OAO NOVATEK

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

AS OF AND FOR THE THREE MONTHS ENDED 31 MARCH 2012

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Report on review of consolidated interim condensed financial information

To the shareholders and Board of Directors of OAO NOVATEK

Introduction

1. We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO NOVATEK and its subsidiaries (the "Group") as of 31 March 2012 and the related consolidated interim condensed statements of income, comprehensive income, cash flows and changes in equity for the three 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 33 in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

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

Conclusion

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
10 May 2012

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

	Notes	At 31 March 2012	At 31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	4	171,696	166,784
Investments in joint ventures	5	138,386	123,029
Long-term loans and receivables	6	18,254	32,130
Other non-current assets		3,937	3,173
Total non-current assets		**332,273**	**325,116**
Current assets			
Inventories		1,874	1,683
Current income tax prepayments		282	1,153
Trade and other receivables		14,762	16,699
Prepayments and other current assets	7	9,855	14,950
Cash and cash equivalents		27,670	23,831
Total current assets		**54,443**	**58,316**
Total assets		**386,716**	**383,432**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	8	68,388	75,180
Deferred income tax liabilities		13,443	12,805
Other non-current liabilities		738	917
Asset retirement obligations		2,737	2,734
Total non-current liabilities		**85,306**	**91,636**
Current liabilities			
Short-term debt and current portion of long-term debt	9	7,327	20,298
Trade payables and accrued liabilities	10	23,204	24,922
Current income tax payable		3,747	611
Other taxes payable		4,677	4,283
Total current liabilities		**38,955**	**50,114**
Total liabilities		**124,261**	**141,750**
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(281)	(281)
Additional paid-in capital		31,220	31,220
Currency translation differences		(273)	193
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		225,116	203,871
Total equity attributable to OAO NOVATEK shareholders	11	**261,792**	**241,013**
Non-controlling interest		**663**	**669**
Total equity		**262,455**	**241,682**
Total liabilities and equity		**386,716**	**383,432**

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

Approved for issue and signed on behalf of the Board of Directors on 10 May 2012:

L. Mikhelson
General Director

M. Gyetvay
Financial Director

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

	Notes	Three months ended 31 March: 2012	2011
Revenues			
Oil and gas sales	13	54,152	44,826
Other revenues		221	68
Total revenues		**54,373**	**44,894**
Operating expenses			
Transportation expenses	14	(16,379)	(11,905)
Taxes other than income tax	15	(4,613)	(4,320)
Purchases of natural gas and liquid hydrocarbons	16	(3,351)	(963)
Depreciation, depletion and amortization	4	(2,545)	(2,029)
General and administrative expenses		(2,396)	(1,995)
Materials, services and other		(1,586)	(1,282)
Exploration expenses		(896)	(726)
Net impairment expenses		(25)	(12)
Change in natural gas, liquid hydrocarbons and work-in-progress		(60)	(211)
Total operating expenses		**(31,851)**	**(23,443)**
Other operating income (loss)		41	53
Profit from operations		**22,563**	**21,504**
Finance income (expense)			
Interest expense	17	(790)	(655)
Interest income	17	534	919
Foreign exchange gain (loss)		5,880	2,474
Total finance income (expense)		**5,624**	**2,738**
Share of profit (loss) of joint ventures, net of income tax	5	(991)	(610)
Profit before income tax		**27,196**	**23,632**
Income tax expense			
Current income tax expense		(5,828)	(3,869)
Net deferred income tax expense		(129)	(1,047)
Total income tax expense	18	**(5,957)**	**(4,916)**
Profit (loss)		**21,239**	**18,716**
Profit (loss) attributable to:			
Non-controlling interest		(6)	(53)
Shareholders of OAO NOVATEK		**21,245**	**18,769**
Basic and diluted earnings per share (in Russian roubles)		7.00	6.19
Weighted average number of shares outstanding (in thousands)		*3,034,338*	*3,033,184*

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)

	Three months ended 31 March:	
	2012	**2011**
Other comprehensive income (loss) after income tax:		
Currency translation differences	(466)	(199)
Other comprehensive income (loss)	**(466)**	**(199)**
Profit (loss)	**21,239**	**18,716**
Total comprehensive income (loss)	**20,773**	**18,517**
Total comprehensive income (loss) attributable to:		
Non-controlling interest	(6)	(53)
Shareholders of OAO NOVATEK	**20,779**	**18,570**

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

(in millions of Russian roubles)

	Three months ended 31 March:	
	2012	**2011**
Profit before income tax	**27,196**	**23,632**
Adjustments to profit before income tax:		
Depreciation, depletion and amortization	2,614	2,061
Net impairment expenses	25	12
Net foreign exchange loss (gain)	(5,880)	(2,474)
Net loss (gain) on disposal of assets	(26)	10
Interest expense	790	655
Interest income	(534)	(919)
Share of loss (profit) in joint ventures, net of income tax	991	610
Net change in other non-current assets and long-term receivables	130	457
Other adjustments	(177)	(82)
Working capital changes		
Decrease (increase) in trade and other receivables, prepayments and other current assets	2,812	(4,713)
Decrease (increase) in inventories	(188)	217
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable	(2,385)	1,290
Increase (decrease) in other taxes payable	473	1,717
Total effect of working capital changes	**712**	**(1,489)**
Income taxes paid	(1,892)	(3,268)
Net cash provided by operating activities	**23,949**	**19,205**
Cash flows from investing activities		
Purchases of property, plant and equipment	(5,955)	(4,608)
Purchases of inventories intended for construction	(92)	(47)
Acquisition of subsidiaries net of cash acquired	(109)	(3,082)
Acquisition of and capital contribution to joint ventures	(2,507)	(21,176)
Proceeds from disposals of subsidiaries net of cash disposed	-	71
Interest paid and capitalized	(442)	(627)
Loans provided	(853)	(215)
Repayments of loans provided	7,184	485
Interest received	239	134
Net cash (used for) provided by investing activities	**(2,535)**	**(29,065)**
Cash flows from financing activities		
Proceeds from long-term debt	-	36,494
Repayments of long-term debt	(14,546)	(3,419)
Repayments of short-term debt	-	(17,621)
Interest paid	(1,123)	-
Dividends paid	-	(1)
Net cash (used for) provided by financing activities	**(15,669)**	**15,453**
Net effect of exchange rate changes on cash, cash equivalents and bank overdrafts	(1,906)	(439)
Net increase (decrease) in cash, cash equivalents and bank overdrafts	**3,839**	**5,154**
Cash and cash equivalents at beginning of the period	23,831	10,238
Cash, cash equivalents and bank overdrafts at end of the period	**27,670**	**15,392**

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 three months ended 31 March 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	-	-	-	-	-	(199)	-	(199)	-	(199)
Profit (loss)	-	-	-	-	-	-	18,769	18,769	(53)	18,716
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**(199)**	**18,769**	**18,570**	**(53)**	**18,517**
Equity call option reclassification	-	-	-	-	-	-	284	284	-	284
Impact of additional shares subscription in subsidiaries on non-controlling interest	-	-	-	-	-	-	-	-	286	286
31 March 2011	***3,033,184***	**393**	**(446)**	**30,865**	**5,617**	**(319)**	**129,863**	**165,973**	**20,900**	**186,873**

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 three months ended 31 March 2012										
1 January 2012	***3,034,338***	**393**	**(281)**	**31,220**	**5,617**	**193**	**203,871**	**241,013**	**669**	**241,682**
Currency translation differences	-	-	-	-	-	(466)	-	(466)	-	(466)
Profit (loss)	-	-	-	-	-	-	21,245	21,245	(6)	21,239
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**(466)**	**21,245**	**20,779**	**(6)**	**20,773**
31 March 2012	***3,034,338***	**393**	**(281)**	**31,220**	**5,617**	**(273)**	**225,116**	**261,792**	**663**	**262,455**

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

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

In January 2012, the Group merged its wholly owned subsidiary OOO YamalEnergoGaz into its wholly owned subsidiary OOO NOVATEK-Perm. The merger did not affect the Group's consolidated financial and operational results.

2 BASIS OF PRESENTATION

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

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

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

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

Russian roubles to one currency unit	At 31 March 2012	At 31 December 2011	Average rate for the three months ended 31 March: 2012	2011
US dollar ("USD")	29.33	32.20	30.26	29.27
Polish Zloty ("PLN")	9.43	9.47	9.38	10.14

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

2 BASIS OF PRESENTATION (CONTINUED)

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

Comparative figures adjustment. The following adjustment has been made to the comparative figures to reflect the final fair value assessment of the identifiable assets and liabilities of OAO Sibneftegas, the Group's joint venture, after its acquisition in December 2010. At the acquisition date, the Group recorded the preliminary fair values for oil and gas properties and equipment, which were used as the basis for depreciation through the nine months of 2011. In December 2011, the Group completed an independent valuation of the fair values of Sibneftegas's identifiable net assets. Revisions made to the preliminary assessment were reflected as of the acquisition date and accordingly, the Group's share of profit (loss) of joint ventures, net of income tax, and as a result, profit attributable to shareholders of OAO NOVATEK for the three months ended 31 March 2011 was decreased by RR 84 million to reflect the revised depreciation of Sibneftegas' assets.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment, for the three months ended 31 March 2012 and 2011 are as follows:

For the three months ended 31 March 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	334	6,008	6,342
Transfers	1,518	(1,518)	-
Depreciation, depletion and amortization	(2,064)	-	(2,064)
Disposals, net	(63)	(422)	(485)
Cost	199,411	20,090	219,501
Accumulated depreciation, depletion and amortization	(30,135)	-	(30,135)
Net book value at 31 March 2011	**169,276**	**20,090**	**189,366**

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

4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

For the three months ended 31 March 2012	Operating assets	Assets under construction and advances for construction	Total
Cost	186,391	17,647	204,038
Accumulated depreciation, depletion and amortization	(37,254)	-	(37,254)
Net book value at 1 January 2012	**149,137**	**17,647**	**166,784**
Additions	277	7,242	7,519
Transfers	1,193	(1,193)	-
Depreciation, depletion and amortization	(2,584)	-	(2,584)
Disposals, net	(1)	(22)	(23)
Cost	187,783	23,674	211,457
Accumulated depreciation, depletion and amortization	(39,761)	-	(39,761)
Net book value at 31 March 2012	**148,022**	**23,674**	**171,696**

Included in additions to property, plant and equipment for the three months ended 31 March 2012 and 2011 are capitalized interest and foreign exchange differences of RR 475 million and RR 863 million, respectively.

Included within the operating assets balance at 31 March 2012 and 31 December 2011 are proved properties of RR 21,990 million and RR 22,355 million, net of accumulated depletion of RR 10,684 million and RR 10,300 million, respectively.

Included within the operating assets balance at 31 March 2012 and 31 December 2011 are unproved properties of RR 14,244 million and RR 14,061 million, respectively. Management believes these costs are recoverable and has plans to explore and develop the respective properties.

5 INVESTMENTS IN JOINT VENTURES

	At 31 March 2012	At 31 December 2011
Joint ventures:		
OAO Yamal LNG	88,923	89,549
OAO Sibneftegas	23,944	24,187
OOO Yamal Development (consolidated)	24,304	8,100
ZAO Terneftegas	1,215	1,193
Total investments in joint ventures	**138,386**	**123,029**

In February 2012, the charter capital of Yamal Development was increased by converting RR 32,697 million of loans provided to the company by its participants, of which RR 16,348 million, was attributable to NOVATEK (see Note 6).

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

5 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

	Three months ended 31 March:	
	2012	2011
At 1 January	**123,029**	**27,026**
Share of profit (loss) of joint ventures before income tax	(1,181)	(703)
Share of income tax (expense) benefit	190	93
Share of profit (loss) of joint ventures, net of income tax	**(991)**	**(610)**
Contribution to charter capital	16,348	-
Losses (reversals) recognized in excess of investments in joint ventures, reclassified to long-term loans receivable for these companies	-	96
At 31 March	**138,386**	**26,512**

6 LONG-TERM LOANS AND RECEIVABLES

	At 31 March 2012	At 31 December 2011
Russian rouble denominated loans	9,482	9,737
US dollar denominated loans	345	220
Total	**9,827**	**9,957**
Less: current portion of long-term loans	(620)	(634)
Total long-term loans	**9,207**	**9,323**
Long-term receivables	8,081	22,027
Long-term interest receivable	966	780
Total long-term loans and receivables	**18,254**	**32,130**

Russian rouble denominated loans. At 31 March 2012 and 31 December 2011, the Russian rouble denominated loans included loans to OAO Sibneftegas, the Group's joint venture, in the amount of RR 9,482 million and RR 9,737 million, respectively (see Note 21). The loans had interest rates ranging from 9.5 percent to 10 percent per annum (weighted average interest rate of 9.9 percent at 31 March 2012) and are repayable until November 2014.

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

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

6 LONG-TERM LOANS AND RECEIVABLES (CONTINUED)

In November 2011, the shareholders of OAO Yamal LNG, the Group's joint venture, made a decision to increase its equity through a disproportional subscription to the entity's additional shares emissions in the aggregated amount of RR 17,046 million. The share subscription emissions were fully paid; however, the legal procedures to register the new charter were not completed by 31 March 2012. Accordingly, the Group's share of RR 6,461 million and RR 3,955 million was recognized as long-term receivables at 31 March 2012 and 31 December 2011, respectively (see Note 21). Subsequent to the balance sheet date, on 24 April 2012, the new charter was formally registered thus increasing the participants' share in the equity. The Group's shareholding did not change notably after the share emission.

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

7 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 March 2012	At 31 December 2011
Financial assets		
Russian rouble denominated loans	620	6,859
Short-term bank deposits	64	17
Non-financial assets		
Deferred export duties for stable gas condensate	3,435	922
Recoverable value-added tax	1,932	1,550
Prepayments and advances to suppliers (net of provision of RR 13 million and RR 12 million at 31 March 2012 and 31 December 2011, respectively)	1,588	3,322
Deferred transportation expenses for stable gas condensate	1,087	413
Prepaid taxes other than income tax	1,012	668
Deferred transportation expenses for natural gas	-	1,139
Other current assets	117	60
Total prepayments and other current assets	**9,855**	**14,950**

At 31 December 2011, the Russian rouble denominated loans included a loan provided proportionally with other shareholders by NOVATEK to OOO SeverEnergia, the Group's related party, in the amount of RR 6,225 million (see Note 21). The loan bore an interest rate of MosPrime plus three percent per annum and was fully repaid in March 2012.

8 LONG-TERM DEBT

	At 31 March 2012	At 31 December 2011
US dollar denominated bonds	36,433	39,982
Russian rouble denominated loans	14,971	24,966
US dollar denominated loans	14,336	20,559
Russian rouble denominated bonds	9,975	9,971
Total	**75,715**	**95,478**
Less: current portion of long-term debt	(7,327)	(20,298)
Total long-term debt	**68,388**	**75,180**

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

8 LONG-TERM DEBT (CONTINUED)

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

	At 31 March 2012	At 31 December 2011
Eurobonds – Ten-Year Tenor	18,931	20,776
Eurobonds – Five-Year Tenor	17,502	19,206
Sberbank	14,971	14,966
Russian rouble denominated bonds	9,975	9,971
Sumitomo Mitsui Banking Corporation Europe Limited	6,127	7,685
Nordea Bank	5,866	6,439
UniCredit Bank	2,343	6,435
Gazprombank	-	10,000
Total	**75,715**	**95,478**

Eurobonds. At 31 March 2012 and 31 December 2011, the US dollar denominated bonds included Eurobonds issued at par in two tranches, a five-year USD 600 million bond with an annual coupon rate of 5.326 percent, repayable in February 2016, and a ten-year USD 650 million bond with an annual coupon rate of 6.604 percent, repayable in February 2021. The coupons are payable semi-annually. At 31 March 2012, the outstanding aggregated amount was RR 36,433 million (USD 1,242 million), net of unamortized transaction costs of RR 227 million.

Sberbank. At 31 March 2012 and 31 December 2011, the Russian rouble denominated loans included a loan from OAO Sberbank in the amount RR 15 billion. The loan bears an interest rate of 7.5 percent per annum and is repayable in December 2013. At 31 March 2012, the outstanding amount was RR 14,971 million, net of unamortized transaction costs of RR 29 million.

Russian rouble denominated bonds. At 31 March 2012 and 31 December 2011, the Group's debt included 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. The bonds are repayable in June 2013. At 31 March 2012, the outstanding amount was RR 9,975 million, net of unamortized transaction costs of RR 25 million.

Sumitomo Mitsui Banking Corporation Europe Limited. At 31 March 2012 and 31 December 2011, the US dollar denominated loans included 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 (1.92 percent and 2.03 percent at 31 March 2012 and 31 December 2011, respectively). The loan is payable until December 2013 and includes the maintenance of certain restrictive financial covenants. At 31 March 2012, the outstanding amount was RR 6,127 million (USD 209 million), net of unamortized transaction costs of RR 32 million.

Nordea Bank. At 31 March 2012 and 31 December 2011, the US dollar denominated loans included a USD 200 million credit line facility with OAO Nordea Bank at an interest rate of LIBOR plus 1.9 percent per annum (2.14 percent and 2.18 percent at 31 March 2012 and 31 December 2011, respectively). The loan is payable until November 2013 and includes the maintenance of certain restrictive financial covenants. At 31 March 2012, the outstanding amount was RR 5,866 million (USD 200 million).

UniCredit Bank. At 31 March 2012 and 31 December 2011, the US dollar denominated loans included a USD 200 million credit line facility with UniCredit Bank at an interest rate of LIBOR plus 3.25 percent per annum (3.49 percent and 3.52 percent at 31 March 2012 and 31 December 2011, respectively). The loan is payable until October 2012 and includes the maintenance of certain restrictive financial covenants. At 31 March 2012, the outstanding amount was RR 2,343 million (USD 80 million), net of unamortized transaction costs of RR 3 million.

Gazprombank. At 31 December 2011, the Russian rouble denominated loans included a loan from OAO Gazprombank in the amount of RR 10 billion until November 2012. The loan bore an interest rate of eight percent per annum and was fully repaid in January 2012 ahead of its maturity schedule.

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

8 LONG-TERM DEBT (CONTINUED)

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

	At 31 March 2012	At 31 December 2011
Eurobonds – Ten-Year Tenor	21,088	21,150
Eurobonds – Five-Year Tenor	18,473	19,414
Sberbank	14,687	14,539
Russian rouble denominated bonds	10,045	10,000
Sumitomo Mitsui Banking Corporation Europe Limited	6,064	7,561
Nordea Bank	5,742	6,256
UniCredit Bank	2,346	6,439
Gazprombank	-	9,928
Total	**78,445**	**95,287**

Scheduled maturities of long-term debt at 31 March 2012 were as follows:

Maturity period:	RR million
1 April 2013 to 31 March 2014	31,955
1 April 2014 to 31 March 2015	-
1 April 2015 to 31 March 2016	17,502
1 April 2016 to 31 March 2017	-
After 31 March 2017	18,931
Total long-term debt	**68,388**

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

Short-term debt and current portion of long-term debt. At 31 March 2012 and 31 December 2011, short-term debt and current portion of long-term debt consisted only of the current portion of long-term debt in the amount of RR 7,327 million and RR 20,298 million, respectively.

Available credit facilities. The Group's available credit facilities at 31 March 2012 were as follows:

		Expiring	
	Par value	Within one year	Between 1 and 2 years
BNP PARIBAS Bank [(a)]	USD 100 million	2,933	-
Credit Agricole Corporate and Investment Bank [(a)]	USD 100 million	2,933	-
UniCredit Bank [(a)]	USD 270 million	7,919	-
Sberbank [(b)]	RR 40 billion	40,000	-
Total available credit facilities		**53,785**	**-**

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

The Group also maintained available funds under short-term credit lines in the form of bank overdrafts with various international banks for RR 3,959 million (USD 135 million) and RR 6,278 million (USD 195 million) at 31 March 2012 and 31 December 2011, respectively, on variable interest rates subject to the specific type of credit facility.

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

10 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 March 2012	At 31 December 2011
Financial liabilities		
Trade payables	5,427	5,187
Other payables	14,905	16,615
Interest payable	549	1,009
Non-financial liabilities		
Advances from customers	555	743
Salary payables	1,533	1,124
Other liabilities	235	244
Trade payables and accrued liabilities	**23,204**	**24,922**

At 31 March 2012 and 31 December 2011, other payables included RR 14,797 million and RR 16,244 million, respectively, relating to the acquisition of a 49 percent equity stake in OAO Yamal LNG, payable in June 2012.

11 SHAREHOLDERS' EQUITY

Treasury shares. In accordance with the *Share Buyback Program* authorized by the Board of Directors on 11 February 2008, the Group's wholly owned subsidiary, Novatek Equity (Cyprus) Limited, during 2008 has purchased ordinary shares of OAO NOVATEK in the form of Global Depository Receipts (GDRs) on the London Stock Exchange through the use of independent brokers. At 31 March 2012 and 31 December 2011, the Group held 196,853 GDRs (1,969 thousand ordinary shares) at a total cost of RR 281 million. The Group has decided that these GDRs do not vote.

Dividends. Subsequent to the balance sheet date, on 27 April 2012, the Annual General Meeting of shareholders of OAO NOVATEK approved the final 2011 dividend totaling RR 10,627 million, which is to be paid within 60 days to the shareholders of record at the close of business on 23 March 2012.

12 SHARE-BASED COMPENSATION PROGRAM

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

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

	Three months ended 31 March:	
Expenses included in	**2012**	**2011**
General and administrative expenses	119	88

Liabilities included in	At 31 March 2012	At 31 December 2011
Other non-current liabilities	-	226
Trade payables and accrued liabilities	235	244
Total share-based compensation program liabilities	**235**	**470**

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

13 OIL AND GAS SALES

	Three months ended 31 March:	
	2012	2011
Natural gas	37,305	28,330
Stable gas condensate	11,623	12,192
Liquefied petroleum gas	4,147	3,747
Crude oil	1,024	515
Oil and gas products	53	42
Total oil and gas sales	**54,152**	**44,826**

14 TRANSPORTATION EXPENSES

	Three months ended 31 March:	
	2012	2011
Natural gas transportation to customers	13,059	8,568
Liquid hydrocarbons transportation by rail	2,410	2,345
Liquid hydrocarbons transportation by tankers	781	932
Crude oil transportation to customers	98	57
Other	31	3
Total transportation expenses	**16,379**	**11,905**

15 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 31 March:	
	2012	2011
Unified natural resources production tax	3,845	3,557
Property tax	439	434
Excise and fuel taxes	276	243
Other taxes	53	86
Total taxes other than income tax	**4,613**	**4,320**

16 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Three months ended 31 March:	
	2012	2011
Natural gas	3,309	933
Liquid hydrocarbons	42	30
Total purchases of natural gas and liquid hydrocarbons	**3,351**	**963**

Natural gas purchases included volumes procured from Sibneftegas, the Group's joint venture, pro-rata to its total production (see Note 21). From January 2012, the Group began purchasing natural gas from its related party ZAO SIBUR Holding at prices based on the market prices in the region of purchases (see Note 21).

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

17 FINANCE INCOME (EXPENSE)

Interest expense (including transaction costs)	Three months ended 31 March: 2012	2011
6.604% USD 650 million Eurobonds February 2021	330	202
7.5% RR 15 billion Sberbank December 2013	284	282
5.326% USD 600 million Eurobonds February 2016	249	153
7.5% RR 10 billion Bonds June 2013	192	190
LIBOR+1.45% USD 300 million Sumitomo Mitsui Banking Corporation Europe Limited December 2013	46	-
8% RR 10 billion Gazprombank November 2012 [(1)]	42	203
LIBOR+3.25% USD 200 million UniCredit Bank October 2012 [(1)]	34	55
LIBOR+1.9% USD 200 million Nordea Bank November 2013	32	31
Other interest expenses	-	137
Subtotal	**1,209**	**1,253**
Less: capitalized interest	(475)	(863)
Interest expense (on historical cost basis)	**734**	**390**
IAS 32 and IAS 39 *"Financial Instruments"* – fair value remeasurement	-	212
Provisions for asset retirement obligations: unwinding of the present value discount	56	53
Total interest expense	**790**	**655**

[(1)] – interest rates were reduced during the periods.

Interest income	Three months ended 31 March: 2012	2011
Interest income on cash and cash equivalents	102	54
Interest income on loans issued	389	804
Interest income (on historical cost basis)	**491**	**858**
IAS 32 and IAS 39 *"Financial Instruments"* – fair value remeasurement	43	61
Total interest income	**534**	**919**

18 INCOME TAX

Effective income tax rate. The Group's Russian statutory income tax rate for 2012 and 2011 was 20 percent. For the three months ended 31 March 2012 and 2011, the consolidated Group's effective income tax rate was 21.9 percent and 20.8 percent, respectively.

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

(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:

	Loans and receivables	
Financial assets	At 31 March 2012	At 31 December 2011
Non-current		
Long-term loans receivable	9,207	9,323
Trade and other receivables	9,047	22,807
Current		
Trade and other receivables	14,762	16,699
Prepayments and other current assets	684	6,876
Cash and cash equivalents	27,670	23,831
Total carrying amount	**61,370**	**79,536**

	Measured at amortized cost	
Financial liabilities	At 31 March 2012	At 31 December 2011
Non-current		
Long-term debt	68,388	75,180
Current		
Current portion of long-term debt	7,327	20,298
Trade and other payables	20,881	22,811
Total carrying amount	**96,596**	**118,289**

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

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

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

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

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

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

(a) Foreign exchange risk

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

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

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

At 31 March 2012	Russian rouble	US dollar	Other	Total
Financial assets				
Non-current				
Long-term loans receivable	8,862	345	-	9,207
Trade and other receivables	8,995	15	37	9,047
Current				
Trade and other receivables	7,720	6,632	410	14,762
Prepayments and other current assets	620	-	64	684
Cash and cash equivalents	12,726	14,648	296	27,670
Financial liabilities				
Non-current				
Long-term debt	(24,946)	(43,442)	-	(68,388)
Current				
Current portion of long-term debt	-	(7,327)	-	(7,327)
Trade and other payables	(5,380)	(15,429)	(72)	(20,881)
Net exposure at 31 March 2012	**8,597**	**(44,558)**	**735**	**(35,226)**

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

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

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

(b) Commodity price risk

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

Natural gas. As an independent natural gas producer, the Group is not subject to the government's regulation of natural gas prices, except for those volumes sold to residential customers. Nevertheless, the Group's prices for natural gas sold are strongly influenced by the prices regulated by the Federal Tariffs Service (FTS), a governmental agency. In November 2006, the FTS approved and published a plan to liberalize the price of natural gas sold on the Russian domestic market by the year 2011. 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; however, the Government reserves the right to amend or change the proposed timetable. According to the Government's program, the regulation of the domestic natural gas price after 2015 will be based on the net-back parity of natural gas prices on the domestic and export markets.

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

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

(c) Cash flow and fair value interest rate risk

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

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

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

	At 31 March 2012	At 31 December 2011
At variable rate	14,336	20,559
At fixed rate	61,379	74,919
Total debt	**75,715**	**95,478**

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

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

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

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

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

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.

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

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

At 31 March 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
Principal (*)	-	25,000	17,597	19,063	61,660
Interest	3,524	3,335	5,651	5,036	17,546
Debt at variable rate					
Principal (*)	7,332	7,039	-	-	14,371
Interest	249	69	-	-	318
Trade and other payables	20,881	-	-	-	20,881
Total financial liabilities	**31,986**	**35,443**	**23,248**	**24,099**	**114,776**

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

(*) – differs from long-term debt (Note 8) 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- (stable outlook) by Fitch Ratings, as well as a credit rating of BBB- (stable outlook) by Standard & Poor's. To maintain its credit ratings, the Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis.

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

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

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 three months ended 31 March 2012.

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 market risks of this country.

Commitments. At 31 March 2012, the Group had contractual capital expenditures commitments aggregating approximately RR 20,211 million (at 31 December 2011: RR 17,805 million) mainly for ongoing development activities at the Yurkharovskoye field (through 2013), development of the North-Russkoye field (through 2014) and Urengoyskoye field (within the Olimpiyskiy license area, through 2013), phase three construction of the Purovsky Gas Condensate Plant (through 2012), construction of the terminal for the transshipment and fractionation of stable gas condensate (through 2013) and development of the East-Tarkosalinskoye and Khancheyskoye fields (through 2013) all in accordance with duly signed agreements.

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

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

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

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.

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

20 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

21 RELATED PARTY TRANSACTIONS

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

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

In October 2011, the Group disposed of a 20 percent equity stake in OAO Yamal LNG, and in accordance with the new shareholders' agreement lost effective control over the entity, but joint control was retained; therefore, subsequent to that event, the Group's balances and transactions with this entity are disclosed as related parties – equity investments.

	Three months ended 31 March:	
Related parties – equity investments	**2012**	**2011**
Transactions		
OAO Sibneftegas:		
Interest income on loans issued	238	263
Oil and gas products sales	12	10
Purchases of natural gas	(1,071)	(933)
OOO Yamal Development:		
Interest income on loans issued	-	522
OOO SeverEnergia:		
Interest income on loans issued	145	-

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

21 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – equity investments	At 31 March 2012	At 31 December 2011
Balances		
OAO Sibneftegas:		
Long-term loans receivable	8,862	9,103
Interest on long-term loans receivable	960	775
Short-term loans receivable	620	634
Trade payables and accrued liabilities	407	387
OOO Yamal Development:		
Long-term loans and receivables	-	16,348
OOO SeverEnergia:		
Short-term loans receivable	-	6,225
Interest on short-term loans receivable	-	94
ZAO Terneftegas:		
Long-term loans receivable	345	220
OAO Yamal LNG:		
Long-term receivables	6,461	3,955

In September 2011, the Chairman of the Management Committee of NOVATEK acquired a controlling stake in ZAO SIBUR Holding. As a result, the Group's balances and transactions with this company and its subsidiaries at 31 March 2012 and for the three months then ended were disclosed as related parties – parties under control of key management personnel.

	Three months ended 31 March:	
Related parties – parties under control of key management personnel	2012	2011
Transactions		
ZAO SIBUR Holding and its subsidiaries (from September 2011):		
Natural gas sales	551	-
Purchases of natural gas and liquid hydrocarbons	(2,243)	-

Related parties – parties under control of key management personnel	At 31 March 2012	At 31 December 2011
Balances		
OAO Pervobank:		
Cash and cash equivalents	1,436	4,066
ZAO SIBUR Holding and its subsidiaries (from September 2011):		
Long-term receivable	1,354	1,424
Trade and other receivables	328	248
Trade payables and accrued liabilities	138	-

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.

	Three months ended 31 March:	
Related parties – members of the key management personnel	2012	2011
Board of Directors	19	19
Management Committee	472	361
Total compensation	**491**	**380**

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

21 RELATED PARTY TRANSACTIONS (CONTINUED)

Such amounts include personal income tax and are net of unified social tax. The Board of Directors consists of nine members. The remuneration for serving on the Board of Directors is subject to approval by the General Meeting of Shareholders. The Management Committee consisted of 15 members until 24 March 2011 and was subsequently reduced to eight members.

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 one operating segment: exploration, production and marketing of natural gas and liquid hydrocarbons.

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

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

Segment information for the three months ended 31 March 2012 is as follows:

For the three months ended 31 March 2012	References	Exploration, production and marketing	Segment information as reported to CODM	Reconciling items	Total per consolidated interim condensed financial information
External revenues		54,407	54,407	(34)	54,373
Operating expenses	*a, b, c, d*	(32,301)	(32,301)	450	(31,851)
Other operating income (loss)	*b*	(9)	(9)	50	41
Interest expense	*e*	(1,153)	(1,153)	363	(790)
Interest income		481	481	53	534
Foreign exchange gain (loss)		5,863	5,863	17	5,880
Segment result		**27,288**	**27,288**	**899**	**28,187**
Share of profit (loss) of joint ventures, net of income tax					(991)
Profit before income tax					**27,196**
Depreciation, depletion and amortization	*a, b*	3,637	3,637	(1,023)	2,614
Capital expenditures	*e*	5,920	5,920	1,599	7,519

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 1,074 million in operating expenses under IFRS;

b. different methodology in the classification of depreciation, depletion and amortization for operating assets, which have not completed their statutory registration, between IFRS and management accounting, which resulted in the reclassification of RR 34 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS;

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

22 SEGMENT INFORMATION (CONTINUED)

c. different methodology in recognizing expenses relating to natural gas storage services and payroll (including share-based payments, pension obligation, discounting loans to employee and bonus accruals) between IFRS and management accounting, which resulted in the reversal in transportation expenses of RR 278 million and additional payroll expenses of RR 567 million recorded in operating expenses under IFRS;

d. different methodology in recognizing of exploration expenses, which resulted in additional operating expenses of RR 304 million charged under IFRS; and

e. different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting, which resulted in additional capitalized interest and foreign exchange differences of RR 401 million and additional capital expenditures of RR 1,198 million under IFRS.

Segment information for the three months ended 31 March 2011 is as follows:

For the three months ended 31 March 2011	References	Exploration, production and marketing	Segment information as reported to CODM	Reconciling items	Total per consolidated interim condensed financial information
External revenues	*a*	45,062	45,062	(168)	44,894
Operating expenses	*b, c, d, e*	(23,411)	(23,411)	(32)	(23,443)
Other operating income (loss)	*c*	(192)	(192)	245	53
Interest expense	*f*	(1,403)	(1,403)	748	(655)
Interest income		840	840	79	919
Foreign exchange gain (loss)		2,486	2,486	(12)	2,474
Segment result		**23,382**	**23,382**	**860**	**24,242**
Share of profit (loss) of joint ventures, net of income tax					(610)
Profit before income tax					**23,632**
Depreciation, depletion and amortization	*b, c*	2,913	2,913	(852)	2,061
Capital expenditures	*f*	4,655	4,655	1,687	6,342

Reconciling items mainly related to:

a. different methodology of stable gas condensate sales price recognition under IFRS and the RAR which requires reversal of external revenues for RR 153 million;

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 955 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 242 million and additional payroll expenses of RR 545 million recorded in operating expenses under IFRS;

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

22 SEGMENT INFORMATION (CONTINUED)

e. different methodology in recognizing of exploration expenses, which resulted in additional operating expenses of RR 573 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 capitalized interest and foreign exchange differences of RR 799 million and additional capital expenditures of RR 888 million under IFRS.

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

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

Geographical information for the three months ended 31 March 2012 and 2011 is as follows:

For the three months ended 31 March 2012	Russian Federation	Outside Russian Federation						Total
		Europe	USA	APR	Other	Export duty	Subtotal	
Natural gas	37,305	-	-	-	-	-	-	37,305
Stable gas condensate	13	7,857	5,512	5,616	-	(7,375)	11,610	11,623
Liquefied petroleum gas	1,490	3,394	-	-	-	(737)	2,657	4,147
Crude oil	654	708	-	-	-	(338)	370	1,024
Oil and gas products	53	-	-	-	-	-	-	53
Oil and gas sales	**39,515**	**11,959**	**5,512**	**5,616**	**-**	**(8,450)**	**14,637**	**54,152**
Other revenues	188	33	-	-	-	-	33	221
Total external revenues	**39,703**	**11,992**	**5,512**	**5,616**	**-**	**(8,450)**	**14,670**	**54,373**

For the three months ended 31 March 2011	Russian Federation	Outside Russian Federation						Total
		Europe	USA	APR	Other	Export duty	Subtotal	
Natural gas	28,330	-	-	-	-	-	-	28,330
Stable gas condensate	-	5,719	4,499	9,001	-	(7,027)	12,192	12,192
Liquefied petroleum gas	1,378	2,886	-	-	10	(527)	2,369	3,747
Crude oil	284	439	-	-	-	(208)	231	515
Oil and gas products	42	-	-	-	-	-	-	42
Oil and gas sales	**30,034**	**9,044**	**4,499**	**9,001**	**10**	**(7,762)**	**14,792**	**44,826**
Other revenues	66	2	-	-	-	-	2	68
Total external revenues	**30,100**	**9,046**	**4,499**	**9,001**	**10**	**(7,762)**	**14,794**	**44,894**

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

Major customers. For the three months ended 31 March 2012 and 2011, the Group has one and two major customers to whom individual revenues represent 14 percent and 31 percent of total external revenues, respectively.

23 NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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

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

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

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

23 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

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

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

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

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

23 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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