667** | **95,478** |

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

***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 hydrocarbons sales are made to customers with independent external ratings; however, if the customer has a credit rating below BBB, the Group requires the collateral for the trade receivable to be in the form of letters of credit from banks with an investment grade rating. All domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis. 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 to mitigate credit risk.

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

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

## 20 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

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

| *At 30 June 2012* | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| Debt at fixed rate | | | | | |
| *Principal* (*) | 10,000 | 15,000 | 29,690 | 21,331 | 76,021 |
| *Interest* | 4,201 | 3,831 | 6,703 | 5,635 | 20,370 |
| Debt at variable rate | | | | | |
| *Principal* (*) | 9,845 | 5,251 | - | - | 15,096 |
| *Interest* | 228 | 36 | - | - | 264 |
| Trade and other payables | 7,756 | - | - | - | 7,756 |
| **Total financial liabilities** | **32,030** | **24,118** | **36,393** | **26,966** | **119,507** |

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

(*) – differs from long-term debt see (Note 9) for transaction costs.

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

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

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

## 20 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

The Group defines the term "capital" as equity attributable to OAO NOVATEK shareholders minus net debt (total debt less cash and cash equivalents). There were no changes to the Group's approach to capital management during the six months ended 30 June 2012.

## 21 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 market risks of this country.

***Commitments.*** At 30 June 2012, the Group had contractual capital expenditures commitments aggregating approximately RR 20,446 million (at 31 December 2011: RR 17,805 million) mainly for ongoing development activities at the Yurkharovskoye field (through 2014), new field development at the North-Russkoye field (through 2014), the Yarudeyskoye field (through 2013) and the West-Yurkharovskoye field (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 2013) and ongoing field development at the East-Tarkosalinskoye and Khancheyskoye fields (through 2013) all in accordance with duly signed agreements.

***Taxation.*** Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. 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.

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

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

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

## 21 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

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

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

## 22 RELATED PARTY TRANSACTIONS

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

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

| | Three months ended 30 June: | | Six months ended 30 June: | |
|---|---|---|---|---|
| ***Related parties – joint ventures*** | **2012** | **2011** | **2012** | **2011** |
| ***Transactions*** | | | | |
| ***OAO Sibneftegas:*** | | | | |
| Interest income on loans issued | 228 | 258 | 466 | 521 |
| Oil and gas products sales | 10 | 11 | 22 | 21 |
| Purchases of natural gas | (964) | (893) | (2,035) | (1,825) |
| ***OOO Yamal Development:*** | | | | |
| Interest income on loans issued | - | 334 | - | 856 |
| ***OOO SeverEnergia:*** | | | | |
| Purchases of unstable gas condensate | (393) | - | (393) | - |
| Interest income on loans issued | - | 45 | 145 | 45 |

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

## 22 RELATED PARTY TRANSACTIONS (CONTINUED)

| *Related parties – joint ventures* | At 30 June 2012 | At 31 December 2011 |
|---|---|---|
| ***Balances*** | | |
| ***OAO Sibneftegas:*** | | |
| Long-term loans receivable | 8,619 | 9,103 |
| Interest on long-term loans receivable | 1,144 | 775 |
| Short-term loans receivable | 454 | 634 |
| Trade payables and accrued liabilities | 370 | 387 |
| ***OOO Yamal Development:*** | | |
| Long-term loans and receivables | - | 16,348 |
| ***OOO SeverEnergia:*** | | |
| Short-term loans receivable | - | 6,225 |
| Interest on short-term loans receivable | - | 94 |
| Trade payables and accrued liabilities | 154 | - |
| ***ZAO Terneftegas:*** | | |
| Long-term loans receivable | 539 | 220 |
| ***OAO Yamal LNG:*** | | |
| Long-term receivables | - | 3,955 |

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 and transactions with this company and its subsidiaries following 1 October 2011 were disclosed as related parties – parties under control of key management personnel.

| *Related parties – parties under control of key management personnel* | Three months ended 30 June: | | Six months ended 30 June: | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| ***Transactions*** | | | | |
| ***ZAO SIBUR Holding and its subsidiaries (from September 2011):*** | | | | |
| Natural gas sales | 390 | - | 941 | - |
| Purchases of natural gas | (1,990) | - | (4,228) | - |
| Purchases of liquid hydrocarbons | (19) | - | (24) | - |

| *Related parties – parties under control of key management personnel* | At 30 June 2012 | At 31 December 2011 |
|---|---|---|
| ***Balances*** | | |
| ***OAO Pervobank:*** | | |
| Cash and cash equivalents | 2,611 | 4,066 |
| ***ZAO SIBUR Holding and its subsidiaries (from September 2011):*** | | |
| Long-term receivable | 1,283 | 1,424 |
| Trade payables and accrued liabilities | 516 | - |
| Trade and other receivables | 361 | 248 |

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

## 22 RELATED PARTY TRANSACTIONS (CONTINUED)

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

| *Related parties – members of key management personnel* | Three months ended 30 June: 2012 | Three months ended 30 June: 2011 | Six months ended 30 June: 2012 | Six months ended 30 June: 2011 |
|---|---|---|---|---|
| Board of Directors | 48 | 47 | 67 | 66 |
| Management Committee | 446 | 348 | 918 | 709 |
| **Total compensation** | **494** | **395** | **985** | **775** |

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.

## 23 SEGMENT INFORMATION

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

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

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

Segment information for the three months ended 30 June 2012 is as follows:

| *For the three months ended 30 June 2012* | References | Exploration, production and marketing | Segment information as reported to CODM | Reconciling items | Total per consolidated interim condensed financial information |
|---|---|---|---|---|---|
| External revenues | | 45,156 | 45,156 | (11) | 45,145 |
| Operating expenses | *a, b, c, d* | (29,860) | (29,860) | 3,080 | (26,780) |
| Other operating income (loss) | *b* | (12) | (12) | (24) | (36) |
| Interest expense | *e* | (1,128) | (1,128) | 465 | (663) |
| Interest income | | 330 | 330 | 35 | 365 |
| Foreign exchange gain (loss) | *e* | (5,410) | (5,410) | 111 | (5,299) |
| **Segment result** | | **9,076** | **9,076** | **3,656** | **12,732** |
| Share of profit (loss) of joint ventures, net of income tax | | | | | (521) |
| **Profit before income tax** | | | | | **12,211** |
| Depreciation, depletion and amortization | *a, b* | 3,719 | 3,719 | (1,158) | 2,561 |
| Capital expenditures | *e* | 9,109 | 9,109 | 3,161 | 12,270 |

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

## 23 SEGMENT INFORMATION (CONTINUED)

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 1,174 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 53 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 (including share-based payments, pension obligation, discounting loans to employee and bonus accruals) between IFRS and management accounting, which resulted in additional in transportation expenses of RR 131 million and reversal payroll expenses of RR 32 million recorded in operating expenses under IFRS;

d. different methodology in recognizing of exploration expenses, which resulted in reversal operating expenses of RR 2,196 million charged under IFRS; and

e. different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting, which resulted in additional capitalized interest and foreign exchange differences of RR 603 million and additional capital expenditures of RR 2,558 million under IFRS.

Segment information for the three months ended 30 June 2011 is as follows:

| *For the three months ended 30 June 2011* | **References** | **Exploration, production and marketing** | **Segment information as reported to CODM** | **Reconciling items** | **Total per consolidated interim condensed financial information** |
|---|---|---|---|---|---|
| External revenues | | 40,547 | 40,547 | 79 | 40,626 |
| Operating expenses | *a, b, c* | (24,813) | (24,813) | 2,339 | (22,474) |
| Other operating income (loss) | | (141) | (141) | 61 | (80) |
| Interest expense | *d* | (1,290) | (1,290) | 787 | (503) |
| Interest income | | 778 | 778 | 32 | 810 |
| Foreign exchange gain (loss) | | 764 | 764 | 2 | 766 |
| **Segment result** | | **15,845** | **15,845** | **3,300** | **19,145** |
| Share of profit (loss) of joint ventures, net of income tax | | | | | (1,076) |
| **Profit before income tax** | | | | | **18,069** |
| Depreciation, depletion and amortization | *a* | 2,921 | 2,921 | (898) | 2,023 |
| Capital expenditures | *d* | 7,035 | 7,035 | 576 | 7,611 |

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 1,017 million in operating expenses under IFRS;

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

## 23 SEGMENT INFORMATION (CONTINUED)

b. different methodology in the recognition of impairment expenses between IFRS and management accounting, which resulted in net reversal of RR 721 million recorded in operating expenses under IFRS;

c. different methodology in recognizing of exploration expenses, which resulted in reversal of RR 640 million recorded in operating expense under IFRS; and

d. different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting, which resulted in additional capitalized interest and foreign exchange differences of RR 861 million and reversal of capital expenditures of RR 285 million under IFRS.

Segment information for the six months ended 30 June 2012 is as follows:

| *For the six months ended 30 June 2012* | **References** | **Exploration, production and marketing** | **Segment information as reported to CODM** | **Reconciling items** | **Total per consolidated interim condensed financial information** |
|---|---|---|---|---|---|
| External revenues | | 99,563 | 99,563 | (45) | 99,518 |
| Operating expenses | *a, b, c, d* | (62,161) | (62,161) | 3,530 | (58,631) |
| Other operating income (loss) | *b* | (21) | (21) | 26 | 5 |
| Interest expense | *e* | (2,281) | (2,281) | 828 | (1,453) |
| Interest income | | 811 | 811 | 88 | 899 |
| Foreign exchange gain (loss) | *e* | 453 | 453 | 128 | 581 |
| **Segment result** | | **36,364** | **36,364** | **4,555** | **40,919** |
| Share of profit (loss) of joint ventures, net of income tax | | | | | (1,512) |
| **Profit before income tax** | | | | | **39,407** |
| Depreciation, depletion and amortization | *a, b* | 7,356 | 7,356 | (2,181) | 5,175 |
| Capital expenditures | *e* | 15,029 | 15,029 | 4,760 | 19,789 |

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 2,248 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 87 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 (including share-based payments, pension obligation, discounting loans to employee and bonus accruals) between IFRS and management accounting, which resulted in the reversal in transportation expenses of RR 147 million and additional payroll expenses of RR 535 million recorded in operating expenses under IFRS;

d. different methodology in recognizing of exploration expenses, which resulted in the reversal operating expenses of RR 1,892 million charged under IFRS; and

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

## 23 SEGMENT INFORMATION (CONTINUED)

e. different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting, which resulted in additional capitalized interest and foreign exchange differences of RR 1,004 million and additional capital expenditures of RR 3,756 million under IFRS.

Segment information for the six months ended 30 June 2011 is as follows:

| *For the six months ended 30 June 2011* | **References** | **Exploration, production and marketing** | **Segment information as reported to CODM** | **Reconciling items** | **Total per consolidated interim condensed financial information** |
|---|---|---|---|---|---|
| External revenues | *a* | 85,609 | 85,609 | (89) | 85,520 |
| Operating expenses | *b, c, d, e* | (48,224) | (48,224) | 2,307 | (45,917) |
| Other operating income (loss) | *c* | (333) | (333) | 306 | (27) |
| Interest expense | *f* | (2,693) | (2,693) | 1,535 | (1,158) |
| Interest income | | 1,618 | 1,618 | 111 | 1,729 |
| Foreign exchange gain (loss) | | 3,250 | 3,250 | (10) | 3,240 |
| **Segment result** | | **39,227** | **39,227** | **4,160** | **43,387** |
| Share of profit (loss) of joint ventures, net of income tax | | | | | (1,686) |
| **Profit before income tax** | | | | | **41,701** |
| Depreciation, depletion and amortization | *b, c* | 5,834 | 5,834 | (1,750) | 4,084 |
| Capital expenditures | *f* | 11,690 | 11,690 | 2,263 | 13,953 |

Reconciling items mainly related to:

a. different methodology of stable gas condensate sales recognition under IFRS and the RAR which requires reversal of external revenues for RR 78 million under IFRS;

b. different methodology in calculating depreciation, depletion and amortization for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method), which resulted in reversal of RR 1,971 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 121 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 the reversal in transportation expenses of RR 228 million and additional payroll expenses of RR 639 million recorded in operating expenses under IFRS;

e. different methodology in the recognition of impairment expenses between IFRS and management accounting, which resulted in reversal of RR 721 million recorded in operating expenses under IFRS; and

f. different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting, which resulted in additional capitalized interest and foreign exchange differences of RR 1,660 million and additional capital expenditures of RR 603 million under IFRS.

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

## 23 SEGMENT INFORMATION (CONTINUED)

***Geographical information.*** The Group operates in the following geographical segments:

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

Geographical information for the three months ended 30 June 2012 and 2011 is as follows:

| *For the three months ended 30 June 2012* | Russian Federation | Outside Russian Federation | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | Europe | USA | APR | Other | Export duty | Subtotal | |
| Natural gas | 29,272 | - | - | - | - | - | - | 29,272 |
| Stable gas condensate | 114 | 8,022 | 1,429 | 11,786 | - | (10,728) | 10,509 | 10,623 |
| Liquefied petroleum gas | 1,482 | 3,139 | - | - | - | (666) | 2,473 | 3,955 |
| Crude oil | 661 | 858 | - | - | - | (492) | 366 | 1,027 |
| Oil and gas products | 107 | - | - | - | - | - | - | 107 |
| **Oil and gas sales** | **31,636** | **12,019** | **1,429** | **11,786** | **-** | **(11,886)** | **13,348** | **44,984** |
| Other revenues | 149 | 12 | - | - | - | - | 12 | 161 |
| **Total external revenues** | **31,785** | **12,031** | **1,429** | **11,786** | **-** | **(11,886)** | **13,360** | **45,145** |

| *For the three months ended 30 June 2011* | Russian Federation | Outside Russian Federation | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | Europe | USA | APR | Other | Export duty | Subtotal | |
| Natural gas | 24,325 | - | - | - | - | - | - | 24,325 |
| Stable gas condensate | 46 | 10,817 | 3,357 | 6,409 | - | (8,761) | 11,822 | 11,868 |
| Liquefied petroleum gas | 1,259 | 2,894 | - | - | - | (378) | 2,516 | 3,775 |
| Crude oil | 286 | 543 | - | - | - | (299) | 244 | 530 |
| Oil and gas products | 53 | - | - | - | - | - | - | 53 |
| **Oil and gas sales** | **25,969** | **14,254** | **3,357** | **6,409** | **-** | **(9,438)** | **14,582** | **40,551** |
| Other revenues | 72 | 3 | - | - | - | - | 3 | 75 |
| **Total external revenues** | **26,041** | **14,257** | **3,357** | **6,409** | **-** | **(9,438)** | **14,585** | **40,626** |

Geographical information for the six months ended 30 June 2012 and 2011 is as follows:

| *For the six months ended 30 June 2012* | Russian Federation | Outside Russian Federation | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | Europe | USA | APR | Other | Export duty | Subtotal | |
| Natural gas | 66,577 | - | - | - | - | - | - | 66,577 |
| Stable gas condensate | 127 | 15,879 | 6,941 | 17,402 | - | (18,103) | 22,119 | 22,246 |
| Liquefied petroleum gas | 2,972 | 6,533 | - | - | - | (1,403) | 5,130 | 8,102 |
| Crude oil | 1,315 | 1,566 | - | - | - | (830) | 736 | 2,051 |
| Oil and gas products | 160 | - | - | - | - | - | - | 160 |
| **Oil and gas sales** | **71,151** | **23,978** | **6,941** | **17,402** | **-** | **(20,336)** | **27,985** | **99,136** |
| Other revenues | 337 | 45 | - | - | - | - | 45 | 382 |
| **Total external revenues** | **71,488** | **24,023** | **6,941** | **17,402** | **-** | **(20,336)** | **28,030** | **99,518** |

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

## 23 SEGMENT INFORMATION (CONTINUED)

| *For the six months ended 30 June 2011* | Russian Federation | Outside Russian Federation | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | Europe | USA | APR | Other | Export duty | Subtotal | |
| Natural gas | 52,655 | - | - | - | - | - | - | 52,655 |
| Stable gas condensate | 46 | 16,536 | 7,856 | 15,410 | - | (15,788) | 24,014 | 24,060 |
| Liquefied petroleum gas | 2,637 | 5,780 | - | - | 10 | (905) | 4,885 | 7,522 |
| Crude oil | 570 | 982 | - | - | - | (507) | 475 | 1,045 |
| Oil and gas products | 95 | - | - | - | - | - | - | 95 |
| **Oil and gas sales** | **56,003** | **23,298** | **7,856** | **15,410** | **10** | **(17,200)** | **29,374** | **85,377** |
| Other revenues | 138 | 5 | - | - | - | - | 5 | 143 |
| **Total external revenues** | **56,141** | **23,303** | **7,856** | **15,410** | **10** | **(17,200)** | **29,379** | **85,520** |

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

***Major customers.*** For the three months ended 30 June 2012 and 2011, the Group had two major customers to whom individual revenues represented 25 percent and 30 percent of total external revenues, respectively.

For the six months ended 30 June 2012 and 2011, the Group had one and two major customers to whom individual revenues represented 14 percent and 31 percent of total external revenues, respectively.

## 24 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 amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

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

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

## 24 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- 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 interim condensed financial information.

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 interim condensed financial information.

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

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 interim condensed financial information.

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 interim condensed financial information.

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 interim condensed financial information.

## 24 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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 derecognized, 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 interim condensed financial information.

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 interim condensed financial information, 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 interim condensed financial information.

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 interim condensed financial information.

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

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