OAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

AND INDEPENDENT AUDITOR'S REPORT

CONTENTS **Page**

Independent Auditor's Report

To the shareholders and Board of Directors of OAO NOVATEK

We have audited the accompanying consolidated financial statements of OAO NOVATEK and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

25 February 2015

Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit, 10 Butyrsky Val, Moscow, Russian Federation, 125047
T: +7 495 967 6000, F: +7 495 967 6001, www.pwc.ru

pwc

Independent Auditor's Report (Continued)

O.V. Salnikova, Director (licence no. № 01-000068), ZAO PricewaterhouseCoopers Audit

Audited entity: OAO NOVATEK

State registration certificate №1461/94, issued by the administration of Oktyabrskiy district of Samara on 16 August 1994.

Certificate of inclusion in the Unified State Register of Legal Entities regarding the legal entity registered before 1 July 2002 No. 1026303117642 issued by the Inspectorate of the Russian Ministry of Taxes and Levies of Novokuybyshevsk, Samara Region on 20 August 2002.

Address: 629850, Yamalo-Nanetski state, Purovsky region, Tarko-Sale, Pobedi str., 22 "a".

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992.

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431.

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations.

(in millions of Russian roubles)

	Notes	At 31 December 2014	At 31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	6	291,726	243,688
Investments in joint ventures	7	166,231	210,066
Long-term loans and receivables	8	94,142	49,337
Other non-current assets	9	20,449	12,478
Total non-current assets		**572,548**	**515,569**
Current assets			
Inventories	10	7,024	5,953
Current income tax prepayments		3,576	157
Trade and other receivables	11	34,592	49,522
Prepayments and other current assets	12	40,081	18,905
Cash and cash equivalents	13	41,318	7,889
Total current assets		**126,591**	**82,426**
Total assets		**699,139**	**597,995**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	14	204,699	141,595
Deferred income tax liabilities	26	21,063	18,219
Asset retirement obligations		1,493	3,397
Other non-current liabilities		3,552	1,854
Total non-current liabilities		**230,807**	**165,065**
Current liabilities			
Short-term debt and current portion of long-term debt	16	40,980	24,026
Trade payables and accrued liabilities	17	30,578	21,260
Current income tax payable		406	7,365
Other taxes payable		9,244	7,222
Total current liabilities		**81,208**	**59,873**
Total liabilities		**312,015**	**224,938**
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(5,222)	(2,406)
Additional paid-in capital		31,297	31,297
Currency translation differences		208	683
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		352,462	334,614
Total equity attributable to OAO NOVATEK shareholders	18	**384,755**	**370,198**
Non-controlling interest		**2,369**	**2,859**
Total equity		**387,124**	**373,057**
Total liabilities and equity		**699,139**	**597,995**

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

L. Mikhelson
Chairman of the Management Committee

M. Gyetvay
Chief Financial Officer

25 February 2015

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

	Notes	Year ended 31 December: 2014	2013
Revenues			
Oil and gas sales	19	355,673	297,499
Other revenues		1,970	659
Total revenues		**357,643**	**298,158**
Operating expenses			
Transportation expenses	20	(114,511)	(103,245)
Purchases of natural gas and liquid hydrocarbons	21	(52,596)	(34,707)
Taxes other than income tax	22	(29,336)	(21,645)
Depreciation, depletion and amortization	6	(17,172)	(13,503)
General and administrative expenses	23	(11,831)	(11,029)
Materials, services and other	24	(11,442)	(8,282)
Exploration expenses		(112)	(427)
Net impairment reversals (expenses)		229	(2,611)
Change in natural gas, liquid hydrocarbons and work-in-progress		259	2,688
Total operating expenses		**(236,512)**	**(192,761)**
Net gain (loss) on disposal of interests in joint ventures	5	2,623	37,649
Other operating income (loss)		4,009	880
Profit from operations		**127,763**	**143,926**
Finance income (expense)			
Interest expense	25	(5,722)	(5,347)
Interest income	25	5,063	2,341
Change in fair value of non-commodity financial instruments	8	(20,205)	-
Foreign exchange gain (loss)	25	(25,881)	(3,678)
Total finance income (expense)		**(46,745)**	**(6,684)**
Share of profit (loss) of joint ventures, net of income tax	7	(28,175)	(112)
Profit before income tax		**52,843**	**137,130**
Income tax expense			
Current income tax expense		(16,251)	(23,392)
Net deferred income tax expense		323	(3,793)
Total income tax expense	26	**(15,928)**	**(27,185)**
Profit (loss)		**36,915**	**109,945**
Profit (loss) attributable to:			
Non-controlling interest		(381)	(61)
Shareholders of OAO NOVATEK		**37,296**	**110,006**
Basic and diluted earnings per share (in Russian roubles)		12.34	36.31
Weighted average number of shares outstanding (in millions)		*3,022.2*	*3,029.5*

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

OAO NOVATEK
Consolidated Statement of Comprehensive Income
(in millions of Russian roubles)

	Notes	Year ended 31 December: 2014	2013
Profit (loss)		**36,915**	**109,945**
Other comprehensive income (loss) that will not be reclassified subsequently to profit (loss)			
Remeasurement of pension obligations	15	644	(11)
Other comprehensive income (loss) that may be reclassified subsequently to profit (loss), net of income tax			
Currency translation differences		(475)	885
Total other comprehensive income (loss)		**169**	**874**
Total comprehensive income (loss)		**37,084**	**110,819**
Total comprehensive income (loss) attributable to:			
Non-controlling interest		(381)	(61)
Shareholders of OAO NOVATEK		**37,465**	**110,880**

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

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

	Notes	Year ended 31 December: 2014	2013
Profit before income tax		**52,843**	**137,130**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		17,172	13,503
Net impairment expenses (reversals)		(229)	2,611
Net foreign exchange loss (gain)		25,881	3,678
Net loss (gain) on disposal of assets		(3,170)	(37,517)
Interest expense		5,722	5,347
Interest income		(5,063)	(2,341)
Share of loss (profit) in joint ventures, net of income tax		28,175	112
Change in fair value of non-commodity financial instruments		20,205	-
Revaluation of financial instruments through loss (profit)		(2,093)	(549)
Decrease (increase) in long-term advances given		(5,069)	(2,923)
Other adjustments		77	427
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(3,136)	(16,491)
Decrease (increase) in inventories		(1,101)	(2,830)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		4,780	(212)
Increase (decrease) in taxes payable, other than income tax		2,023	3,257
Total effect of working capital changes		**2,566**	**(16,276)**
Income taxes paid		(26,764)	(14,677)
Net cash provided by operating activities		**110,253**	**88,525**
Cash flows from investing activities			
Purchases of property, plant and equipment		(56,233)	(51,127)
Purchases of materials intended for construction		(1,970)	(6,654)
Acquisition of subsidiaries net of cash acquired	5	(1,476)	(556)
Acquisition of additional stake in joint venture	7	-	(1,703)
Additional capital contributions to joint ventures	7	(4,342)	(2,247)
Proceeds from disposal of stakes in joint venture	5, 11	53,534	-
Repayments of long-term receivables from disposals of subsidiaries in previous years		-	1,623
Interest paid and capitalized		(3,837)	(3,460)
Loans provided to joint ventures		(45,906)	(45,801)
Repayments of loans provided to joint ventures		11,747	8,564
Interest received		988	869
Net cash used for investing activities		**(47,495)**	**(100,492)**
Cash flows from financing activities			
Proceeds from long-term debt		15,551	47,778
Proceeds from short-term debt		1,619	9,089
Repayments of long-term debt		(10,000)	(34,964)
Repayments of short-term debt		(6,656)	(2,500)
Interest paid		(4,907)	(4,430)
Dividends paid	18	(28,967)	(22,002)
Purchase of treasury shares		(2,824)	(1,854)
Sale of treasury shares		35	85
Acquisition of non-controlling interest	5	(102)	-
Capital contributions to the Group’s subsidiaries by non-controlling shareholders		-	1,666
Net cash used for financing activities		**(36,251)**	**(7,132)**

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2014	2013
Net effect of exchange rate changes on cash, cash equivalents and bank overdrafts		14,491	999
Net increase (decrease) in cash, cash equivalents and bank overdrafts		**40,998**	**(18,100)**
Cash, cash equivalents and bank overdrafts at the beginning of the period		320	18,420
Cash and cash equivalents at the end of the period	13	**41,318**	**320**

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

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

	Number of ordinary shares (in millions)	**Ordinary share capital**	**Treasury shares**	**Additional paid-in capital**	**Currency translation differences**	**Asset revaluation surplus on acquisitions**	**Retained earnings**	**Equity attributable to OAO NOVATEK shareholders**	**Non-controlling interest**	**Total equity**
1 January 2013	***3,033.4***	**393**	**(584)**	**31,220**	**(202)**	**5,617**	**253,606**	**290,050**	**1,251**	**291,301**
Currency translation differences	-	-	-	-	885	-	-	885	-	885
Remeasurement of pension obligations (Note 15)	-	-	-	-	-	-	(11)	(11)	-	(11)
Profit (loss)	-	-	-	-	-	-	110,006	110,006	(61)	109,945
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**885**	**-**	**109,995**	**110,880**	**(61)**	**110,819**
Dividends (Note 18)	-	-	-	-	-	-	(21,999)	(21,999)	-	(21,999)
Reassessment of investments in joint ventures (Note 7)	-	-	-	-	-	-	(6,988)	(6,988)	-	(6,988)
Impact of additional shares subscription in subsidiaries on non-controlling interest	-	-	-	-	-	-	-	-	1,669	1,669
Purchase of treasury shares (Note 18)	*(5.6)*	-	(1,854)	-	-	-	-	(1,854)	-	(1,854)
Sales of treasury shares (Note 18)	*0.3*	-	32	77	-	-	-	109	-	109
31 December 2013	***3,028.1***	**393**	**(2,406)**	**31,297**	**683**	**5,617**	**334,614**	**370,198**	**2,859**	**373,057**

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

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

	Number of ordinary shares (in millions)	**Ordinary share capital**	**Treasury shares**	**Additional paid-in capital**	**Currency translation differences**	**Asset revaluation surplus on acquisitions**	**Retained earnings**	**Equity attributable to OAO NOVATEK shareholders**	**Non-controlling interest**	**Total equity**
1 January 2014	***3,028.1***	**393**	**(2,406)**	**31,297**	**683**	**5,617**	**334,614**	**370,198**	**2,859**	**373,057**
Currency translation differences	-	-	-	-	(475)	-	-	(475)	-	(475)
Remeasurement of pension obligations (Note 15)	-	-	-	-	-	-	644	644	-	644
Profit (loss)	-	-	-	-	-	-	37,296	37,296	(381)	36,915
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(475)**	**-**	**37,940**	**37,465**	**(381)**	**37,084**
Dividends (Note 18)	-	-	-	-	-	-	(28,966)	(28,966)	-	(28,966)
Effect from other changes in joint ventures' net assets (Note 7)	-	-	-	-	-	-	8,867	8,867	-	8,867
Acquisition of non-controlling interest (Note 5)	-	-	-	-	-	-	7	7	(109)	(102)
Purchase of treasury shares (Note 18)	*(7.7)*	-	(2,816)	-	-	-	-	(2,816)	-	(2,816)
31 December 2014	***3,020.4***	**393**	**(5,222)**	**31,297**	**208**	**5,617**	**352,462**	**384,755**	**2,369**	**387,124**

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

OAO NOVATEK (hereinafter referred to as "NOVATEK") and its subsidiaries (hereinafter jointly referred to as the "Group") is an independent oil and gas company engaged in the acquisition, exploration, development, production, processing, and marketing of hydrocarbons with its oil and gas operations located and incorporated in the Yamal-Nenets Autonomous Region ("YNAO") of the Russian Federation. The Group delivers its natural gas on the Russian Federation's domestic market and liquid hydrocarbons on both the Russian domestic and international markets.

The Group sells its natural gas on the domestic market at unregulated market prices (except for deliveries to residential customers); however, the majority of natural gas sold on the Russian domestic market by all producers is sold at prices regulated by the Federal Tariffs Service, a governmental agency of the Russian Federation. The Group's natural gas sales volumes fluctuate on a seasonal basis mostly due to Russian weather conditions, with sales peaking in the winter months of December and January and troughing in the summer months of July and August.

The Group processes its unstable gas condensate at its Purovsky Gas Condensate Processing Plant located in close proximity to its fields into stable gas condensate and liquefied petroleum gas. Stable gas condensate is further processed at the Group's Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea into higher-value refined products (naphtha, jet fuel, gasoil and fuel oil). The Group sells its liquid hydrocarbons at prices that are subject to fluctuations in underlying benchmark crude oil, naphtha and other gas condensate refined products prices. The Group's liquids sales volumes are not subject to significant seasonal fluctuations.

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

As part of the agreement in principle with OAO Gazprom Neft to achieve parity shareholdings in OOO SeverEnergia joint venture, on 31 March 2014, the Group sold a 20 percent interest in Artic Russia B.V. to OOO Yamal Development, the Group's joint venture with Gazprom Neft (see Note 5).

In February 2014, the Group acquired an additional 15 percent participation interest in OOO NOVATEK-Kostroma and increased its participation interest to 100 percent (see Note 5).

In December 2013, NOVATEK exchanged its 51 percent ownership in OAO Sibneftegas, the Group's joint venture, for a 40 percent equity stake in Artic Russia, which holds a direct 49 percent participation interest in SeverEnergia, the Group's joint venture. In addition, OOO Yamal Development, the Group's joint venture, acquired the remaining 60 percent equity stake in Artic Russia. Following the completion of these transactions, the Group's effective interest in SeverEnergia increased from 25.5 to 59.8 percent (see Note 5).

In December 2013, the Group disposed its 20 percent stake in OAO Yamal LNG, the Group's joint venture, to China National Petroleum Corporation, which became a partner of the Group in the Yamal LNG project (see Note 5).

2 BASIS OF PREPARATION

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets and financial instruments categorised at fair value through profit or loss. In the absence of specific IFRS guidance for oil and gas producing companies, the Group has developed accounting policies in accordance with other generally accepted accounting principles for oil and gas producing companies, mainly US GAAP, insofar as they do not conflict with IFRS principles.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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

2 BASIS OF PREPARATION (CONTINUED)

Most of the Group entities prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The Group's consolidated financial statements are based on the statutory records with adjustments and reclassifications recorded in the consolidated financial statements for the fair presentation in accordance with IFRS. The principal adjustments primarily relate to: (a) depreciation, depletion and amortization, and valuation of property, plant and equipment; (b) consolidation of subsidiaries; (c) business combinations; (d) accounting for income taxes; (e) revaluation of shareholders' loans to fair value; and (f) valuation of unrecoverable assets, expense recognition and other provisions.

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

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

			Average rate for the year ended 31 December:	
Russian roubles to one currency unit	**At 31 December 2014**	**At 31 December 2013**	**2014**	**2013**
US dollar (USD)	56.26	32.73	38.42	31.85
Polish Zloty (PLN)	15.94	10.85	12.14	10.08

Exchange rates and restrictions. The Russian rouble is not a fully convertible currency outside the Russian Federation and accordingly, any remeasurement of Russian rouble amounts to US dollars or any other currency should not be construed as a representation that such Russian rouble amounts have been, could be, or will in the future be converted into other currencies at these exchange rates.

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 shareholder's equity.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of new and amended standards and interpretations. In 2014, the Group adopted all IFRS, amendments and interpretations which are effective 1 January 2014 and relevant to its operations:

- Amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilitie*s, add application guidance to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. Adoption of these amendments has no material impact on the Group's consolidated financial statements.

- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*, remove the requirement to disclose the recoverable amount when a cash-generating unit contains goodwill or indefinite lived intangible assets but there has been no impairment. Adoption of these amendments has no material impact on the Group's consolidated financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of consolidation. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvements with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

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

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

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

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

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

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

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

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

Joint arrangements. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group's investments in joint ventures are accounted for using the equity method. Under the equity method, an investment in a joint venture is initially recognized at cost. The difference between the cost of an acquisition and the share of the fair value of the joint venture's identifiable net assets represents goodwill upon acquiring the joint venture.

The carrying amount of joint ventures includes goodwill identified on acquisition less accumulated impairment losses, if any. Other post-acquisition changes in the Group's share of net assets of a joint venture are recognized as follows: (a) the Group's share of profits or losses is recorded in the consolidated profit or loss for the year as share of financial result of joint ventures; (b) the Group's share of other comprehensive income is recognized in other comprehensive income and presented separately; (c) all other changes in the Group's share of the carrying value of net assets of joint ventures are recognized within retained earnings in the statement of changes in equity.

When the Group's share of losses in a joint venture equals or exceeds its investment in the joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Dividends received from joint ventures reduce the carrying value of the investment in joint ventures.

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with the carrying amount. Gains and losses are recognized within other operating profit (loss) in the consolidated statement of income.

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

The cost of 3-D seismic surveys used to assist production, increase total recoverability and determine the desirability of drilling additional development wells within proved reservoirs are capitalized as development costs. All other seismic costs are expensed as incurred.

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

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

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

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

Intangible assets. Intangible assets that have a finite useful life are amortized using the straight-line method over the period of their useful life. There were no intangible assets with indefinite useful lives held by the Group at the reporting dates.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The subsequent measurement of financial assets depends on their classification, as follows:

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

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

(b) Held-to-maturity investments

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

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

(c) Loans and receivables

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

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

(d) Available-for-sale financial assets

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Derivative instruments, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category. These financial liabilities are carried at fair value on the consolidated statement of financial position with gains or losses recognized in the consolidated statement of income.

(b) Financial liabilities measured at amortized cost

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

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Derivative instruments. Derivative instruments are contracts: (a) whose value changes in response to the change in one or more observable variables; (b) that do not require any material initial net investment; and (c) that are settled at a future date. Accordingly, contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements, are accounted for as financial instruments. Gains or losses arising from changes in the fair value of commodity derivatives are recognized within other operating profit (loss) in the consolidated income statement.

Derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets or liabilities expected to be recovered, or with the legal right to be settled more than twelve months after the reporting date are classified as non-current, with the exception of derivative financial instruments held for the purpose of being traded. The amounts of assets and liabilities associated with derivatives are presented without netting assets and liabilities with the same counterparty except where the right of offset and intent to net exist.

The estimated fair values of derivative financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate; however considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realize in a current or future market situation.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivatives embedded in other non-derivative financial instruments or in non-financial host contracts are recognized as separate derivatives when their risks and economic characteristics are not closely related to those of the host contracts, and the host contracts are not carried at fair value. Where there is an active market for a commodity or other non-financial item subject of a purchase or sale contract, a pricing formula will, for instance, be considered to be closely related to the host purchase or sales contract if the price formula is related to the market for such host contracts. A price formula with indexation to other markets or products will however result in the recognition of a separate derivative. Where there is no active market for the commodity or other non-financial item in question, the Group assesses the characteristics of such a price related embedded derivative to be closely related to the host contract if the price formula is based on relevant indexations commonly used by other market participants. This applies to the Group's liquid hydrocarbons and domestic natural gas sales and purchases agreements. Contracts are assessed for embedded derivatives when the Group becomes a party to them, including at the date of a business combination. Such embedded derivatives are measured at fair value at each period end, and the changes in fair value are recognized in profit or loss for the respective period**.**

Shareholders' loans to joint ventures. Certain shareholders' loans provided by the Group to its joint ventures include embedded derivatives that modify cash flows of the loans based on financial (market interest rates) and non-financial (interest rate on borrowings of the lender and free cash flows of the borrower) variables. The risks relating to these variables are interrelated; therefore, terms and conditions of each of these loans related to those variables were defined as a single compound embedded derivative. The Group designated these loans as financial assets at fair value through profit or loss (see Note 8).

In accordance with IAS 39, *Financial instruments: recognition and measurement*, such loans are initially measured at fair value based on future expected cash flows discounted at benchmark interest rates adjusted for the borrower credit risk (Level 3 in the fair value measurement hierarchy described in Note 27). The difference between the loan proceeds and the initial fair value is recorded as the Group's investment in the joint ventures. Subsequently, the loans are measured at fair value at each reporting date with recognition of the revaluation through profit or loss. Interest income and foreign exchanges differences (calculated using the effective interest method), and remaining effect from fair value remeasurement are disclosed separately in the consolidated statement of income.

Financial guarantee contracts. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization, if applicable.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity, consolidated tax group of entities or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only with respect to individual companies of the Group (for companies outside the consolidated tax group of companies) and within the consolidated tax group of companies. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognize deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate amortization is recognized as interest expense in the consolidated statement of income.

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Non-financial guarantees. The Group issued a number of parent company guarantees that provide compensation to third parties if a joint venture fails to perform a contractual obligation. Such guarantees meet the definition of insurance contracts and are accounted for under IFRS 4, *Insurance contracts*. Liabilities for non-financial guarantees are recognized when an outflow of resources embodying economic benefits required to settle the obligation is probable. The liabilities are recognized in the amount of best estimates of such an outflow.

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

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

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

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

Interest income is recognized as the interest accrues based on the net carrying amount of the financial asset.

Dividend income is recognized when the right to receive payment is established.

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

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

The Group contributes to the Pension Fund of the Russian Federation on behalf of its employees based on gross salary payments. Mandatory contributions to the Pension Fund of the Russian Federation, which is a defined contribution plan, are expensed when incurred and are included in the employee compensation in the consolidated statement of income.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share based compensation. The Group accounts for share-based compensation in accordance with IFRS 2, *Share-based payment*. The fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted measured at the grant date.

Pension obligations. The Group operates a non-contributory post-employment defined benefit plan based on employees' years of service and average salary (see Note 15).

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

Actuarial gains and losses on assets and liabilities arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. They are not reclassified to profit or loss in subsequent periods. Past-service costs are recognized in profit or loss in the period when a plan is amended, and curtailment gains and losses are accounted for as a past-service cost.

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Fair values of financial assets and liabilities. The fair value of financial assets and liabilities, other than financial instruments that are traded in an active market, is determined by applying various valuation methodologies. Management uses its judgment to make assumptions primarily based on market conditions existing at each reporting date. Discounted cash flow analysis is used for various loans and receivables as well as debt instruments that are not traded in active markets. The effective interest rate is determined by reference to the interest rates of financial instruments available to the Group in active markets. In the absence of such instruments, the effective interest rate is determined by reference to the interest rates of active market financial instruments available adjusted for the Group's specific risk premium estimated by management. For commodity derivative contracts where observable information is not available, fair value estimations are determined using mark-to-market analysis and other acceptable valuation methods, for which the key inputs include future prices, volatility, price correlation, counterparty credit risk and market liquidity. Fair values of the Group's commodity derivative contracts and sensitivities are presented in Note 27. Fair value estimation of shareholders' loans to joint ventures is determined using benchmark interest rates adjusted for the borrower credit risk and free cash flows from the borrower's strategic plans approved by the shareholders of the joint ventures. Fair values of the shareholders' loans to joint ventures and sensitivities are presented in Note 8.

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

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

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

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

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

Oil and gas reserves have a direct impact on certain amounts reported in the consolidated financial statements, most notably depreciation, depletion and amortization as well as impairment expenses. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for 3-D seismic surveys and development costs, and total proved reserves for costs associated with the acquisition of proved properties. Assuming all variables are held constant, an increase in proved developed reserves for each field decreases depreciation, depletion and amortization expenses. Conversely, a decrease in the estimated proved developed reserves increases depreciation, depletion and amortization expenses. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

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

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

Information about the carrying amounts of major classes of non-financial assets – property, plant and equipment and long-term investments is presented in Notes 6 and 7.

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

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

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

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

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Fair value assessment of investments. The Group applies discounted cash flow model when it is required to determine the fair value of investments. The projection of discounted cash flows requires management to use its judgment to make a number of key assumptions. Such assumptions include forecasted prices for natural gas or gas condensate; anticipated production volumes; future capital expenditures required to build necessary infrastructure and drill production wells; and the discount factor used in the fair value calculation.

Assessment of joint arrangements. The Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances. The Group has assessed the nature of all its joint arrangements and determined them to be joint ventures.

5 ACQUISITIONS AND DISPOSALS

Acquisition of OOO NovaEnergo

On 22 December 2014, the Group acquired 100 percent of the participation interest in OOO NovaEnergo from companies under control of key management personnel of the Group for total cash consideration of RR 229 million paid until the end of 2014. The Group obtained an independent appraisal supporting the purchase price and considers that the amount paid is substantially consistent with the terms that would be agreed in an arm’s length transaction. The acquired company holds facilities for repair and maintenance of power-generating equipment, and was purchased to support the Group’s production facilities, located in YNAO. Management has assessed the fair value of identifiable assets and liabilities for NovaEnergo and concluded that no goodwill arose on the acquisition. The financial and operational activities of NovaEnergo would not have had a material impact on the Group’s revenues and results for the year ended 31 December 2014 if the acquisition had occurred in January 2014.

Acquisition of ZAO Office

In August 2014, the Group acquired 100 percent of the shares of ZAO Office for total consideration of RR 4,895 million (USD 135 million), of which RR 1,283 million (USD 34 million) were paid in August-September 2014, and the remaining USD 101 million will be paid until February 2016. The acquired company owns a land lot in close proximity to NOVATEK’s corporate headquarters in Moscow, and the Group plans the construction of a new office building on this land due to the extension of its operations. ZAO Office had no notable operating activities at the acquisition date and accordingly, this acquisition is outside the definition of business as defined in IFRS 3, *Business Combination,* and cost of the acquisition has been allocated fully to the land lot cost.

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

In March 2014, NOVATEK and OAO Gazprom Neft agreed in principle to conduct a series of transactions to achieve parity shareholdings in the OOO SeverEnergia joint venture. As part of such agreement, on 31 March 2014, the Group sold a 20 percent ownership interest in Artic Russia B.V., which holds a 49 percent participation interest in SeverEnergia, to OOO Yamal Development, the Group’s joint venture with Gazprom Neft for total cash consideration of RR 34,972 million (USD 980 million), which were received on 1 April 2014. Both Artic Russia and Yamal Development hold participation interests in SeverEnergia. As a result of the transaction, the Group’s effective participation interest in SeverEnergia decreased from 59.8 percent to 54.9 percent. Further restructuring procedures to achieve parity shareholdings in SeverEnergia are subject to formal corporate approvals and are expected to be completed within two years following the first transaction.

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

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

Acquisition of an additional equity stake in OOO NOVATEK-Kostroma

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

Assets swap

In December 2013, NOVATEK exchanged with OAO Rosneft 51 percent ownership in OAO Sibneftegas, the Group's joint venture, for a 40 percent interest in Artic Russia B.V., which was owned by Rosneft, at an agreed value of USD 1.8 billion. Artic Russia, incorporated in the Netherlands, holds a 49 percent participation interest in OOO SeverEnergia, the Group's joint venture. The transaction did not involve any cash settlements and increased the Group's effective interest in SeverEnergia from 25.5 to 45.1 percent. NOVATEK recognized a gain on the disposal of ownership interest in Sibneftegas in the amount of RR 33,804 million. The Group continued to account for SeverEnergia under the equity method.

Acquisition of ownership interest in Artic Russia B.V.

In December 2013, the Group's joint venture OOO Yamal Development acquired a 60 percent participation interest in Artic Russia B.V. for total cash consideration of RR 96,846 million (USD 2,939 million) from third parties. As a result, the Group increased its effective interest in SeverEnergia by 14.7 percent and, along with the acquisition of a 40 percent stake in Artic Russia under the terms of the asset swap agreement, the acquisition increased the Group's effective ownership interest in SeverEnergia to 59.8 percent. However, the Charter agreement of SeverEnergia stipulates that key financial and operating policy decisions regarding the entity's business activities are subject to approval by six out of the seven members of the Board of Directors, i.e. effectively none of the participants have a preferential voting right. The Group continues to account for SeverEnergia under the equity method.

Disposal of 20 percent equity stake in OAO Yamal LNG

In September 2013, NOVATEK and China National Petroleum Corporation ("CNPC") signed the Share Purchase Agreement on purchase of a 20 percent stake in Yamal LNG, the Group's joint venture, by CNPC. By the end of 2013, the transaction received all necessary approvals from regulatory bodies of the Russian Federation, the People's Republic of China and the European Union and, in December 2013, the Group recognized the disposal of a 20 percent stake in Yamal LNG.

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

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

	RR million
First tranche (USD 468 million at exchange rate of 32.95 to USD 1.00)	15,421
Compensation of past costs and investments (USD 95 million at average exchange rate of 32.84 to USD 1.00)	3,120
Second tranche (60 percent of USD 410 million at exchange rate of 32.95 to USD 1.00)	8,109
Third tranche (60 percent of USD 143 million at exchange rate of 32.95 to USD 1.00)	2,826
Total consideration	**29,476**
Less: carrying amount of the Group's disposed 20 percent interest previously classified as held for sale	(24,306)
Costs to sell	(1,325)
Gain on the sale of ownership interest before income tax	**3,845**

Consequently, the Group recognized a gain on the transaction of RR 3,070 million, net of associated income tax of RR 775 million.

As a result of the transaction, the Group's interest in Yamal LNG became 60 percent; however, the Shareholders' agreement stipulates that key financial and operating policy decisions regarding the entity's business activities are subject to approval by majority of participants, which effectively means that none of the participants have a preferential voting right. As a result, the Group continues recognizing Yamal LNG as a joint venture and accounts for this investment under the equity method.

Acquisition of an additional equity stake in ZAO Nortgas

In June 2013, the Group increased its equity share in ZAO Nortgas from 49 percent to 50 percent through a subscription to the entity's additional share emission for a cash consideration of RR 1,703 million (USD 52 million). In accordance with IAS 28, *Investment in Associates and Joint Ventures*, the Group assessed the fair value of identifiable assets and liabilities of the company and calculated that no goodwill arose on the acquisition of an additional equity stake in Nortgas. After the transaction, the Group continues to account its share in the company under the equity method.

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

6 PROPERTY, PLANT AND EQUIPMENT

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

	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	202,420	35,295	8,031	245,746
Accumulated depreciation, depletion and amortization	(46,810)	-	(1,560)	(48,370)
Net book value at 31 December 2012	**155,610**	**35,295**	**6,471**	**197,376**
Additions	4,999	57,318	133	62,450
Transfers	44,999	(45,615)	616	-
Depreciation, depletion and amortization	(12,716)	-	(459)	(13,175)
Impairment	(2,181)	(106)	-	(2,287)
Disposals, net	(210)	(266)	(200)	(676)
Cost	249,933	46,626	8,254	304,813
Accumulated depreciation, depletion and amortization	(59,432)	-	(1,693)	(61,125)
Net book value at 31 December 2013	**190,501**	**46,626**	**6,561**	**243,688**
Acquisition of subsidiaries	117	-	4,906	5,023
Change of assumptions in estimates of asset retirement cost	(2,107)	-	-	(2,107)
Additions	1,640	61,701	273	63,614
Transfers	43,798	(44,869)	1,071	-
Depreciation, depletion and amortization	(16,286)	-	(472)	(16,758)
Disposals, net	(1,413)	(296)	(25)	(1,734)
Cost	291,212	63,162	14,422	368,796
Accumulated depreciation, depletion and amortization	(74,962)	-	(2,108)	(77,070)
Net book value at 31 December 2014	**216,250**	**63,162**	**12,314**	**291,726**

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

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in additions to property, plant and equipment for the years ended 31 December 2014 and 2013 are capitalized interest and foreign exchange differences of RR 4,521 million and RR 4,021 million, respectively. The interest capitalization rates for 2014 and 2013 used for additions were 6.1 percent and 7.0 percent, respectively.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 4,697 million and RR 2,805 million at 31 December 2014 and 2013, respectively.

In December 2014, the Group purchased through auction an oil and gas exploration and production license for the Trekhbugorniy license area located in the YNAO for a payment of RR 435 million, which was included in additions to oil and gas properties. At 31 December 2014, the estimated reserves of this license area in accordance with the Russian reserve classification categories C1+C2 amounted to 5.9 bcm of natural gas.

During 2014, the major transfer to oil and gas properties and equipment in the amount of RR 10,266 million represented the completion of the Purovsky Gas Condensate Plant expansion project, which increased the plant processing capacity from five to 11 million tons per annum.

In March 2013, the Group purchased through auction an oil and gas exploration and production license for the East-Tazovskoye field located in the YNAO for a payment of RR 3,196 million, which was included in additions to oil and gas properties. At 31 December 2013, proved reserves of the field appraised by DeGolyer and MacNaughton SEC reserve methodologies totaled approximately 17.1 billion cubic meters of natural gas and 2.5 million tons of liquids.

During 2013, the transfers to oil and gas properties and equipment included the completion and launch of the Gas Condensate Fractionation and Transhipment Complex located at the port of Ust-Luga on the Baltic Sea in the amount of RR 20,924 million.

During 2014, the Group acquired OOO NovaEnergo and ZAO Office (see Note 5) and has recorded an addition of RR 5,023 million to property, plant and equipment as “acquisition of subsidiaries”.

The table below summarizes the Group’s carrying values of total acquisition costs of proved and unproved properties included in oil and gas properties and equipment:

	At 31 December 2014	At 31 December 2013
Proved properties acquisition costs	44,882	43,938
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(14,352)	(13,061)
Unproved properties acquisition costs	7,265	6,420
Total acquisition costs	**37,795**	**37,297**

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

Reconciliation of depreciation, depletion and amortization (DDA):

	Year ended 31 December:	
	2014	2013
Depreciation, depletion and amortization of property, plant and equipment	16,758	13,175
Add: DDA of intangible assets	545	466
Less: DDA capitalized in the course of intra-group construction services	(131)	(138)
DDA as presented in the consolidated statement of income	**17,172**	**13,503**

At 31 December 2014 and 2013, no property, plant and equipment was pledged as security for the Group’s borrowings. Impairment of nil and RR 2,287 million was recognized in respect of oil and gas properties and equipment for the years ended 31 December 2014 and 2013, respectively.

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

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Capital commitments are disclosed in Note 28.

Exploration for and evaluation of mineral resources. The amounts of assets, liabilities, expense and cash flows arising from the exploration and evaluation of mineral resources comprise the following:

	Year ended 31 December:	
	2014	**2013**
Net book value of assets value at 1 January	**6,789**	**8,747**
Additions	1,649	3,852
Expensed	(130)	(1,966)
Reclassification in proved properties	(13)	(3,196)
Other movements	-	(648)
Net book value of assets at 31 December	**8,295**	**6,789**
Liabilities	56	80
Cash flows used for operating activities	108	339
Cash flows used for investing activities	1,049	3,272

7 INVESTMENTS IN JOINT VENTURES

	At 31 December 2014	**At 31 December 2013**
Joint ventures:		
OAO Yamal LNG	63,783	77,875
ZAO Nortgas	47,998	45,605
Artic Russia B.V.	30,489	59,315
OOO Yamal Development	19,639	23,720
ZAO Terneftegas	4,322	3,551
Total investments in joint ventures	**166,231**	**210,066**

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

OAO Yamal LNG. The Group holds a 60 percent ownership in Yamal LNG, its joint venture with French TOTAL S.A. (20 percent) and China National Petroleum Corporation (20 percent). The joint venture is responsible for implementing the Yamal LNG Project including the construction of production facilities for natural gas, gas condensate and liquefied natural gas ("LNG") based on the resources of the South-Tambeyskoye field, located on the Yamal peninsula in the YNAO. In September 2014, the company received a license for exporting LNG.

ZAO Nortgas. The Group holds a 50 percent ownership in Nortgas, its joint venture with OAO Gazprom and OAO Gazprom Neft. Joint venture operates the North-Urengoyskoye field, located in the YNAO.

Artic Russia B.V. At 31 December 2013, the Group held a direct 40 percent ownership interest in Artic Russia, domiciled in the Netherlands. On 31 March 2014, the Group sold a 20 percent ownership interest in Artic Russia to Yamal Development (see Note 5). Artic Russia holds 49 percent participation interest in SeverEnergia.

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

OOO Yamal Development. The Group holds a 50 percent participation interest in Yamal Development, its joint venture with OAO Gazprom Neft (50 percent). Yamal Development holds a 51 percent participation interest in OOO SeverEnergia and an 80 percent ownership interest in Artic Russia (at 31 December 2013: 60 percent in Artic Russia).

OOO SeverEnergia. The Group holds an effective 54.9 percent participation interest in SeverEnergia through two of the Group's other joint ventures, Yamal Development and Artic Russia (at 31 December 2013: 59.8 percent in SeverEnergia). SeverEnergia through its wholly owned subsidiary OAO Arcticgas operates the Samburgskoye and Urengoyskoye fields and conducts exploration activities on the Evo-Yakhinskoye, Yaro-Yakhinskoye and North-Chaselskoye fields, located in the YNAO. Consolidated statement of financial position and statement of comprehensive income of SeverEnergia are presented below, as Yamal Development and Artic Russia are the holding companies.

ZAO Terneftegas. The Group holds a 51 percent ownership in Terneftegas, its joint venture with TOTAL S.A. (49 percent). Joint venture conducts exploration and development activities on the Termokarstovoye field, located in the YNAO.

The table below summarizes the movements in the carrying amounts of the Group's joint ventures:

	Year ended 31 December:	
	2014	**2013**
At 1 January	**210,066**	**189,136**
Share of profit (loss) of joint ventures before income tax	(33,887)	830
Share of income tax (expense) benefit	5,712	(942)
Share of profit (loss) of joint ventures, net of income tax	**(28,175)**	**(112)**
Disposal of stakes in joint ventures	(32,349)	(24,306)
Effect from other changes in joint ventures' net assets	8,866	-
Effect from initial remeasurement of loans provided by the Group to joint ventures (see Note 8)	5,318	3,647
Contributions to equity	4,355	2,247
Dividend receivable from joint venture	(1,850)	-
Acquisition of joint venture	-	59,315
Future shareholders' contributions to equity	-	10,935
Acquisition of additional stakes in joint venture (see Note 5)	-	1,703
Disposal of joint ventures	-	(25,511)
Reassessment of investments in joint ventures	-	(6,988)
At 31 December	**166,231**	**210,066**

In March 2014, the Group disposed of its 20 percent ownership interest in Artic Russia at cost of RR 32,349 million including unrealized gain on disposal (see Note 5).

In 2014, the Group recorded an increase in the amount of RR 8,866 million in equity from remeasurement of the disproportional loans provided to Yamal LNG and Terneftegas by other shareholders.

In 2014, the equity of Terneftegas was increased through proportional contributions by its participants totaling RR 8,507 million, of which RR 4,339 million was attributable to NOVATEK. In addition, the equity of Artic Russia was increased through proportional contributions by its participants totaling RR 82 million, of which RR 16 million was attributable to NOVATEK. The Group's shareholdings in both entities did not change as a result of the proportional contributions.

In December 2014, Nortgas declared dividends in the amount of RR 3,700 million, of which RR 1,850 million were attributable to NOVATEK. Dividends were paid in February 2015.

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

In December 2013, the Group disposed its 20 percent interest in Yamal LNG at cost of RR 24,306 million (see Note 5).

In 2013, the equity of Terneftegas was increased through proportional contributions by its participants totaling RR 4,406 million, of which RR 2,247 million were attributable to NOVATEK. The Group's shareholding did not change as a result of the proportional contributions.

In December 2013, the Group under the assets swap agreement disposed its 51 percent ownership in Sibneftegas at cost of RR 25,511 million and acquired a 40 percent interest in Artic Russia for RR 59,315 million (see Note 5).

In December 2013, the Group's investments in Yamal LNG were increased through recognition of future shareholders' contributions to be made by CNPC in the amount of RR 10,935 million (see Note 5), which were paid in January and February 2014.

As a result of Yamal LNG Project's Final Investment Decision approval in December 2013 the Group reassessed its investment in Yamal LNG and decreased it by RR 6,988 million in line with decreased amount of third tranche, which was part of the consideration for the disposal of the 20 percent interests to Total S.A., and recognized the corresponding effect within the consolidated statement of changes in equity in accordance with the Group's accounting policy.

The summarized statements of financial position for the Group's principal joint ventures are as follows:

At 31 December 2014	**Yamal LNG**	**SeverEnergia**	**Nortgas**
Property, plant and equipment	346,233	391,609	146,798
Other non-current assets	28,672	217	9,571
Total non-current assets	**374,905**	**391,826**	**156,369**
Cash and cash equivalents	6,366	694	3,831
Other current assets	20,996	9,654	3,071
Total current assets	**27,362**	**10,348**	**6,902**
Non-current financial liabilities	(269,301)	(115,778)	(34,550)
Other non-current liabilities	(11,321)	(52,175)	(23,118)
Total non-current liabilities	**(280,622)**	**(167,953)**	**(57,668)**
Trade payables and accrued liabilities	(8,572)	(14,762)	(4,557)
Other current financial liabilities	(16,090)	-	(3,414)
Other current non-financial liabilities	(47)	(2,925)	(1,637)
Total current liabilities	**(24,709)**	**(17,687)**	**(9,608)**
Net assets	**96,936**	**216,534**	**95,995**

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

At 31 December 2013	Yamal LNG	SeverEnergia	Nortgas
Property, plant and equipment	144,917	357,919	143,711
Other non-current assets	22,991	2,140	1,047
Total non-current assets	**167,908**	**360,059**	**144,758**
Cash and cash equivalents	2,120	3,025	767
Other current assets	9,749	7,458	3,131
Total current assets	**11,869**	**10,483**	**3,898**
Non-current financial liabilities	(54,807)	(78,232)	(30,964)
Other non-current liabilities	(15,161)	(54,949)	(22,737)
Total non-current liabilities	**(69,968)**	**(133,181)**	**(53,701)**
Trade payables and accrued liabilities	(2,511)	(16,619)	(2,489)
Other current financial liabilities	-	-	(586)
Other current non-financial liabilities	(393)	(5,739)	(671)
Total current liabilities	**(2,904)**	**(22,358)**	**(3,746)**
Net assets	**106,905**	**215,003**	**91,209**

The summarized statements of comprehensive income of the Group's principal joint ventures are presented below:

For the year ended 31 December 2014	Yamal LNG	SeverEnergia	Nortgas
Revenue	525	32,110	28,136
Depreciation, depletion and amortization	(275)	(9,018)	(7,985)
Change in fair value of non-commodity financial instruments	49,123	-	-
Foreign exchange gain (loss)	(101,545)	(39)	4
Profit (loss) before income tax	(54,618)	10,611	10,607
Income tax expense	8,356	(1,250)	(2,121)
Profit (loss), net of income tax	**(46,262)**	**9,361**	**8,486**

For the year ended 31 December 2013	Yamal LNG	SeverEnergia	Nortgas
Revenue	266	15,832	11,361
Depreciation, depletion and amortization	-	(6,179)	(3,195)
Foreign exchange gain (loss)	(333)	(57)	9
Profit (loss) before income tax	(2,064)	3,764	3,397
Income tax expense	132	(984)	(802)
Profit (loss), net of income tax	**(1,932)**	**2,780**	**2,595**

The information above reflects the amounts presented in the financial statements of the joint venture adjusted for differences in accounting policies between the Group and the joint venture. All of the joint ventures listed above are registered in the Russian Federation.

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

Reconciliation of the summarized financial information presented to the Group's share in net assets of the joint ventures:

As at and for the year ended 2014	**Yamal LNG**	**SeverEnergia**	**Nortgas**
Net assets at 1 January 2014	**106,905**	**215,003**	**91,209**
Profit (loss), net of income tax	(46,262)	9,361	8,486
Disposal of stakes in joint ventures and other equity movements	36,293	(7,830)	-
Dividends	-	-	(3,700)
Net assets at 31 December 2014	**96,936**	**216,534**	**95,995**
Ownership	60%	54.9%	50%
Group's share in net assets	**58,162**	**118,877**	**47,998**

As at and for the year ended 31 December 2013	**Yamal LNG**	**SeverEnergia**	**Nortgas**
Net assets at 1 January 2013	**104,912**	**94,208**	**86,911**
Profit (loss), net of income tax	(1,932)	2,780	2,595
Acquisition of additional stakes in joint ventures and other equity movements	3,925	118,015	1,703
Net assets at 31 December 2013	**106,905**	**215,003**	**91,209**
Ownership	60%	59.8%	50%
Group's share in net assets	**64,143**	**128,572**	**45,605**

At 31 December 2014 and 2013, the Group's investment in Yamal LNG totaled RR 63,783 million and RR 77,875 million, respectively, which differed from its share in the net assets. These differences of RR 5,621 million and RR 13,732 million, respectively, relate to the Group's share in the second and third tranches recognized as part of the considerations for the disposal of the 20 percent interests in Yamal LNG to Total S.A. and CNPC (see Note 5). The outstanding tranches are recognized in the Group's investment in Yamal LNG.

At 31 December 2014 and 2013, the Group's cumulative investments in Artic Russia and Yamal Development totaled RR 50,128 million and RR 83,035 million, respectively, which differed from the Group's share in the net assets of SeverEnergia. The differences of RR 68,749 million and RR 45,537 million, respectively, mainly relate to the Group's interest in debt and goodwill, disclosed in the financial statements of Artic Russia and Yamal Development, through which entities the Group holds the investments in SeverEnergia.

In December 2013, Yamal Development, the Group's joint venture, provided an effective 40.2 percent ownership in SeverEnergia as a pledge per loan agreement. At 31 December 2014 and 2013, carrying amount of the pledged equity stake with Group's effective percent ownership in SeverEnergia applied was equal to RR 77,097 million and RR 73,156 million, respectively.

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

8 LONG-TERM LOANS AND RECEIVABLES

	At 31 December 2014	At 31 December 2013
US dollar denominated loans	66,835	45,415
Euro denominated loans	16,278	-
Russian rouble denominated loans	13,361	2,200
Total	**96,474**	**47,615**
Less: current portion of long-term loans	(8,107)	-
Total long-term loans	**88,367**	**47,615**
Long-term interest receivable	5,291	1,310
Long-term receivables	484	412
Total long-term loans and receivables	**94,142**	**49,337**

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

	At 31 December 2014	At 31 December 2013
OAO Yamal LNG	78,825	42,804
OOO Yamal Development	13,361	2,200
ZAO Terneftegas	4,288	2,611
Total long-term loans	**96,474**	**47,615**

OAO Yamal LNG. In August 2012, in accordance with the Shareholders' agreement, the Group provided a US dollar credit line facility to Yamal LNG, the Group's joint venture. Under the terms of the credit line agreement the Group provides loans in tranches based on the annual budget of Yamal LNG approved by the joint venture's Board of Directors. The loans bore an interest rate of 5.09 percent per annum, which was reduced to 4.46 percent per annum effective 1 January 2014. The interest rate can be adjusted during subsequent years subject to certain conditions. The principal and interest are repayable after the commencement of commercial production by Yamal LNG and are both included within non-current assets in the consolidated statement of financial position (see Note 30). Effective from August 2014, the Group provided funds to Yamal LNG under the credit line facility in Euros.

During 2014, the Group provided further funds to the joint venture under this credit line totaling RR 34,746 million (USD 492 million and EUR 324 million). Following the entering of the new shareholder (CNPC) into the Yamal LNG Project, Yamal LNG in January 2014 repaid to the Group part of the loan (refinanced by CNPC) and interest receivable in the amount of RR 12,045 million (USD 364 million).

OOO Yamal Development. In August 2014, the Group provided a credit line facility to Yamal Development, the Group's joint venture, up to RR 10.5 billion. The loan bore an interest rate of 10.9 percent per annum. The principal and interest are repayable in December 2021 and are both included within non-current assets in the consolidated statement of financial position (see Note 30). The repayment schedule can be extended during subsequent years subject to certain conditions.

In December 2013, the Group provided a credit line facility to Yamal Development up to RR 13 billion. The loan bore an interest rate of 9.25 percent per annum. The principal and interest are repayable in December 2015 and are both included within non-current assets in the consolidated statement of financial position (see Note 30). In September 2014, the credit line facility was terminated with the outstanding balance at 31 December 2014 in the amount of RR 8,107 million.

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

8 LONG-TERM LOANS AND RECEIVABLES (CONTINUED)

ZAO Terneftegas. In 2010 and 2011, in accordance with the Shareholders' agreement, the Group provided a US dollar credit line facility to Terneftegas, the Group's joint venture. Under the terms of the credit line agreement the Group provides loans in tranches based on the annual budget of Terneftegas approved by the joint venture's Board of Directors. The loans bore an interest rate of 3.88 percent per annum, which was increased to 4.52 percent per annum effective 1 July 2013. The interest rate can be adjusted during subsequent years subject to certain conditions. The principal and interest are repayable after the commencement of commercial production by Terneftegas and are both included within non-current assets in the consolidated statement of financial position (see Note 30).

Recognition and remeasurement of the shareholders' loans to joint ventures. Terms and conditions of the shareholders' loans provided by the Group to its joint ventures Yamal LNG and Terneftegas contain certain financial (benchmark interest rates adjusted for the borrower credit risk), and non-financial (actual interest rates on the borrowings of shareholders, expected free cash flows of the borrower and expected maturities) variables and in accordance with the Group's accounting policy were classified as financial assets at fair value through profit or loss.

The following table summarizes the movements in the carrying amounts of shareholders' loans provided to Yamal LNG and Terneftegas and related interest receivable:

	Year ended 31 December:	
	2014	**2013**
At 1 January	**46,718**	**4,433**
Loans installments	34,746	43,578
Repayment of the loans	(12,045)	-
Initial remeasurement to fair value allocated to increase the Group's investments in joint ventures (see Note 7)	(5,318)	(3,647)
Effect from subsequent changes in fair value recognized as profit (loss) as follows:		
– Interest income using the effective interest rate method	3,720	1,479
– Foreign exchange gain	41,110	875
– Remaining effect from changes in fair value (attributable to free cash flows of the borrowers and interest rates)	(20,205)	-
At 31 December	**88,726**	**46,718**

The fair value of the shareholders' loans is sensitive to benchmark interest rates changes. The table below represents the effect on fair value of the shareholders' loans that would occur from 1 percent changes in the benchmark interest rates.

	Year ended 31 December:	
	2014	**2013**
Increase by 1 percent	5,353	2,602
Decrease by 1 percent	(5,789)	(2,754)

No provisions for impairment of long-term loans and receivables were recognized at 31 December 2014 and 2013. The carrying values of long-term loans and receivables approximate their respective fair values.

Loan commitments are disclosed in Note 28.

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

9 OTHER NON-CURRENT ASSETS

	At 31 December 2014	At 31 December 2013
Financial assets		
Commodity derivatives	1,871	470
Long-term bank deposits	7	7
Non-financial assets		
Long-term advances	8,199	3,131
Deferred income tax assets	4,651	1,514
Materials for construction	3,838	5,284
Intangible assets, net	1,796	1,990
Other	87	82
Total other non-current assets	**20,449**	**12,478**

At 31 December 2014 and 2013, the long-term advances represented advances to OAO Russian Railways in the amount of RR 8,199 million and RR 2,792 million, respectively. The advances were paid in accordance with the Strategic Partnership Agreement signed with Russian Railways in 2012.

10 INVENTORIES

	At 31 December 2014	At 31 December 2013
Natural gas and liquid hydrocarbons	5,279	4,932
Materials and supplies (net of provision of RR 57 million and nil at 31 December 2014 and 2013, respectively)	1,662	977
Other inventories	83	44
Total inventories	**7,024**	**5,953**

No inventories were pledged as security for the Group's borrowings or payables at both dates.

11 TRADE AND OTHER RECEIVABLES

	At 31 December 2014	At 31 December 2013
Trade receivables (net of provision of RR 310 million and RR 718 million at 31 December 2014 and 2013, respectively)	30,430	29,984
Other receivables (net of provision of RR 7 million and RR 3 million at 31 December 2014 and 2013, respectively)	4,162	19,538
Total trade and other receivables	**34,592**	**49,522**

Trade receivables in the amount of RR 11,289 million and RR 5,015 million at 31 December 2014 and 2013, respectively, are secured by letters of credit, issued by banks with investment grade rating. The Group does not hold any other collateral as security for trade and other receivables (see Note 27 for credit risk disclosures).

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

The carrying values of trade and other receivables approximate their respective fair values. Trade and other receivables were categorized as Level 3 in the fair value measurement hierarchy described in Note 27.

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

11 TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade and other receivables that are less than three months past due are generally not considered for impairment unless other indicators of impairment exist. Trade and other receivables of RR 5,472 million and RR 2,169 million at 31 December 2014 and 2013, respectively, were past due but not impaired. The Group has assessed the payment history of these accounts and recognized impairment where deemed necessary.

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

	At 31 December 2014	At 31 December 2013
Up to 90 days past-due	3,254	1,968
91 to 360 days past-due	2,048	200
Over 360 days past-due	170	1
Total past due but not impaired	**5,472**	**2,169**
Not past due and not impaired	29,120	47,353
Total trade and other receivables	**34,592**	**49,522**

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

	Year ended 31 December:	
	2014	2013
At 1 January	**721**	**410**
Additional provision recorded	311	421
Receivables written off as uncollectible	(173)	(26)
Provision reversed	(542)	(84)
At 31 December	**317**	**721**

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

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

12 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 December 2014	At 31 December 2013
Financial assets		
Russian rouble denominated loans (see Note 30)	8,107	-
Commodity derivatives	2,758	316
Cash restricted in the form of guarantee	1,098	-
Short-term bank deposits (with original maturity over three months)	2	36
US dollar denominated loans	-	23
Non-financial assets		
Value-added tax receivable	10,870	3,359
Deferred export duties for liquid hydrocarbons	5,951	2,255
Prepayments and advances to suppliers (net of provision of nil and RR 5 million at 31 December 2014 and 2013, respectively)	4,352	2,536
Recoverable value-added tax	2,324	3,814
Deferred transportation expenses for natural gas	2,229	4,527
Deferred transportation expenses for liquid hydrocarbons	1,447	858
Prepaid customs duties	691	1,023
Other current assets	252	158
Total prepayments and other current assets	**40,081**	**18,905**

13 CASH AND CASH EQUIVALENTS

	At 31 December 2014	At 31 December 2013
Cash at current bank accounts	15,469	4,472
US dollar denominated deposits	11,252	1,486
Russian rouble denominated deposits	8,464	1,684
Euro denominated deposits	5,875	-
Other currency denominated deposits	258	247
Total cash and cash equivalents per the consolidated statement of financial position	**41,318**	**7,889**
Less: bank overdrafts (see Note 16)	-	(7,569)
Cash, cash equivalents and bank overdrafts per the consolidated statement of cash flows	**41,318**	**320**

All deposits are readily convertible to known amounts of cash and are not subject to significant risk of change in value (see Note 27 for credit risk disclosures).

14 LONG-TERM DEBT

	At 31 December 2014	At 31 December 2013
US dollar denominated bonds	126,175	73,341
US dollar denominated loans	83,938	34,363
Russian rouble denominated bonds	33,947	33,891
Russian rouble denominated loans	-	9,911
Total	**244,060**	**151,506**
Less: current portion of long-term debt	(39,361)	(9,911)
Total long-term debt	**204,699**	**141,595**

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

14 LONG-TERM DEBT (CONTINUED)

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

	At 31 December 2014	At 31 December 2013
Syndicated term US dollar credit line facility	83,938	34,363
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	56,059	32,595
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	36,409	21,163
Eurobonds – Five-Year Tenor (par value USD 600 million, repayable in 2016)	33,707	19,583
Russian bonds – Three-Year Tenor (par value RR 20 billion, repayable in 2015)	19,991	19,980
Eurobonds – Four-Year Tenor (par value RR 14 billion, repayable in 2017)	13,956	13,911
Sberbank Russian rouble credit line facility	-	9,911
Total	**244,060**	**151,506**

Syndicated term credit line facility. In June 2013, the Group obtained a USD 1.5 billion unsecured syndicated term credit line facility from a range of international banks available to withdraw until June 2014. At 31 December 2014, the Group withdrew the full amount under the facility at an interest rate of LIBOR plus 1.75 percent per annum (2.0 percent at 31 December 2014 and 2013) repayable until July 2018 by quarterly installments starting from June 2015. The facility includes the maintenance of certain restrictive financial covenants.

Eurobonds. In February 2013, the Group issued Russian rouble denominated Eurobonds in the amount of RR 14 billion. The Russian rouble denominated Eurobonds were issued with an annual coupon rate of 7.75 percent, payable semi-annually. The bonds have a four-year tenor and are repayable in February 2017.

In December 2012, the Group issued US dollar denominated Eurobonds in the amount of USD 1 billion. The US dollar denominated Eurobonds were issued with an annual coupon rate of 4.422 percent, payable semi-annually. The bonds have a ten-year tenor and are repayable in December 2022.

In February 2011, the Group issued US dollar denominated Eurobonds in an aggregate amount of USD 1,250 million. The US dollar denominated Eurobonds were issued at par in two tranches, a five-year USD 600 million bond with an annual coupon rate of 5.326 percent and a ten-year USD 650 million bond with an annual coupon rate of 6.604 percent. The coupons are payable semi-annually. The bonds are repayable in February 2016 and February 2021, respectively.

Russian bonds. In October 2012, the Group issued non-convertible Russian rouble denominated bonds in the amount of RR 20 billion with a coupon rate of 8.35 percent per annum, payable semi-annually. The bonds have a three-year tenor and are repayable in October 2015.

Sberbank. In December 2011, the Group obtained up to a RR 40 billion credit line facility from OAO Sberbank available to withdraw until March 2012 which was subsequently extended until January 2013. In June 2012, the Group withdrew RR 10 billion under the facility at an interest rate of 8.9 percent per annum which was reduced to 7.9 percent effective from August 2013. The remaining part of the credit line was not utilized. In March 2014, the loan was fully repaid ahead of its maturity schedule.

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

14 LONG-TERM DEBT (CONTINUED)

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

	At 31 December 2014	At 31 December 2013
Syndicated term US dollar credit line facility	73,871	35,043
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	41,867	30,176
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	32,717	23,382
Eurobonds – Five-Year Tenor (par value USD 600 million, repayable in 2016)	33,134	20,877
Russian bonds – Three-Year Tenor (par value RR 20 billion, repayable in 2015)	20,030	20,240
Eurobonds – Four-Year Tenor (par value RR 14 billion, repayable in 2017)	10,752	14,032
Sberbank Russian rouble credit line facility	-	10,038
Total	**212,371**	**153,788**

The fair value of the corporate bonds was determined based on market quote prices (Level 1 in the fair value measurement hierarchy described in Note 27). The fair value of other long-term loans was determined based on future cash flows discounted at the estimated risk-adjusted discount rate (Level 3 in the fair value measurement hierarchy described in Note 27).

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

Maturity period:	At 31 December 2014
1 January to 31 December 2016	59,534
1 January to 31 December 2017	39,783
1 January to 31 December 2018	12,914
1 January to 31 December 2019	-
After 31 December 2019	92,468
Total long-term debt	**204,699**

15 PENSION OBLIGATIONS

Defined contribution plan. For the years ended 31 December 2014 and 2013, total amounts recognized as an expense in respect of payments made by employer on behalf of employees to the Pension Fund of the Russian Federation were RR 1,435 million and RR 1,186 million, respectively.

Defined benefit plan. The Group operates a post-employment benefit program for its retired employees. Under the current terms of pension program, employees who are employed by the Group for more than five years and retire from the Group on or after the statutory retirement age will receive lump sum retirement benefit and monthly payments from NOVATEK for life unless they are actively employed. The amounts of payments to be disbursed depend on the employee’s average salary, duration and location of employment.

The program represents an unfunded defined benefit plan and is accounted for as such under provisions of IAS 19, *Employee Benefits*. The present value of the defined benefit obligation is included in other non-current liabilities in the consolidated statement of financial position. The impact of the program on the consolidated financial statements is disclosed below.

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

15 PENSION OBLIGATIONS (CONTINUED)

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

	Year ended 31 December:	
	2014	2013
At 1 January	**1,627**	**1,532**
Interest cost	104	90
Current service cost	164	61
Benefits paid	(84)	(67)
Actuarial remeasurement arising from:		
- changes in financial assumptions	(967)	(74)
- changes in demographic assumptions	190	12
- experience adjustment	133	73
At 31 December	**1,167**	**1,627**
Defined benefit plan (benefits) costs were recognized in:		
Materials, services and other (as employee compensation)	130	123
General and administrative expenses (as employee compensation)	138	160
Other comprehensive income (loss)	(644)	11

The principal actuarial assumptions used are as follows:

	At 31 December 2014	At 31 December 2013
Weighted average discount rate	14.1%	6.6%
Projected annual increase in employee compensation	4.6%	5.1%
Expected increases to pension benefits	5.1%	5.1%

The assumed average salary and pension payment increases for Group employees have been calculated on the basis of inflation forecasts, analysis of increases of past salaries and the general salary policy of the Group. Inflation forecasts have been estimated to reduce from 11.8 percent for 2015 to 4.9 percent in 2019 and subsequent years.

Mortality assumptions are based on the Russian mortality tables published by the State Statistics Committee of the Russian Federation from the year 2010 adjusted for estimates of mortality improvements in the future periods, which management believes are the most conservative and prudent Russian whole-population mortality tables available.

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

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

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

	At 31 December 2014	At 31 December 2013
Russian rouble denominated loans	1,619	-
US dollar denominated loans	-	6,546
US dollar denominated bank overdrafts	-	7,569
Total	**1,619**	**14,115**
Add: current portion of long-term debt	39,361	9,911
Total short-term debt and current portion of long-term debt	**40,980**	**24,026**

Russian rouble denominated loans. In January 2014, one of the Group's subsidiaries obtained a Russian rouble denominated loan from its non-controlling shareholder in the amount of RR 1,619 million at an interest rate of 9 percent per annum until November 2014, which was subsequently extended until February 2015.

US dollar denominated loans. In December 2013, the Group withdrew USD 200 million (RR 6,589 million) under credit line facilities with BNP PARIBAS Bank (USD 100 million) and Credit Agricole Corporate and Investment Bank (USD 100 million) at the interest rates of 1.46 percent and 1.9 percent per annum, respectively. In January 2014, the loans were fully repaid.

Bank overdrafts and available credit line facilities. In December 2013, the Group withdrew USD 231 million (RR 7,570 million) under available credit line facility in the form of bank overdrafts with BNP PARIBAS Bank at an interest rate of 2.32 percent per annum. In January 2014, the bank overdraft was fully repaid.

Available funds under short-term credit lines in the form of bank overdrafts with various international banks totaled RR 15,471 million (USD 275 million) and RR 2,740 million (USD 84 million) at 31 December 2014 and 2013, respectively, on variable interest rates subject to the specific type of credit facility.

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

	Par value	Expiring within one year
UniCredit Bank	USD 180 million	10,127
Credit Agricole Corporate and Investment Bank	USD 100 million	5,626
Gazprombank	RR 10 billion	10,000
Total available credit facilities		**25,753**

17 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 December 2014	At 31 December 2013
Financial liabilities		
Trade payables	16,347	14,372
Other payables	3,919	1,382
Interest payable	3,028	1,857
Commodity derivatives	1,831	46
Non-financial liabilities		
Advances from customers	3,315	916
Other liabilities and accruals	1,912	2,481
Salary payables	226	206
Trade payables and accrued liabilities	**30,578**	**21,260**

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

17 TRADE PAYABLES AND ACCRUED LIABILITIES (CONTINUED)

The carrying values of trade payables and accrued liabilities approximate their respective fair values. Trade and other payables were categorized as Level 3 in the fair value measurement hierarchy described in Note 27.

18 SHAREHOLDERS' EQUITY

Ordinary share capital. Share capital issued and paid in consisted of 3,036,306,000 ordinary shares with a par value of RR 0.1 each at 31 December 2014 and 2013. The total authorized number of ordinary shares was 10,593,682,000 shares at both dates.

Treasury shares. In accordance with the *Share Buyback Programs* authorized by the Board of Directors the Group's wholly owned subsidiary, Novatek Equity (Cyprus) Limited, purchases ordinary shares of OAO NOVATEK in the form of Global Depository Receipts (GDRs) on the London Stock Exchange (LSE) and ordinary shares on the Moscow Exchange MICEX-RTS through the use of independent brokers. At 31 December 2014 and 2013, the Group held in total (both shares and GDRs) 15.9 million and 8.2 million ordinary shares at a total cost of RR 5,222 million and RR 2,406 million, respectively. The Group has decided that these shares do not vote.

During the years ended 31 December 2014 and 2013, the Group purchased 7.7 million and 5.6 million ordinary shares (both shares and GDRs) at a total cost of RR 2,816 million and RR 1,854 million, respectively. Also, in 2013, the Group sold 27,184 GDRs (0.3 million ordinary shares) for RR 109 million, recognizing a gain of RR 77 million, which was recorded within additional paid-in capital in the consolidated statement of changes in equity.

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

	Year ended 31 December:	
	2014	**2013**
Dividends payable at 1 January	2	5
Dividends declared (*)	28,966	21,999
Dividends paid (*)	(28,967)	(22,002)
Dividends payable at 31 December	**1**	**2**
Dividends per share declared during the year (in Russian roubles)	9.59	7.26
Dividends per GDR declared during the year (in Russian roubles)	95.9	72.6

(*) – excluding treasury shares.

The Group declares and pays dividends in Russian roubles. Dividends declared in 2014 and 2013 were as follows:

Final for 2013: RR 4.49 per share or RR 44.9 per GDR declared in April 2014	13,633
Interim for 2014: RR 5.10 per share or RR 51.0 per GDR declared in October 2014	15,485
Total dividends declared in 2014	**29,118**
Final for 2012: RR 3.86 per share or RR 38.6 per GDR declared in April 2013	11,720
Interim for 2013: RR 3.40 per share or RR 34.0 per GDR declared in October 2013	10,323
Total dividends declared in 2013	**22,043**

Distributable retained earnings. In accordance with Russian legislation, NOVATEK distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Regulations on Accounting and Reporting of the Russian Federation. Russian legislation identifies the net profit as basis of distribution. At 31 December 2014 and 2013, the closing balances of the accumulated profit including the respective years net statutory profit totaled RR 212,567 million and RR 199,934 million, respectively.

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

18 SHAREHOLDERS' EQUITY (CONTINUED)

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

19 OIL AND GAS SALES

	Year ended 31 December:	
	2014	**2013**
Natural gas	230,447	204,969
Naphtha	62,280	26,789
Liquefied petroleum gas	24,401	18,770
Other gas and gas condensate refined products	23,522	6,681
Crude oil	11,226	7,443
Stable gas condensate	3,797	32,847
Total oil and gas sales	**355,673**	**297,499**

20 TRANSPORTATION EXPENSES

	Year ended 31 December:	
	2014	**2013**
Natural gas transportation by trunk and low-pressure pipelines	92,494	83,884
Stable gas condensate and liquefied petroleum gas transportation by rail	16,007	13,996
Gas condensate refined products and stable gas condensate transportation by tankers	4,749	4,439
Crude oil transportation by trunk pipelines	1,223	885
Other	38	41
Total transportation expenses	**114,511**	**103,245**

21 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Year ended 31 December:	
	2014	**2013**
Unstable gas condensate	26,669	10,304
Natural gas	24,801	23,992
Other liquid hydrocarbons	1,126	411
Total purchases of natural gas and liquid hydrocarbons	**52,596**	**34,707**

The Group purchases 50 percent of the natural gas volumes produced by its joint venture ZAO Nortgas (see Note 30).

The Group purchases natural gas from its related party OAO SIBUR Holding at prices based on the market prices in the region of purchases (see Note 30).

The Group purchases unstable gas condensate produced by its joint ventures Nortgas and OOO SeverEnergia (its wholly owned subsidiary, OAO Arcticgas) at ex-field prices based on benchmark crude oil and gas condensate refined products market quotes adjusted for quality and respective tariffs for its transportation and processing (see Note 30).

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

21 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS (CONTINUED)

Throughout 2013, the Group purchased 51 percent of the natural gas volumes produced by its joint venture OAO Sibneftegas (see Note 30). In December 2013, the Group terminated the natural gas purchase contract with Sibneftegas as a result of its disposal.

22 TAXES OTHER THAN INCOME TAX

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

	Year ended 31 December:	
	2014	2013
Unified natural resources production tax	26,962	19,619
Property tax	2,095	1,790
Other taxes	279	236
Total taxes other than income tax	**29,336**	**21,645**

23 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:	
	2014	2013
Employee compensation	7,147	6,983
Legal, audit, and consulting services	1,205	924
Social expenses and compensatory payments	1,009	1,178
Advertising expenses	461	213
Business trips expense	423	363
Fire safety and security expenses	291	231
Insurance expense	280	191
Repair and maintenance expenses	215	192
Other	800	754
Total general and administrative expenses	**11,831**	**11,029**

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

	Year ended 31 December:	
	2014	2013
Audit services fee (audit of the Group's consolidated financial statements and the statutory audit of the parent company)	31	31
Non-audit services	12	9
Total auditors' fees and services	**43**	**40**

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

24 MATERIALS, SERVICES AND OTHER

	Year ended 31 December:	
	2014	**2013**
Employee compensation	4,862	3,920
Repair and maintenance expenses	2,026	1,755
Materials and supplies	879	698
Electricity and fuel	845	638
Services for preparation, transportation and processing of hydrocarbons	807	161
Rent expenses	633	47
Transportation services	422	307
Security services	392	327
Other	576	429
Total materials, services and other	**11,442**	**8,282**

25 FINANCE INCOME (EXPENSE)

	Year ended 31 December:	
Interest expense (including transaction costs)	**2014**	**2013**
Interest expense on fixed rate debt	7,945	8,062
Interest expense on variable rate debt	1,366	497
Subtotal	**9,311**	**8,559**
Less: capitalized interest	(3,837)	(3,460)
Interest expense (on historical cost basis)	**5,474**	**5,099**
Provisions for asset retirement obligations: effect of the present value discount unwinding	248	248
Total interest expense	**5,722**	**5,347**

	Year ended 31 December:	
Interest income	**2014**	**2013**
Interest income on loans receivable	3,305	1,537
Interest income on cash, cash equivalents and deposits	685	373
Interest income (on historical cost basis)	**3,990**	**1,910**
Long-term financial assets: effect of the present value discount unwinding	1,073	431
Total interest income	**5,063**	**2,341**

	Year ended 31 December:	
Foreign exchange gain (loss)	**2014**	**2013**
Gains	63,811	2,265
Losses	(89,692)	(5,943)
Total foreign exchange gain (loss)	**(25,881)**	**(3,678)**

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

26 INCOME TAX

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

	Year ended 31 December:	
	2014	**2013**
Profit before income tax	52,843	137,130
Theoretical income tax expense at statutory rate of 20 percent	10,569	27,426
Increase (decrease) due to:		
Non-temporary differences in respect of share of losses of joint ventures	5,635	22
Non-deductible expenses	575	469
Russian entities' taxation at lower income tax rate	(32)	(95)
Foreign entities' taxation at lower income tax rate	858	(229)
Deferred taxes write-off	45	71
Tax benefits relating to priority investment projects	(1,264)	(508)
Dividend income from joint ventures at zero tax rate	(370)	-
Other non-temporary differences	(88)	29
Total income tax expense	**15,928**	**27,185**

A number of the Group's investment projects were included by the government authorities in the list of priority projects, in respect of them the Group was able to apply a reduced income tax rate of 15.5 percent.

Domestic and foreign components of current income tax expense were:

	Year ended 31 December:	
	2014	**2013**
Russian Federation income tax	15,925	23,141
Foreign income tax	326	251
Total current income tax expense	**16,251**	**23,392**

Effective income tax rate. The Group's Russian statutory income tax rate for 2014 and 2013 was 20 percent. For the years ended 31 December 2014 and 2013, the consolidated Group's effective income tax rate was 30.1 percent and 19.8 percent, respectively.

The higher effective income tax rate for 2014 was due to recognition by the Group of its share of net losses from joint ventures, which decreased the consolidated profit of the Group but has not resulted in additional income tax expense (benefit) at the Group's level. Net losses of certain joint ventures were caused mostly by significant non-cash foreign exchange losses and were recorded in the financial statements of joint ventures on an after-tax basis. The Group holds at least a 50 percent interest in each of its joint ventures, and dividend income from these joint ventures is subject to a zero withholding tax rate according to the Russian tax legislation.

Without the effect described above the effective income tax rate for the years ended 31 December 2014 and 2013 were 19.7 percent and 19.8 percent, respectively.

In accordance with Russian tax legislation the Group submits a single consolidated income tax return as described in the accounting policy.

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

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

26 INCOME TAX (CONTINUED)

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

	At 31 December 2014	At 31 December 2013
Long-term deferred income tax asset (other non-current assets)	4,651	1,514
Long-term deferred income tax liability	(21,063)	(18,219)
Net deferred income tax liability	**(16,412)**	**(16,705)**

Deferred income tax assets expected to be realized within twelve months of 31 December 2014 and 2013 were RR 522 million and RR 701 million, respectively. Deferred tax liabilities expected to be reversed within twelve months of 31 December 2014 and 2013 were RR 356 million and RR 319 million, respectively.

Movements in deferred income tax assets and liabilities during the years ended 31 December 2014 and 2013 are as follows:

	At 31 December 2014	Statement of Income effect	Statement of Comprehensive Income effect	At 31 December 2013
Property, plant and equipment	(21,943)	(2,849)	(4)	(19,090)
Intangible assets	(253)	72	-	(325)
Other	(837)	234	(42)	(1,029)
Deferred income tax liabilities	**(23,033)**	**(2,543)**	**(46)**	**(20,444)**
Less:deferred tax assets offset	*1,970*	*(255)*	-	*2,225*
Total deferred income tax liabilities	**(21,063)**	**(2,798)**	**(46)**	**(18,219)**
Tax losses carried forward	1,810	110	8	1,692
Inventories	719	162	1	556
Asset retirement obligation	298	(382)	-	680
Loans given	2,943	2,546	-	397
Trade payables and accrued liabilities	664	536	(23)	151
Other	187	(106)	30	263
Deferred income tax assets	**6,621**	**2,866**	**16**	**3,739**
Less: deferred tax liabilities offset	*(1,970)*	*255*	-	*(2,225)*
Total deferred income tax assets	**4,651**	**3,121**	**16**	**1,514**
Net deferred income tax liabilities	**(16,412)**	**323**	**(30)**	**(16,705)**

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

26 INCOME TAX (CONTINUED)

	At 31 December 2013	Statement of Income effect	Statement of Comprehensive Income effect	At 31December 2012
Property, plant and equipment	(19,090)	(3,188)	-	(15,902)
Intangible assets	(325)	73	-	(398)
Other	(1,029)	(315)	-	(714)
Deferred income tax liabilities	**(20,444)**	**(3,430)**	**-**	**(17,014)**
Less:deferred tax assets offset	*2,225*	*(820)*	*-*	*3,045*
Total deferred income tax liabilities	**(18,219)**	**(4,250)**	**-**	**(13,969)**
Tax losses carried forward	1,692	218	-	1,474
Inventories	556	(521)	-	1,077
Asset retirement obligation	680	103	-	577
Trade payables and accrued liabilities	548	(253)	(8)	809
Other	263	90	3	170
Deferred income tax assets	**3,739**	**(363)**	**(5)**	**4,107**
Less: deferred tax liabilities offset	*(2,225)*	*820*	*-*	*(3,045)*
Total deferred income tax assets	**1,514**	**457**	**(5)**	**1,062**
Net deferred income tax liabilities	**(16,705)**	**(3,793)**	**(5)**	**(12,907)**

At 31 December 2014, the Group had recognized deferred income tax assets of RR 1,810 million (31 December 2013: RR 1,692 million) in respect of unused tax loss carry forwards of RR 9,050 million (31 December 2013: RR 8,460 million). Tax losses can be carried forward for relief against taxable profits for ten years after they are incurred, subject to certain limitations. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

	At 31 December 2014		At 31 December 2013	
Financial assets	**Non-current**	**Current**	**Non-current**	**Current**
Loans and receivable				
Loans receivable	5,254	8,107	2,200	23
Trade and other receivables	5,775	34,592	1,722	49,522
Bank deposits and letters of credit	7	2	7	36
Cash restricted in the form of guarantee	-	1,098	-	-
Cash and cash equivalents	-	41,318	-	7,889
At fair value through profit or loss				
Loans receivable	83,113	-	45,415	-
Commodity derivatives	1,871	2,758	471	316
Total	**96,020**	**87,875**	**49,815**	**57,786**

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

	At 31 December 2014		At 31 December 2013	
Financial liabilities	**Non-current**	**Current**	**Non-current**	**Current**
At amortized cost				
Long-term debt	204,699	39,361	141,595	9,911
Short-term debt	-	1,619	-	14,115
Trade and other payables	2,194	23,294	-	17,611
At fair value through profit or loss				
Commodity derivatives	192	1,831	228	46
Total	**207,085**	**66,105**	**141,823**	**41,683**

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

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

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

The Group evaluates the quality and reliability of the assumptions and data used to measure fair value in accordance with IFRS 13, *Fair Value Measurement*, in the three hierarchy levels as follows:

i. quoted prices in active markets (Level 1);
ii. inputs other than quoted prices included in Level 1 that are directly or indirectly observable in the market (externally verifiable inputs) (Level 2);
iii. inputs that are not based on observable market data (unobservable inputs). These inputs reflect the Group’s own assumptions about the assumptions a market participant would use in pricing the asset or liability (Level 3).

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

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

Commodity derivatives	At 31 December 2014	At 31 December 2013
Within other non-current and current assets	4,629	787
Within other non-current and current liabilities	(2,023)	(274)

	Year ended 31 December:	
Included in other operating income (loss)	2014	2013
Operating income from natural gas foreign trading	927	180
Change in fair value	2,093	549

Sensitivity analysis below represents the effect on the fair value estimation of natural gas derivative contracts that would occur from price changes by 10 percent by one megawatt-hour:

Sensitivity summary (RR million)	From price decrease	From price increase
Market shift from 2016 sensitivity	220	492
Market shift from 2021 sensitivity	377	335

Sensitivity analysis for the shareholders' loans provided to joint ventures is presented in Note 8.

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

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

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

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

(a) Foreign exchange risk

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

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

27 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 31 December 2014	**Russian rouble**	**US dollar**	**Euro**	**Other**	**Total**
Financial assets					
Non-current					
Long-term loans receivable	5,254	66,835	16,278	-	88,367
Trade and other receivables	578	4,938	234	25	5,775
Commodity derivatives	-	-	1,871	-	1,871
Long-term deposits	-	-	-	7	7
Current					
Trade and other receivables	19,273	11,884	2,782	653	34,592
Short-term loans receivable	8,107	-	-	-	8,107
Short-term bank deposits	-	2	-	-	2
Commodity derivatives	-	-	2,758	-	2,758
Cash restricted in the form of guarantee (recognized within other current assets)	-	-	1,098	-	1,098
Cash and cash equivalents	14,854	11,663	14,191	610	41,318
Financial liabilities					
Non-current					
Long-term debt	(13,956)	(190,743)	-	-	(204,699)
Other non-current liabilities	-	(2,194)	-	-	(2,194)
Commodity derivatives	-	-	(192)	-	(192)
Current					
Current portion of long-term debt	(19,991)	(19,370)	-	-	(39,361)
Short-term debt	(1,619)	-	-	-	(1,619)
Trade and other payables	(13,005)	(7,021)	(3,159)	(109)	(23,294)
Commodity derivatives	-	-	(1,831)	-	(1,831)
Net exposure	**(505)**	**(124,006)**	**34,030**	**1,186**	**(89,295)**

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At 31 December 2013	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
Long-term loans receivable	2,200	45,415	-	-	47,615
Trade and other receivables	402	1,303	-	17	1,722
Commodity derivatives	-	-	470	1	471
Long-term deposits	-	-	-	7	7
Current					
Trade and other receivables	9,981	37,707	1,326	508	49,522
Short-term loans receivable	-	23	-	-	23
Short-term bank deposits	26	9	-	1	36
Commodity derivatives	-	-	316	-	316
Cash and cash equivalents	5,131	2,052	423	283	7,889
Financial liabilities					
Non-current					
Long-term debt	(33,891)	(107,704)	-	-	(141,595)
Commodity derivatives	-	-	(228)	-	(228)
Current					
Current portion of long-term debt	(9,911)	-	-	-	(9,911)
Short-term debt	-	(14,115)	-	-	(14,115)
Trade and other payables	(12,573)	(3,570)	(1,422)	(46)	(17,611)
Commodity derivatives	-	-	46	(92)	(46)
Net exposure	**(38,635)**	**(38,880)**	**931**	**679**	**(75,905)**

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

The sensitivity analysis depicted in the table below reflects the hypothetical loss that would occur assuming a 10 percent increase in exchange rates and no changes in the portfolio of instruments and other variables at 31 December 2014 and 2013, respectively:

		Year ended 31 December:	
Effect on profit before income tax	Increase in exchange rate	2014	2013
RUB / USD	10%	(12,401)	(3,888)
RUB / EUR	10%	3,403	93

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

27 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 supplies on the Russian domestic market. As an independent natural gas producer, the Group is not subject to the government's regulation of natural gas prices, except for those volumes sold to residential customers. Nevertheless, the Group's prices for natural gas sold are strongly influenced by the prices regulated by the Federal Tariffs Service (FTS), a governmental agency of the Russian Federation.

In 2013, the FTS reduced the regulated natural gas prices on the domestic market (excluding residential customers) by 3 percent from 1 April 2013, increased by 15 percent from 1 July 2013, increased by 3.1 percent from 1 August 2013 and increased by another 1.9 percent from 1 October 2013. Effective from 1 January 2014, the FTS set natural gas prices back to the August-September levels of 2013, decreasing them by an average of 1.9 percent from the December 2013 price levels. There were no further changes in regulated natural gas prices in 2014.

In accordance with the Ministry of Economic Development of the Russian Federation Forecast published in September 2014, the wholesale natural gas prices on the domestic market (excluding residential customers) in July 2015, 2016 and 2017 will be increased by 7.5 percent, 5.5 percent and 3.6 percent, respectively. Currently the Russian Federation government is discussing various scenarios for the growth rate of natural gas prices on the domestic market for the subsequent years.

Management believes it has limited downside commodity price risk for natural gas in the Russian Federation and does not use commodity derivative instruments for trading purposes. All of the Group's natural gas purchase and sales contracts in the domestic market are entered to meet supply requirements to fulfil contract obligations or for own consumption and are not within the scope of IAS 39, *Financial instruments: recognition and measurement*. However, to effectively manage the margins achieved through its natural gas trading activities, management has established targets for volumes sold to wholesale traders, end-customers and to the natural gas exchange.

Natural gas trading activities on the European market. The Group purchases and sells natural gas on the European market under long-term and short-term supply contracts, as well as purchases and sells different derivative instruments based on formulas with reference to benchmark natural gas prices quoted for the North-Western European natural gas hubs, crude oil and oil products prices and/or a combination thereof. As a result, the Group's results from natural gas foreign trading and derivative instruments foreign trading are subject to commodity price volatility based on fluctuations or changes in the respective benchmark reference prices.

Natural gas foreign trading activities and respective foreign derivative instruments are executed by Novatek Gas & Power GmbH, the Group's wholly owned subsidiary, and are managed within the Group's integrated trading function.

Liquid hydrocarbons. The Group sells its crude oil, stable gas condensate and gas condensate refined products under spot contracts. Naphtha and stable gas condensate volumes sold to the Asian-Pacific Region, European and USA markets are based on benchmark reference crude oil prices of Urals, Brent IPE and Dubai and/or naphtha prices of Naphtha Japan and Naphtha CIF NWE or a combination thereof, plus a margin or discount, depending on current market situation. Other gas condensate refined products volumes sold mainly to the European market are based on benchmark reference jet fuel prices of Jet CIF NWE, gasoil prices of Gasoil 0.1 percent CIF NWE and fuel oil prices of Fuel Oil 1 percent CIF NWE, plus a margin or discount, depending on current market situation. Crude oil sold internationally is based on benchmark reference crude oil prices of Brent dated, minus a discount, and on a transaction-by-transaction basis for volumes sold domestically.

As a result, the Group's revenues from the sales of liquid hydrocarbons are subject to commodity price volatility based on fluctuations or changes in the crude oil and gas condensate refined products benchmark reference prices. All of the Group's liquid hydrocarbons purchase and sales contracts are entered to meet supply requirements to fulfill contract obligations or for own consumption and are not within the scope of IAS 39, *Financial instruments: recognition and measurement*.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

(c) Cash flow and fair value interest rate risk

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

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

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

	At 31 December 2014		At 31 December 2013	
	RR million	**Percent**	**RR million**	**Percent**
At fixed rate	161,741	*66%*	131,258	*79%*
At variable rate (LIBOR-linked)	83,938	*34%*	34,363	*21%*
Total debt	**245,679**	***100%***	**165,621**	***100%***

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

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

	Year ended 31 December:	
Effect on profit before income tax	**2014**	**2013**
Increase by 100 basis points	839	344

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

The Group is examining various ways to manage its cash flow interest rate risk by using a combination of floating and fixed interest rates. No swaps or other similar instruments were in place at 31 December 2014 and 2013, or during the years then ended.

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

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

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

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

The table below highlights the Group's trade and other receivables to published credit ratings of its counterparties and/or their parent companies:

Moody's, Fitch and/or Standard & Poor's	At 31 December 2014	At 31 December 2013
Investment grade rating	10,661	26,966
Non-investment grade rating	10,377	7,603
No external rating	13,554	14,953
Total trade and other receivables	**34,592**	**49,522**

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

Moody's, Fitch and/or Standard & Poor's	At 31 December 2014	At 31 December 2013
Investment grade rating	31,909	5,835
Non-investment grade rating	9,394	2,040
No external rating	15	14
Total cash and cash equivalents	**41,318**	**7,889**

Investment grade ratings classification referred to as Aaa to Baa3 for Moody's Investors Service, and as AAA to BBB- for Fitch Ratings and Standard & Poor's.

In addition, the Group provides long-term loans to its joint ventures for development, construction and acquisitions of oil and gas assets. Required amount of loans and their maturity schedules are based on the budgets and strategic plans approved by the shareholders of the joint ventures.

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)

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

At 31 December 2014	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
Debt at fixed rate					
Principal (*)	21,619	33,755	14,000	92,826	162,200
Interest	9,451	6,886	15,251	11,086	42,674
Debt at variable rate					
Principal (*)	19,474	25,965	38,948	-	84,387
Interest	1,577	1,120	689	-	3,386
Trade and other payables	23,294	2,194	-	-	25,488
Total financial liabilities	**75,415**	**69,920**	**68,888**	**103,912**	**318,135**
At 31 December 2013					
Debt at fixed rate					
Principal (*)	24,115	20,000	33,638	54,003	131,756
Interest	7,379	6,649	10,707	9,301	34,036
Debt at variable rate					
Principal (*)	-	8,082	26,938	-	35,020
Interest	708	654	750	-	2,112
Trade and other payables	17,611	-	-	-	17,611
Total financial liabilities	**49,813**	**35,385**	**72,033**	**63,304**	**220,535**

(*) – differs from long-term debt for transaction costs (see Note 14).

At 31 December 2014 and 2013, the amount of the financial guarantee issued by the Group to the bank in favor of its joint venture OOO Yamal Development, valid until December 2018, totaled USD 400 and RR 13,180 million, respectively.

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

At 31 December 2014	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
Cash inflow	29,665	25,140	69,644	62,758	187,207
Cash outflow	(33,575)	(23,654)	(65,336)	(57,717)	(180,282)
Net cash flows	**(3,910)**	**1,486**	**4,308**	**5,041**	**6,925**
At 31 December 2013					
Cash inflow	27,156	26,231	75,411	89,464	218,262
Cash outflow	(26,750)	(26,155)	(75,184)	(89,163)	(217,252)
Net cash flows	**406**	**76**	**227**	**301**	**1,010**

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At the reporting date, the Group had investment grade credit ratings of Baa3 (stable outlook) by Moody's Investors Service, BBB- (stable outlook) by Fitch Ratings, and BBB- (negative) by Standard & Poor's. The Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis to maintain its credit ratings. After the reporting date, following the decrease of the credit rating of the Russian Federation by both Standard & Poor's and Moody's Investors Service, the Group's investment grade credit rating was also downgraded to non-investment level BB+ (negative) and Ba1 (negative), respectively.

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.

Historically, the Group had 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, in April 2014, the Board of Directors of NOVATEK approved the new dividend policy that distributes not less than 30 percent of the Group's consolidated net profit determined according to IFRS, adjusted for one-off profits (losses). The dividend payment 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 plus net debt (total debt less cash and cash equivalents). There were no changes to the Group's approach to capital management during 2014. At 31 December 2014 and 2013, the Group's capital totaled RR 589,116 million and RR 527,930 million, respectively.

28 CONTINGENCIES AND COMMITMENTS

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

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

Recent developments in Ukraine have had and may continue to have a negative impact on the Russian economy, including difficulties in obtaining international funding, devaluation of national currency and high inflation. These and other events, in case of escalation, may have a significant negative impact on the operating environment in the Russian Federation.

Sectoral sanctions imposed by the U.S. government. On 16 July 2014 the Office of Foreign Assets Control (OFAC) of the U.S. Treasury included OAO NOVATEK on the Sectoral Sanctions Identification List (the "List"), which prohibits U.S. persons or persons within the United States from providing new financing to the Group for longer than 90 days, whereas all other transactions, including financial, carried out by U.S. persons or within the United States with the Group are permitted. The inclusion on the List has not impacted the Group's business activities, in any jurisdiction, nor does it affect the Group's assets, listed shares and debt.

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Management has reviewed the Group's capital expenditure programs and existing debt portfolio and has concluded that the Group has sufficient liquidity, through internally generated (operating) cash flows, to adequately fund its core oil and gas business operations including finance of planned capital expenditure programs of its subsidiaries, as well as to repay and service all Group's short-term and long-term debt existing at the current reporting date and, therefore, inclusion on the List does not adversely impact the Group's operational activities.

Nevertheless, the Group together with its foreign partners is currently looking for opportunities of raising necessary financing for their joint ventures from non-US debt markets and sources. Currently, the Group and its foreign partners are providing debt financing to their joint ventures in Euros.

Capital commitments. At 31 December 2014, the Group had contractual capital expenditures commitments aggregating approximately RR 27,767 million (at 31 December 2013: RR 36,142 million) mainly for development at the Yarudeyskoye field (through 2017), the Salmanovskoye (Utrenneye) (through 2017), the Yurkharovskoye (through 2018), the East-Tarkosalinskoye (through 2018), the Khancheyskoye (through 2016), the North-Khancheyskoye and Khadyryakhinskoye (through 2015) fields and the Olimpiyskiy license area (through 2015) all in accordance with duly signed agreements.

The Group's share in capital commitments of its joint ventures. The Group's share in the capital commitments of its joint ventures aggregates approximately RR 121.1 billion and USD 14.9 billion (at 31 December 2013: RR 51.4 billion and USD 0.6 billion) for development at the South-Tambeyskoye field and construction of the LNG plant (through 2019), the Samburgskoye (through 2016), the Termokarstovoye (through 2016) and the North-Urengoyskoye (through 2015) fields, as well as the acquisition and finance lease of vessels for the transportation of LNG to customers (through 2045).

Capital commitments of joint ventures will be settled by joint ventures in the normal and ordinary course of business. The Group is not liable for the respective commitments of the joint ventures.

Commitments to provide financing to joint ventures. At 31 December 2014, the Group has unrecognized in the consolidated statement of financial position commitments to provide funding to its joint ventures, if called, in the undiscounted aggregated amount of approximately RR 1.4 billion and USD 1.3 billion for 2015 and RR 13.9 billion for the period 2016-2018, subject to further adjustments and/or revisions by shareholders.

Guarantees. At 31 December 2014 and 2013, the aggregated amount of non-financial guarantees issued by the Group in respect of the Yamal LNG Project to a number of third parties (LNG Plant constructors, LNG-vessels owners and foreign banks) in favor of Group's joint venture OAO Yamal LNG and the joint venture's subsidiary with various maturities depending on the commencement of project financing, loading of certain number of LNG-vessels and other events related to commencement of commercial production, totaled USD 1,703 million and USD 120 million, respectively. The outflow of resources embodying economic benefits required to settle the obligation under these non-financial guarantees is not probable, therefore, no provision was recognized in the consolidated financial statements.

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

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

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

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 YNAO. Licenses are issued by the Federal Agency for the Use of Natural Resources of the Russian Federation and the Group pays unified natural resources production tax to produce crude oil, natural gas and unstable gas condensate from these fields and contributions for exploration of license areas. The principal licenses of the Group and its joint ventures and their expiry dates are:

Field	License holder	License expiry date
	Subsidiaries:	
Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2034
Salmanovskoye (Utrenneye)	OOO Arctic LNG-2	2031
Geofizicheskoye	OOO Arctic LNG-1	2034
East-Tarkosalinskoye	OOO NOVATEK-Tarkosaleneftegas	2043
Khancheyskoye	OOO NOVATEK-Tarkosaleneftegas	2044
North-Russkoye	OOO NOVATEK-Tarkosaleneftegas	2031
East-Tazovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
Urengoyskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2026
Dobrovolskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2026
Yarudeyskoye	OOO Yargeo	2029
Malo-Yamalskoye	OOO NOVATEK-Yarsaleneftegas	2034
	Joint ventures:	
South-Tambeyskoye	OAO Yamal LNG	2045
Urengoiskoye (within the Samburgskiy and Yevo-Yakhinskiy license areas)	OAO Arcticgas (Subsidiary of OOO SeverEnergia)	2034
Yaro-Yakhinskoye	OAO Arcticgas (Subsidiary of OOO SeverEnergia)	2034
Samburgskoye	OAO Arcticgas (Subsidiary of OOO SeverEnergia)	2034
North-Chaselskoye	OAO Arcticgas (Subsidiary of OOO SeverEnergia)	Life of field
North-Urengoyskoye	ZAO Nortgas	2038
Termokarstovoye	ZAO Terneftegas	2021

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

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

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

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

29 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

The principal subsidiaries and joint ventures of the Group and respective effective ownership in the ordinary share capital at 31 December 2014 and 2013 are set out below:

	Ownership percent at 31 December: 2014	2013	Country of incorporation	Principal activities
Subsidiaries:				
OOO NOVATEK-Yurkharovneftegas	100	100	Russia	Exploration and production
OOO NOVATEK-Tarkosaleneftegas	100	100	Russia	Exploration and production
OOO NOVATEK-Purovsky ZPK	100	100	Russia	Gas Condensate Processing Plant
OOO NOVATEK-Transervice	100	100	Russia	Transportation services
OOO NOVATEK-Ust-Luga	100	100	Russia	Transshipment and fractionation Complex
OOO NOVATEK-AZK	100	100	Russia	Wholesale and retail trading
OOO NOVATEK-Chelyabinsk	100	100	Russia	Trading and marketing
OOO NOVATEK-Kostroma	100	84.54	Russia	Trading and marketing
OOO NOVATEK-Perm	100	100	Russia	Trading and marketing
OOO NOVATEK Moscow Region	100	100	Russia	Trading and marketing
OOO Yargeo	51	51	Russia	Exploration and development
Novatek Gas & Power GmbH	100	100	Switzerland	Trading and marketing
Novatek Polska Sp. z o.o.	100	100	Poland	Trading and marketing
Joint ventures:				
OAO Yamal LNG	60	60	Russia	Exploration and development
ZAO Terneftegas	51	51	Russia	Exploration and development
OOO Yamal Development	50	50	Russia	Holding company
Artic Russia B.V.	60	70	Netherland	Holding company
OOO SeverEnergia (includes a producing subsidiary, see Note 7)	54.9	59.8	Russia	Holding company
ZAO Nortgas	50	50	Russia	Exploration and production

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

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

	Year ended 31 December:	
Related parties – joint ventures	**2014**	**2013**
Transactions		
OAO Sibneftegas (until December 2013):		
Interest income on loans issued	-	307
Purchases of natural gas	-	(7,017)
OOO SeverEnergia and its subsidiary:		
Purchases of unstable gas condensate	(15,624)	(5,975)
Other revenues (operator services sales)	110	59
ZAO Terneftegas:		
Interest income on loans issued	205	129
OAO Yamal LNG:		
Interest income on loans issued	3,516	1,373
Other revenues (operator services sales)	149	96
ZAO Nortgas:		
Purchases of natural gas	(8,515)	(3,565)
Purchases of unstable gas condensate	(11,045)	(4,329)
Other revenues (operator services sales)	103	31
Dividends received	1,850	-
OOO Yamal Development:		
Interest income on loans issued	601	7

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

30 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – joint ventures	At 31 December 2014	At 31 December 2013
Balances		
OOO SeverEnergia and its subsidiary:		
Trade payables and accrued liabilities	1,819	753
ZAO Terneftegas:		
Long-term loans receivable	4,288	2,611
Interest on long-term loans receivable	441	135
OAO Yamal LNG:		
Long-term loans receivable	78,825	42,804
Interest on long-term loans receivable	5,171	1,169
ZAO Nortgas:		
Dividends receivable	1,850	-
Trade payables and accrued liabilities	2,165	1,856
OOO Yamal Development:		
Long-term loans receivable	5,254	2,200
Interest on long-term loans receivable	608	6
Current portion of long-term loans receivable	8,107	-

The terms and conditions of the loans receivable from the joint ventures are disclosed in Note 8.

The Group issued financial and non-financial guarantees in favor of its joint ventures as described in Notes 27 and 28.

	Year ended 31 December:	
Related parties – parties under control of key management personnel	2014	2013
Transactions		
OAO Pervobank:		
Interest income	285	153
OAO SIBUR Holding and its subsidiaries:		
Natural gas sales	3,157	2,785
Liquid hydrocarbons sales	6,582	482
Other revenues	759	8
Purchases of natural gas and liquid hydrocarbons	(15,193)	(12,960)
Materials, services and other	(841)	(145)
Liquid hydrocarbons transportation by rail	(2,273)	-
OOO Transoil:		
Liquid hydrocarbons transportation by rail	(4,192)	(3,434)
Gunvor Group (under joint control until March 2014):		
Liquid hydrocarbons sales	2,023	2,911
Liquid hydrocarbons transportation (transshipment services)	(266)	(439)
Purchases of liquid hydrocarbons	-	(102)
OOO Nova:		
Purchases of construction services (capitalized within property, plant and equipment)	(4,339)	(1,946)

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

30 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – parties under control of key management personnel	At 31 December 2014	At 31 December 2013
Balances		
OAO Pervobank:		
Cash and cash equivalents	9,365	2,040
OAO SIBUR Holding and its subsidiaries:		
Trade and other receivables	940	119
Prepayments and other current assets	184	14
Trade payables and accrued liabilities	201	274
OOO Transoil:		
Prepayments and other current assets	397	288
Trade payables and accrued liabilities	67	176
Gunvor Group (under joint control until March 2014):		
Trade and other receivables	-	2,903
Prepayments and other current assets	-	69
Trade payables and accrued liabilities	-	118
OOO Nova:		
Advances for construction	341	309
Trade payables and accrued liabilities	360	228

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

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

	Year ended 31 December:	
Related parties – members of the key management personnel	2014	2013
Board of Directors	106	106
Management Committee	1,640	1,593
Total compensation	**1,746**	**1,699**

Such amounts include personal income tax and are net of payments to non-budget funds made by the employer. Some members of key management personnel have direct and/or indirect interests in the Group and receive dividends under general conditions based on their respective shareholdings. The Board of Directors consists of nine members, the Management Committee of eight members.

31 SEGMENT INFORMATION

The Group’s activities are considered by the chief operating decision maker (hereinafter referred to as “CODM”, represented by the Management Committee of NOVATEK) to comprise one operating segment: “exploration, production and marketing”.

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

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

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

31 SEGMENT INFORMATION (CONTINUED)

Segment information for the year ended 31 December 2014 is as follows:

For the year ended 31 December 2014	References	Exploration, production and marketing	Segment information as reported to CODM	Reconciling items	Total per consolidated financial statements
External revenues		357,676	357,676	(33)	357,643
Operating expenses	*a - e*	(242,632)	(242,632)	6,120	(236,512)
Other operating income (loss)	*f, g*	4,368	4,368	2,264	6,632
Interest expense	*h, i,k*	(7,368)	(7,368)	1,646	(5,722)
Interest income	*h*	3,984	3,984	1,079	5,063
Change in fair value of non-commodity financial instruments	*j*	-	-	(20,205)	(20,205)
Foreign exchange gain (loss)	*k*	(26,645)	(26,645)	764	(25,881)
Segment result		**89,383**	**89,383**	**(8,365)**	**81,018**
Share of profit (loss) of joint ventures, net of income tax					(28,175)
Profit before income tax					**52,843**
Depreciation, depletion and amortization	*a*	21,854	21,854	(4,682)	17,172
Capital expenditures	*k*	59,660	59,660	6,870	66,530

Reconciling items mainly related to:

a. different methodology in calculating depreciation, depletion and amortization for intangible assets and for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method), which resulted in reversal of RR 4,642 million in operating expenses under IFRS;

b. different methodology in recognizing expenses relating to natural gas storage services and payroll (including pension obligations, discounting loans to employees and bonus accruals) between IFRS and management accounting, which resulted in reversal of transportation expenses of RR 610 million and payroll expenses of RR 165 million recorded in operating expenses under IFRS;

c. different methodology in recognizing bad debt provision under IFRS and management accounting, which resulted in reversal of operating expenses of RR 90 million under IFRS;

d. different methodology in valuation of inventory balances under IFRS and management accounting, which resulted in additional recognition of operating expenses of RR 665 million under IFRS;

e. different methodology in recognizing exploration expenses between IFRS and management accounting, which resulted in the reversal of operating expenses of RR 1,024 million under IFRS;

f. different methodology in valuation of commodity derivatives and recognition discounting effect on financial assets under IFRS and management accounting, which requires additional recognition of other operating income for RR 2,092 million and RR 648 million, respectively, under IFRS;

g. different cost of disposed oil and gas properties and equipment between IFRS and management accounting, which resulted in reversal of operating income of RR 347 million under IFRS;

h. different methodology in recognizing effect of the present value discount unwinding of long-term financial assets and effect of the present value discount unwinding of provisions for asset retirement obligations under IFRS and management accounting, which requires additional recognition of interest income of RR 1,034 million and additional recognition of interest expense of RR 248 million under IFRS;

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

31 SEGMENT INFORMATION (CONTINUED)

i. different methodology in recognizing borrowing transaction costs between IFRS and management accounting, which requires additional recognition of interest expense of RR 393 million under IFRS;

j. different methodology in valuation of shareholders' loans provided by the Group to its joint ventures classified as financial assets at fair value through profit or loss between IFRS and management accounting, which requires additional loss recognition of RR 20,205 million under IFRS; and

k. 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 3,042 million and additional recognition of capital expenditures of RR 4,263 million under IFRS.

Segment information for the year ended 31 December 2013 is as follows:

For the year ended 31 December 2013	**References**	**Exploration, production and marketing**	**Segment information as reported to CODM**	**Reconciling items**	**Total per consolidated financial statements**
External revenues		298,166	298,166	(8)	298,158
Operating expenses	*a - e*	(196,794)	(196,794)	4,033	(192,761)
Other operating income (loss)	*e - g*	37,103	37,103	1,426	38,529
Interest expense	*h - j*	(8,081)	(8,081)	2,734	(5,347)
Interest income	*i*	1,893	1,893	448	2,341
Foreign exchange gain (loss)	*j*	(4,197)	(4,197)	519	(3,678)
Segment result		**128,090**	**128,090**	**9,152**	**137,242**
Share of profit (loss) of joint ventures, net of income tax					(112)
Profit before income tax					**137,130**
Depreciation, depletion and amortization	*a*	18,554	18,554	(5,051)	13,503
Capital expenditures	*j*	59,796	59,796	2,654	62,450

Reconciling items mainly related to:

a. different methodology in calculating depreciation, depletion and amortization for intangible assets and for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method), which resulted in reversal of RR 5,071 million in operating expenses under IFRS;

b. different methodology in recognizing expenses relating to natural gas storage services and payroll (including share-based payments, pension obligation, discounting loans to employee and bonus accruals) between IFRS and management accounting, which resulted in additional transportation expenses of RR 438 million and additional payroll expenses of RR 557 million recorded in operating expenses under IFRS;

c. different methodology in recognizing impairment expenses on oil and gas properties between IFRS and management accounting, which resulted in additional recognition of operating expenses of RR 2,304 million under IFRS;

d. different methology in valuation of inventory balances under IFRS and management accounting, which resulted in reversal of operating expenses of RR 438 million under IFRS;

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

31 SEGMENT INFORMATION (CONTINUED)

e. different methodology in recognizing exploration expenses between IFRS and management accounting, which resulted in the reversal of operating expenses of RR 1,884 million and other operating loss of RR 413 million under IFRS;

f. different methodology in recognizing valuation of commodity derivatives under IFRS and management accounting, which requires additional recognition of other operating income for RR 549 million under IFRS;

g. different methodology in recognition of disposal 51 percent ownership in OAO Sibneftegas, the Group's joint venture, between IFRS and management accounting, which resulted in additional recognition of other operating income of RR 338 million under IFRS;

h. different methodology in recognizing borrowing transaction costs between IFRS and management accounting, which resulted in the reversal of interest expense of RR 603 million under IFRS;

i. different methodology in recognizing effect of the present value discount unwinding of long-term financial assets and effect of the present value discount unwinding of provisions for asset retirement obligations under IFRS and management accounting, which requires additional recognition of interest income of RR 431 million and additional recognition of interest expense of RR 248 million under IFRS; and

j. 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 2,977 million and reversal of capital expenditures of RR 323 million under IFRS.

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

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

The Group's geographical information is presented below:

For the year ended 31 December 2014	**Natural gas**	**Stable gas condensate and naphtha**	**Liquefied petroleum gas**	**Crude oil**	**Other gas and gas condensate refined products**	**Total oil and gas sales**
Russia	230,447	3,797	12,224	7,413	854	254,735
Taiwan	-	24,126	-	-	-	24,126
Finland	-	2,869	3,357	-	12,075	18,301
USA	-	16,005	-	-	-	16,005
Japan	-	14,793	-	-	-	14,793
Denmark	-	-	-	-	11,889	11,889
Poland	-	-	11,684	-	-	11,684
Netherlands	-	8,424	-	-	502	8,926
Singapore	-	8,643	-	-	-	8,643
Belgium	-	6,219	-	-	1,912	8,131
Other	-	25,222	682	8,136	7,247	41,287
Less: export duties	-	(44,021)	(3,546)	(4,323)	(10,957)	(62,847)
Total outside Russia	-	62,280	12,177	3,813	22,668	100,938
Total	**230,447**	**66,077**	**24,401**	**11,226**	**23,522**	**355,673**

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

31 SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2013	Natural gas	Stable gas condensate and naphtha	Liquefied petroleum gas	Crude oil	Other gas and gas condensate refined products	Total oil and gas sales
Russia	204,969	1,867	7,296	4,683	359	219,174
South Korea	-	29,173	-	-	-	29,173
Netherlands	-	17,184	-	-	-	17,184
Taiwan	-	12,212	-	-	-	12,212
Poland	-	-	8,373	-	-	8,373
Japan	-	7,100	-	-	-	7,100
Singapore	-	7,019	-	-	-	7,019
China	-	6,284	-	-	-	6,284
Slovakia	-	-	432	4,289	-	4,721
Sweden	-	-	-	-	4,511	4,511
Other	-	18,431	4,769	1,346	4,124	28,670
Less: export duties	-	(39,634)	(2,100)	(2,875)	(2,313)	(46,922)
Total outside Russia	-	57,769	11,474	2,760	6,322	78,325
Total	**204,969**	**59,636**	**18,770**	**7,443**	**6,681**	**297,499**

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 year ended 31 December 2014, the Group had two major customers to whom individual revenues exceeded 10 percent of total external revenues, which represented 15 percent and 10 percent (RR 57,701 million and RR 41,046 million) of total external revenues, respectively. For the year ended 31 December 2013, the Group had two customers to whom individual revenue exceeded 10 percent of total external revenues, which represented 19 percent and 13 percent (RR 55,517 million and RR 39,568 million) of total external revenues, respectively. All of the Group's major customers reside within the Russian Federation.

32 NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015, and which the Group has not early adopted:

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The following changes may impact the Group's consolidated financial statements:

- IFRS 3, *Business Combinations*, was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11, *Joint Arrangements*. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

- The amendment of IFRS 13, *Fair Value Measurement*, clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39, *Financial Instruments: Recognition and Measurement*, or IFRS 9, *Financial Instruments*.

IFRS 15, *Revenue from Contracts with Customers* (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any discounts on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRS 9, *Financial Instruments: Classification and Measurement* (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). The standard reflects all phases of the financial instruments project and replaces all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Amendments to IFRS 10, *Consolidated financial statements*, and IAS 28, *Investments in associates and joint ventures* (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments stipulate that a full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The following change may impact the Group's consolidated financial statements:

- IFRS 5, *Non-current Assets for Sale and Discontinued Operations*, was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.

Amendments to IAS 1, *Presentation of Financial Statements* (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

The Group is currently assessing the impact of the amendments on its consolidated financial statements.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES

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

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

Oil and Gas Exploration and Development Costs

The following tables set forth information regarding oil and gas acquisition, exploration and development activities. The amounts reported as costs incurred include both capitalized costs and costs charged to expense, these costs do not include LNG liquefaction and transportation operations (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2014	2013
Costs incurred in exploration and development activities		
Acquisition of unproved properties	435	49
Acquisition of proved properties	-	3,196
Exploration costs	825	1,861
Development costs	57,837	39,894
Total costs incurred in exploration and development activities	**59,097**	**45,000**
The Group's share in joint ventures' acquisition costs of exploration and development activities	-	160,383
The Group's share in joint ventures' cost incurred in exploration and development activities	63,032	33,017

	At 31 December 2014	At 31 December 2013
Capitalized costs relating to oil and gas producing activities		
Wells, related equipment and facilities	210,371	177,319
Support equipment and facilities	54,957	46,572
Uncompleted wells, related equipment and facilities	61,647	45,282
Total capitalized costs relating to oil and gas producing activities	**326,975**	**269,173**
Less: accumulated depreciation, depletion and amortization	(71,407)	(57,541)
Net capitalized costs relating to oil and gas producing activities	**255,568**	**211,632**
The Group's share in joint ventures' capitalized costs relating to oil and gas producing activities	302,514	322,259

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Results of Operations for Oil and Gas Producing Activities

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

	Year ended 31 December:	
	2014	**2013**
Revenues from oil and gas sales	255,289	236,364
Lifting costs	(8,196)	(9,030)
Transportation expenses	(87,043)	(87,157)
Taxes other than income tax	(29,035)	(21,296)
Depreciation, depletion and amortization	(15,913)	(12,274)
Net impairment expenses	-	(2,202)
Exploration expenses	(112)	(427)
Total production costs	**(140,299)**	**(132,386)**
Results of operations for oil and gas producing activities before income tax	114,990	103,978
Less: related income tax expenses	(22,998)	(20,796)
Results of operations for oil and gas producing activities	**91,992**	**83,182**
Share of profit (loss) of joint ventures	10,195	4,077
Total results of operations for oil and gas producing activities	**102,187**	**87,259**

Proved Oil and Gas Reserves

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

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

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

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

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2014 and 2013.

Extensions of production licenses are assumed to be at the discretion of the Group. Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group's production licenses. The Group's licenses for exploration and production expire between 2017 and 2045, with the most significant licenses for Yurkharovskoye and East-Tarkosalinskoye fields, expiring in 2034 and 2043, respectively. Legislation of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Management intends to extend its licenses for properties expected to produce beyond the license expiry dates.

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

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

Net reserves exclude quantities due to others when produced.

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

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

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Net proved reserves of natural gas are presented below.

	Net proved reserves		Group's share in joint ventures		Total net proved reserves	
	Billions of cubic feet	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*
Reserves at 31 December 2012	**38,452**	**1,089**	**23,763**	**673**	**62,215**	**1,762**
Changes attributable to:						
Revisions of previous estimates	(417)	(12)	1,716	49	1,299	37
Extension and discoveries	154	4	1,446	41	1,600	45
Acquisitions [(1) (2) (3) (4)]	605	17	5,094	144	5,699	161
Disposals[(3) (5)]	-	-	(7,073)	(200)	(7,073)	(200)
Production	(1,842)	(52)	(315)	(9)	(2,157)	(61)
Reserves at 31 December 2013	**36,952**	**1,046**	**24,631**	**698**	**61,583**	**1,744**
Changes attributable to:						
Revisions of previous estimates	(767)	(22)	1,693	48	926	26
Extension and discoveries	1,602	46	733	20	2,335	66
Acquisitions	24	1	-	-	24	1
Disposals[(6)]	-	-	(841)	(24)	(841)	(24)
Production	(1,855)	(53)	(337)	(9)	(2,192)	(62)
Reserves at 31 December 2014	**35,956**	**1,018**	**25,879**	**733**	**61,835**	**1,751**
Net proved developed reserves (included above)						
At 31 December 2012	20,053	568	3,222	91	23,275	659
At 31 December 2013	18,729	530	3,588	102	22,317	632
At 31 December 2014	17,039	482	8,086	229	25,125	711
Net proved undeveloped reserves (included above)						
At 31 December 2012	18,399	521	20,541	582	38,940	1,103
At 31 December 2013	18,223	516	21,043	596	39,266	1,112
At 31 December 2014	18,917	536	17,793	504	36,710	1,040

(1) In June 2013, the Group increased its equity share in Nortgas from 49 percent to 50 percent.

(2) In March 2013, the Group acquired an oil and gas exploration and production license for the East-Tazovskoye field.

(3) In December 2013, the Group disposed its 51 percent ownership in OAO Sibneftegas and acquired a 40 percent interest in Artic Russia B.V., which is a holding company for 49 percent participation interest in OOO SeverEnergia.

(4) In December 2013, OOO Yamal Development, the Group's joint venture, acquired 60 percent of the ownership interest in Artic Russia B.V.

(5) In December 2013, the Group sold a 20 percent stake in OAO Yamal LNG, the Group's joint venture, to China National Petroleum Corporation ("CNPC").

(6) In March 2014, the Group sold a 20 percent interest in Artic Russia B.V. to OOO Yamal Development. As a result, the Group's effective participation interest in SeverEnergia decreased from 59.8 percent to 54.9 percent.

The net proved reserves reported in the table above included reserves of natural gas attributable to non-controlling interest of 149 billion of cubic feet and four billion of cubic meters and 128 billion of cubic feet and four billion of cubic meters at 31 December 2014 and 2013, respectively.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

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

	Net proved reserves		Group's share in joint ventures		Total net proved reserves	
	Millions of barrels	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*
Reserves at 31 December 2012	**543**	**65**	**370**	**43**	**913**	**108**
Changes attributable to:						
Revisions of previous estimates	(33)	(4)	23	2	(10)	(2)
Extension and discoveries	7	1	101	11	108	12
Acquisitions [(1) (2) (3) (4)]	21	3	215	24	236	27
Disposals[(3) (5)]	-	-	(34)	(4)	(34)	(4)
Production	(36)	(5)	(4)	-	(40)	(5)
Reserves at 31 December 2013	**502**	**60**	**671**	**76**	**1,173**	**136**
Changes attributable to:						
Revisions of previous estimates	16	2	24	3	40	5
Extension and discoveries	30	4	40	5	70	9
Disposals[(6)]	-	-	(40)	(4)	(40)	(4)
Production	(36)	(4)	(15)	(2)	(51)	(6)
Reserves at 31 December 2014	**512**	**62**	**680**	**78**	**1,192**	**140**
Net proved developed reserves (included above)						
At 31 December 2012	269	32	26	3	295	35
At 31 December 2013	244	29	78	9	322	38
At 31 December 2014	216	26	271	31	487	57
Net proved undeveloped reserves (included above)						
At 31 December 2012	274	33	344	40	618	73
At 31 December 2013	258	31	593	67	851	98
At 31 December 2014	296	36	409	47	705	83

(1) In June 2013, the Group increased its equity share in Nortgas from 49 percent to 50 percent.

(2) In March 2013, the Group acquired an oil and gas exploration and production license for the East-Tazovskoye field.

(3) In December 2013, the Group disposed its 51 percent ownership in OAO Sibneftegas and acquired a 40 percent interest in Artic Russia B.V., which is a holding company for 49 percent participation interest in OOO SeverEnergia.

(4) In December 2013, OOO Yamal Development, the Group's joint venture, acquired 60 percent of the ownership interest in Artic Russia B.V.

(5) In December 2013, the Group sold a 20 percent stake in OAO Yamal LNG, the Group's joint venture, to China National Petroleum Corporation ("CNPC").

(6) In March 2014, the Group sold a 20 percent interest in Artic Russia B.V. to OOO Yamal Development. As a result, the Group's effective participation interest in SeverEnergia decreased from 59.8 percent to 54.9 percent.

The net proved reserves reported in the table above included reserves of crude oil, gas condensate and natural gas liquids attributable to non-controlling interest of 38 million of barrels and five million of metric tons and 17 million of barrels and two million of metric tons at 31 December 2014 and 2013, respectively.

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

The Group's registered office is:

Ulitsa Pobedy 22a
629850 Tarko-Sale
Yamal-Nenets Autonomous Region
Russian Federation

The Group's office in Moscow is:

Ulitsa Udaltsova 2
119415 Moscow
Russian Federation

Telephone:	7 (495) 730-60-00
Fax:	7 (495) 721-22-53

www.novatek.ru