# OAO NOVATEK

## IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

## AS OF AND FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2011

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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 2011 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 as set out on pages 4 to 42 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 consolidated interim condensed 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
11 August 2011

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

| | Notes | At 30 June 2011 | At 31 December 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 194,189 | 185,573 |
| Equity investments | 6 | 35,271 | 27,026 |
| Long-term loans and receivables | 7 | 27,962 | 40,151 |
| Other non-current assets | | 2,835 | 2,858 |
| **Total non-current assets** | | **260,257** | **255,608** |
| **Current assets** | | | |
| Inventories | | 1,790 | 1,868 |
| Current income tax prepayments | | 522 | 285 |
| Trade and other receivables | | 10,393 | 8,670 |
| Prepayments and other current assets | 8 | 20,354 | 8,504 |
| Cash and cash equivalents | | 14,230 | 10,238 |
| **Total current assets** | | **47,289** | **29,565** |
| **Total assets** | | **307,546** | **285,173** |
| **LIABILITIES AND EQUITY** | | | |
| **Non-current liabilities** | | | |
| Long-term debt | 9 | 77,601 | 47,074 |
| Deferred income tax liabilities | | 10,885 | 9,473 |
| Other non-current liabilities | | 789 | 917 |
| Asset retirement obligations | | 2,705 | 2,482 |
| **Total non-current liabilities** | | **91,980** | **59,946** |
| **Current liabilities** | | | |
| Short-term debt and current portion of long-term debt | 10 | 11,738 | 25,152 |
| Trade payables and accrued liabilities | 11 | 6,768 | 28,479 |
| Current income tax payable | | 42 | 1,212 |
| Other taxes payable | | 3,331 | 2,598 |
| **Total current liabilities** | | **21,879** | **57,441** |
| **Total liabilities** | | **113,859** | **117,387** |
| **Equity attributable to OAO NOVATEK shareholders** | | | |
| Ordinary share capital | | 393 | 393 |
| Treasury shares | | (446) | (446) |
| Additional paid-in capital | | 30,865 | 30,865 |
| Currency translation differences | | (306) | (120) |
| Asset revaluation surplus on acquisitions | | 5,617 | 5,617 |
| Retained earnings | | 136,785 | 110,810 |
| **Total equity attributable to OAO NOVATEK shareholders** | | **172,908** | **147,119** |
| **Non-controlling interest** | | **20,779** | **20,667** |
| **Total equity** | | **193,687** | **167,786** |
| **Total liabilities and equity** | | **307, 546** | **285,173** |

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 11 August 2011:

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: 2011 | Three months ended 30 June: 2010 | Six months ended 30 June: 2011 | Six months ended 30 June: 2010 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Oil and gas sales | 14 | 40,501 | 25,051 | 85,294 | 52,288 |
| Sales of polymer and insulation tape | | - | 611 | - | 1,080 |
| Other revenues | | 75 | 44 | 143 | 80 |
| **Total revenues** | | **40,576** | **25,706** | **85,437** | **53,448** |
| **Operating expenses** | | | | | |
| Transportation expenses | 15 | (11,053) | (8,436) | (22,936) | (17,499) |
| Taxes other than income tax | 16 | (4,046) | (2,260) | (8,366) | (4,684) |
| General and administrative expenses | | (2,117) | (1,631) | (4,112) | (3,094) |
| Depreciation, depletion and amortization | 5 | (1,987) | (1,549) | (4,016) | (3,151) |
| Materials, services and other | | (1,540) | (1,740) | (2,822) | (3,288) |
| Purchases of natural gas and liquid hydrocarbons | | (932) | (21) | (1,895) | (59) |
| Exploration expenses | | (273) | (335) | (999) | (466) |
| Net impairment expenses | | (619) | (9) | (631) | (35) |
| Change in natural gas, liquid hydrocarbons, polymer products and work-in-progress | | 128 | 264 | (83) | 612 |
| **Total operating expenses** | | **(22,439)** | **(15,717)** | **(45,860)** | **(31,664)** |
| Net gain on disposal of interest in subsidiaries | | - | - | - | 1,583 |
| Other operating income (loss) | | (65) | 29 | (1) | 24 |
| **Profit from operations** | | **18,072** | **10,018** | **39,576** | **23,391** |
| **Finance income (expense)** | | | | | |
| Interest expense | 17 | (503) | (83) | (1,158) | (232) |
| Interest income | 17 | 810 | 123 | 1,729 | 238 |
| Foreign exchange gain (loss) | | 766 | (1,118) | 3,240 | (472) |
| **Total finance income (expense)** | | **1,073** | **(1,078)** | **3,811** | **(466)** |
| Share of profit (loss) of equity investments, net of income tax | 6 | (991) | (9) | (1,517) | (10) |
| **Profit before income tax** | | **18,154** | **8,931** | **41,870** | **22,915** |
| **Income tax expense** | | | | | |
| Current income tax expense | | (3,741) | (1,790) | (7,610) | (3,782) |
| Net deferred income tax expense | | (113) | (75) | (1,160) | (991) |
| **Total income tax expense** | | **(3,854)** | **(1,865)** | **(8,770)** | **(4,773)** |
| **Profit (loss)** | | **14,300** | **7,066** | **33,100** | **18,142** |
| Profit (loss) attributable to: | | | | | |
| Non-controlling interest | | (121) | (73) | (174) | (179) |
| **Shareholders of OAO NOVATEK** | | **14,421** | **7,139** | **33,274** | **18,321** |
| Basic and diluted earnings per share (in Russian roubles) | | 4.75 | 2.35 | 10.97 | 6.04 |
| *Weighted average number of shares outstanding (in thousands)* | | *3,033,184* | *3,032,114* | *3,033,184* | *3,032,114* |

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

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

| | Notes | Six months ended 30 June: 2011 | 2010 |
|---|---|---|---|
| **Profit before income tax** | | **41,870** | **22,915** |
| **Adjustments to profit before income tax:** | | | |
| Depreciation, depletion and amortization | | 4,084 | 3,222 |
| Net impairment expenses | | 631 | 35 |
| Net foreign exchange loss (gain) | | (3,240) | 472 |
| Net loss (gain) on disposal of assets | | 115 | (1,570) |
| Interest expense | | 1,158 | 232 |
| Interest income | | (1,729) | (238) |
| Share of loss (profit) in equity investments, net of income tax | | 1,517 | 10 |
| Net change in other non-current assets and long-term receivables | | 526 | (85) |
| Share-based compensation | 21 | - | 68 |
| Other adjustments | | (30) | 104 |
| **Working capital changes** | | | |
| Decrease (increase) in trade and other receivables, prepayments and other current assets | | (3,177) | (93) |
| Decrease (increase) in inventories | | 78 | (635) |
| Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable | | 793 | (438) |
| Increase (decrease) in other taxes payable | | 728 | (398) |
| **Total effect of working capital changes** | | **(1,578)** | **(1,564)** |
| Income taxes paid | | (9,001) | (4,807) |
| **Net cash provided by operating activities** | | **34,323** | **18,794** |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | (10,555) | (9,273) |
| Prepayments for participation in tender for exploration licenses | | (6,870) | - |
| Purchases of inventories intended for construction | | (227) | (301) |
| Acquisition of subsidiaries net of cash acquired | | (3,098) | (1,915) |
| Acquisition of equity investments | | (21,176) | - |
| Proceeds from disposals of subsidiaries net of cash disposed | | 124 | 845 |
| Interest paid and capitalized | | (1,594) | (982) |
| Loans provided | | (4,575) | (156) |
| Repayments of loans provided | | 4,419 | 219 |
| Interest received | | 475 | 87 |
| **Net cash (used for) provided by investing activities** | | **(43,077)** | **(11,476)** |
| **Cash flows from financing activities** | | | |
| Proceeds from long-term debt | | 44,895 | 11,437 |
| Proceeds from short-term debt | | 3,700 | 1,500 |
| Repayments of long-term debt | | (6,635) | (6,724) |
| Repayments of short-term debt | | (21,321) | (2,729) |
| Interest paid | | - | (214) |
| Dividends paid | | (7,581) | (4,907) |
| **Net cash (used for) provided by financing activities** | | **13,058** | **(1,637)** |
| Net effect of exchange rate changes on cash, cash equivalents and bank overdrafts | | (312) | (128) |
| **Net increase (decrease) in cash, cash equivalents and bank overdrafts** | | **3,992** | **5,553** |
| Cash and cash equivalents at beginning of the period | | 10,238 | 10,532 |
| Net decrease (increase) in cash and cash equivalents reclassified to assets classified as held for sale | | - | (52) |
| **Cash, cash equivalents and bank overdrafts at end of the period** | | **14,230** | **16,033** |

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

**OAO NOVATEK**
**Consolidated Interim Condensed Statement of Comprehensive Income (unaudited)**
(in millions of Russian roubles)

| | Notes | Three months ended 30 June: 2011 | Three months ended 30 June: 2010 | Six months ended 30 June: 2011 | Six months ended 30 June: 2010 |
|---|---|---|---|---|---|
| **Other comprehensive income (loss) after income tax:** | | | | | |
| Currency translation differences | | 13 | 48 | (186) | 33 |
| **Other comprehensive income (loss)** | | **13** | **48** | **(186)** | **33** |
| **Profit (loss)** | | **14,300** | **7,066** | **33,100** | **18,142** |
| **Total comprehensive income (loss)** | | **14,313** | **7,114** | **32,914** | **18,175** |
| Total comprehensive income (loss) attributable to: | | | | | |
| Non-controlling interest | | (121) | (73) | (174) | (179) |
| **Shareholders of OAO NOVATEK** | | **14,434** | **7,187** | **33,088** | **18,354** |

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 2010*** | | | | | | | | | | |
| **1 January 2010** | ***3,032,114*** | **393** | **(599)** | **30,609** | **5,617** | **(112)** | **78,393** | **114,301** | **19,139** | **133,440** |
| Currency translation differences | - | - | - | - | - | 33 | - | 33 | - | 33 |
| Profit (loss) | - | - | - | - | - | - | 18,321 | 18,321 | (179) | 18,142 |
| **Total comprehensive income (loss)** | **-** | **-** | **-** | **-** | **-** | **33** | **18,321** | **18,354** | **(179)** | **18,175** |
| Dividends (Note 12) | - | - | - | - | - | - | (5,306) | (5,306) | - | (5,306) |
| Acquisition of subsidiaries (Note 4) | - | - | - | - | - | - | - | - | 2,414 | 2,414 |
| Impact of additional shares subscription in subsidiaries on non-controlling interest (Note 4) | - | - | - | - | - | - | - | - | 1,767 | 1,767 |
| Acquisition of non-controlling interest (Note 4) | - | - | - | - | - | - | 1,739 | 1,739 | (2,368) | (629) |
| Disposal of subsidiaries | - | - | - | - | - | - | - | - | (81) | (81) |
| Share-based compensation funded by shareholders | - | - | - | 68 | - | - | - | 68 | - | 68 |
| **30 June 2010** | ***3,032,114*** | **393** | **(599)** | **30,677** | **5,617** | **(79)** | **93,147** | **129,156** | **20,692** | **149,848** |

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

| | *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) | - | - | - | - | - | - | 33,274 | 33,274 | (174) | 33,100 |
| **Total comprehensive income (loss)** | **-** | **-** | **-** | **-** | **-** | **(186)** | **33,274** | **33,088** | **(174)** | **32,914** |
| Dividends (Note 12) | - | - | - | - | - | - | (7,583) | (7,583) | - | (7,583) |
| Equity call option reclassification (Note 4) | - | - | - | - | - | - | 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)** | **136,785** | **172,908** | **20,779** | **193,687** |

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

## 1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

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

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

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

## 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 2010 prepared in accordance with International Financial Reporting Standards ("IFRS"). The 31 December 2010 consolidated interim condensed statement of financial position data has been derived from the audited consolidated financial statements.

***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 2010. 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.

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

## 2 BASIS OF PRESENTATION (CONTINUED)

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

| *Russian Rubles to one currency unit* | At 30 June 2011 | At 31 December 2010 | Average rate for the six months ended 30 June: 2011 | 2010 |
|---|---|---|---|---|
| US dollar ("USD") | 28.08 | 30.48 | 28.64 | 30.07 |
| Polish Zloty ("PLN") | 10.09 | 10.17 | 10.16 | 9.98 |

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2010 with the exception of implementation of IAS 24, *Related Party Disclosures* (revised in November 2009). These exceptions are disclosed in Note 21.

## 4 MERGERS, ACQUISITIONS AND DISPOSALS

***Options for acquisition of additional ordinary shares of OAO Yamal LNG***

In March 2011, the Group signed a call option agreement, which provides the Group with the right, but not the obligation, to purchase a 25.1 percent equity stake in Yamal LNG for USD 526 million until 1 July 2012. To enter into this call option agreement, the Group paid RR 422 million (USD 15 million), which will be offset against total consideration and, therefore, was recorded as a prepayment in the consolidated interim condensed statement of financial position. The Group recognized the option as a financial asset with nil value at both acquisition and reporting dates.

In February 2011, the Group reassigned the call option to purchase a 23.9 percent equity stake in Yamal LNG for USD 450 million from its foreign subsidiary to its Russian subsidiary. As a result of a change in the functional currency from US dollar to Russian rouble, the call option is no longer considered an equity instrument and was reclassified to a financial asset and recognized in the consolidated interim condensed statement of financial position at 30 June 2011 with value of RR 284 million (USD 10 million). The option was originally purchased by the Group in July 2009 and is valid until June 2012.

The Group is unable to reliably measure the fair value of these options as there is no quoted market price in an active market for the underlying shares of Yamal LNG or these options. The variability in the range of reasonable fair value estimates is significant for the Yamal LNG project as the Group is still evaluating the implementation and construction of an on-site natural gas liquefaction plant using feedstock to be supplied from the Group's South-Tambeyskoye field as well as constructing infrastructure, storage and loading facilities on the Yamal peninsula. The project is expected to be implemented in several stages and is subject to a number of feasibility studies and investment decision stages.

In 2011 and 2012, the Group intends to complete geological engineering survey and project design studies, obtain necessary approvals and permissions for construction and introduce international strategic partners. It is currently anticipated that the first LNG from the project would be ready to be shipped not earlier 2016. The Yamal LNG is a highly complex and capital intensive project, and, as a result of the various uncertainties as to the project's development (capital expenditures, timing of production, etc.) the Group has recognized these options at cost at 30 June 2011.

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

## 4 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

***Disposal of ownership interest in ZAO Terneftegas***

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

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

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

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

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

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

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

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

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

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

## 4 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

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

***Acquisition of controlling interests in the equity investments***

On 15 February 2010, the Group increased its participation interests in OOO Oiltechproduct-Invest, OOO Petra Invest-M and OOO Tailiksneftegas, entities recorded as equity investments to 51 percent through the acquisition of an additional 26 percent participation interests in each company for the total cash consideration of RR 1,297 million. These entities are all exploration stage oil and gas companies and hold exploration licenses for the Middle-Chaselskiy, North-Russkiy, West-Tazovskiy, Anomalniy and North-Yamsoveskiy license areas. These licenses expire between 2012 and 2014. The Group intends to receive production licenses for these fields based on the exploration activities performed to date. Following the acquisition, in February 2010, OOO Oiltechproduct-Invest obtained the production license for the West-Chaselskoe field, which expires in 2030. In June 2011, Group obtained the production license for the North-Russkiy field, which expires in 2031.

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

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

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

## 4 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

The aforementioned property, plant and equipment in the amount of RR 1,876 million combined with the cost of mineral rights in the amount of RR 4,685 million are included in the line "acquisition of subsidiaries" as disclosed in Note 5.

The financial and operational activities of Oiltechproduct-Invest, Petra Invest-M and Tailiksneftegas were not material to the Group's revenues and results of operations for the six months ended 30 June 2010.

***Acquisition of additional participation interest in subsidiaries***

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

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

***Additional capital contribution into charter capital in subsidiaries***

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

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

## 5 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment, for the six months ended 30 June 2011 and 2010 are as follows:

| *For the six months ended 30 June 2010* | Operating assets | Assets under construction and advances for construction | Total |
|---|---|---|---|
| Cost | 163,274 | 19,885 | 183,159 |
| Accumulated depreciation, depletion and amortization | (21,711) | - | (21,711) |
| **Net book value at 1 January 2010** | **141,563** | **19,885** | **161,448** |
| Acquisition of subsidiaries | 4,711 | 1,850 | 6,561 |
| Additions | 1,155 | 11,127 | 12,282 |
| Transfers | 8,430 | (8,430) | - |
| Depreciation, depletion and amortization | (3,254) | - | (3,254) |
| Disposals, net | (82) | (26) | (108) |
| Cost | 177,456 | 24,406 | 201,862 |
| Accumulated depreciation, depletion and amortization | (24,933) | - | (24,933) |
| **Net book value at 30 June 2010** | **152,523** | **24,406** | **176,929** |

| *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** |

Included in additions to property, plant and equipment for the six months ended 30 June 2011 and 2010 are capitalized interest and foreign exchange loss of RR 1,783 million and RR 1,083 million, respectively.

Included within the operating assets balance at 30 June 2011 and 31 December 2010 are proved properties of RR 62,548 million and RR 62,509 million, net of accumulated depletion of RR 9,539 million and RR 8,915 million, respectively.

Included within the operating assets balance at 30 June 2011 and 31 December 2010 are unproved properties of RR 6,554 million and RR 6,991 million, respectively. Management believes these costs are recoverable and has plans to explore and develop the respective properties.

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

## 6 EQUITY INVESTMENTS

| | At 30 June 2011 | At 31 December 2010 |
|---|---|---|
| ***Associates:*** | | |
| OAO Sibneftegas | 25,105 | 25,758 |
| ***Joint ventures:*** | | |
| OOO Yamal Development | 8,922 | - |
| ZAO Terneftegas | 1,244 | 1,268 |
| **Total equity investments** | **35,271** | **27,026** |

In June 2011, the charter capital of OOO Yamal Development was increased by converting RR 20 billion of the loans, including accrued interest, provided to the company by its participants, of which RR 10 billion, including accrued interest in the amount of RR 225 million, is attributable to NOVATEK (see Note 7).

The Group's investment in Yamal Development at 31 December 2010 was valued at RR nil due to the Group's proportionate share of accumulated losses exceeding the Group's cost of investment. The excess of the accumulated losses over the Group's cost of investment in Yamal Development in the amount of RR 238 million were recorded as a reduction of long-term loans provided by the Group to the joint venture (see Note 7).

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

| | 2011 | 2010 |
|---|---|---|
| **At 1 January** | **27,026** | **1,214** |
| Share of profit (loss) of equity investments before income tax | (1,947) | (12) |
| Share of income tax (expense) benefit | 430 | 2 |
| **Share of profit (loss) of equity investments, net of income tax** | **(1,517)** | **(10)** |
| Contribution to charter capital | 10,000 | - |
| Losses (reverse) recognized in excess of equity investments, reclassified to long-term loans receivable for these companies | (238) | - |
| Disposals of subsidiaries resulting in recognition of equity investments | - | 1,299 |
| Acquisition of controlling stake resulting in derecognition of equity investments | - | (1,214) |
| **At 30 June** | **35,271** | **1,289** |

## 7 LONG-TERM LOANS AND RECEIVABLES

| | At 30 June 2011 | At 31 December 2010 |
|---|---|---|
| Russian rouble denominated loans | 24,773 | 37,955 |
| Long-term receivables | 1,926 | 2,063 |
| Long-term interest receivable | 1,094 | 31 |
| US dollar denominated loans | 169 | 102 |
| **Total long-term loans and receivables** | **27,962** | **40,151** |

***Russian rouble denominated loans***. On 15 December 2010, the Group provided two loans to OAO Sibneftegas, the Group's equity investment, for RR 7,429 million and RR 3,609 million. The first loan was issued at an annual interest rate of 10 percent and is repayable in November 2014. The second loan was issued at an annual interest rate of 9.5 percent and is repayable quarterly in equal parts starting from March 2011 until November 2014. Included in the Russian rouble denominated loans at 30 June 2011 and 31 December 2010 are the long-term portions of the loans in the total amount of RR 9,587 million and RR 10,070 million, respectively (see Note 21).

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

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

At 30 June 2011 and 31 December 2010, the Russian rouble denominated loans include a loan to OOO Yamal Development, the Group's equity investment, in the amount of RR 15,186 million and RR 28,123 million, respectively. The loan was issued at an annual interest rate of 8 percent and is repayable in November 2011; however, for the purpose of this financial information, the loan was treated as part of the Group's net investment in its equity investment and classified as long-term. In June 2011, NOVATEK converted RR 9,775 million, excluding accrued interest, of this loan to equity (see Note 6). At 31 December 2010, the loan was recorded net of accumulated losses recognized by Yamal Development in excess of the Group's investment in the equity investment in the amount of RR 238 million (see Note 6).

No provisions for impairment of long-term loans and receivables were recognized in the consolidated interim condensed statement of financial position at 30 June 2011 and 31 December 2010.

## 8 PREPAYMENTS AND OTHER CURRENT ASSETS

| | At 30 June 2011 | At 31 December 2010 |
|---|---|---|
| ***Financial assets*** | | |
| Russian rouble denominated loans | 4,692 | 969 |
| Financial assets at cost | 284 | - |
| ***Non-financial assets*** | | |
| Prepayments and advances to suppliers (net of provision of RR 89 million both at 30 June 2011 and 31 December 2010) | 10,332 | 2,388 |
| Other current assets | 5,046 | 5,147 |
| **Total prepayments and other current assets** | **20,354** | **8,504** |

On 29 April 2011, the direct and indirect shareholders of OOO SeverEnergia, an associate of Yamal Development, provided proportionally a loan facility to SeverEnergia in the aggregated amount up to RR 31 billion, of which 25.5 percent or RR 7,905 million is attributable to NOVATEK. The facility bears interest rate of MosPrime plus three percent per annum (6.79 percent at 30 June 2011) and repayable in April 2012. At 30 June 2011, NOVATEK provided RR 4,032 million under this loan facility (see Note 21).

At 30 June 2011, prepayments and advances include a RR 6,870 million payment made by the Group for participation in a tender for exploration licenses on Salmanovskoe and Geofizicheskoe fields and exploration and production licenses on East-Tambeyskiy and North-Obskiy license areas, located on the Yamal and Gydan peninsulas.

## 9 LONG-TERM DEBT

| | At 30 June 2011 | At 31 December 2010 |
|---|---|---|
| US dollar denominated bonds | 34,843 | - |
| Russian rouble denominated loans | 24,957 | 24,948 |
| US dollar denominated loans | 19,579 | 19,129 |
| Russian rouble denominated bonds | 9,960 | 9,949 |
| **Total** | **89,339** | **54,026** |
| Less: current portion of long-term debt | (11,738) | (6,952) |
| **Total long-term debt** | **77,601** | **47,074** |

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

## 9 LONG-TERM DEBT (CONTINUED)

At 30 June 2011 and 31 December 2010, the Group's long-term debt by facility is as follows:

| | At 30 June 2011 | At 31 December 2010 |
|---|---|---|
| Eurobonds – Ten-Year Tenor | 18,108 | - |
| Eurobonds – Five-Year Tenor | 16,735 | - |
| Sberbank | 14,957 | 14,948 |
| Gazprombank | 10,000 | 10,000 |
| Russian rouble denominated bonds | 9,960 | 9,949 |
| Sumitomo Mitsui Banking Corporation Europe Limited | 8,358 | - |
| Nordea Bank | 5,615 | 6,095 |
| UniCredit Bank | 5,606 | 6,082 |
| Syndicated term loan facility | - | 6,952 |
| **Total** | **89,339** | **54,026** |

***Eurobonds.*** In February 2011, the Group issued Eurobonds in an aggregate amount of USD 1,250 million. The Eurobonds were issued at par in two tranches, a five-year USD 600 million bond with a coupon rate of 5.326 percent and a ten-year USD 650 million bond with a coupon rate of 6.604 percent. The coupons are payable semi-annually. At 30 June 2011, the outstanding amount was RR 34,843 million (USD 1,241 million), net of unamortized transaction costs of RR 252 million.

***Sberbank.*** On 16 December 2010, the Group obtained a RR 15 billion loan from Sberbank for general corporate purposes including the financing of capital expenditures. The loan bears an interest rate of 7.5 percent per annum and is repayable in December 2013. At 30 June 2011, the outstanding loan amount was RR 14,957 million, net of unamortized transaction costs of RR 43 million.

***Gazprombank.*** On 3 November 2009, the Group signed a loan agreement with OAO Gazprombank, which provided the Group with a loan facility of RR 10 billion until November 2012. Throughout 2010 and the first three months of 2011, the Group gradually reduced the stated interest rate from the initial 13 percent to 8 percent per annum. At 30 June 2011, the outstanding amount was RR 10,000 million.

***Russian rouble denominated bonds.*** In June 2010, the Group issued ten million three-year non-convertible Russian rouble denominated bonds, each with a nominal value RR 1,000 and an annual coupon rate of 7.5 percent, payable semi-annually. At 30 June 2011, the outstanding amount was RR 9,960 million, net of unamortized transaction costs of RR 40 million.

***Sumitomo Mitsui Banking Corporation Europe Limited***. On 5 April 2011, the Group obtained a USD 300 million credit line facility with Sumitomo Mitsui Banking Corporation Europe Limited at an interest rate of LIBOR plus 1.45 percent per annum (1.75 percent at 30 June 2011). The loan facility includes maintenance of certain restrictive financial covenants. At 30 June 2011, the Group withdrew the full amount of RR 8,358 million (USD 298 million), net of unamortized transaction costs of RR 64 million, payable until December 2013.

***Nordea Bank.*** On 16 November 2010, the Group obtained a USD 200 million credit line facility with OAO Nordea Bank. The facility has a three-year tenure, an interest rate of LIBOR plus 1.9 percent per annum (2.09 percent and 2.16 percent at 30 June 2011 and 31 December 2010, respectively) and includes the maintenance of certain restrictive financial covenants. At 30 June 2011, the outstanding amount was RR 5,615 million (USD 200 million).

***UniCredit Bank.*** On 5 October 2009, the Group obtained a USD 200 million loan until October 2012 under credit line facility with UniCredit Bank at an initial interest rate of LIBOR plus 6.5 percent. The initial interest rate was subsequently reduced to LIBOR plus 4.65 percent effective from 25 February 2010 and to LIBOR plus 3.25 percent effective from 11 January 2011 (3.44 percent and 4.92 percent at 30 June 2011 and 31 December 2010, respectively). The loan includes the maintenance of certain restrictive financial covenants. At 30 June 2011, the amount of RR 5,606 million (USD 200 million), net of unamortized transaction costs of RR 9 million, had been drawn under this agreement**.**

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

## 9 LONG-TERM DEBT (CONTINUED)

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

The fair values of long-term debt at 30 June 2011 and 31 December 2010 were as follows:

| | At 30 June 2011 | At 31 December 2010 |
|---|---|---|
| Eurobonds – Ten-Year Tenor | 19,082 | - |
| Eurobonds – Five-Year Tenor | 17,403 | - |
| Sberbank | 15,000 | 15,000 |
| Gazprombank | 10,053 | 10,122 |
| Russian rouble denominated bonds | 10,200 | 10,061 |
| Sumitomo Mitsui Banking Corporation Europe Limited | 8,310 | - |
| UniCredit Bank | 5,669 | 6,139 |
| Nordea Bank | 5,538 | 5,814 |
| Syndicated term loan facility | - | 6,885 |
| **Total** | **91,255** | **54,021** |

Scheduled maturities of long-term debt at 30 June 2011 were as follows:

| *Maturity period:* | RR million |
|---|---|
| 1 July 2012 to 30 June 2013 | 23,373 |
| 1 July 2013 to 30 June 2014 | 19,385 |
| 1 July 2014 to 30 June 2015 | - |
| 1 July 2015 to 30 June 2016 | 16,735 |
| After 30 June 2016 | 18,108 |
| **Total long-term debt** | **77,601** |

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

| | At 30 June 2011 | At 31 December 2010 |
|---|---|---|
| US dollar denominated loans | - | 18,200 |
| Total | - | 18,200 |
| Add: current portion of long-term debt | 11,738 | 6,952 |
| **Total short-term debt and current portion of long-term debt** | **11,738** | **25,152** |

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

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

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

***Available credit facilities.*** The Group's available credit facilities at 30 June 2011 were as follows:

| | | Expiring | |
|---|---|---|---|
| | **Par value** | **Within one year** | **Between 1 and 2 years** |
| Credit Agricole Corporate and Investment Bank [(a)] | USD 100 million | 2,808 | - |
| BNP PARIBAS Bank [(a)] | USD 100 million | 2,808 | - |
| UniCredit Bank [(a)] | USD 150 million | - | 4,211 |
| **Total available credit facilities** | | **5,616** | **4,211** |

[(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 5,475 million (USD 195 million) and RR 5,943 million (USD 195 million) at 30 June 2011 and 31 December 2010, respectively, on either fixed or variable interest rates subject to the specific type of credit facility.

## 11 TRADE PAYABLES AND ACCRUED LIABILITIES

| | **At 30 June 2011** | **At 31 December 2010** |
|---|---|---|
| ***Financial liabilities*** | | |
| Trade payables | 3,293 | 2,194 |
| Other payables | 542 | 24,760 |
| Interest payable | 911 | 53 |
| ***Non-financial liabilities*** | | |
| Advances from customers | 474 | 412 |
| Salary payables | 1,306 | 897 |
| Other liabilities | 242 | 163 |
| **Trade payables and accrued liabilities** | **6,768** | **28,479** |

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

## 12 SHAREHOLDERS' EQUITY

***Treasury shares.*** In accordance with the S*hare Buyback Program* authorized by the Board of Directors on 11 February 2008, the Group's wholly-owned subsidiary, Novatek Equity (Cyprus) Limited, has periodically purchased ordinary shares of OAO NOVATEK in the form of Global Depository Receipts (GDRs) on the London Stock Exchange through the use of independent brokers. At 30 June 2011 and 31 December 2010, the Group held 312,277 GDRs (3,123 thousand ordinary shares) at a total cost of RR 446 million. The Group has decided that these GDRs do not vote.

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

## 12 SHAREHOLDERS' EQUITY (CONTINUED)

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

| | Six months ended 30 June: | |
|---|---|---|
| | **2011** | **2010** |
| Dividends payable at 1 January | - | 13 |
| Dividends declared (*) | 7,583 | 5,306 |
| Dividends paid (*) | (7,581) | (4,907) |
| **Dividends payable at 30 June** | **2** | **412** |
| Dividends per share declared during the period (in Russian roubles) | 2.50 | 1.75 |
| Dividends per GDR declared during the period (in Russian roubles) | 25.0 | 17.5 |

(*) – 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 following amounts were recognized by the Group in respect of the Program:

| | Three months ended 30 June: | | Six months ended 30 June: | |
|---|---|---|---|---|
| ***Expenses included in*** | **2011** | **2010** | **2011** | **2010** |
| General and administrative expenses | 42 | 86 | 130 | 86 |

| ***Liabilities included in*** | **At 30 June 2011** | **At 31 December 2010** |
|---|---|---|
| Other non-current liabilities | 124 | 236 |
| Trade payables and accrued liabilities | 242 | 164 |
| **Total share-based compensation program liabilities** | **366** | **400** |

## 14 OIL AND GAS SALES

| | Three months ended 30 June: | | Six months ended 30 June: | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Natural gas | 24,325 | 15,209 | 52,655 | 34,123 |
| Stable gas condensate | 11,868 | 6,424 | 24,060 | 11,357 |
| Liquefied petroleum gas | 3,725 | 3,024 | 7,439 | 6,056 |
| Crude oil | 530 | 354 | 1,045 | 679 |
| Oil and gas products | 53 | 40 | 95 | 73 |
| **Total oil and gas sales** | **40,501** | **25,051** | **85,294** | **52,288** |

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

## 15 TRANSPORTATION EXPENSES

| | Three months ended 30 June: | | Six months ended 30 June: | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Natural gas transportation to customers | 7,633 | 5,669 | 16,201 | 12,382 |
| Liquids transportation by rail | 2,402 | 1,811 | 4,725 | 3,439 |
| Liquids transportation by tankers | 940 | 785 | 1,872 | 1,336 |
| Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines | - | 124 | - | 243 |
| Crude oil transportation to customers | 63 | 45 | 120 | 93 |
| Other | 15 | 2 | 18 | 6 |
| **Total transportation expenses** | **11,053** | **8,436** | **22,936** | **17,499** |

## 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: | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Unified natural resources production tax | 3,333 | 1,805 | 6,890 | 3,823 |
| Property tax | 429 | 348 | 863 | 684 |
| Excise and fuel taxes | 235 | 56 | 478 | 87 |
| Other taxes | 49 | 51 | 135 | 90 |
| **Total taxes other than income tax** | **4,046** | **2,260** | **8,366** | **4,684** |

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

## 17 FINANCE INCOME (EXPENSE)

| *Interest expense (including transaction costs)* | Three months ended 30 June: 2011 | 2010 | Six months ended 30 June: 2011 | 2010 |
|---|---|---|---|---|
| 7.5% RR 15 billion Sberbank December 2013 | 286 | - | 568 | - |
| 8.5% RR 5 billion Sberbank February 2011 [a] | - | 130 | - | 292 |
| 6.604% USD 650 million Eurobonds February 2021 | 303 | - | 505 | 3 |
| 8% RR 10 billion Gazprombank November 2012 [a] | 199 | 152 | 402 | 327 |
| 7.5% RR 10 billion Bonds June 2013 | 193 | 2 | 383 | 2 |
| 5.326% USD 600 million Eurobonds February 2016 | 228 | - | 381 | - |
| LIBOR+3.25% USD 200 million UniCredit Bank October 2012 [a] | 50 | 77 | 105 | 168 |
| LIBOR+1.9% USD 200 million Nordea Bank November 2013 | 29 | - | 60 | - |
| LIBOR+1.5% USD 800 million Syndicated term loan facility April 2011 | 9 | 88 | 37 | 193 |
| LIBOR+1.45% USD 300 million Sumitomo Mitsui Banking Corporation Europe Limited December 2013 | 47 | - | 47 | - |
| Other interest expenses [b] | 21 | 10 | 130 | 20 |
| **Subtotal** | **1,365** | **459** | **2,618** | **1,005** |
| Less: capitalised interest | (920) | (459) | (1,783) | (982) |
| **Interest expense (on historical cost basis)** | **445** | **-** | **835** | **23** |
| IAS 32 and IAS 39 *“Financial Instruments”* – fair value remeasurement | - | 46 | 212 | 99 |
| Provisions for asset retirement obligations: unwinding of the present value discount | 58 | 37 | 111 | 110 |
| **Total interest expense** | **503** | **83** | **1,158** | **232** |

[a] – interest rates were reduced during the periods (see Note 9)
[b] – including credit facility with interest rates negotiated at time of each withdrawal (see Note 10)

| *Interest income* | Three months ended 30 June: 2011 | 2010 | Six months ended 30 June: 2011 | 2010 |
|---|---|---|---|---|
| Interest income on cash and cash equivalents | 140 | 40 | 194 | 87 |
| Interest income on loans issued | 654 | 58 | 1,457 | 116 |
| **Interest income (on historical cost basis)** | **794** | **98** | **1,651** | **203** |
| IAS 32 and IAS 39 *“Financial Instruments”* – fair value remeasurement | 16 | 25 | 78 | 35 |
| **Total interest income** | **810** | **123** | **1,729** | **238** |

## 18 INCOME TAX

***Effective income tax rate.*** The Group’s Russian statutory income tax rate for 2011 and 2010 was 20 percent. For the six months ended 30 June 2011 and 2010, the consolidated Group’s effective income tax rate was 20.2 percent and 20.8 percent, respectively. For the three months ended 30 June 2011 and 2010, the consolidated Group’s effective income tax rate was 20.1 percent and 20.9 percent, respectively.

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

## 19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

| *Financial assets* | *Financial assets at fair value through profit and loss* At 30 June 2011 | At 31 December 2010 | *Loans and receivables* At 30 June 2011 | At 31 December 2010 |
|---|---|---|---|---|
| *Non-current* | | | | |
| Long-term loans receivable | - | - | 24,942 | 38,057 |
| Trade and other receivables | - | - | 3,020 | 2,094 |
| *Current* | | | | |
| Trade and other receivables | - | - | 10,393 | 8,670 |
| Prepayments and other current assets | 284 | - | 4,692 | 969 |
| Cash and cash equivalents | - | - | 14,230 | 10,238 |
| **Total carrying amount** | **284** | **-** | **57,277** | **60,028** |

| *Financial liabilities* | *Measured at amortized cost* At 30 June 2011 | At 31 December 2010 |
|---|---|---|
| *Non-current* | | |
| Long-term debt | 77,601 | 47,074 |
| Other non-current liabilities | - | 110 |
| *Current* | | |
| Current portion of long-term debt | 11,738 | 6,952 |
| Short-term debt | - | 18,200 |
| Trade and other payables | 4,746 | 27,007 |
| **Total carrying amount** | **94,085** | **99,343** |

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

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

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

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

*(a) Foreign exchange risk*

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

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

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

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

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

| At 30 June 2011 | Russian rouble | US dollar | Other | Total |
|---|---|---|---|---|
| ***Financial assets*** | | | | |
| *Non-current* | | | | |
| Long-term loans receivable | 24,773 | 169 | - | 24,942 |
| Trade and other receivables | 2,952 | 2 | 66 | 3,020 |
| *Current* | | | | |
| Trade and other receivables | 5,383 | 4,683 | 327 | 10,393 |
| Prepayments and other current assets | 4,692 | 284 | - | 4,976 |
| Cash and cash equivalents | 10,852 | 2,494 | 884 | 14,230 |
| ***Financial liabilities*** | | | | |
| *Non-current* | | | | |
| Long-term debt | (29,917) | (47,684) | - | (77,601) |
| *Current* | | | | |
| Current portion of long-term debt | (5,000) | (6,738) | - | (11,738) |
| Trade and other payables | (3,109) | (1,531) | (106) | (4,746) |
| **Net exposure at 30 June 2011** | **10,626** | **(48,321)** | **1,171** | **(36,524)** |

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

*(b) Commodity price risk*

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

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

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

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

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

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

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

*(c) Cash flow and fair value interest rate risk*

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

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

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

| | At 30 June 2011 | At 31 December 2010 |
|---|---|---|
| At variable rate | 19,579 | 37,327 |
| At fixed rate | 69,760 | 34,899 |
| **Total debt** | **89,339** | **72,226** |

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

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

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

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

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

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

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

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

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

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 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* (*) | 5,000 | 15,000 | 31,845 | 18,249 | 70,094 |
| *Interest* | 4,714 | 4,085 | 6,801 | 6,038 | 21,638 |
| Debt at variable rate | | | | | |
| *Principal* (*) | 6,738 | 8,423 | 4,492 | - | 19,653 |
| *Interest* | 448 | 185 | 29 | - | 662 |
| Trade and other payables | 4,746 | - | - | - | 4,746 |
| **Total financial liabilities** | **21,646** | **27,693** | **43,167** | **24,287** | **116,793** |

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

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

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

[(*)] – differs from long-term debt (Note 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 and BBB- (negative outlook) by Fitch Ratings, as well as a credit rating of BBB- (negative outlook) by Standard & Poor's. To maintain its credit ratings, the Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis. On 6 July 2011, Standard & Poor's Ratings Services revised its outlook on OAO NOVATEK from negative to stable.

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

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

The Group defines the term "capital" as equity attributable to OAO NOVATEK shareholders minus net debt (total debt less cash and cash equivalents). There were no changes to the Group's approach to capital management during the six months ended 30 June 2011.

## 20 CONTINGENCIES AND COMMITMENTS

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

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

## 20 CONTINGENCIES AND COMMITMENTS (CONTINUED)

***Commitments.*** At 30 June 2011, the Group had contractual capital expenditures commitments aggregating approximately RR 14,837 million (at 31 December 2010: RR 9,834 million) mainly for ongoing development activities at the Yurkharovskoye field (through 2012), development of the South-Tambeyskoye field (through 2013), construction of the terminal for the transshipment and fractionation of stable gas condensate (through 2011), development of the East-Tarkosalinskoye and Khancheyskoye fields (through 2012) and for continuation of phase two construction of the Purovsky Gas Condensate Plant (through 2011) 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.

As at 30 June 2011, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued in the consolidated interim condensed financial information.

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

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

***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.

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

## 21 RELATED PARTY TRANSACTIONS

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

For the purposes of 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. The Group enters into transactions with related parties based on market or regulated prices.

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

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

| ***Related parties – OAO Gazprom and its subsidiaries (until December 2010)*** | **Three months ended 30 June:** | | **Six months ended 30 June:** | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| ***Transactions*** | | | | |
| ***OAO Gazprom:*** | | | | |
| Natural gas sales | - | 2,938 | - | 6,659 |
| Natural gas transportation to customers | - | (5,952) | - | (12,844) |
| ***Other Gazprom subsidiaries:*** | | | | |
| Processing fees | - | (186) | - | (363) |
| Natural gas transportation | - | (127) | - | (247) |

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

| ***Related parties – equity investments*** | **Three months ended 30 June:** | | **Six months ended 30 June:** | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| ***Transactions*** | | | | |
| ***OAO Sibneftegas (from December 2010):*** | | | | |
| Interest income on loans issued | 258 | - | 521 | - |
| Oil and gas products sales | 11 | - | 21 | - |
| Purchases of natural gas | (893) | - | (1,825) | - |
| ***OOO Yamal Development (from November 2010):*** | | | | |
| Interest income on loans issued | 334 | - | 856 | - |
| ***OOO SeverEnergia (from November 2010):*** | | | | |
| Interest income on loans issued | 45 | - | 45 | - |

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

## 21 RELATED PARTY TRANSACTIONS (CONTINUED)

| ***Related parties – equity investments*** | **At 30 June 2011** | **At 31 December 2010** |
|---|---|---|
| ***Balances*** | | |
| ***OAO Sibneftegas (from December 2010):*** | | |
| Long-term loans receivable | 9,587 | 10,070 |
| Interest on long-term loans receivable | 400 | 33 |
| Short-term loans receivable | 660 | 967 |
| Trade payables and accrued liabilities | 347 | - |
| ***OOO Yamal Development (from November 2010):*** | | |
| Long-term loans receivable | 15,186 | 27,885 |
| Interest on long-term loans receivable | 692 | 191 |
| ***OOO SeverEnergia (from November 2010):*** | | |
| Short-term loans receivable | 4,032 | - |
| Interest on short-term loans receivable | 45 | - |
| ***ZAO Terneftegas (from February 2010):*** | | |
| Long-term loans receivable | 169 | 102 |

As discussed in Note 4, in February 2010, the Group's effective control over ZAO Terneftegas ceased; therefore, subsequent to that event, the Group's balances and transactions with this entity are disclosed as related parties – equity investments.

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

In December 2010, the Chairman of the Management Board of NOVATEK acquired an effective 25 percent stake in ZAO SIBUR Holding. As a result, the Group's balances with this company and its subsidiaries at 31 December 2010 were disclosed as related parties – parties under significant influence of key management personnel. With the adoption of the revised IAS 24, *Related Party Disclosures* ZAO SIBUR Holding ceased to be a related party to the Group.

The comparative figures in the disclosure with respect to balances at 31 December 2010 and transactions for the six months ended 30 June 2010 have been adjusted to reflect the change in definitions of a related party following the adoption of the revised standard IAS 24, *Related Party Disclosures.*

| ***Related parties – party under control of key management personnel*** | **At 30 June 2011** | **At 31 December 2010** |
|---|---|---|
| ***Balances*** | | |
| ***OAO Pervobank:*** | | |
| Cash and cash equivalents | 1,320 | 1,760 |

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

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

## 21 RELATED PARTY TRANSACTIONS (CONTINUED)

| | Three months ended 30 June: | | Six months ended 30 June: | |
|---|---|---|---|---|
| *Related parties – members of the key management personnel* | 2011 | 2010 | 2011 | 2010 |
| Board of Directors | 47 | 64 | 66 | 74 |
| Management Committee | 348 | 527 | 709 | 586 |
| **Total compensation** | **395** | **591** | **775** | **660** |

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

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

In addition, RR 24 million and RR 68 million was recognized during the three months and six months ended 30 June 2010, respectively as part of the share-based compensation scheme and included in general and administrative expenses. In May 2010, share-based compensation to the key members of the Group's management team was fully recognized.

## 22 SEGMENT INFORMATION

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

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

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

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

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

## 22 SEGMENT INFORMATION (CONTINUED)

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 | 29 | 40,576 |
| Operating expenses | *a, b, c* | (24,813) | (24,813) | 2,374 | (22,439) |
| Other operating income (loss) | | (141) | (141) | 76 | (65) |
| 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 loss of equity investments, net of income tax | | | | | (991) |
| **Profit before income tax** | | | | | **18,154** |
| 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;

b. 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;

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

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

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

## 22 SEGMENT INFORMATION (CONTINUED)

Segment information for the three months ended 30 June 2010 is as follows:

| *For the three months ended 30 June 2010* | References | Exploration, production and marketing | Polymer products production and marketing | Segment information as reported to CODM | Reconciling items | Total per consolidated interim condensed financial information |
|---|---|---|---|---|---|---|
| External revenues | | 25,101 | 624 | 25,725 | (19) | 25,706 |
| Operating expenses | *a, b* | (15,592) | (550) | (16,142) | 425 | (15,717) |
| Other operating income (loss) | *b* | (115) | 8 | (107) | 136 | 29 |
| Interest expense | *c* | (383) | - | (383) | 300 | (83) |
| Interest income | | 38 | 1 | 39 | 84 | 123 |
| Foreign exchange gain (loss) | *c* | (1,212) | 1 | (1,211) | 93 | (1,118) |
| **Segment result** | | **7,837** | **84** | **7,921** | **1,019** | **8,940** |
| Share of loss of equity investments, net of income tax | | | | | | (9) |
| **Profit before income tax** | | | | | | **8,931** |
| Depreciation, depletion and amortization | *a, b* | 1,998 | 18 | 2,016 | (432) | 1,584 |
| Capital expenditures | *c* | 6,880 | 29 | 6,909 | (857) | 6,052 |

Reconciling items mainly related to:

a. different methodology in depreciation, depletion and amortization calculation for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method) which resulted in reversal of RR 633 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 reclassification of RR 148 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS; and

c. different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting which resulted in additional interest capitalized of RR 532 million and reversal of capital expenditures of RR 1,389 million under IFRS.

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

## 22 SEGMENT INFORMATION (CONTINUED)

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 | (172) | 85,437 |
| Operating expenses | *b, c, d, e* | (48,224) | (48,224) | 2,364 | (45,860) |
| Other operating income (loss) | *c* | (333) | (333) | 332 | (1) |
| 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 loss of equity investments, net of income tax | | | | | (1,517) |
| **Profit before income tax** | | | | | **41,870** |
| 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;

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

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

## 22 SEGMENT INFORMATION (CONTINUED)

Segment information for the six months ended 30 June 2010 is as follows:

| *For the six months ended 30 June 2010* | References | Exploration, production and marketing | Polymer products production and marketing | Segment information as reported to CODM | Reconciling items | Total per consolidated interim condensed financial information |
|---|---|---|---|---|---|---|
| External revenues | | 52,496 | 1,107 | 53,603 | (155) | 53,448 |
| Operating expenses | *a ,b, c* | (31,104) | (968) | (32,072) | 408 | (31,664) |
| Other operating income (loss) | *b, d* | 257 | 12 | 269 | 1,338 | 1,607 |
| Interest expense | *e, f* | (779) | - | (779) | 547 | (232) |
| Interest income | | 87 | 2 | 89 | 149 | 238 |
| Foreign exchange gain (loss) | *f* | (549) | 2 | (547) | 75 | (472) |
| **Segment result** | | **20,408** | **155** | **20,563** | **2,362** | **22,925** |
| Share of loss of equity investments, net of income tax | | | | | | (10) |
| **Profit before income tax** | | | | | | **22,915** |
| Depreciation, depletion and amortization | *a, b* | 3,847 | 34 | 3,881 | (659) | 3,222 |
| Capital expenditures | *f* | 11,838 | 30 | 11,868 | 414 | 12,282 |

Reconciling items mainly related to:

a. different methodology in depreciation, depletion and amortization calculation for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method) which resulted in reversal of RR 1,082 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 reclassification of RR 370 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS;

c. different methodology in recognition of expenses relating to natural gas storage services and recognition of share-based payments between IFRS and management accounting which resulted in additional transportation expenses of RR 113 million and additional payroll expenses of RR 154 million recorded in operating expenses under IFRS;

d. different methodology in recognition of the gain on disposal of ownership interest in ZAO Terneftegas between IFRS and management accounting which resulted in additional gain of RR 988 million recorded in other operating income (loss) under IFRS;

e. different methodology in valuation of long-term payables and asset retirement obligations between IFRS and management accounting which resulted in additional interest expense of RR 204 million charged 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 interest capitalized and additional capitalization of foreign exchange loss of RR 942 million and reversal of capital expenditures of RR 528 million under IFRS.

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

## 22 SEGMENT INFORMATION (CONTINUED)

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

Geographical information for the three months ended 30 June 2011 and 2010 is as follows:

| *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 | 1,209 | 2,894 | - | - | - | (378) | 2,516 | 3,725 |
| Crude oil | 286 | 543 | - | - | - | (299) | 244 | 530 |
| Oil and gas products | 53 | - | - | - | - | - | - | 53 |
| **Oil and gas sales** | **25,919** | **14,254** | **3,357** | **6,409** | **-** | **(9,438)** | **14,582** | **40,501** |
| Other revenues | 72 | 3 | - | - | - | - | 3 | 75 |
| **Total external revenues** | **25,991** | **14,257** | **3,357** | **6,409** | **-** | **(9,438)** | **14,585** | **40,576** |

| *For the three months ended 30 June 2010* | Russian Federation | Outside Russian Federation | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | Europe | USA | APR | Other | Export duty | Subtotal | |
| Natural gas | 15,209 | - | - | - | - | - | - | 15,209 |
| Stable gas condensate | 26 | - | 4,954 | 3,457 | 2,496 | (4,509) | 6,398 | 6,424 |
| Liquefied petroleum gas | 1,193 | 2,026 | - | - | - | (195) | 1,831 | 3,024 |
| Crude oil | 237 | 248 | - | - | - | (131) | 117 | 354 |
| Oil and gas products | 40 | - | - | - | - | - | - | 40 |
| **Oil and gas sales** | **16,705** | **2,274** | **4,954** | **3,457** | **2,496** | **(4,835)** | **8,346** | **25,051** |
| Polymer products sales (until September 2010) | 491 | - | - | - | 120 | - | 120 | 611 |
| Other revenues | 42 | 2 | - | - | - | - | 2 | 44 |
| **Total external revenues** | **17,238** | **2,276** | **4,954** | **3,457** | **2,616** | **(4,835)** | **8,468** | **25,706** |

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

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

## 22 SEGMENT INFORMATION (CONTINUED)

Geographical information for the six months ended 30 June 2011 and 2010 is as follows:

| *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 | 2,554 | 5,780 | - | - | 10 | (905) | 4,885 | 7,439 |
| Crude oil | 570 | 982 | - | - | - | (507) | 475 | 1,045 |
| Oil and gas products | 95 | - | - | - | - | - | - | 95 |
| **Oil and gas sales** | **55,920** | **23,298** | **7,856** | **15,410** | **10** | **(17,200)** | **29,374** | **85,294** |
| Other revenues | 138 | 5 | - | - | - | - | 5 | 143 |
| **Total external revenues** | **56,058** | **23,303** | **7,856** | **15,410** | **10** | **(17,200)** | **29,379** | **85,437** |

| *For the six months ended 30 June 2010* | Russian Federation | Outside Russian Federation | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | Europe | USA | APR | Other | Export duty | Subtotal | |
| Natural gas | 34,123 | - | - | - | - | - | - | 34,123 |
| Stable gas condensate | 27 | 1,102 | 12,166 | 3,322 | 2,496 | (7,756) | 11,330 | 11,357 |
| Liquefied petroleum gas | 2,446 | 4,003 | - | - | - | (393) | 3,610 | 6,056 |
| Crude oil | 396 | 577 | - | - | - | (294) | 283 | 679 |
| Oil and gas products | 73 | - | - | - | - | - | - | 73 |
| **Oil and gas sales** | **37,065** | **5,682** | **12,166** | **3,322** | **2,496** | **(8,443)** | **15,223** | **52,288** |
| Polymer products sales (until September 2010) | 882 | - | - | - | 198 | - | 198 | 1,080 |
| Other revenues | 78 | 2 | - | - | - | - | 2 | 80 |
| **Total external revenues** | **38,025** | **5,684** | **12,166** | **3,322** | **2,694** | **(8,443)** | **15,423** | **53,448** |

***Major customers.*** For the three months ended 30 June 2011 and 2010, the Group had two major customers, to whom individual revenues were more than 10 percent of total external revenues. The total sales to these respective customers represented 30 percent and 31 percent of Group’s total external revenues for the three months ended 30 June 2011 and 2010, respectively.

For the six months ended 30 June 2011 and 2010, the Group had two and three major customers, respectively, to whom individual revenues were more than 10 percent of total external revenues. The total sales to these respective customers represented 31 percent and 42 percent of Group’s total external revenues for the six months ended 30 June 2011 and 2010, respectively.

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

## 23 NEW ACCOUNTING PRONOUNCEMENTS

Beginning 1 January 2011, in addition to that which is disclosed in Note 3, the Group has adopted the following new standards and interpretations:

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

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

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

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

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

## 23 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The adoption of these new standards and interpretations, in case of such operations, had an insignificant effect on the Group's consolidated interim condensed financial information, except for the related parties transactions and balances disclosures which were prepared in accordance with the new related parties definitions set in the revised IAS 24, *Related Party Disclosures* – see Note 21.

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

- IFRS 9, *Financial Instruments Part 1: Classification and Measurement* (effective for annual periods beginning on or after 1 January 2013). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

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

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

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

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

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

- Amendments to IFRS 7, *Financial Instruments: Disclosures* (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;

- Amendments to IAS 12, *Income Taxes* (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment,* was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value.

## 23 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- Amendment to IFRS 1, *Limited exemption from comparative IFRS 7 disclosures for first-time Adopters* (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7;

- Amendment to IFRS 1, *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes;

- 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;

- 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;

- 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;

- 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 precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs;

- 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 (loss). The amendments require entities to separate items presented in Other comprehensive income (loss) into two groups, based on whether or not they may be recycled 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'; and

## 23 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- Amended IAS 19, *Employee benefits* (issued 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 Group is currently assessing the impact of the new standards and interpretations on 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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