



NEW

QUALITY

OF GROWTH

Annual report
2014



NOVATEK

NEW QUALITY OF GROWTH

ANNUAL REPORT 2014

NOVATEK is Russia's largest independent natural gas producer and the second – largest natural gas producer in Russia

NOVATEK's main businesses

are exploration and production, processing, transportation and marketing of natural gas and liquid hydrocarbons. The Company's primary production assets are located in the Yamal-Nenets Autonomous Region (YNAO), one of the largest gas regions in the world.

The Company's main strategic priorities are:

growth of the resource base and efficient reserve management, maintaining sustainable rates of growth of hydrocarbon production, maintaining a low-cost structure, and optimizing and expanding existing marketing channels, and creating new marketing channels, including the future entry into the international market for liquefied natural gas.

#4

globally among publicly traded companies by proved natural gas reserves

12.6

bln boe of proved hydrocarbon reserves under SEC

19%

of total natural gas deliveries to the domestic market via the UGSS

#7

globally among publicly traded companies by natural gas production volumes

62.1

bcm of natural gas produced in 2014

10%

of total Russian natural gas production

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Our license areas are located in the Yamal-Nenets Autonomous Region of the Russian Federation – one of the largest regions in the world in terms of gas reserves and production volumes.

We have a large conventional reserve base with high reserves concentration and high potential of new geological discoveries.

FIELDS AND LICENSE AREAS WITH COMMERCIAL PRODUCTION

1. Yurkharovskoye field *main production asset*
2. East-Tarkosalinskoye field *first field of NOVATEK launched into commercial production*
3. Samburgskiy license area *ultra-high content of gas condensate in the Achimov layers*
4. Olimpiyskiy license area
5. Yumantilskiy license area
6. Khancheyevskoye field
7. North-Urengoyevskoye field
 - 7a. Eastern Dome
 - 7b. Western Dome
8. North-Khancheyevskoye field*



Purovsky Gas Condensate Processing Plant

key element in the production chain used for gas condensate stabilization



Ust-Luga Complex

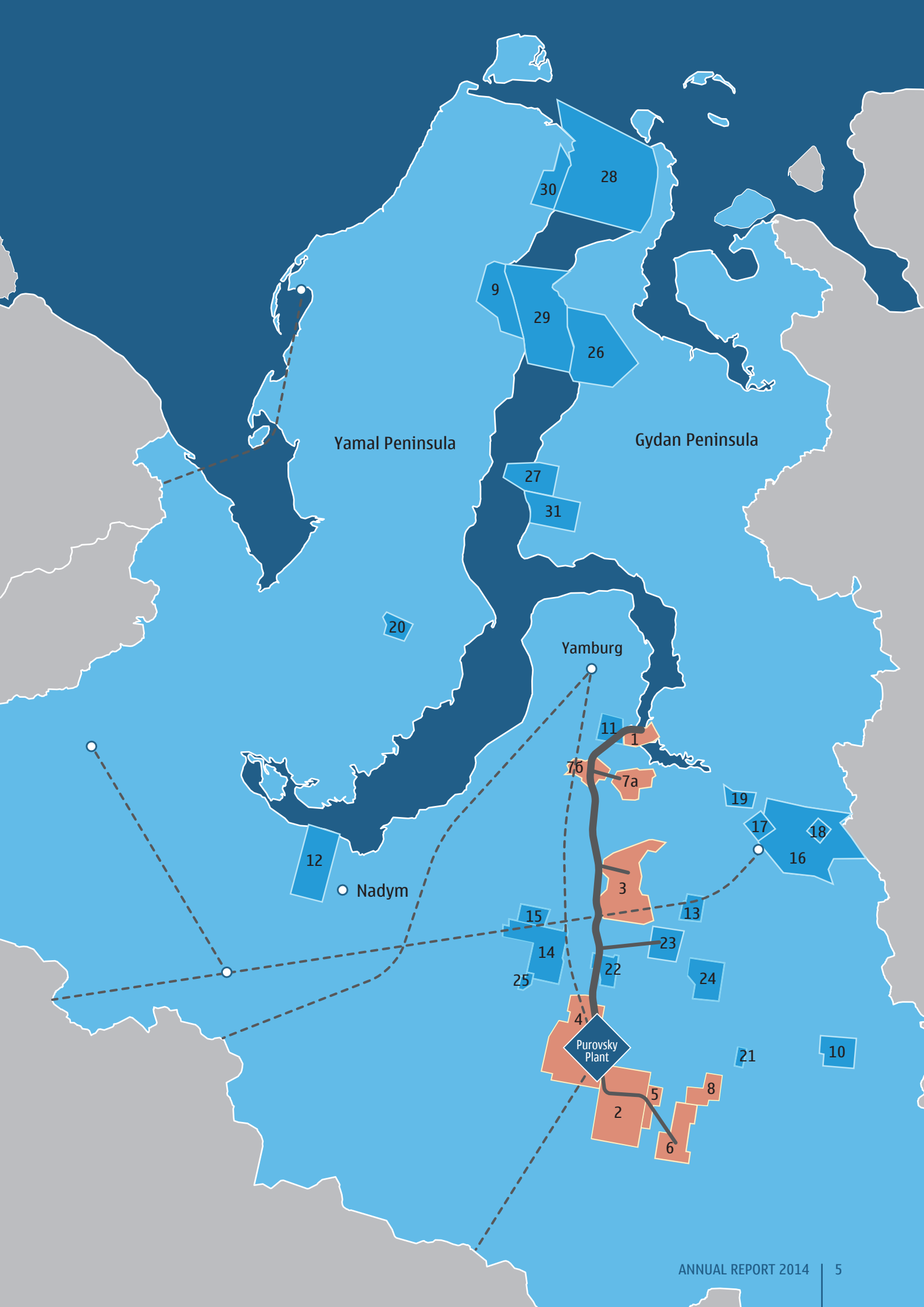
processes stable gas condensate into higher value added products

- gas condensate pipeline of NOVATEK
- - - - trunk gas pipelines of Gazprom

PROSPECTIVE FIELDS AND LICENSE AREAS

9. South-Tambeyskoye field *reserve base for the Yamal LNG project*
10. Termokarstovoye field
11. West-Yurkharovskoye field
12. Yarudeyskoye field *large crude oil field*
13. Raduzhnoye field
14. West-Urengoyevskiy license area
15. North-Yubileynoye field
16. North-Russkiy license area
17. North-Russkoye field
18. Dorogovskoye field
19. East-Tazovskoye field *new prospective production cluster*
20. Malo-Yamalskoye field
21. West-Chaselskoye field
22. Yevo-Yakhinskiy license area
23. Yaro-Yakhinskiy license area
24. North-Chaselskiy license area
25. Ukrainsko-Yubileynoye field
26. Utrenneye field
27. Geofizicheskoye field *reserve base for potential expansion of LNG production*
28. North-Obskiy license area
29. East-Tambeyskiy license area *geological exploration in the Gulf of Ob*
30. North-Tasiyskiy license area
31. Trekhbugorniy license area *license acquired in 2014*

* Since October 2014 – North-Khancheyevskoye + Khadyryakhinskoye field.



LETTER TO SHAREHOLDERS

Dear Shareholders,

TWO THOUSAND AND FOURTEEN (2014) ushered in a new period of transition for NOVATEK as well as representing our 20th anniversary of operations. We are extremely proud of the many valued employees who have played a pivotal role in making the Company one of the largest natural gas producers in the world from our humble beginnings in 1994. Throughout this period, we remained focused on delivering exceptional operational and financial results, while adhering to international best practices of corporate governance, financial transparency, environmental excellence and sustainable development.

Our transition to a **NEW QUALITY OF GROWTH** underscored our mid-term strategy of increasing our liquid hydrocarbon production and the subsequent processing of hydrocarbons into value-added sales. In 2014, our marketable production of gas condensate and crude oil increased by 27% year-on-year, our throughput volumes at the Purovsky Plant grew by 36%, while the recently constructed Ust-Luga Complex increased its output by 2.5 times. As part of our strategic plans, we launched, expanded capacities and prepared for launching several large new fields that are expected to drive the growth of our gas condensate and natural gas production for the foreseeable future.

The production of natural gas and the marketing of natural gas sales on the Russian domestic market has traditionally been our core business. Since our inception, we have been actively expanding our hydrocarbon resource base through successful exploration and development activities, and currently rank amongst the Top Five globally among publicly traded companies in terms of proven



**ALEXANDER
NATALENKO**

Chairman of the
Board of Directors



**LEONID
MIKHELSON**

Chairman of the
Management Board



**MARK
GYETVAY**

Deputy Chairman of the
Management Board

natural gas reserves and 7th worldwide in terms of gas production volumes. Over the past 20 years, NOVATEK grew from a business idea to one of the world's largest natural gas producers with leading efficiency indicators.

Production, processing and sales of liquid hydrocarbons, including the exports of petroleum products with high added value, such as naphtha and jet fuel, are continuously gaining importance for us. These ongoing changes in our production output and sales structure are transformational for NOVATEK and the structure of our business.

During 2014, our production of liquids represented 11% of our total marketable output, whereas the share of liquids in the Company's consolidated revenues aggregated 35%, and their corresponding share in the Company's EBITDA – approximately 50%.

Our NEW TRANSITION TO QUALITY GROWTH, namely the increased production of liquid hydrocarbons, provides a much higher profitability per unit of sales as compared with our natural gas sales as well as a broader exposure to international sales and hard currency earnings. Moving forward, we consider gas condensate and oil production growth a key driver for increasing our financial results.

The past year was not without challenges as the oil and gas industry witnessed a dramatic fall in oil prices in the second half of 2014, forcing many oil and gas companies to proceed revise their plans, capital budgets and strategies. Our main competitive advantage has always been low "finding and development" and "lifting" cost structure ensuring sufficient flexibility and enabling us to continue implementing our strategy even in a sustained low oil-price environment. In particular, despite the drop in energy commodity prices, our proved reserves increased to 12.6 billion barrels of oil equivalent, while our year-on-year organic reserve replacement ratio exceeded 150%. We continued to fully fund our capital investment program with internally generated cash flows with the strategic aim of further developing of our production capacities.

In April 2014, we launched the Urengoykoye gas condensate field within the Samburgsky license area at our joint venture, SeverEnergiya, which is characterized by ultra-high content of gas condensate in the hydrocarbon production flow, and in December, we launched the second development phase of this field. In September 2014, we launched the third phase at the Samburgsky gas condensate field and in December – the North-Khancheykoye gas field. During the reporting year, we were very busy preparing several other new fields for the start of commercial production, including the Yaro-Yakhinskoye, Termokarstovoye and Yarudeyskoye fields with construction and equipment installation works largely completed at the first two fields as at year-end. All three of these new fields will be launched in 2015, ensuring further growth of liquid hydrocarbon production and the successful completion of our Five-Year Strategy as outlined in 2011.

We continued to demonstrate high-rates of production growth throughout 2014. In particular, the growth of our marketable gas production, excluding our share in Sibneftegas production in 2013, totaled 11.3%, while the overall production volumes exceeded 62 billion cubic meters, or bcm. Our crude oil and gas condensate production increased by 1.3 million tons, which increased the proportional share of liquid hydrocarbons in our overall production by 2.2 percentage points. With the field launches in the fourth quarter 2014 alone, we recorded a 42% growth in liquids production.

The successful implementation of our field development program and the rapid growth of gas condensate production will enable us, already in 2015, to fully utilize the processing capacities of our Purovsky Plant and the Ust-Luga Complex put into operation in 2013. During 2014, throughput volumes of stable gas condensate at the Ust-Luga complex increased to 4.7 million tons, while the expanded Purovsky Plant achieved 85% capacity utilization by year-end. The Ust-Luga Complex had a substantial positive impact on our financial results in 2014 by creating value added petroleum products by processing stable gas condensate into naphtha, jet fuel, fuel oil and gasoil alongside

One of the main competitive advantages of the Yamal LNG Project relative to other LNG projects globally is its high quality reserve base resulting in low cost development and production, while the Arctic climate substantially enhances the efficiency of the liquefaction process.

the savings we achieved on transportation costs due to the facility's convenient location on the Baltic Sea.

We continued to successfully implement our marketing strategy. Our natural gas sales volume exceeded 67 bcm, whereas the share of end-customers in our overall gas sales volumes mix increased from 89% to 94%. Total sales volumes of liquid hydrocarbons increased to seven million tons, or by 30% over 2013 volumes, and, in the fourth quarter, we recorded a 53% growth. Due to high quality of our petroleum products we successfully increased our international sales, diversified our customer base and expanded our sales geography.

Due to our growing production volumes and despite a rapid deterioration in the macroeconomic environment in the second half of 2014, we continued to demonstrate robust growth in our financial indicators. Our total revenues increased by 20% to RUR 357.6 bln. The Company's normalized EBITDA (including the share in EBITDA of joint ventures) increased by 23% and the free cash flow grew by 1.6 times. As a result, the Board of Directors recommended the General Meeting of Shareholders to approve dividends for the reporting year at RUR 10.3 per share, representing a growth of 31% compared with 2013.

We continued to implement our long-term strategy of expanding our eventual gas sales into the international gas markets via the LNG plant construction based on the hydrocarbon resource base of the South-Tambeyskoye field in the Yamal peninsula. The Yamal LNG Project is a unique and challenging project considering its geographical location in arctic climatic conditions. However, these challenges are offset by the substantial onshore conventional natural resources located on the prolific Yamal peninsula. One of the main competitive advantages of the Yamal LNG Project relative to other LNG projects globally is its high quality reserve base resulting in low cost development and production, while the Arctic climate

substantially enhances the efficiency of the liquefaction process. The combination of these factors makes the Yamal LNG project highly competitive in the end-consumer markets implying a low break-even price. We consider the reduction of energy prices in the second half of 2014 as an opportunity for natural gas to further grow its share in the global energy balance.

As part of the ongoing construction activities at the Yamal LNG Project, we completed the casting works for the external concrete walls on two LNG tanks for the plant's first train in 2014. We also contracted for the fabrication of LNG plant modules and, during the year, the steel cutting was done for the first modules and first LNG carriers of special Arctic design. We completed the first phase of construction at the International Sabetta Airport, where the milestone landing of the first Boeing 737 flight took place in December. At year-end 2014, 26 production wells were drilled at the South-Tambeyskoye field and the share of LNG volumes contracted exceeded 95%.

Our strong operating and financial results along with successful implementation of the Company's strategic projects would never be possible without adherence to the highest standards of corporate and social responsibility and commitment to environmental integrity and industrial safety. Since our core producing assets are located in the Far North, we support development in this region and cooperate with local administrations and organizations promoting the interests of indigenous minorities of the North. We also pay particular attention to the protection of the fragile environment of the North, employ world-class technologies enabling us to minimize the impact of our operations on the region's ecosystem, as well as actively participate in biodiversity conservation projects.

We would like to highlight the contribution of our employees, whose diverse expertise enables the Company to successfully implement its growth strategy, improve operating performance and realize our most challenging and advanced projects.

We recognize the current macro- and micro-economic environment will be quite challenging for us in the upcoming year but we believe we have the financial resources and operational capacity to withstand a period of market volatility, and it is our primary focus to steer the Company according to our long-term strategic objectives.

On behalf of the Board of Directors and Management, we are pleased to present the Annual Report of NOVATEK for 2014 and would like to thank our valued shareholders for your continued confidence in the Company and our long-term strategic plans.

Kind regards,



Alexander Natalenko
Chairman of the Board of Directors

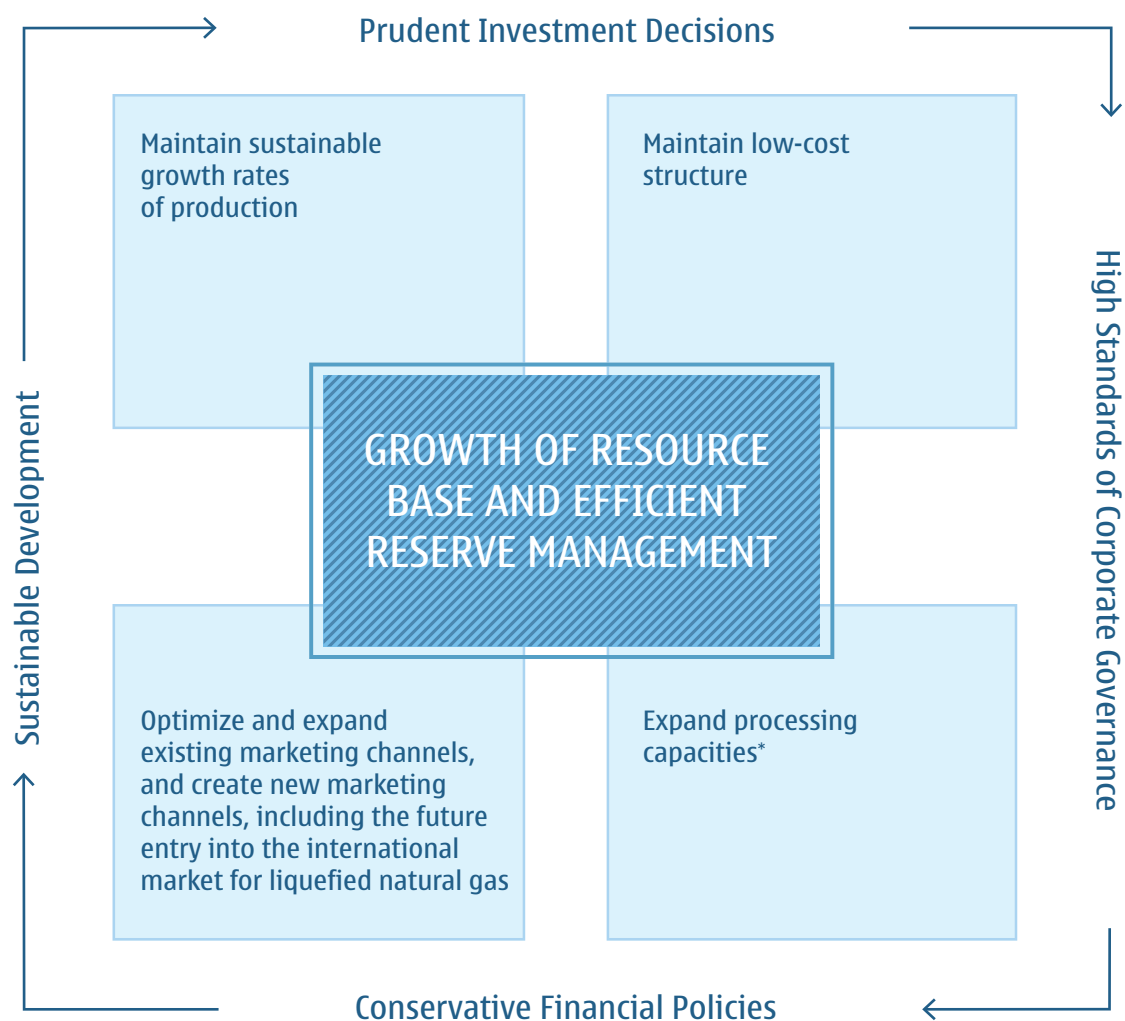


Leonid Mikhelson
Chairman of the Management Board



Mark Gyetvay
Deputy Chairman of the Management Board

STRATEGIC PRIORITIES



The Company has a number of key competitive advantages to successfully implement its strategy. Namely: the size and structure of its hydrocarbon resource base; the close proximity of existing infrastructure to core producing fields; a well-developed customer base for natural gas sales; its own facilities for gas condensate processing and product exports; and a well developed marketing channel for liquefied petroleum gases (LPG).

Our high level of operational flexibility and our consistent and efficient use of leading edge technologies in production and processing practices as well as our adherence to sound and prudent business management support our competitive position. Our commitment to social responsibility and to observing the latest environmental, health and safety standards are integral parts of NOVATEK's development strategy.

* Fully accomplished in 2014.

KEY EVENTS AND ACHIEVEMENTS 2014

1

Launch of the third stage of the Samburskoye field of the SeverEnergiya joint venture enabling the field to achieve full production capacity

2

Launch of the first and second stages of the Urengoykoye field development (within the Sambursky license area of the SeverEnergiya joint venture), which is characterized by ultra-high content of gas condensate in the hydrocarbon production flow

3

Our marketable production of liquid hydrocarbons increased by a record 27% to six (6) million tons, including crude oil production growth by 55%

4

Despite the drop in energy commodity prices, our year-on-year organic proved reserve replacement ratio was 152%

5

Liquids exports increased by 20.5%, and the share of exports in the overall sales revenues grew to 28.2%

6

The Yaro-Yakhinskoye (SeverEnergiya joint venture) and Termokarstovoye (Terneftegas joint venture) gas and gas condensate fields were in advanced stages of preparation to be launched in the first half 2015

7

Construction progress on the EPC contract as part of the Yamal LNG project exceeded 20%

8

EBITDA increased by 23.4% to a historical record of RR 159.6 bln

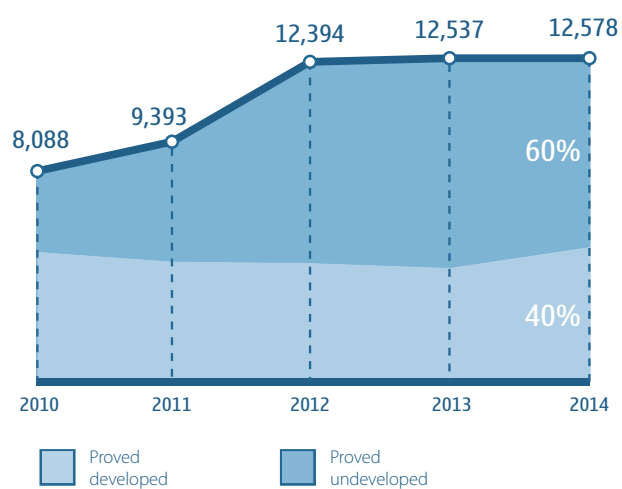
KEY INDICATORS

	Unit	2013	2014	Change
FINANCIAL INDICATORS				
Total revenues	RR mln	298,158	357,643	20.0%
Normalized profit from operations ⁽¹⁾	RR mln	106,277	125,140	17.7%
Normalized EBITDA (including share in EBITDA of JVs) ⁽¹⁾	RR mln	129,370	159,631	23.4%
Normalized profit attributable to shareholders of OAO NOVATEK ⁽¹⁾	RR mln	79,825	35,197	(55.9)%
Normalized earnings per share ⁽¹⁾	RR	26.35	11.65	(55.8)%
Net cash provided by operating activities	RR mln	88,525	110,253	24.5%
Capital expenditures ⁽²⁾	RR mln	59,254	63,179	6.6%
Free cash flow	RR mln	29,271	47,074	60.8%
Net debt	RR mln	157,732	204,361	29.6%
OPERATING INDICATORS				
Proved natural gas reserves (SEC)	bcm	1,740	1,747	0.4%
Proved liquid hydrocarbon reserves (SEC)	mmt	134	135	0.7%
Total hydrocarbon reserves (SEC)	mmboe	12,537	12,578	0.3%
Marketable production of natural gas	bcm	61.22	62.13	1.5%
Marketable production of liquid hydrocarbons	mt	4,751	6,036	27.0%
Total marketable production	mmboe	439.0	456.7	4.0%
POSITIONS IN THE RUSSIAN INDUSTRY				
Share in natural gas production	%	9.3%	9.7%	0.4 p.p.
Share in gas deliveries to the domestic market via UGSS	%	18.4%	18.8%	0.4 p.p.

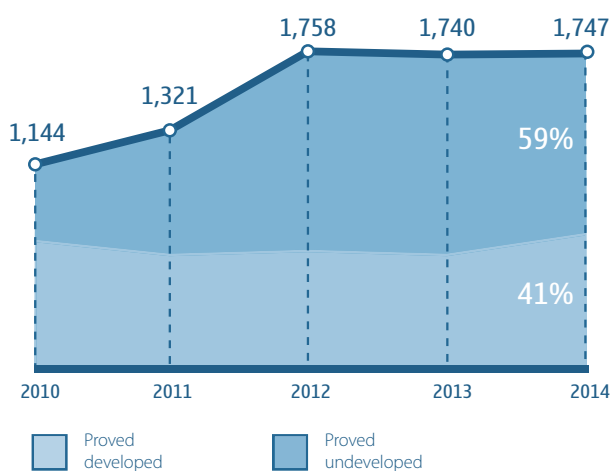
⁽¹⁾ Adjusted for the effect on disposal of interests in joint ventures.

⁽²⁾ Capital expenditures represent additions to property, plant and equipment excluding payments for mineral licenses.

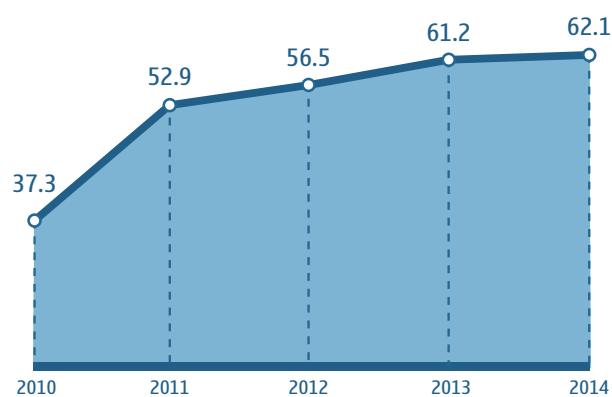
Total proved hydrocarbon reserves (SEC), mmboe



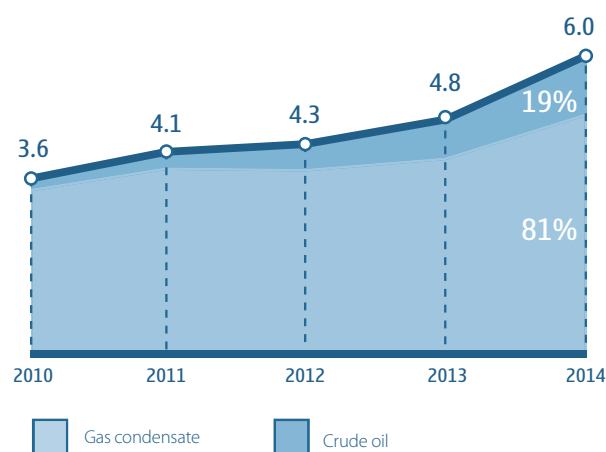
Proved natural gas reserves (SEC), bcm



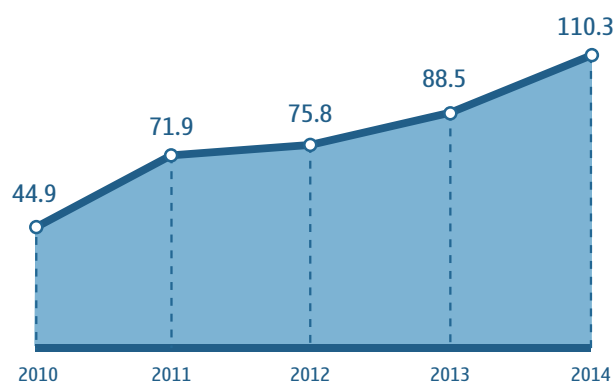
Marketable natural gas production, bcm



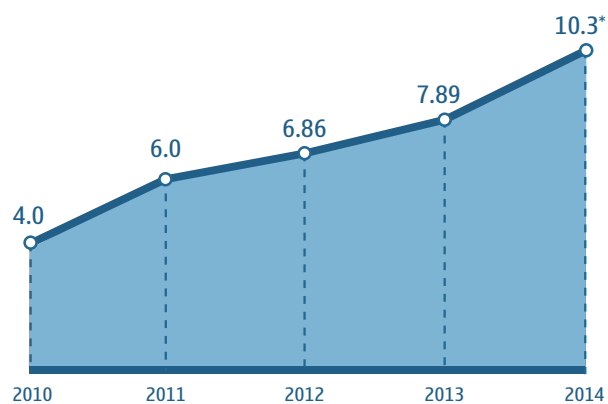
Marketable liquids production, mmt



Operating cash flow, RR bln



Dividends per share, RR



* Recommendation of the Board of Directors.

27%

LIQUID HYDROCARBON PRODUCTION GROWTH

Liquid hydrocarbon production growth was due to the launch of the two stages of the Urengoykoye field and the third stage of the Samburgskoye field of the SeverEnergiya joint venture, drilling of crude oil production wells at the East-Tarkosalinskoye field and production growth at the Eastern dome of the North-Urengoykoye field of the Norgas joint venture (launched in 2013).

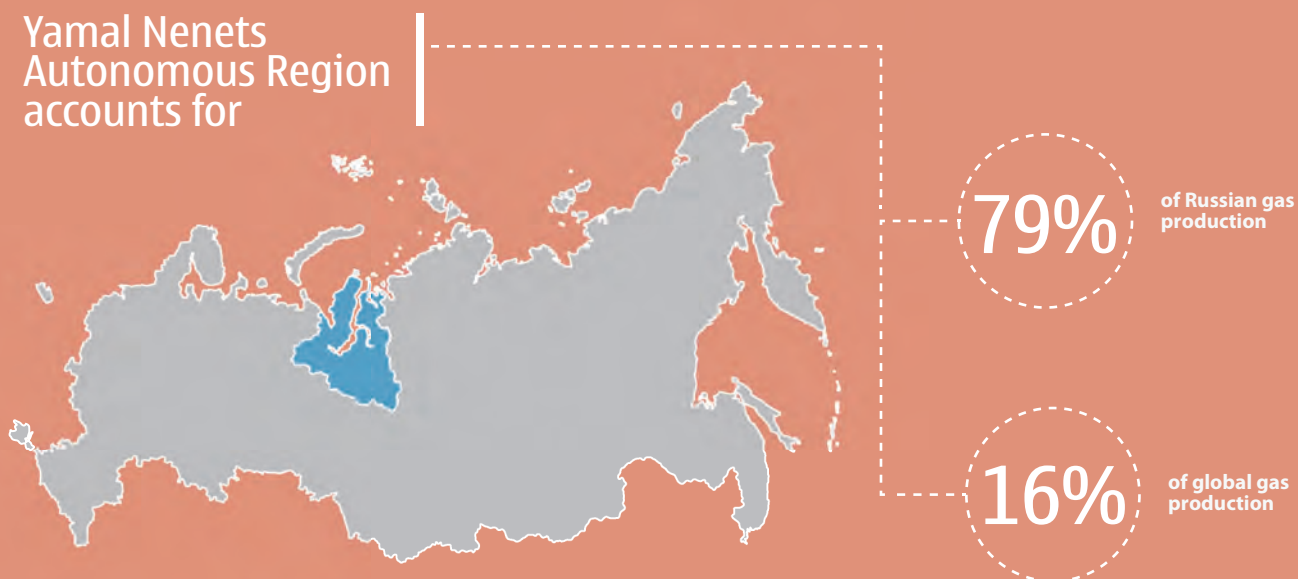
We continued preparing the Yaro-Yakhinskoye, Termokarstovoye and Yarudeyskoye fields for the launch scheduled for 2015.



South-Tambeyskoye field. Gas condensate well.

GEOLOGICAL EXPLORATION AND HYDROCARBON PRODUCTION

Yamal Nenets
Autonomous Region
accounts for



As of 31 December 2014, NOVATEK's SEC proved reserves, including the Company's proportionate share in joint ventures, aggregated 12,578 mmeob, including 1,747 bcm of natural gas and 135 mmt of liquid hydrocarbons. Despite the price decline for benchmark crude oil prices on the international hydrocarbon market, the Company's reserve replacement rate was 109%. Excluding decrease in the Company's share in SeverEnergy, organic reserve replacement rate was 152% due to successful exploration works and production drilling, which amounted to reserves addition of 733 million boe. At year-end 2014, the Company's reserve to production ratio was 28 years.

In 2014, NOVATEK continued full-scale exploration works at license areas located on the Gydan Peninsula and offshore in the Gulf of Ob – assessment of the resource potential of the license areas was completed and exploration drilling on the Utrenneye field was conducted. Exploration work activities also continued

at the fields and license areas in the Nadym-Pur-Taz region, including the license areas of the SeverEnergy joint venture. Supplementary exploration works were carried out at the Malo-Yamalskoye field located on the Yamal Peninsula.

In 2014, NOVATEK carried out commercial hydrocarbon production at 10 fields. Marketable production from all fields (including the Company's share in production of joint ventures) amounted to 457 mmeob, representing an increase of 4.0% over 2013.

Total marketable production of natural gas including the share in production of joint ventures amounted to 62 bcm, representing 89% of our total hydrocarbon output. Marketable production of liquid hydrocarbons including the Company's share in production of joint ventures totalled 6 mmt, of which 81% was gas condensate and 19% – crude oil.

28

years – reserve to
production ratio at
year-end 2014

2.4

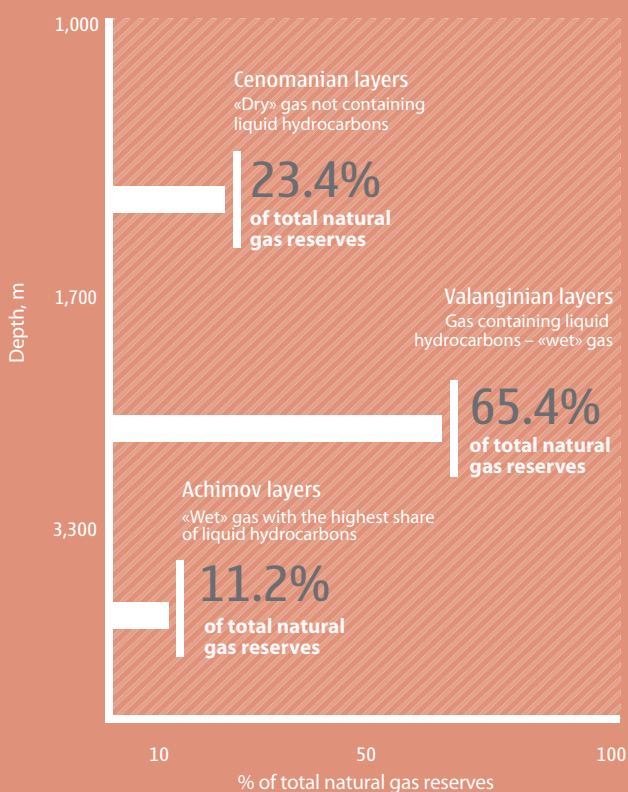
USD per boe – reserve
replacement costs
in 2012-2014

0.5

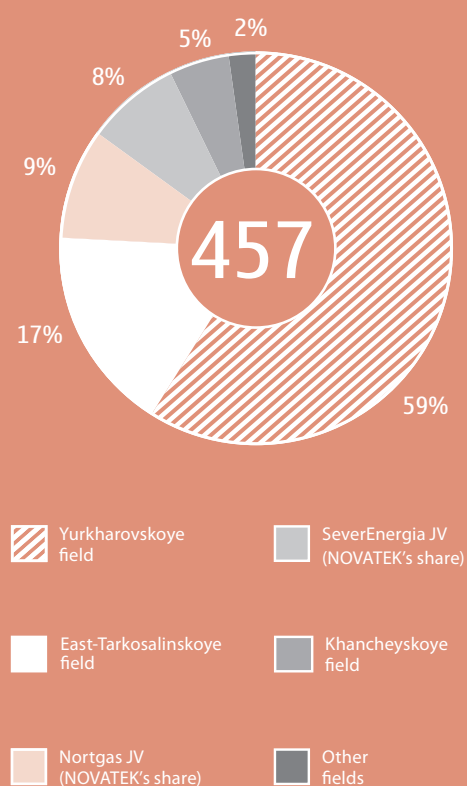
USD per boe – lifting
costs in 2014

Proved reserves as
of 31 December 2014 (SEC)

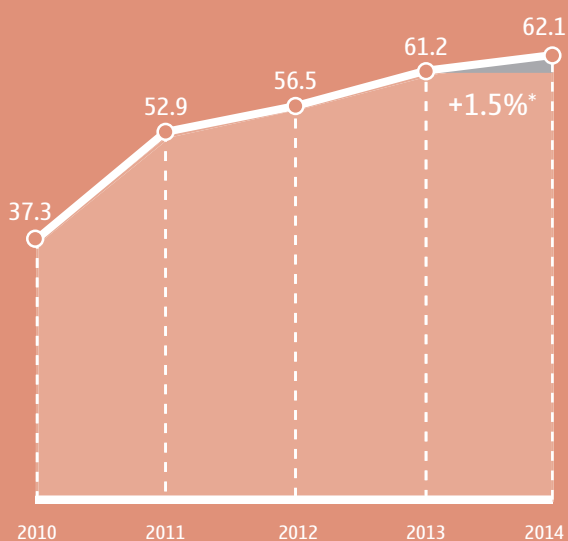
12.6 billion boe



Marketable hydrocarbon production
in 2014, mmboe

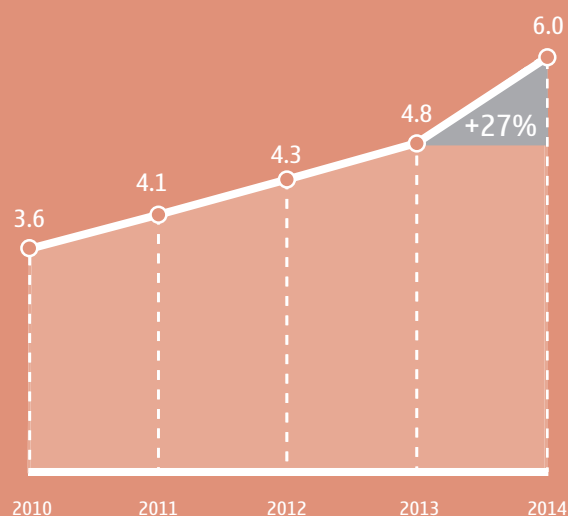


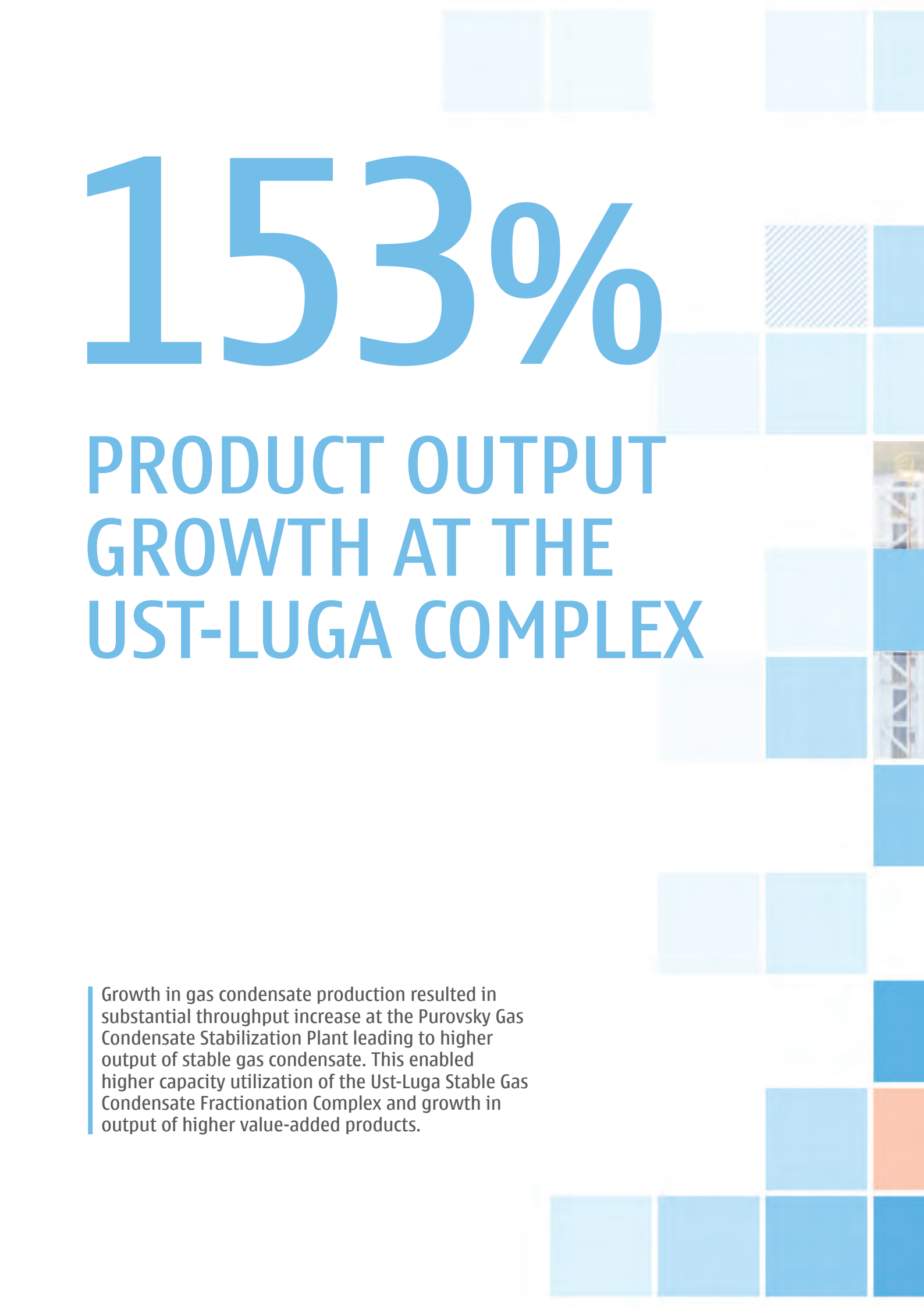
Marketable production of natural gas,
bcm



* +11.3% excluding natural gas produced by Sibneftegas.

Marketable production of liquid
hydrocarbons, mmt





153%

PRODUCT OUTPUT GROWTH AT THE UST-LUGA COMPLEX

Growth in gas condensate production resulted in substantial throughput increase at the Purovsky Gas Condensate Stabilization Plant leading to higher output of stable gas condensate. This enabled higher capacity utilization of the Ust-Luga Stable Gas Condensate Fractionation Complex and growth in output of higher value-added products.

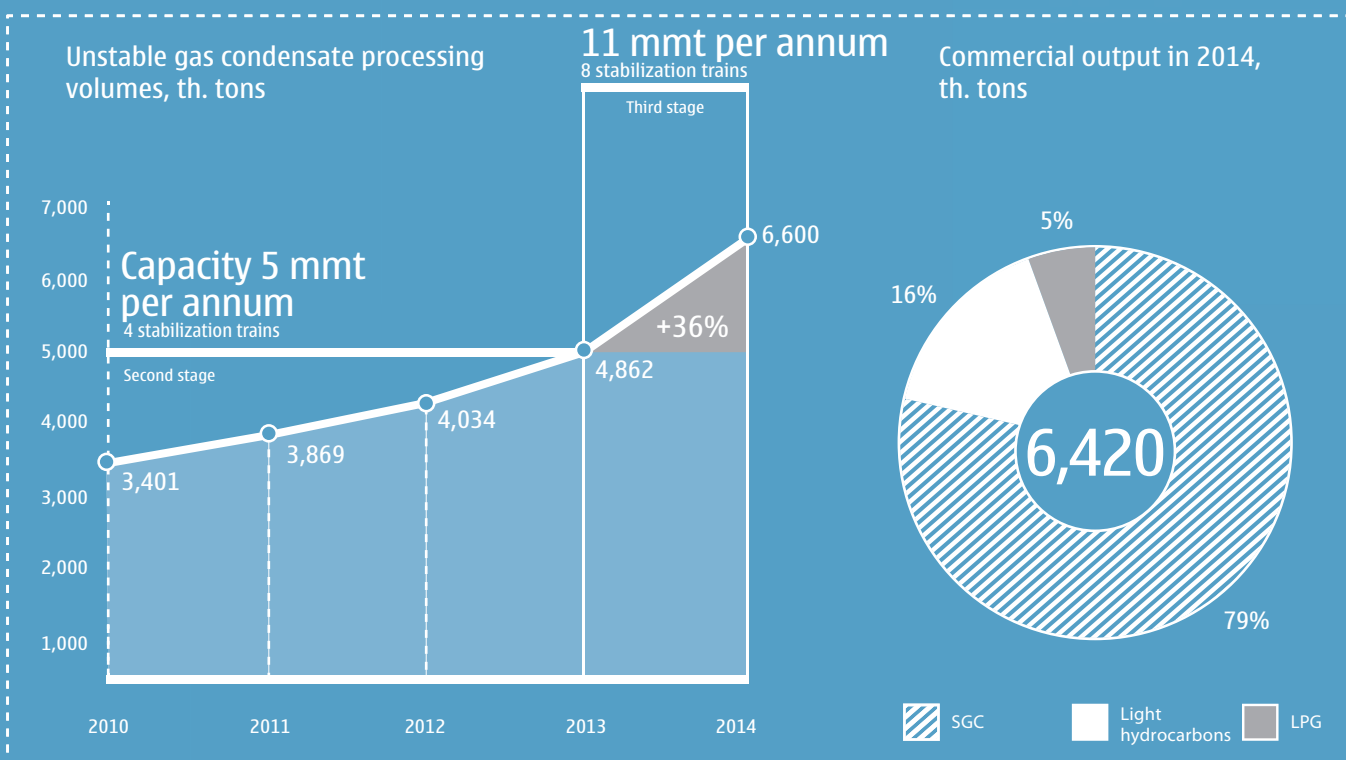


Ust-Luga Complex. Stable gas condensate fractionation unit.

PUROVSKY GAS CONDENSATE STABILIZATION PLANT

Due to the estimated ramp up in gas condensate production, in early 2014 we completed the project for expanding the processing capacity of the Purovsky Plant from five (5) to 11 million tons. As a result, we have achieved a balance between our gas condensate production potential and processing capacity.

The Purovsky Plant is the central element in our production value chain that provides us complete operational control over our processing needs and access to higher yielding marketing channels for our stable gas condensate. The Purovsky Plant produces stable gas condensate and light hydrocarbons (the feedstock for the production of marketable LPG). By the end of 2014, the capacity utilization rate at the Purovsky Plant reached 85%.



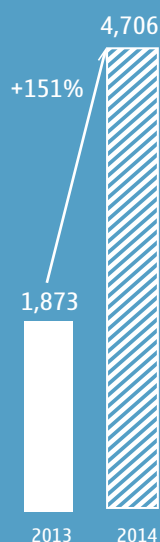
UST-LUGA STABLE GAS CONDENSATE FRACTIONATION COMPLEX

The Ust-Luga Complex expands our vertically integrated chain and increases sales of higher value added products as well as diversifying the geographical markets and expanding the customer base for our products.

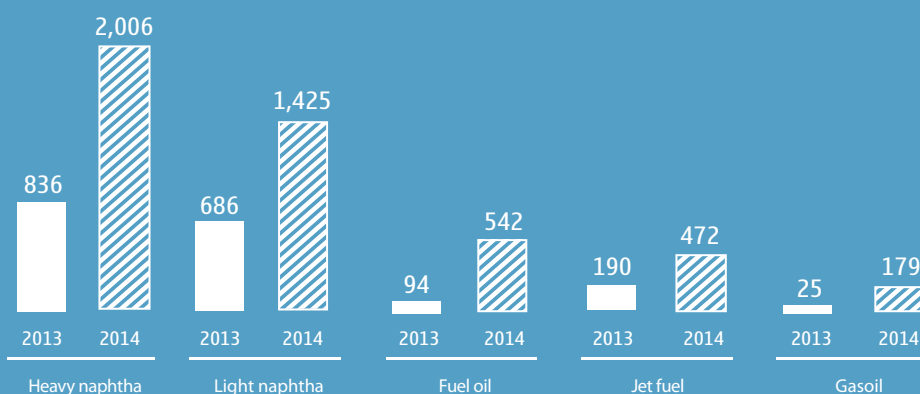
The Gas Condensate Fractionation and Transshipment Complex located at the all-season port of Ust-Luga on the Baltic Sea processes stable gas condensate into petroleum products like light and heavy naphtha, jet fuel, fuel oil and gasoil, and enables us to ship the value-added petroleum products to international markets. The overall gas condensate processing capacity of the Ust-Luga Complex is six (6) million tons per annum. The launch of the Ust-Luga Complex in 2013 allowed us to improve logistics and reduce transportation costs due to a more favorable geographical location of Ust-Luga as compared to the port of Vitino, which was previously used for gas condensate exports.



Stable gas condensate processing volumes, th. tons



Commercial output, th. tons



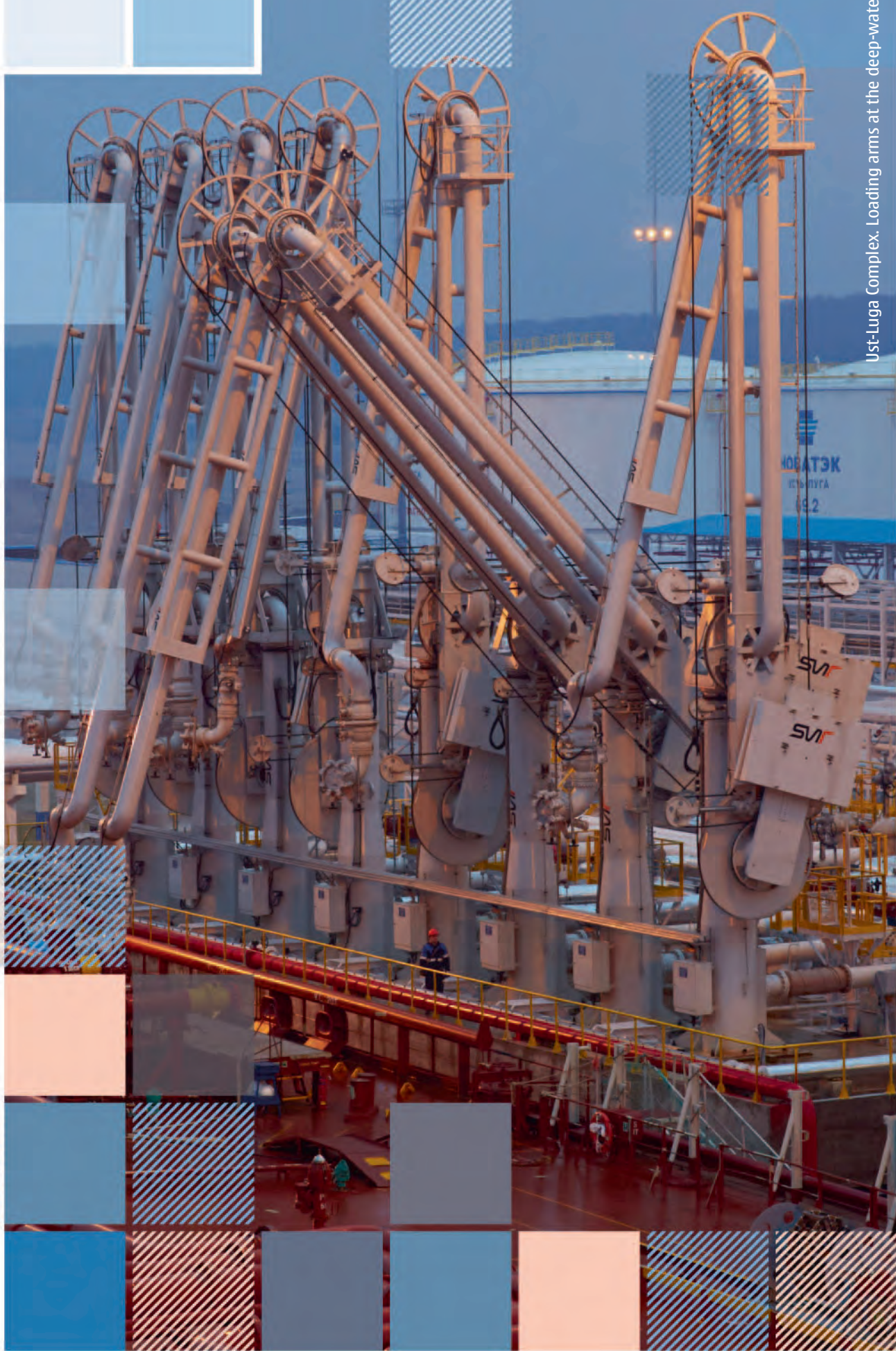
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30%

LIQUIDS SALES VOLUMES GROWTH

In 2014 we sold 7.1 mmt of liquids compared with 5.4 mmt in 2013. The growth was due to higher volumes processed at the Purovsky Plant and the Ust-Luga Complex as well as higher crude oil production volumes.

Petroleum product sales volumes grew by 2.8 times to 4.4 mmt, and their share in total liquids sales increased to 63%.



Ust-Luga Complex. Loading arms at the deep-water berth.

LIQUID HYDROCARBON SALES

The replacement of stable gas condensate exports by the sales of petroleum products with higher value added margins positively impacted the financial results of the Company.

NOVATEK sells liquid hydrocarbons (stable gas condensate, petroleum products, light hydrocarbons, LPG and crude oil) domestically and internationally. We strive to respond quickly to changing market conditions by optimizing the customer base and supply geography.

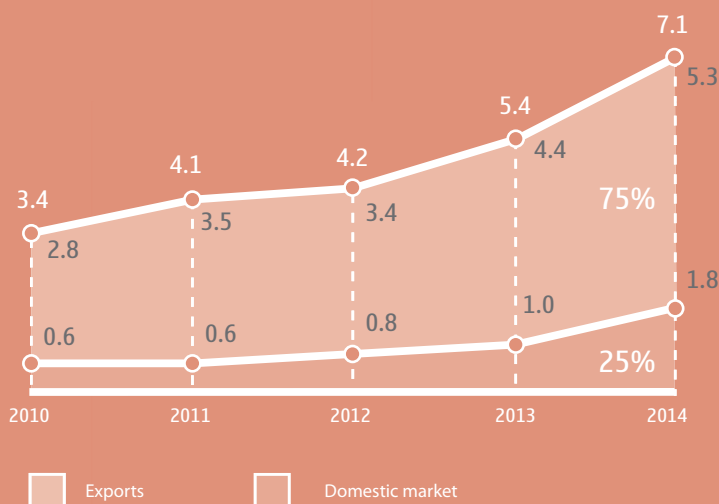
As a result of the launch of the Gas Condensate Fractionation and Transshipment Complex in the port of Ust-Luga in 2013 the Company ceased export deliveries of stable gas condensate and started exporting naphtha, jet fuel, fuel oil and gasoil.

We changed our LPG sales scheme since the second quarter 2014 – we started delivering all the volumes of light hydrocarbons (feedstock for marketable LPG production) produced at the Purovsky Plant to SIBUR's Tobolsky Petrochemical Complex.

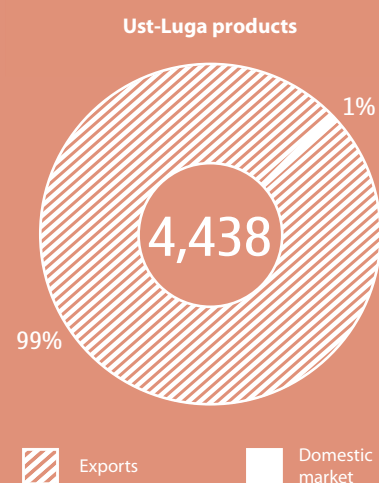
Geography of sales

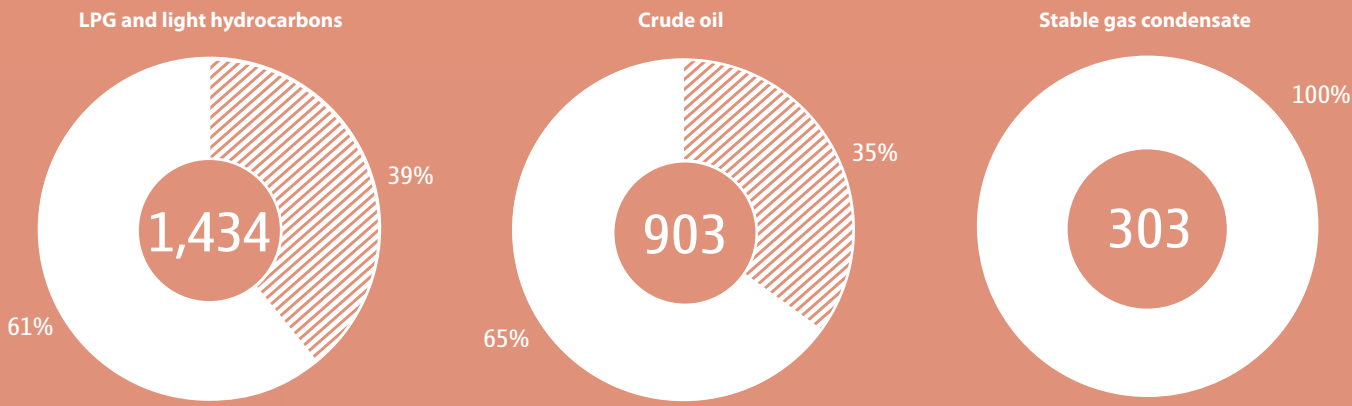
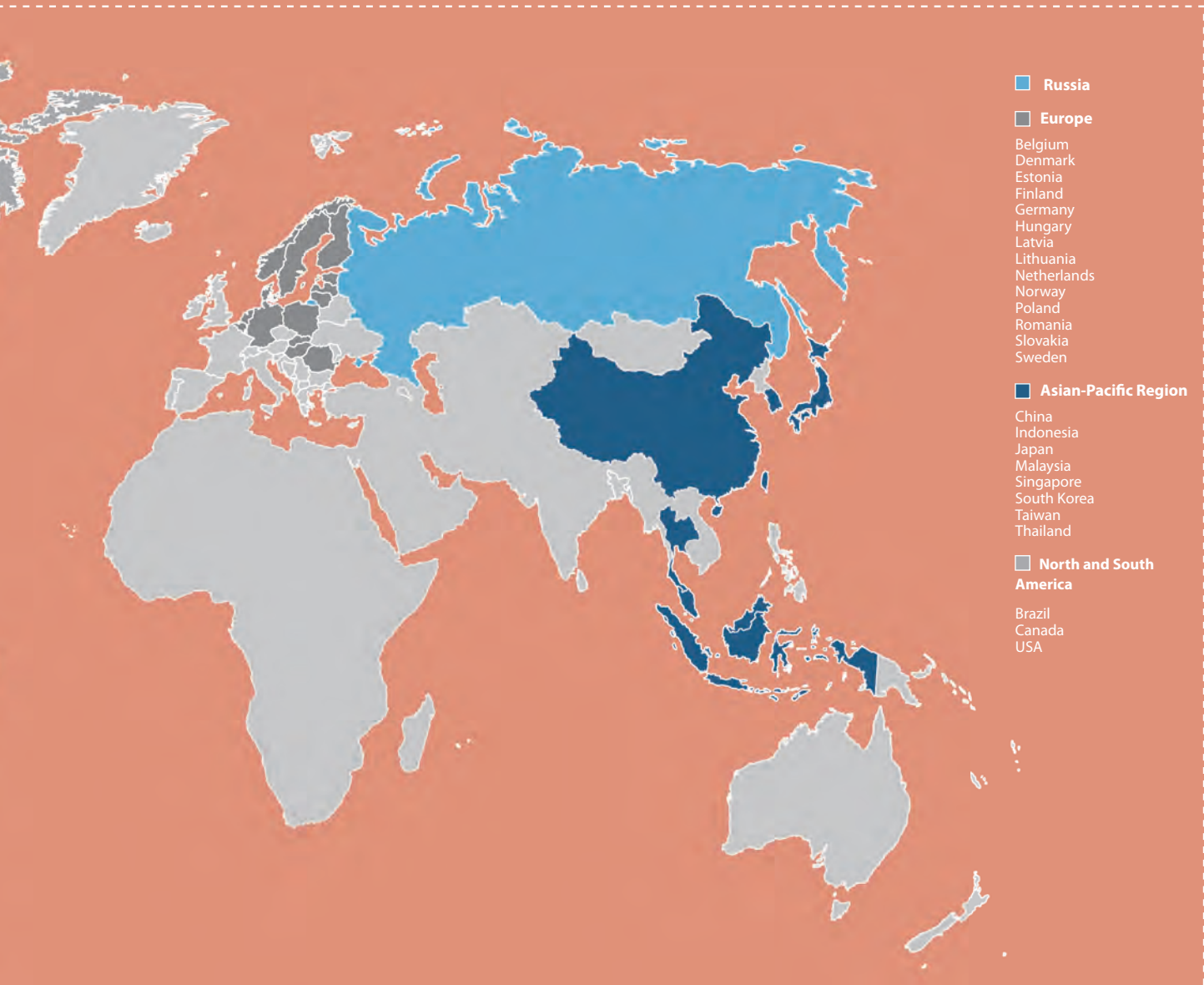


Liquids sales volumes, mmt



2014 liquids sales volumes breakdown, th. tons



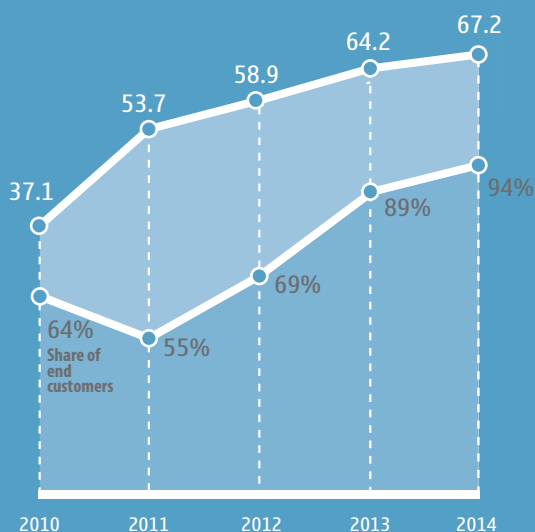


NATURAL GAS SALES

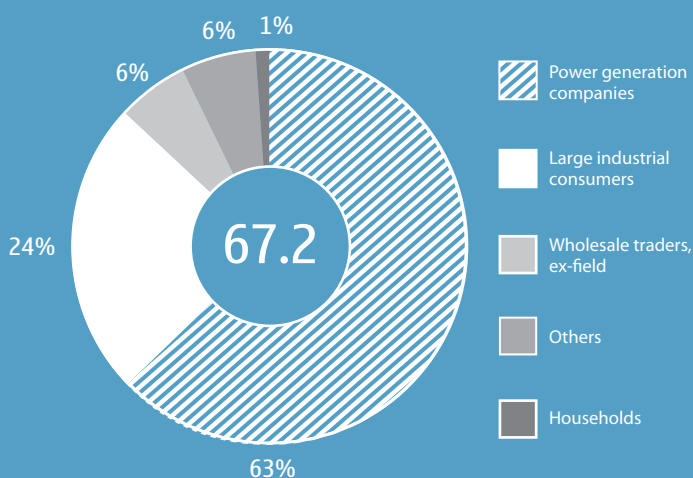
The share of natural gas sales to end customers in 2014 grew from 89% to 94% compared with 2013, which is fully in line with our marketing strategy aimed at diversifying sales, maximizing margins and increasing the stability of our business. NOVATEK's 2014 natural gas sales volumes totaled 67 bcm, representing an increase of 4.8% as compared to 2013 sales volumes of 64 bcm.

The growth in sales volumes was due to an increase in natural gas supplies to the Khanty-Mansiysk Autonomous Region and the Stavropol Region. Deliveries to these regions increased by 7.7 bcm as compared to 2013 due primarily to higher volumes delivered on existing contracts. During 2014, our total revenues from natural gas sales increased to RR 230 billion or by 12.4%, as compared to 2013, due to the combination of higher volumes sold, and an increase in year-average regulated gas prices in 2014 as compared to 2013, and the increase in the share of sales to end-customers.

Natural gas sales volumes, bcm



2014 natural gas sales volumes breakdown by customers, bcm

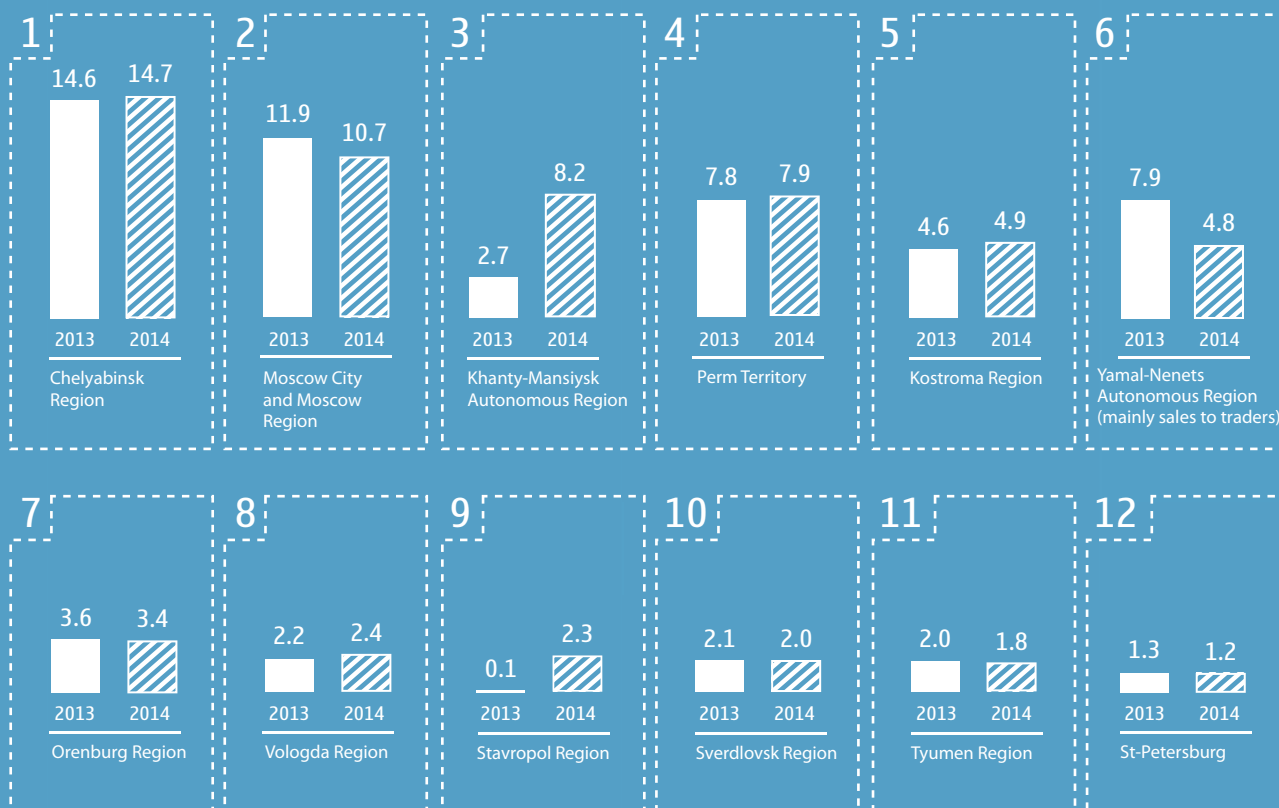
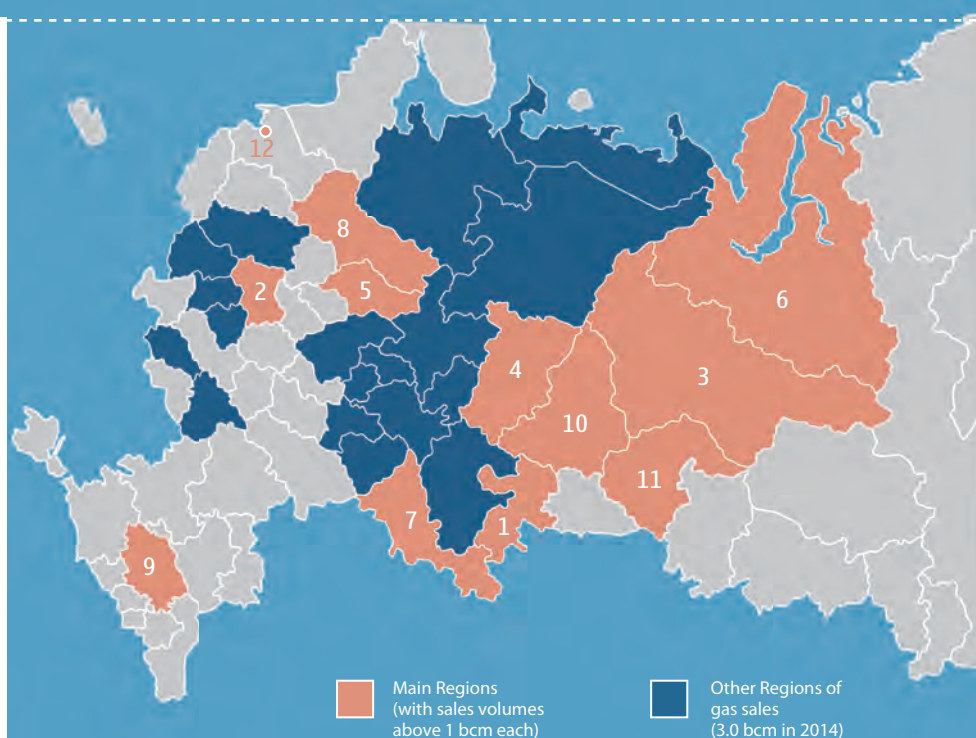
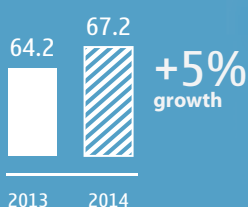


Regional breakdown of 2014 natural gas sales volumes, bcm

30

Regions of
natural gas sales
in 2014

Natural gas sales, bcm



20%

PROGRESS OF THE YAMAL LNG PLANT CONSTRUCTION

The Yamal LNG project envisages the construction of an LNG plant with annual capacity of 16.5 million tons per annum based on the feedstock resources of the South-Tambeyskoye field located in the north-east of the Yamal Peninsula.

LNG will be delivered to the export markets of the Asian-Pacific region and Europe by ice-class LNG carriers. In the summer navigation the Northern Sea Route will be used to transport the LNG to the Asian-Pacific countries.



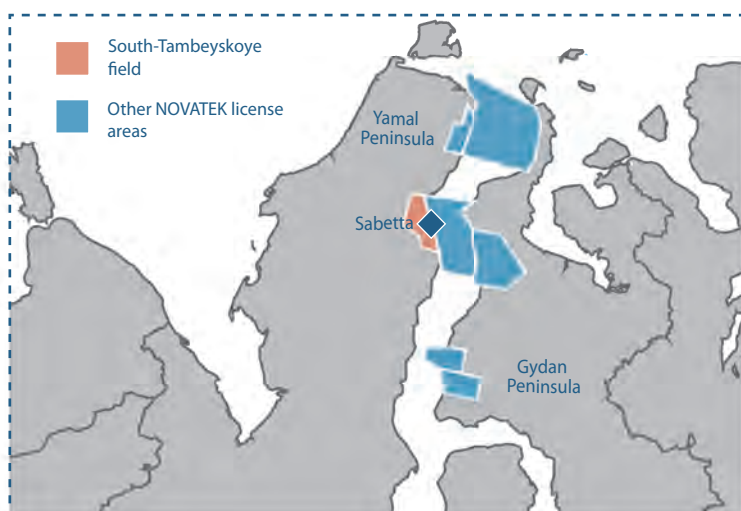
YAMAL LNG PROJECT

Entry into the international gas market as a result of the Yamal LNG project implementation will become another significant change in our quality of growth.

Natural gas produced at the South-Tambeyskoye field will be delivered to the international markets in a form of LNG which requires construction of a liquefaction plant consisting of three (3) production trains of 5.5 mmt annual capacity each.

The shipping infrastructure will include a jetty with two tanker loading berths at the port of Sabetta equipped with ice protection facilities. Ice-class LNG carriers of special ARC-7 design will be used to transport the LNG.

With the opening of the first winter navigation season at the Sabetta port in 2013, the port facilities handled 2.1 million tons of construction materials and equipment in the reporting year. Casting works for the external concrete walls on two LNG tanks for the plant's first train were completed as well as roofing on the first tank. The first phase of construction at the International Sabetta Airport was finalized and the milestone landing of the first Boeing 737 flight took place in December 2014. Long-term contracts for more than 95% of LNG volumes were placed.



Proved and probable reserves of the South-Tambeyskoye field under PRMS

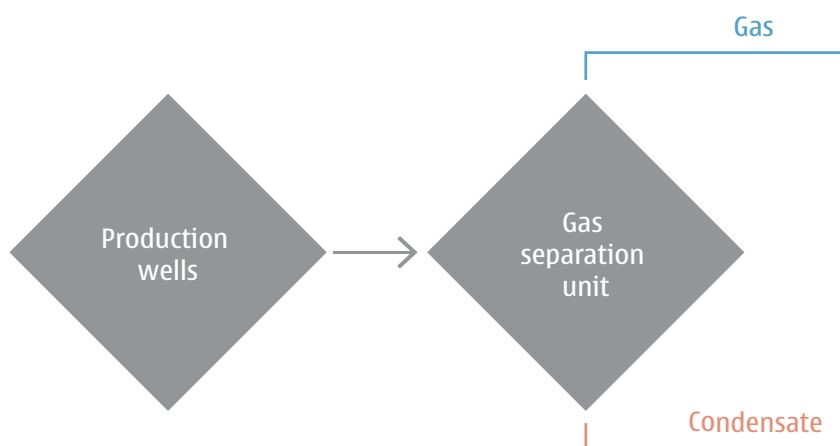
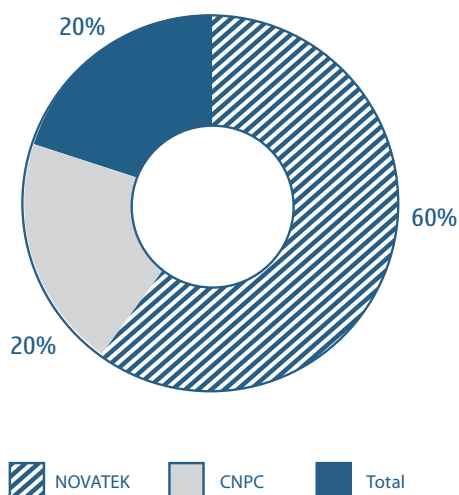
926

bcm of gas

30

mmt of liquid hydrocarbons

Shareholders of Yamal LNG :



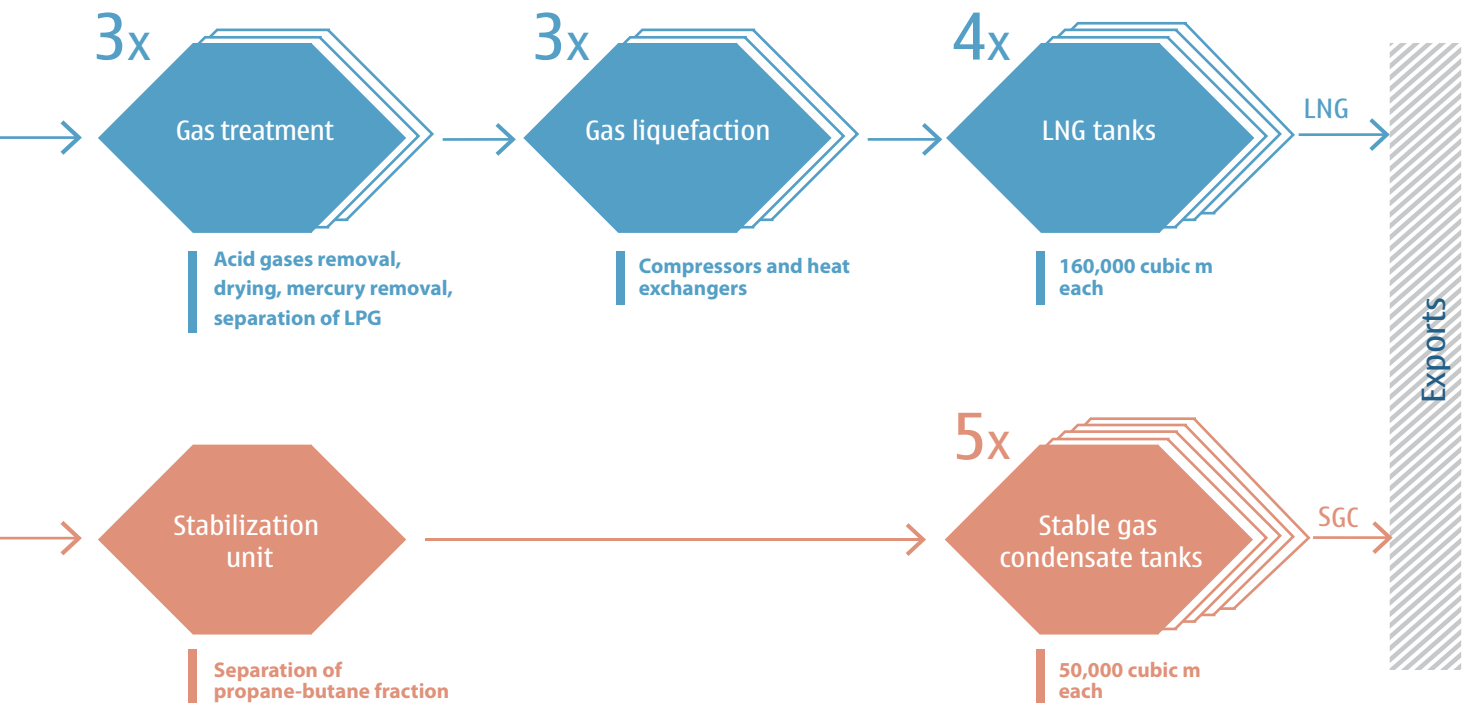
The development project of the South-Tambeyskoye field envisages drilling of

208
wells

Possible routes of LNG transportation from the Yamal Peninsula



LNG plant workflow



637 RR mln

ENVIRONMENTAL EXPENDITURES IN 2014

NOVATEK's core producing assets are located in the Far North, a harsh Arctic region with vast mineral resources and a fragile and vulnerable environment. Throughout all of its operations the Company is committed to environment protection.



Landscape in the area of the Yurkharovskoye field.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

NOVATEK adheres to the principles of effective and responsible business conduct and considers the welfare of its employees and their families, environmental and industrial safety, the creation of a stable and beneficial social environment as well as contributing to Russia's overall economic development as priorities and responsibilities of the Company.

NOVATEK has implemented an Environment, Health and Safety Policy and all of the Company's principal subsidiaries and joint ventures operate an Integrated Health, Safety and Environment Management System (IMS) that comply with the international ISO 14001:2004 and OHSAS 18001:2007 standards. In 2014, NOVATEK successfully passed another IMS compliance audit.

In our Health, Safety and Environment (HSE) activities we pay special attention to preventive measures. In particular, the environmental aspects are taken into account in designing new production facilities: cutting-edge technology and equipment are used to considerably reduce the adverse environmental impact and risk of environmental accidents. The Company builds new and upgrades its existing waste disposal sites, equips its

facilities with state-of-the-art oil sludge treatment units, sets up new sewage treatment facilities and revamps older ones.

All NOVATEK's subsidiaries and joint ventures conduct safety training and all types of briefings; personnel training and development programs are offered, among others, by specialized training centers, and a proper knowledge assessment system is in place.

2,554

operating workplaces were certified in 2014

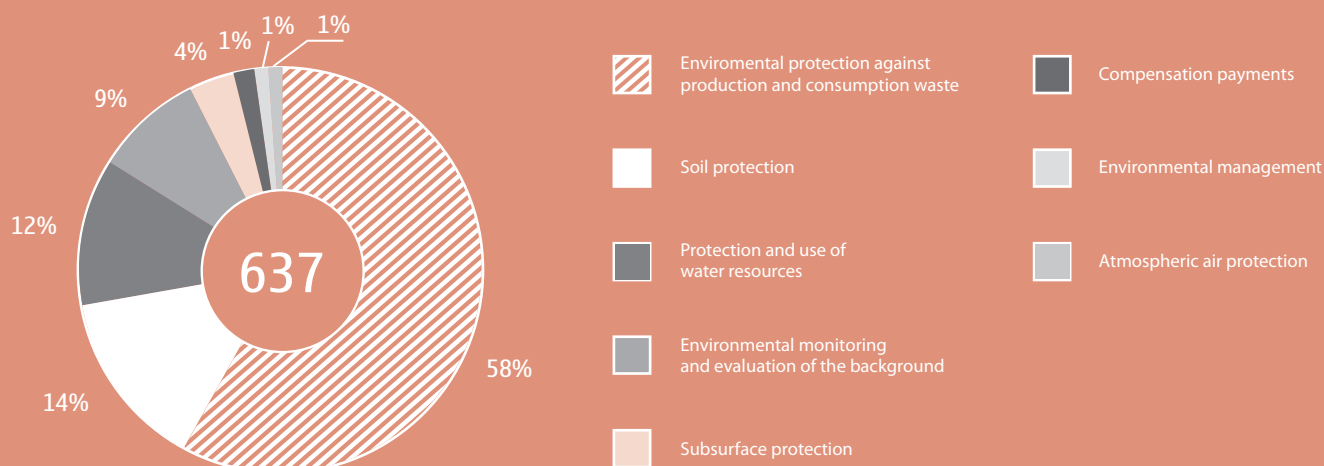
11

comprehensive inspections of NOVATEK subsidiaries for occupational health, industrial, fire and environmental safety requirements in 2014

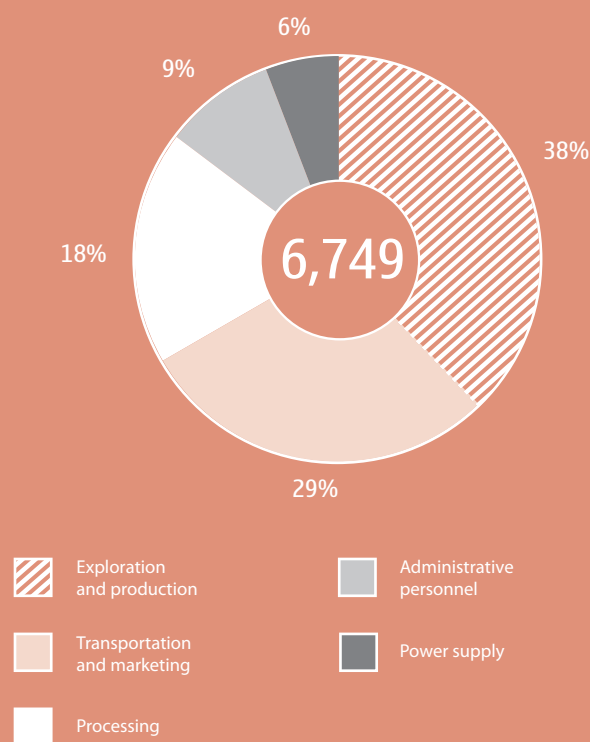
168

RR mln expenses on Occupational Health and Safety in 2014

Environmental Expenditures in 2014, RR mln



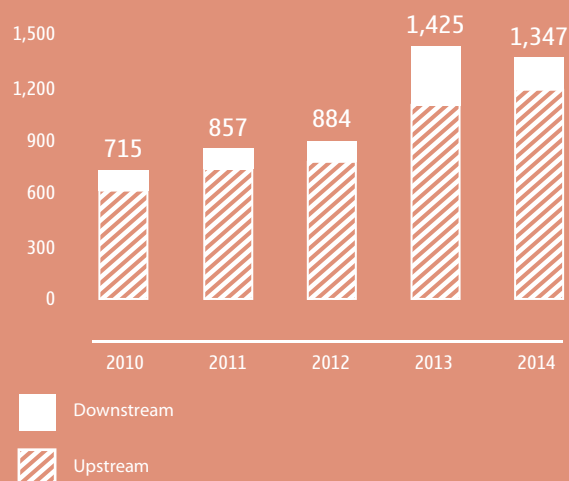
NOVATEK's headcount, people



Social Expenditures on employees, RR mln



Employees are NOVATEK's most valuable resource, allowing the Company to grow rapidly and effectively. The Company's human resource management system is based on the principles of fairness, respect, equal opportunities for professional development, dialogue between management and employees, as well as continuous, comprehensive training and development opportunities for the Company's employees at all levels.

Injury frequency rate
(number of injuries per million working hours)Water consumption by subsidiaries
and joint ventures, th. cubic m

CORPORATE GOVERNANCE

The Board of Directors membership as of 31 December 2014



**MR. ALEXANDER Y.
NATALENKO**

Born in 1946

Chairman of the Board of Directors
Chairman of the Strategy Committee



**MR. ANDREI I.
AKIMOV**

Born in 1953

Member of the Strategy Committee



**MR. LEONID V.
MIKHELSON**

Born in 1955

Chairman of the Management Board



**MR. YVES LOUIS CHARLE JUSTIN
DARRICARRERE**

Born in 1951

Member of the Strategy Committee



**MR. VLADIMIR A.
DMITRIEV**

Born in 1953

Member of the Strategy Committee



**MR. GENNADY N.
TIMCHENKO**

Born in 1952

Member of the Strategy Committee



**DR. BURCKHARD
BERGMANN**

Born in 1943

Independent Director

Member of the Remuneration and Nomination Committee

Member of the Audit Committee

Member of the Strategy Committee



**MR. ANDREI V.
SHARONOV**

Born in 1964

Independent Director

Chairman of the Audit Committee

Member of the Remuneration and Nomination Committee



**MR. VICTOR P.
ORLOV**

Born in 1940

Independent Director

Chairman of the Remuneration and Nomination Committee

Member of the Strategy Committee

Member of the Audit Committee

The Company has established an effective and transparent system of corporate governance complying with both Russian and international standards. The Company adheres to the internal Corporate Governance Code and the internal Code of Business Ethics and has a well-established and efficient internal control and audit system.

**3 INDEPENDENT
BOARD
MEMBERS**

REVIEW OF OPERATING RESULTS

Licenses

NOVATEK's fields and license areas are located in the YNAO of the Russian Federation, which is one of the world's largest natural gas producing regions and accounts for approximately 16% of global natural gas production and 80% of Russian natural gas production. The concentration of the Company's producing and prospective fields, license areas and processing facilities in this prolific gas-producing region combined with the Region's vast oil and gas infrastructure have allowed NOVATEK to minimize the risks associated with developing its assets and expanding its hydrocarbon resource base. The Company has many years of experience working in the YNAO, enabling us to effectively capitalize on growth opportunities to increase shareholder value.

Exploration and production of hydrocarbons in Russia is subject to State licensing regulations. As of 31 December 2014, our subsidiaries and joint ventures held 31 licenses for fields and license areas, of which 29 are classified as either production or combined exploration and production licenses and two (2) are classified as exploration licenses. The duration of licenses for our core fields exceeds 20 years: the license for the Yurkharovskoye field is valid until 2034, the East-Tarkosalinskoye field expires in 2043, and the South-Tambeyskoye field in 2045. NOVATEK is strictly observing all of its license obligations pursuant to current Russian legislation, and conducts continuous monitoring of license tenders in order to expand its resource base in strategically important regions.

In December 2014 "Arctic LNG 1" (the Company's subsidiary) won an auction for exploration and production at the Trekhubugorniy license area located on the Gydan Peninsula and bordering the Company's Geofizicheskoye license area. Estimated natural gas reserves of the Trekhubugorniy license area under the Russian C1+C2 reserve classification amount to 5.9 bcm, while the field's broader recoverable resources classification exceed one (1) tcm of natural gas and 90 mln tons of liquid hydrocarbons. Payment for the license amounted to RR 435 mln.

Hydrocarbon Reserves

Most of the Company's reserves are located onshore or can be developed from onshore locations and are attributed to the conventional hydrocarbon categories (capable of being exploited using conventional technologies, in contrast to unconventional gas deposits such as shale gas or coal-bed methane).

The Company's reserves are appraised on an annual basis by independent petroleum engineers, "DeGolyer and MacNaughton" ("D&M"), under both the SEC and PRMS reserve reporting standards.

As of 31 December 2014, NOVATEK's SEC proved reserves, including the Company's proportionate share in joint ventures, aggregated 12,578 mmboe, including 1,747 bcm of natural gas and 135 mmt of liquid hydrocarbons. Despite the price decline for benchmark crude oil prices on the international hydrocarbon market, the Company's proved reserves increased by 0.3% compared to year-end 2013, and the reserve replacement rate was 109%. At year-end 2014, the Company's reserve to production ratio (or R/P ratio) was 28 years.

The reserves growth during the reporting period was affected by the decrease in the Company's proportional share in the SeverEnergiya joint venture from 59.8% as at year-end 2013 to 54.9% as at 31 December 2014 resulting from an agreement with "Gazprom Neft" concluded in March 2014, and providing for the gradual alignment of the ownership structure in "SeverEnergiya". Excluding this effect, the proved reserves grew by 2%, with an organic reserve replacement of 152% due to successful exploration works and production drilling, which amounted to reserves addition of 733 million boe, inclusive of 2014 production.

As a result of large-scale development and construction works at a number of large fields, our proved developed reserves grew by 623 mmboe or 14%, and their share in overall proved reserves increased to 40.4% from 35.5% as at the end 2013.

Under the PRMS reserves reporting standards, the Company's total proved plus probable reserves, including our proportionate share in joint ventures, totalled 22,886 mmboe, which includes 3,122 bcm of natural gas and 293 mln tons of liquid hydrocarbons, and represents a decline of 199 mmboe compared with year-end 2013. Excluding the effect from the reduction of our ownership in "SeverEnergiya" as described above, our proven plus probable reserves increased by 203 mmboe, or by 0.9%.

The high quality of the reserve base enables NOVATEK to maintain its position as one of the lowest cost producers in the global oil and gas industry. Our three-year (2012-2014) and five-year (2010-2014) reserve replacement costs amounted to RR 78.4 (USD 2.37) per boe and RR 69.8 (USD 2.16) per boe, respectively.

Geological Exploration

NOVATEK aims to expand its resource base through geological exploration at fields and license areas not only in close proximity to existing transportation and production infrastructure, but also in new potentially prospective hydrocarbon areas. The Company ensures the efficiency of geological exploration work by deploying state-of-the-art technologies and relying on the experience and expertise of the specialists in its geology department, and the Company's Scientific and Technical Center located in Tyumen.

The Company uses a systematic and comprehensive approach to exploration and development of its fields and license areas, beginning with the collection and interpretation of seismic data to the creation of dynamic field models for the placement of exploration and production wells. We employ modern geological and hydrodynamic modelling as well as new well drilling and completion techniques to maximize the ultimate recovery of hydrocarbons in a cost effective manner.

In 2014, we continued full-scale exploration works at our license areas located on the Gydan Peninsula and offshore in the Gulf of Ob – assessment of the resource potential of the license areas was completed and exploration drilling on the Utrenneye field

was conducted. Exploration work activities also continued at the fields and license areas in the Nadym-Pur-Taz region, including the license areas of the SeverEnergiya joint venture. Supplementary exploration works were carried out at the Malo-Yamalskoye field located on the Yamal Peninsula.

In 2014, NOVATEK completed 828 square km of three-dimensional (3D) seismic, including seismic activities run at our joint ventures. Seismic works were conducted at the North-Russkiy, Yarudeyskiy and Samburgskiy license areas, and seismic studies were completed at the offshore part of the Geofizicheskoye field in the Gulf of Ob.

Exploration drilling amounted to 26.3 thousand meters, the construction of six (6) prospecting and exploration wells was completed. As a result, Harbeyskoye oil and gas field with recoverable reserves (under the Russian reserve classification C1 + C2) of 26.7 bcm of natural gas and 7.8 mln tons of liquid hydrocarbons was discovered at the North-Russkiy license area. New hydrocarbon deposits were also discovered in the Jurassic sediments of the South-Tambeyskoye field, and wet gas reserves were increased in the Achimov deposits of the Urengoykoye field at the Samburgskiy and Olympiyskiy license areas.

Proved reserves under the SEC standards as of 31 December 2014 (based on our equity ownership interest in the respective fields) and duration of licenses

Field / license area	Ownership	Duration of license	Gas reserves, bcm	Liquids reserves, mln tons
Yurkharovskoye	100%	2034	363.4	17.2
South-Tambeyskoye	60%	2045	294.8	8.3
Utrenneye	100%	2031	259.8	9.6
East-Tarkosalinskoye	100%	2043	163.9	15.2
Urengoykoye (OAO "ARCTICGAS")	54.9%	2034	153.1	38.3
Geofizicheskoye	100%	2034	125.6	0.4
North-Urengoykoye	50%	2038	99.6	9.0
Yaro-Yakhinskoye	54.9%	2034	84.8	8.3
Samburgskoye	54.9%	2034	55.7	7.9
North-Chaselskoye	54.9%	the lifetime of the field	29.2	1.3
Khancheykoye	100%	2044	26.7	3.1
North-Russkoye	100%	2031	22.5	1.9
Olympiyskiy license area	100%	2026	21.4	2.1
East-Tazovskoye	100%	2033	17.1	2.5
Termokarstovoye	51%	2021	15.6	4.5
Yarudeyskoye	51%	2029	4.4	5.1
Other	—	—	9.2	0.2
Total	—	—	1,746.7	135.0

Exploration works

	Units	2013	2014	Change
3D seismic	square km	2,677	828	(69)%
Subsidiaries	square km	1,821	730	(60)%
Joint ventures	square km	856	98	(89)%
Exploration drilling	th. m	37.3	26.3	(29)%
Subsidiaries	th. m	10.6	19.3	82%
Joint ventures	th. m	26.7	7.0	(74)%

Field Development

During 2014, NOVATEK's subsidiaries spent RR 57.8 billion on the development of hydrocarbon reserves as part of our capital investment program in order to achieve sustainable hydrocarbon production growth.

Production drilling in 2014, including joint ventures, reached 595 thousand meters which amounted to 17% less production drilling than in 2013. The decrease was due to the development of the Yurkharovskoye and North-Urengoyevskoye fields nearing completion. A total of 85 wells were put on stream, including 56 gas and gas condensate wells and 29 oil wells.

NEW FACILITIES COMMISSIONED AT PRODUCING FIELDS

In July 2014, the third stage of compressor booster station, which included five compressor units, was launched at the Yurkharovskoye field, thus increasing the overall compressor capacity at the station to 300 MW. The compressor booster station is required to keep the plateau production level at the field. To develop the Eastern part of the field and ensure even depletion of reservoirs, we continued drilling long-reach horizontal wells in 2014. Three (3) new gas condensate wells were put on stream and work over activities was performed on two (2) previously drilled wells. Wells at the Yurkharovskoye field reach 8.5 km in length with a vertical deviation of over seven (7) km and horizontal sections of up to 1.5 km.

In September 2014, the third phase of the Samburgskoye gas condensate field developed by SeverEnergia (a joint venture between NOVATEK and GazpromNeft) was commissioned. The launch of the third stage, which exceeds two (2) bcm of natural gas per annum, will enable the field to achieve peak production capacity of approximately seven (7) bcm of natural gas and more than 900 thousand tons of gas condensate per annum. A total of 19 new production wells were commissioned at this field in 2014.

At the East-Tarkosalinskoye field intensive drilling was performed targeting the field's crude oil layers with 29 oil production wells

completed during the reporting year. The associated petroleum gas recovered during oil treatment is compressed at a booster compression station, which capacity was expanded from 3.5 to 10.5 MW as a result of launching two new compressor units in 2014. To maintain gas production capacity at the field, two new compressor units with a capacity of 16 MW each were launched at the natural gas booster compression station, thus increasing the overall capacity of the station to 128 MW.

In September 2014, the second train of the booster compression station including two compressor units with a capacity of 10 MW each was launched at the Western Dome of the North-Urengoyevskoye field (developed by the Norgas joint venture), thus increasing the station's overall capacity to 40 MW. The compressor booster station enables maintaining production capacity of the field. Seven (7) new production wells were drilled at the North-Urengoyevskoye field in 2014.

NEW FIELDS COMMISSIONED IN 2014

The first phase of the Urengoyevskoye field development (the SeverEnergia joint venture) was launched in April 2014, and the second phase followed in December 2014. Overall production capacity of the two phases is approximately 13 bcm of natural gas and 4.7 mmt of de-ethanized gas condensate per annum. Production drilling targets the Achimov deposits which are relatively deep (approximately 3,700 m) and are characterized by an ultra-high content of gas condensate in the hydrocarbon flow. As of the end of 2014, a total of 36 production wells were in operation at the field.

In December 2014, the North-Khancheyevskoye¹ gas field was commissioned with a total capacity of 0.4 bcm of natural gas per annum. Three (3) wells were in operation at the field as at year-end.

NEW FIELDS PREPARED FOR COMMISSIONING

During the reporting year the Company continued its development and construction activities at a number of large fields planned for commissioning in 2015.

¹ North-Khancheyevskoye+Khadyryakhinskoye from October 2014.

At the Yaro-Yakhinskoye field (developed by the SeverEnergiya joint venture) gas and gas condensate pipelines connecting the field to the trunk pipeline system were completed, construction of gas treatment facility was almost completed and the equipment testing commenced. A total of 17 production wells were drilled at the field in 2014 and the total well stock increased to 41 wells by the year end.

In the reporting year, gas and gas condensate pipelines linking the Termokarstovoye field (developed by Terneftegas, a joint venture between NOVATEK (51%) and Total (49%)) were completed, as well as gas gathering lines. The gas treatment facility and gas condensate de-ethanization unit were almost completed by the year end – the equipment was installed and piping works were underway. There were 20 production wells drilled at the field as of the end of 2014. Production drilling targets Jurassic deposits and the wells have long horizontal sections between 1.2 km and 2 km.

At the Yarudeyskoye oil field developed by YARGEO (NOVATEK holds a 51% share) a central oil separation facility and a gas treatment unit were under construction. The construction of oil and gas pipelines linking the oil field to the trunk pipeline system were completed by more than 60%. Thirteen (13) production wells were drilled and two previously drilled exploration wells were side-tracked.

Hydrocarbon Production

In 2014, NOVATEK carried out commercial hydrocarbon production at 10 fields. Marketable production from all fields (including the Company's share in production of joint ventures) amounted to 456.7 mmboe, representing an increase of 4.0% over the prior year.

Total marketable production of natural gas including the Company's share in production of joint ventures amounted to 62.13 bcm, representing 89% of our total hydrocarbon output. The share of gas produced from the Valanginian layers (or "wet

gas") in proportion to total gas production was 83%. Marketable production of natural gas increased by 1.5% or by 0.9 bcm, as compared to 2013 volumes.

The production growth is attributable to the Eastern Dome of the North-Urengoyevskoye field, Urengoyevskoye and Dobrovolskoye fields within the Olympiyskiy license area launched in 2013, Urengoyevskoye field within the Samburgskiy license area and the third stage of Samburgskoye field both launched in 2014, as well as the growth of production at Yurkharovskoye field, and the growth of our effective share in SeverEnergiya from 25.5% in 2013 to 54.9% in 2014. Natural gas production was affected by the disposal of the Company's equity share in Sibneftegas at the end of 2013. Excluding the natural gas produced by Sibneftegas, NOVATEK's natural gas production increased by 11.3% or by 6.3 bcm.

Marketable production of liquid hydrocarbons including the Company's share in production of joint ventures totalled 6,036 thousand tons, of which 81% was unstable de-ethanized gas condensate and the remaining 19% consisted of crude oil. Marketable production of liquids increased by 27.0% or 1,285 thousand tons as compared with 2013, whereas crude oil production increased by 55.1% and amounted to 1,168 thousand tons.

Gas condensate production growth was due to the launch of the Urengoyevskoye field (within the Samburgskiy license area) in 2014, the growth of our effective share in SeverEnergiya, the launch of the third stage of the Samburgskoye field in 2014, and the launch of Dobrovolskoye field and the Eastern dome of the North-Urengoyevskoye field in 2013.

The overall increase in crude oil production was mainly due to production drilling efforts at the East-Tarkosalinskoye field.

We continued to achieve some of the lowest lifting costs in the industry (expenses directly related to the extraction and processing of natural gas, gas condensate and crude oil from the reservoir). The Company's lifting costs were RR 18.9 (USD 0.49) per boe in 2014.

Marketable hydrocarbon production (including share in production by joint ventures)

	Units	2013	2014	Change
Gas	mmcm	61,216	62,129	1.5%
	mmboe	400.4	406.3	
Liquid hydrocarbons	mmt	4,751	6,036	27.0%
	mmboe	38.6	50.4	
Total production	mmboe	439.0	456.7	4.0%

Marketable hydrocarbon production in 2014 (including share in production by joint ventures)

	Gas, mmcm			Liquids, mt		
	2013	2014	Change	2013	2014	Change
Yurkharovskoye (100%)	37,775	38,154	1.0%	2,712	2,496	(8.0)%
East-Tarkosalinskoye (100%)	10,946	10,348	(5.5)%	1,094	1,293	18.2%
North-Urengoyskoye (49% from 28 November 2012, 50% from 2 July 2013)	2,382	5,402	126.8%	250	633	153.2 %
ARCTICGAS fields (59.8% until 31 March 2014, 54.9% from 1 April 2014)	1,224	4,129	237.3%	174	1,063	510.9%
Khancheynskoye (100%)	3,256	2,933	(9.9)%	483	445	(7.9)%
North Khancheynskoye (100%)	—	14	—	—	—	—
Urengoyskoye and Dobrovolskoye within the Olimpiyskiy license area (100%)	131	1,066	713.7%	8	85	962.5%
Sterkhovoye (100%)	106	83	(21.7)%	30	21	(30.0)%
Sibneftegas fields (51% until 26 December 2013)	5,396	—	—	—	—	—
Total	61,216	62,129	1.5%	4,751	6,036	27.0%

Yamal LNG Project

The Yamal LNG project envisages the construction of an LNG plant with annual capacity of 16.5 million tons per annum based on the feedstock resources of the South-Tambeyskoye field located in the north-east of the Yamal Peninsula.

Yamal LNG is the operator of the project, the license holder and owner of all the assets. At year-end, the shareholder structure comprised NOVATEK (60%), Total (20%) and CNPC (20%). The launch of the first LNG train is planned for 2017.

The South-Tambeyskoye field was discovered in 1974 and comprises five (5) shallow gas horizons and 37 deeper gas condensate horizons. The depth of the horizons varies from between 900 to 2,850 meters. The license for exploration and production at the South-Tambeyskoye field is valid until 2045.

As of 31 December 2014, the field was estimated to contain 491 bcm of proved natural gas reserves and 14 mmt of proved liquid hydrocarbon reserves, under the SEC reserves methodology. Based on total proved hydrocarbon reserves, the South-Tambeyskoye field is the largest field in NOVATEK reserves portfolio. According to the PRMS reserves standards, the proved and probable reserves of the South-Tambeyskoye field were appraised at 926 billion cubic meters of natural gas and 30 mmt of liquid hydrocarbons.

The South-Tambeyskoye field has already been thoroughly studied with a complex of exploration activities, including running 3D seismic and exploration drilling, creation of the fields' geological model and reserves appraisal.

The field development plan provides for the drilling of 208 wells at 19 well drilling pads, and the production potential of the field exceeds 27 bcm of natural gas per annum.

Natural gas produced at the field will be delivered to the international markets in a form of liquefied natural gas, or LNG, which requires the construction of a liquefaction plant consisting of three (3) production trains of 5.5 mmt annual capacity each. The shipping infrastructure will include a jetty with two tanker loading berths at the port of Sabetta equipped with ice protection facilities. Ice-class LNG carriers of special Arc-7 design will be used to transport the LNG to international markets.

At year-end 2014, 26 production wells were drilled at the South-Tambeyskoye field. Backfilling and piling for the first train of the LNG plant was underway, fabrication of LNG plant modules was contracted and, during the year, the steel cutting was done for the first modules. Casting works for the external concrete walls on two LNG tanks for the plant's first train were completed as well as roofing on the first tank. EPC-contract progress exceeded 20% by the year-end. Steel was cut for the first Arc-7 ice class LNG carriers, and more than 20 million cubic meters of soil were dredged at the approach channel to the Sabetta port.

With the opening of the first winter navigation season at the Sabetta port in 2013, the port facilities handled 2.1 million tons of construction materials and equipment (2.6 times more than in 2013) delivered by 95 marine ships and 351 river barges. The first phase of construction at the International Sabetta Airport was finalized and the milestone landing of the first Boeing 737 flight took place in December 2014. Long-term contracts for more than 95% of LNG volumes were placed as of the year-end and work continued on the external financing.

There were approximately 6,800 construction workers and 1,350 construction machinery units at the site as of the year end 2014.

Processing of Gas Condensate

PUROVSKY PLANT

Our subsidiaries and joint ventures are producing wet gas – a mixture of natural gas and gas condensate. After being separated at the field the unstable (de-ethanized) gas condensate is delivered via a system of condensate pipelines owned by the Company for further stabilization at our Purovsky Plant located in the YNAO in close proximity to the East-Tarkosalinskoye field.

The Purovsky Plant is the central element in our production value chain that provides us complete operational control over our processing needs and access to higher yielding marketing channels for our stable gas condensate. The Purovsky Plant produces stable gas condensate, and light hydrocarbons.

Due to the estimated ramp up in gas condensate production, in early 2014 we completed the project for expanding the processing capacity of the Purovsky plant from five (5) to 11 million tons. As a result, we have achieved a balance between our gas condensate production potential and processing capacity.

As a result of increasing wet gas production at our fields, the de-ethanized gas condensate processing volumes at the Purovsky Plant increased by 35.7% to 6.60 mmt in 2014. The corresponding output structure included 5,049 mt of stable gas condensate, 1,032 thousand tons of light hydrocarbons, 339 thousand tons of LPG and 14 thousand tons of regenerated methanol. By the end of 2014, the capacity utilization rate at the Purovsky Plant reached 85%.

The Purovsky Plant is connected via its own railway line to the Russian rail network at the Limbey rail station. Since the launch of the Ust-Luga Complex in June 2013, most of the stable gas condensate volumes produced at the Purovsky Plant are delivered by rail to Ust-Luga for further processing (stable gas condensate was formerly exported via the Port of Vitino).

Previously, the Purovsky Plant was producing marketable LPG which was shipped to customers by railway. Beginning in the second quarter 2014 all of the light hydrocarbon volumes (feedstock for LPG production) are delivered by pipeline to SIBUR's Tobolsky Petrochemical Complex for further processing. The agreements executed with SIBUR on supplying the light hydrocarbons to the Tobolsky Petrochemical Complex enabled NOVATEK to reduce costs on expanding the Purovsky Plant capacities by eliminating the need to build additional units for LPG production and additional railway capacities for LPG transportation. Moreover, the railway capacities earlier used for LPG transportation, are currently used for transporting stable gas condensate.

UST-LUGA STABLE GAS CONDENSATE TRANSSHIPMENT AND FRACTIONATION COMPLEX

The Gas Condensate Fractionation and Transshipment Complex located at the all-season port of Ust-Luga on the Baltic Sea (the Ust-Luga Complex) processes stable gas condensate into petroleum products like light and heavy naphtha, jet fuel, fuel oil and gasoil, and enables us to ship the value-added petroleum products to international markets. The Ust-Luga Complex also allows for transshipment of stable gas condensate to exports. The overall gas condensate processing capacity at the Ust-Luga Complex is six (6) million tons per annum. The first stage was launched in June 2013 and the second stage in October 2013.

The Ust-Luga Complex expands our vertically integrated chain and increases sales of higher value added products as well as diversifying the geographical markets and expanding the customer base for our products. The successful implementation of the project also allowed us to improve logistics and reduce transportation costs due to a more favorable geographical location of Ust-Luga as compared to the port of Vitino, which was previously used for gas condensate exports.

In 2014, the Ust-Luga Complex processed 4,706 thousand tons of stable gas condensate into 4,624 thousand tons of end products, including 3,431 thousand tons of light and heavy naphtha, 472 thousand tons of jet fuel and 721 thousand tons of fuel oil and gasoil. By the end of the reporting year, the Ust-Luga Complex reached its full design capacity as a result of the processing volumes growth at the Purovsky Plant.

Processing volumes and output of the Purovsky Plant, thousand tons

	2013	2014	Change
Processing of de-ethanized condensate	4,862	6,600	35.7%
Output:			
Stable gas condensate	3,712	5,049	36.0%
Light hydrocarbons	—	1,032	n/a
Marketable LPG	1,088	339	(68.8)%
Methanol	16	14	(12.5)%

Processing volumes and output of the Ust-Luga Complex, thousand tons

	2013	2014	Change
Stable gas condensate processing	1,873	4,706	151.3%
Output:			
Light naphtha	686	1,425	107.7%
Heavy naphtha	836	2,006	140.0%
Jet fuel	190	472	148.4%
Gasoil	25	179	616.0%
Fuel oil	94	542	476.6%

Natural Gas Sales

During 2014, NOVATEK supplied natural gas to 30 regions of the Russian Federation. Our customers were located primarily in the following regions (with gas sales of more than one (1) bcm per annum per region): Chelyabinsk, Perm, Stavropol, Moscow, Kostroma, Orenburg, Vologda, Sverdlovsk and Tyumen regions, Khanty-Mansiysk and Yamal-Nenets Autonomous Regions, and the cities of Moscow and St-Petersburg. The above-mentioned regions accounted for 96% of our total gas sales. The Company accounted for 18.8% of total natural gas deliveries to the domestic market through the Unified Gas Supply System (UGSS), representing an increase of 0.4 percentage points as compared to 2013.

NOVATEK's 2014 natural gas sales volumes totalled 67.2 bcm, representing an increase of 4.8% as compared to 2013 sales volumes of 64.2 bcm. The growth in sales volumes was due to an increase in natural gas supplies to the Khanty-Mansiysk Autonomous Region and the Stavropol Region. Deliveries to these regions increased by 7.7 bcm as compared to 2013 due primarily to higher volumes delivered on existing contracts.

During 2014, our total revenues from natural gas sales increased to RR 230.4 billion or by 12.4%, as compared to 2013, due to the combination of higher volumes sold, and an increase in year-average regulated gas prices in 2014 as compared to 2013, and the increase in the share of sales to end-customers.

The share of natural gas sales to end customers in 2014 grew by 5.2 percentage points compared to 2013, which is fully in line with the marketing strategy of the Company aimed at diversifying sales, maximizing margins and increasing the

stability of our business. In order to maintain production levels during periods of seasonal demand NOVATEK has entered into an agreement with Gazprom for underground storage services. Typically, natural gas inventories are accumulated during warmer periods when demand is lower and then used to meet increased demand during periods of colder weather. As at the end of 2014 our inventories of natural gas in gas storages amounted to 1.0 bcm.

Liquid Hydrocarbon Sales

NOVATEK sells liquid hydrocarbons (stable gas condensate, petroleum products, light hydrocarbons, LPG and crude oil) domestically and internationally. We strive to respond quickly to changing market conditions by optimizing the customer base and supply geography, as well as developing and maintaining our own logistics infrastructure.

Liquid hydrocarbons produced at the Purovsky Plant are transported by rail, products produced at the Ust-Luga Complex are exported by sea, while crude oil is transported through the trunk pipelines owned and operated by Transneft.

Total sales volumes of liquid hydrocarbons in 2014 aggregated 7,089 thousand tons, representing a 30.4% increase over 2013 volumes. The growth is attributed to higher processing volumes at the Purovsky Plant and Ust-Luga Complex, and to increased crude oil production. Our export deliveries in 2014 grew by 20.5% to 5,287 thousand tons.

Liquids sales revenues in 2014 increased to RR 125.2 billion, or by 35.3%, as compared to 2013. Revenue growth was mainly driven

Natural gas sales, bcm

	2013	2014	Change
Total gas sales, including:	64,152	67,231	4.8%
end customers	57,021	63,281	11.0%
traders	7,131	3,950	(44.6)%
Share of end-customers in total gas sales	88.9%	94.1%	5.2 p.p.

by the increase in sales volumes as well as the growth of the share of higher value added products.

As a result the launch of the Gas Condensate Fractionation and Transshipment Complex in the port of Ust-Luga in 2013 the Company ceased export deliveries of stable gas condensate and started exporting naphtha, jet fuel, fuel oil and gasoil. During 2014, stable gas condensate sales volumes decreased by 85.7% to 303 thousand tons with all the volumes sold on the domestic market.

Petroleum product sales volumes grew by 2.8 times to 4,438 thousand tons, and their share in total liquids sales increased to 62.6% as compared to 29.5% in 2013. We sold 3,319 thousand tons of naphtha, 433 thousand tons of jet fuel, 686 thousand tons of fuel oil and gasoil. Sales to Asian-Pacific region accounted for 46.9% of total product sales volumes, 40.6% were sold to the European markets and 12.5% to North and South America. Naphtha was mainly exported to the Asian-Pacific countries, while jet fuel, fuel oil and gasoil was shipped to North-Western Europe.

The replacement of stable gas condensate exports by the sales of petroleum products with higher value added margins positively impacted the financial results of the Company.

From the second quarter 2014 the LPG sales scheme changed – we started delivering all the volumes of light hydrocarbons (feedstock for marketable LPG production) produced at the Purovsky Plant to SIBUR's Tobolsky Petrochemical Complex. A portion of these volumes is processed at the Tobolsky Petrochemical Complex into marketable LPG on tolling terms, while

the remaining part is sold to SIBUR. In the reporting year, sales of light hydrocarbons to SIBUR amounted to 504 thousand tons.

LPG sales volumes totaled 930 thousand tons in 2014, representing a decrease of 13.7% compared to 2013. The start of LPG deliveries from SIBUR's Tobolsky Petrochemical Complex allowed us to reduce per-unit transportation costs due to a more favorable geographical location of the Tobolsky Complex compared to the Purovsky Plant.

In 2014, LPG export sales volumes amounted to 559 thousand tons or 60.1% of the total LPG sales volumes. Novatek Polska, our wholly owned LPG trading company in Poland, sold 355 thousand tons of LPG, representing 63.5% of our total LPG export sales. Other export markets for LPG were Finland, Hungary, Lithuania, Slovakia and Romania.

On the domestic market, our LPG is sold through large wholesale channels, as well as through our network of retail and small wholesale stations. In 2014, large wholesale supplies to the domestic market were 244 thousand tons, representing 26.2% of total LPG sales volumes. We were also selling LPG via the network of 63 retail stations and seven (7) small wholesale stations in Chelyabinsk, Volgograd, Rostov and Astrakhan regions. The total amount of LPG sold through our domestic network of retail and small wholesale stations increased to 126 thousand tons or by 16.6% as compared to 2013.

Sales of crude oil in 2014 totaled 903 thousand tons, representing a 44% increase over 2013 volumes. We sold 65% of our crude oil volumes on the domestic market with the remaining volumes supplied to export markets.

Liquid hydrocarbon sales, thousand tons

	2013	2014	Change
Petroleum products (Ust-Luga)	1,606	4,438	176.3%
LPG	1,078	930	(13.7)%
Crude oil	627	903	44.0%
Light hydrocarbons	0	504	n/a
Stable gas condensate	2,117	303	(85.7)%
Other	10	11	10.0%
Total	5,438	7,089	30.4%

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

NOVATEK adheres to the principles of effective and responsible business conduct and considers the welfare of its employees and their families, environmental and industrial safety, the creation of a stable and beneficial social environment as well as contributing to Russia's overall economic development as priorities and responsibilities of the Company.

Environmental Protection

NOVATEK's core producing assets are located in the Far North, a harsh Arctic region with vast mineral resources and a fragile and vulnerable environment. Throughout all of its operations the Company is committed to environment protection. In 2014 environmental expenditures of NOVATEK, its subsidiaries and joint ventures amounted to RR 637 mln.

NOVATEK has implemented an Environment, Health and Safety Policy and all of the Company's principal subsidiaries and joint ventures operate an Integrated Health, Safety and Environment Management System (IMS) that comply with the international ISO 14001:2004 and OHSAS 18001:2007 standards. In 2014, NOVATEK successfully passed another IMS compliance audit.

In our HSE activities we pay special attention to preventive measures. In particular, the environmental aspects are taken into account in designing new production facilities: cutting-edge technology and equipment are used to considerably reduce the adverse environmental impact and risk of environmental accidents. The Company builds new and upgrades its existing waste disposal sites, equips its facilities with state-of-the-art oil sludge treatment units, sets up new sewage treatment facilities and revamps older ones.

The Heritage Environmental Damage Remediation Program included actions to remediate land, surface and ground water and treat drilling sludge. In order to preserve biodiversity when developing our Yardeyskoye oil field, we released muksun young fishes into the Ob-Irtysh basin rivers.

Environmental monitoring was performed throughout 2014 at all of the license areas and production facilities of the Company. The monitoring process includes surveys into the condition of environment components and collecting samples of soil, ground, water, and river bed deposit. Plants, animals, and microorganisms that share the same habitats are checked. Air contamination level is inspected. The status of fish stock and fodder resources in water areas is studied as are hydrologic and hydrochemical parameters. The samples taken are later tested in certified laboratories, and based on the laboratory analysis the condition of the natural environment components is assessed and trends are observed over the year. The monitoring revealed that the natural environment components in the monitored locations were predominantly in a good condition.

The Company systemically works to decrease harmful greenhouse gas emissions into the environment. In 2014, the Program for Rational Use of Associated Petroleum Gas enabled us to reach a 96% petroleum gas utilization rate at the Samburgskoye field and 95% at the East-Tarkosalinskoye field.

In the reporting year, the Company continued its participation in the Carbon Disclosure Project (CDP) whereby information on greenhouse gas emissions and operational energy efficiency is disclosed. We also disclose data on the use of water resources as part of the CDP Water Disclosure Project. By taking part in these projects the Company intends to achieve a balance between the climate change risks and efficiency of investment projects. The Company offers all stakeholders full access to its environmental information, including by publications in federal and local media, its website, etc.

One of the Company's environmental priorities is the rational usage of resources, including energy resources. The table below sets out the physical volumes and the Russian rouble equivalent of energy resources consumed by the Company, its subsidiaries and joint ventures in 2014.

Key Environmental Indicators of NOVATEK, its subsidiaries and joint ventures

	Unit	2013	2014	Change
Water consumption	th. cubic meters	1,425	1,347	(5.5)%
Atmosphere emissions	th. tons	29.4	51.4	74.8%*

* The increase is due to commissioning of the stable gas condensate transshipment and fractionation complex at the port of Ust-Luga, third stage of the Purovsky Gas Condensate Stabilization Plant, Eastern Dome of the North-Urengoykoye field, Urengoykoye field within the Samburgskiy license area, as well as third stage of the Samburgskoye field.

Energy Resource Consumption by NOVATEK, its subsidiaries and joint ventures in 2014

	Units	Volume	RR mln, net of VAT
Natural gas	mmcm	1,219	1,377.1
Electricity	MW*h	449,461	1,351.4
Heating energy	Gcal	257,880	294.0
Oil	tons	2,218	7.2
Motor gasoline	tons	861	37.5
Diesel fuel	tons	3,403	123.7
Other	tons	2,060	10.8

Health and Safety

Our strategic goal is to achieve a leading position amongst oil and gas companies on all key indicators in terms of Occupational Health and Safety. In order to accomplish this goal, the Company continually updates its IMS, improves employees' qualification and applies advanced technologies.

In accordance with the requirements of the federal law «On Industrial Safety of Hazardous Production Facilities» and «Rules on the Organization and Implementation of Industrial Control for Compliance with Requirements of Industrial Safety at Hazardous Production Facilities» all of our subsidiaries have developed their own rules for the organization and implementation of industrial control for compliance with these requirements. We have also established industrial control compliance commissions, which carry out periodic audits of departments and production facilities to comply with the HSE requirements.

Workplace certification includes evaluating measures to control the harmful impact of hazardous factors in the workplace. Measures on improving working conditions are developed on the basis of the results of the certification process. In the reporting year, we certified 2,554 operating workplaces. No workplaces with unacceptable working conditions were identified.

In 2014, the NOVATEK commission continued comprehensive inspections of NOVATEK subsidiaries for occupational health, industrial, fire and environmental safety requirements. In the course of comprehensive inspections, occupational health, industrial, fire and environmental safety control systems are audited for compliance with international standards. In the re-

porting year, NOVATEK's commission performed comprehensive inspections of 11 entities, and, as a result, internal documents have been developed to address the violations noted.

All NOVATEK's subsidiaries and joint ventures conduct safety training and all types of briefings; personnel training and development programs are offered, among others, by specialized training centers, and a proper knowledge assessment system is in place. Due to changes in the number of legislative and regulatory acts of the Russian Federation, extra knowledge tests were organized in all entities and 4,880 employees underwent HSE training courses. In 2014, the financing of Occupational Health and Safety amounted to 168 million rubles.

Human Resources

Employees are NOVATEK's most valuable resource, allowing the Company to grow rapidly and effectively. The Company's human resource management system is based on the principles of fairness, respect, equal opportunities for professional development, dialogue between management and employees, as well as continuous, comprehensive training and development opportunities for the Company's employees at all levels.

As of the end of 2014, NOVATEK and its subsidiaries had a total of 6,749 employees, of which 38.0% work in exploration and production, 18.6% in processing, 28.7% in transportation and marketing, 5.9% in power supply with the remaining 8.8% classified as administrative personnel. The middle-aged group (25–44 years) prevails in the structure of NOVATEK's personnel, with the average age of 39 years.

Key Health and Safety Indicators of NOVATEK, its subsidiaries and joint ventures

	2013	2014	Change
Injury frequency rate (number of injuries per million working hours)	0.41	0.41	0%
Accident severity rate (total number of employee working hours lost per accident / number of accidents)	922	51	(94.5)%

PERSONNEL TRAINING AND DEVELOPMENT

In an environment of rapidly developing technologies and management systems, our multilevel training and professional development program enables our employees to contribute to raising the Company's competitiveness. In 2014, the primary goals of training and professional development included:

- implementing a program aimed at providing the Company with a talent pool of senior managers;
- implementing the "Steps in Discovering Talents" program for young specialists targeted at training highly qualified personnel whose competence level fully meets business needs;
- implementing the "Technical Training" program based on the results of tests in the Corporate Technical Competency Assessment System for various lines of business; and
- involving young specialists in NOVATEK's "Research-to-Practice Conference".

Ten of the Company's top managers continued participating in training activities aimed at developing a common understanding of the goals and strategy of NOVATEK in order to prepare for higher level positions within the Company. During 2014, Higher School of Management (on the base of the Higher School of Economics in Moscow) provided training program for managers, the main goal of the program is to systematize participants' knowledge of management principles of an oil and gas company. The managers took part in the following training courses: "Personal Effectiveness and HR", "Project Management", "Principles of Financial Management", "Decision Making and Management of Oil and Gas Resources: International and Russian Practices". The training was completed by presenting individual projects to the Company's senior management.

In 2014, NOVATEK continued its efforts to enhance employee skills, improve working conditions and ensure a safe environment at its production facilities. During the reporting year, 36.9% of our specialists and line workers have upgraded their respective qualifications, and 68% of the Company's engineers and technicians completed employee certification and industrial safety courses.

Specialized training courses for employees of production divisions under the Technical Training Program were conducted at the Gubkin State University, the Petroleum Education Center at Tomsk Polytechnic University, Petersburg Engineering Institute of Professional Development, NExT Schlumberger educational center and other centers. In 2014, 183 employees underwent training under the program.

During 2014, 231 people were tested under the Corporate Technical Competency Assessment System, including 39 people during the hiring process to fill vacant positions and 104 employees promoted to more senior positions.

In 2014, we had our second class of graduates of "Steps in Discovering Talents" program, whereby 20 young specialists participated in training activities. By the autumn of 2014, 33 new young specialists joined the program.

In 2014, for the first time young specialists participated in the «Mentoring Culture» training courses together with the mentors. In total, 15 mentors attended the training.

The 9th Interregional Research-to-Practice Conference for the Company's young specialists attended by 58 employees was held in Moscow in September 2014. Based on the results of the competition, all of the winners received cash prizes, while fifteen (15) prize-winners, who were nominated in the "Best Implemented Project" category, were offered to study in the international oil and gas training centers in the UAE and Qatar.

SOCIAL PROGRAMS

Employee relations primary focus is on implementing social programs, and according to the Core Concept of the Company's social policy which was adopted in 2006, the social benefits package for employees includes the following programs:

- voluntary medical insurance for employees;
- therapeutic resort treatment for employees and members of their families;
- provision of special-purpose short-term loans;
- special-purpose compensation and social support payments;
- provision of special-purpose interest-free loans to purchase housing, and
- pension program.

Along with providing an optimum social benefits package, the Company is also committed to creating opportunities for employees to play sports and get involved in sports and cultural events. In 2014, our employees and their family members visited exhibitions at Russia's national museums, classical music concerts, and attended sporting events like hockey, basketball and football (soccer) games in their free time with the Company's assistance.

The Company publishes its corporate newsletter "NOVATEK", including the "NOVATEK Family" feature and corporate magazine "NOVATEK Plus" to inform employees about the Company's activities and get employees, specialists and managers actively involved in business, cultural, sports, charitable and corporate activities.

Social Policy and Charity

NOVATEK attaches considerable importance to social policy and charity. The Company pays close attention to projects intended to support culture, preserve and revive the national values and intangible legacy of Russia, promote and integrate Russian art in the international cultural space, as well as advance "sports for all" and "high-performance sports". NOVATEK enters into agreements with local regional governments where it operates and implements programs to facilitate improvement in local populations' living standards and preserve the distinctive cultural identity of the Far North indigenous peoples.

In 2014, NOVATEK and its subsidiaries directly invested 727 million rubles in charitable, cultural and educational projects and activities to support the Far North indigenous peoples.

COOPERATION WITH THE REGIONS

During the year, the Company was investing funds in the Yamal-Nenets Autonomous District, the Leningrad, Chelyabinsk, Tyumen, and Samara Regions under social agreements reached with regions where the Company maintains operations. The Company conducted children and youth educational programs, provided support to low-income families and allocated funds for repairs and upgrades of social infrastructure facilities.

COOPERATION WITH INDIGENOUS PEOPLES OF THE FAR NORTH

NOVATEK provided financial support to the "Yamal for Descendants" association and its district branches. We assisted indigenous peoples through financing arrangements for purchasing equipment and goods required by fishermen and reindeer herders, as well as fuel for air delivery of the nomadic population and food in remote areas.

In particular, the Company provided the following sponsorship in 2014:

- "The Association of Minority Indigenous Peoples of the Far North, Siberia, and Far East of the Russian Federation" – information and legal services, training and educational workshops, and printed media;
- Nadym District – purchase of a hovercraft to transport people across the Nadym river during transitional seasons;
- Tazovsky District – construction of the road to transport products from the cold storage facility in the village of Gyda to the bank of the Yuntose river; and
- Yamal District – financial aid to the persons among the indigenous people of the North who faced various hardships.

EDUCATIONAL PROGRAMS

NOVATEK continued to develop and support the Company's continuing education program, which provides opportunities to gifted students, from the regions where we operate, to further their education at top rated universities, participate in NOVATEK internships and, upon completion of their studies, possible employment with the Company.

Recruitment and career guidance for promising employees start with the "Gifted Children" program implemented at School No. 8 in Novokuybyshevsk and School No. 2 in Tarko-Sale. Special classes are formed on a competitive basis from the most talented grade 10 and 11 students with above-average test scores.

The Company also implemented two "Grants" programs for schoolchildren and teachers living in Purovsky District of the YNAO.

The "Grants" program for schoolchildren is aimed at academic and creative development and encouraging a responsible attitude towards studies. Under the program, students in grades five (5) through 11 are awarded grants from the Company. In 2014, the Company awarded 56 grants to students under this program.

The "Grants" program for teachers is intended to raise the prestige of the teaching profession and create favorable conditions for developing new and talented teachers. In 2014, four (4) teachers from the Purovsky District received grants under this program.

In an effort to create conditions for more effective use of university and college resources in preparing students for future professional activities, the Company has developed and successfully implemented the NOVATEK-VUZ program. The program is an action plan for focused, high-quality training for specialists with higher education in key areas of expertise in order to grow the Company's business and meet its needs for young specialists. The program is based at the National Mineral Resources University (University of Mines), Gubkin Russian State University of Oil and Gas in Moscow and the Tyumen Oil and Gas University.

Students, who have passed their exams with good and excellent results, receive additional monthly payments. During their studies, the students are offered paid field, engineering and directed internships. This experience allows them to apply the knowledge obtained at lectures and seminars to real-life situations and gain experience in the professions they have chosen, while the Company receives an opportunity to meet potential employees.

SUPPORT OF CULTURAL TRADITIONS

The strengthening of partnership relations between the Company and Russia's leading cultural and educational institutions, creative groups and charity funds continued in 2014, namely the Russian State Museum (St.Petersburg), the Moscow Kremlin Museum, the Multimedia Art Museum (Moscow House of Photography), the Moscow Museum of Modern Art, the State Hermitage Museum (St.Petersburg).

In 2014, NOVATEK continued its partnership with the Imperial Gardens of Russia, an annual international festival organized by the Russian State Museum, as well with "Manifesto 10" European biennial of contemporary art held in St. Petersburg. Supported by NOVATEK, the Multimedia Art Museum hosted such exhibitions as "Arkady Shaikhet. Photographs 1932-1941", "Arctic" (as part of "Days of the Arctic in Moscow" festival), "New Orleans in Photography", and "Vsevolod Tarasevich. Episode 2. Lenin-grad". The Company's support enabled the Moscow Museum of Modern Art to hold the "Detective" exhibition with works by contemporary Russian artists created through the prism of the popular literary genre. In 2014, NOVATEK became a partner of a major cultural event, the "MONUMENTA" modern art exhibition. Grand Palais (Paris, France), one of Europe's leading cultural and exhibition centers, hosted the exhibition that featured the works of internationally celebrated Russian-born conceptual artists Ilya and Emilia Kabakov.

Another landmark cultural event of 2014 was the “2.0” exhibition co-organized by NOVATEK, the Multimedia Art Museum and the Moscow Museum of Modern Art and dedicated to NOVATEK’s 20th anniversary. The exhibition featured works by contemporary artists and photographers that looked into the evolution of Russian art in the 1990s and 2000s. The exhibition toured all of the regions where the Company operates, namely Novy Urengoy, Kostroma, Tyumen, Chelyabinsk, and Samara.

In 2014, NOVATEK supported the “Week of American dance” project of the Moscow Music Theatre of Stanislavsky and Nemirovich-Danchenko. During five evenings dancing groups from the United States headed by Azure Barton and Shen Wei gave performances for Russian audience.

NOVATEK also continued as a General Partner of the Moscow Soloists Chamber Ensemble led by Yuri Bashmet. NOVATEK supported a European tour of the Russian Youth Symphony Orchestra during which they visited Geneva, Brussels, and Paris. To celebrate its 20th anniversary the Company organized concerts by the Moscow Soloists Chamber Ensemble in Moscow, Kostroma, Chelyabinsk, and Novy Urengoy.

SPORTS PROJECTS

NOVATEK continued its support for popular and high-level sports programs. The Company, its subsidiaries and joint ventures organize regular tournaments in the most popular sports, including soccer, volleyball, swimming to name a few. The Company is the General Partner of the NOVA Volleyball Team (Novokuybyshevsk). In 2014, NOVATEK also was a General Partner of the Russian national football team. In 2014, the Company supported the Russian Federation of acrobatic rock’n’roll and Student Basketball Association.

CHARITY

The Company continued its cooperation with Chulpan Khamatova’s Gift of Life charitable foundation in 2014. Jointly with the foundation, NOVATEK held two sessions at its Moscow headquarters during which the Company employees donated blood for the children treated in the Russian Children’s Clinical Hospital.

The All Together volunteer movement founded in 2008 carried on with its activities. The movement focuses on supporting orphans, children with various diseases, and the elderly as well as promoting blood donation.

MANAGEMENT AND CORPORATE GOVERNANCE

Corporate Governance

NOVATEK strives to commit to the highest standards of corporate governance. We believe that such standards are an essential prerequisite to business integrity and performance and provide a framework for socially responsible management of the Company's operations.

The Company has established an effective and transparent system of corporate governance complying with both Russian and international standards. NOVATEK's supreme governing body is the General Meeting of Shareholders. The corporate governance system also includes the Board of Directors, the Board Committees, and the Management Board, as well as the system of internal control and audit bodies. The activity of all these bodies is governed by the applicable laws of the Russian Federation, NOVATEK's Charter and internal documents available on our website (www.novatek.ru).

NOVATEK strives to consider the principles of corporate governance outlined in the Corporate Governance Code recommended by the Central Bank of Russia (Information Letter № 06-52/2463 dated 10 April 2014). The Company follows the recommendations of the Code, as well as offering to our shareholders and investors other solutions that are intended to protect their rights and legitimate interests.

Since the Company's shares are listed on the London Stock Exchange in the form of depositary receipts, NOVATEK places great emphasis on the UK Financial Reporting Council's Combined Code on Corporate Governance and follows its recommendations as far as practicable.

The Company adheres to the internal Corporate Governance Code approved by the Board of Directors in 2005 (Minutes No. 60 of 15 December 2005). This Code has been elaborated on in accordance with best Russian and international practices in corporate governance, ethical norms and specific conditions of the Company's operations and in accordance with Russian legislation and the Company's Charter.

The Company also adheres to the internal Code of Business Ethics approved by the Board of Directors in 2011 (Minutes No. 133 of 24 March 2011). The Code establishes general norms and principles governing the conduct of members of the Board of Directors, Management Board and Revision Commission, as well as NOVATEK's management and employees, which were elaborated on the basis of moral and ethical values and professional standards. The Code also determines the rules which govern mutual relationships inside the Company and NOVATEK's relationships with its subsidiaries and joint ventures, shareholders,

investors, the government and public, consumers, suppliers, and other stakeholders.

In order to increase the effectiveness of the Company's corporate governance system and bring it into compliance with the new requirements of the Russian legislation, the new listing rules of Moscow Stock Exchange and the Corporate Governance Code following changes were made in the reporting year:

- the General Meeting of Shareholders held on 18 April 2014 approved amendments to the Charter, the Regulations on the General Meeting of Shareholders and the Board of Directors;
- the Board of Directors held on 18 April 2014 elected the members of the Audit Committee, the Remuneration and Nomination Committee and the Strategy Committee (previously the committees included the Audit Committee, the Strategy and Investment Committee, the Corporate Governance and Remuneration Committee), and inaugurated a Corporate Secretary position;
- the Board of Directors held on 28 April 2014 approved the Regulations on the Board of Directors' Committees, the Regulations on the Corporate Secretary, and the Regulations on Dividend Policy;
- the Board of Directors held on 1 September 2014 approved the Regulations on the Risk Management System and Internal Control, and the Anti-corruption Policy.

NOVATEK's corporate governance practices make it possible for its executive bodies to effectively manage ongoing operations in a reasonable and good faith manner and solely to the benefit of the Company and its shareholders.

General Meeting of Shareholders

The General Meeting of Shareholders is NOVATEK's supreme governing body. The activity of the General Meeting of Shareholders is governed by the laws of the Russian Federation, the Company's Charter, and the Regulations on the General Meetings approved by NOVATEK's General Meeting of Shareholders in 2005 (Minutes No. 95 of 28 March 2005) with further alterations and amendments.

The General Meeting of Shareholders is responsible for the approval of annual reports, annual financial statements, the distribution of profit, including dividends payout, the election of Board of Directors and Revision Commission, approval of the Company's Auditor and other corporate and business matters.

On 18 April 2014, the Annual General Meeting of Shareholders approved the annual report, annual financial statements (in ac-

cordance with the Russian Accounting Standards), distribution of profit and the size of dividends based on the results of FY2013, amendments to the Charter, to the Regulations on the General Meeting of Shareholders and the Regulations on the Board of Directors. The meeting also elected the Board of Directors and the Revision Commission, as well as approved remuneration to members of the Board of Directors, Revision Commission and the Company's external auditor for 2014.

On 14 October 2014, the Extraordinary General Meeting of Shareholders approved the amount of interim dividend for the first half of 2014.

Board of Directors

The Board of Directors (the Board) activity is governed by the laws of the Russian Federation, the Company's Charter and the Regulations on the Board of Directors approved by NOVATEK's General Meeting of Shareholders in 2005 (Minutes No. 96 of 17 June 2005) with further alterations and amendments.

The Board carries out the overall strategic management of the Company's activity on behalf of and in the interests of all its shareholders, and ensures the Company's efficient performance in order to increase its shareholder value.

The Board determines the Company's strategy and priority lines of business, endorses long-term and annual business plans, reviews financial performance, internal control, risk management and other matters within its competence, including optimization of corporate and capital structure, approval of major transactions, making decisions on investment projects and recommendations on the size of dividend per share and its payment procedure, and convening General Meeting of Shareholders. The members of the Board are elected by the General Meeting of Shareholders.

The current members of the Board were elected at the Annual General Meeting of Shareholders on 18 April 2014. The Board of Directors is comprised of nine (9) members, of which eight (8) are non-executive directors. Three (3) directors are considered to be independent as at the election date in accordance with the Corporate Governance Code recommended by the Central Bank of Russia and the UK Financial Reporting Council's Combined Code on Corporate Governance. The Board Chairman is Alexander E. Natalenko. The Chairman is responsible for leading the Board and ensuring its effectiveness.

The members of NOVATEK's Board have a wide range of expertise as well as significant experience in strategic, financial, commercial and oil and gas activities. The Board members hold regular meetings with NOVATEK's senior management to enable them to acquire a detailed understanding of NOVATEK's business activities and strategy and the key risks. In addition to these formal processes, Directors have access to the Company's medium-level managers for both formal and informal discussions to ensure regular exchange of information they need to

participate in the Board meetings and make balanced decisions in a timely manner.

In order to support efficient operation of the Board of Directors the Corporate Secretary position was inaugurated in the reporting year. The Secretary has sufficient independence (appointed and dismissed by the Board of Directors) and endowed with the necessary powers and resources to carry out its tasks in accordance with the Regulations on the Corporate Secretary. The Corporate Secretary appointed by the Board of Directors in 2014 has the knowledge, expertise and skills sufficient to perform assigned duties.

THE BOARD OF DIRECTORS MEMBERSHIP AS OF 31 DECEMBER 2014:

- Alexander E. Natalenko – Chairman of the Board
- Andrei I. Akimov
- Burckhard Bergmann
- Yves-Louis Darricarrère
- Vladimir A. Dmitriev
- Leonid V. Mikhelson
- Victor P. Orlov
- Gennady N. Timchenko
- Andrei V. Sharonov

On 18 April 2014 the following changes took place in the Board of Directors membership: Mark A. Gyetvay and Kirill G. Seleznev ceased their Board membership, and independent directors Victor P. Orlov and Andrei V. Sharonov joined the Board.

BOARD ACTIVITIES DURING THE 2014 CORPORATE YEAR¹

To ensure the Company's efficient performance, the Board meetings shall be convened on a regular basis at least once every two months. In corporate year 2014, the Board met eight (8) times, of which four (4) meetings were held in absentia. The following key issues were discussed and respective decision made:

- reviewed and approved the Company's 2014 full year operating and financial results;
- recommended an interim dividend for first half 2014, based on interim financial results for the period, and a full year dividend for 2014, based on full year financial results;
- reviewed and approved NOVATEK's business plan for 2015;
- approved the following internal documents:
 - the Regulations on the Audit Committee of the Board of Directors;
 - the Regulations on the Remuneration and Nomination Committee of the Board of Directors;
 - the Regulations on the Strategy Committee of the Board of Directors;
 - the Regulations on Dividend Policy;
 - the Regulations on the Corporate Secretary;
 - the Regulations on Risk Management and Internal Control System;
 - the Anti-corruption Policy.

¹ From the date of election on 18 April 2014 until the Annual General Meeting of Shareholders on 24 April 2015.

Board and Committee Meetings Attendance in the 2014 Corporate Year

Member	Independence	Board of Directors	Audit Committee	Remuneration and Nomination Committee	Strategy Committee
Alexander E. Natalenko		8/8			4/4
Andrei I. Akimov		8/8			4/4
Burckhard Bergmann	independent *	8/8	5/5	4/4	4/4
Yves-Louis Darricarrère		8/8			3/4
Vladimir A. Dmitriev		7/8			4/4
Leonid V. Mikhelson	executive	8/8			
Victor P. Orlov	independent *	8/8	5/5	4/4	4/4
Andrei V. Sharonov	independent *	8/8	5/5	4/4	
Gennady N. Timchenko		8/8			3/4

* Independent Director as at the election date in accordance with the Corporate Governance Code recommended by the Central Bank of Russia and the UK Financial Reporting Council's Combined Code on Corporate Governance.

Board Committees

The Company has three Board Committees: the Audit Committee, the Strategy Committee and the Remuneration and Nomination Committee. The Committees' activities are governed by the Committees Regulations approved by the Board of Directors and available on our website.

The Committees play a vital role in ensuring that the high standards for corporate governance are maintained throughout the Company and that specific decisions are analyzed and the necessary recommendations are issued prior to general Board discussions. The minutes of the Committees meetings are circulated to the Board members and are accompanied by any necessary materials and explanatory notes.

In order to carry out their duties, the Committees may request information or documents from members of the Company's executive bodies or heads of the Company's relevant departments.

For the purpose of considering any issues being within their competence, the Committees may engage experts and advisers having necessary professional knowledge and skills.

STRATEGY COMMITTEE

The primary functions of the Strategy Committee are the determination of strategic objectives of the operations and control over the implementation of the strategy, as well as recommendations on the dividend policy.

In carrying out its responsibilities and assisting the members of the Board in discharging their duties, the Strategy Committee is responsible for but not limited to:

- evaluating the effectiveness of the Company's operations in the long-term;
- preliminarily reviewing and making recommendations on the Company's participation in other organizations;

Committees membership as of 31 December 2014:

	Audit Committee	Strategy Committee	Remuneration and Nomination Committee
Chairman	Andrei V. Sharonov	Alexander E. Natalenko	Victor P. Orlov
Deputy Chairman	Victor P. Orlov	Victor P. Orlov	Andrei V. Sharonov
Members	Burckhard Bergmann	Andrei I. Akimov Burckhard Bergmann Yves-Louis Darricarrère Vladimir A. Dmitriev Gennady N. Timchenko	Burckhard Bergmann

- assessing voluntary and mandatory offers to acquire the Company's securities;
- considering the financial model and business valuation of the Company and its business segments in order to make recommendations to the Board of Directors in making decisions on the definition of business priorities of the Company;
- providing recommendations to the Board of Directors on transactions subject to approval by the Board of Directors; and
- providing recommendations to the Board of Directors with respect to the Company's policy on the use of its non-core assets.

In corporate year 2014, the Strategy Committee met four times.

REMUNERATION AND NOMINATION COMMITTEE

The primary functions of the Remuneration and Nomination Committee is development of an efficient and transparent compensation practice of members of the Company's management, enhancement of the professional expertise and improvement of the Board of Directors' effectiveness.

In order to assist the Board, the Committee performs the following functions:

- develop and regularly review the Company's policy on remuneration of the members of the Board of Directors, members of the collective executive body and the sole executive body of the Company, oversee its implementation and realization;
- preliminarily assess the work of the executive body of the Company for the year in accordance with the Company's remuneration policy;
- assess the Board of Directors in terms of professional expertise, experience, independence and involvement of its members in the work of the Board of Directors, determine the priority areas for strengthening the Board of Directors;
- interact with shareholders in order to form the Board of Directors that best meets the goals and objectives of the Company; and
- plan appointments of members of the executive body and the sole executive body on the base of continuity principles.

In corporate year 2014, the Remuneration and Nomination Committee met four times.

AUDIT COMMITTEE

The primary function of the Audit Committee is control over financial and operating activities of the Company. In order to assist the Board in performing control functions the Committee is responsible for but not limited to evaluating accuracy and completeness of the Company's full year financial statements, the candidature of the Company's external auditor and the auditor's report, the efficiency of the Company's internal control procedures and risk management system.

The Audit Committee works actively with the Company's executive bodies, inviting NOVATEK's managers responsible

for the preparation of the financial statements to attend the Committee meetings.

In corporate year 2014, the Audit Committee met five times.

Management Board

NOVATEK's Management Board is a collegial executive body responsible for the day-to-day management of the Company's operations. The Management Board is governed by the laws of the Russian Federation, NOVATEK's Charter, decisions of the General Meetings of Shareholders and the Board of Directors and by other internal documents. More information regarding the Management Board's competence is provided in the Regulations on the Management Board approved by NOVATEK's General Meeting of Shareholders in 2005 (Minutes No. 95 of 28 March 2005).

Members of the Management Board are elected by the Board of Directors from among the Company's key employees. The Management Board is subordinated to the Board of Directors and the General Meeting of Shareholders. Chairman of the Management Board is responsible for leading the Board and ensuring its effectiveness as well as organizing the Management Board meetings and implementing decisions of the General Meeting of Shareholders and the Board of Directors. The Management Board acting as of 31 December 2014 is comprised of eight members elected by the Board of Directors on 30 August 2012 (Minutes No. 150 of 30 August 2012).

MANAGEMENT BOARD MEMBERS AS OF 31 DECEMBER 2014:

- Leonid V. Mikhelson – Chairman
- Vladimir A. Baskov – Deputy Chairman
- Mark A. Gyetvay – Deputy Chairman
- Tatyana S. Kuznetsova – Deputy Chairman – Director of Legal Department
- Iosif L. Levinzon – Deputy Chairman
- Mikhail V. Popov – First Deputy Chairman – Commercial Director
- Alexander M. Fridman – Deputy Chairman
- Kirill N. Yanovskiy – Director for Finance and Strategy

Remuneration to Members of the Board of Directors and Management Board

The procedure for and criteria of calculating remuneration to members of NOVATEK's Board of Directors, as well as the compensation of their expenses, are prescribed in the Company's Charter and Regulations on NOVATEK's Board of Directors.

The procedure for and criteria of calculating remuneration to the Chairman and members of NOVATEK's Management Board, as well as the compensation of their expenses, are prescribed in the Regulations for the Management Board and the employment contracts they sign with the Company.

Information on Remuneration of Members of NOVATEK's Board of Directors and Management Board in 2014, RR mln

	Board of Directors ¹	Management Board
Total paid, including:	106.0	1,662.9
Salaries	—	504.1
Bonuses	—	1,135.7
Fees	106.0	—
Other property advancements	—	23.1

Internal Control and Audit

The Company has a system of internal control over financial and business operations in accordance with international best practices. The process of internal control is an integral part of the risk management process.

The system of internal control consists of the Board of Directors, the Audit Committee, the Chairman of the Management Board, the Management Board, the Revision Commission and the Internal Audit Division.

The objects of internal control are OAO "NOVATEK", its subsidiaries and joint ventures, and their subdivisions, as well as their ongoing business processes.

In accordance with the Corporate Governance Code recommended by the Central Bank of the Russian Federation (Information Letter № 06-52/2463 dated 10 April 2014) at the meeting held on 1 September 2014 the Board of Directors approved the Anti-corruption Policy and the Regulations on the Risk Management System and Internal Control establishing goals, objectives, limitations and internal control principles (Minutes No. 170 of 01 September 2014). As part of the Anti-corruption Policy the Company established a "Hot Security Line". The measures taken are aimed at fighting corruption, reducing the regulatory, operational and reputational risks for the Company.

REVISION COMMISSION

Revision Commission consisting of four members is elected at the Annual General Meeting of Shareholders for a period of one year. The competence of the Revision Commission is governed by the Russian Federation Law On Joint Stock Companies No. 208-FZ dated 26 December 1995 as well as the Company's Charter and the Regulations on the Revision Commission approved by the General Meeting of Shareholders in 2005 (Minutes No. 95 of 25 March 2005).

The Revision Commission is an internal control body responsible for oversight of the Company's financial and business activities.

The Revision Commission audits the Company's financial and business performance for the year, as well as for any other period as may be decided by its members or other persons authorized in accordance with Russian Federation law and the Company's Charter. The results are presented in the form of findings by the Revision Commission.

In March 2015, the Revision Commission completed the on-site audit revision of financial and business activity of the Company for the year 2014. As a result, the conclusions about the reliability of the data contained in the Company's 2014 Financial Statements and Annual Report were prepared and submitted to the Annual General Meeting of Shareholders.

INTERNAL AUDIT DIVISION

In order to conduct a systematic, independent evaluation of the reliability and effectiveness of the risk management and internal control system as well as corporate governance practices the Company carries out internal audit. The internal audit function is implemented by the independent Internal Audit Division, which has operated continuously since 2005.

The Internal Audit Division is functionally subordinate to the Board of Directors and is guided by International professional internal audit standards of Institute of Internal Auditors.

The Division carries out its activities on the basis of a strategic plan of inspections approved by the Audit Committee and uses a combination of risk-based and cyclic approaches. According to the results of inspections it develops measures to eliminate identified risks and optimize financial and business activities.

To improve the efficiency and optimize the costs the Internal Audit Division employees serve on the revision commissions of subsidiaries and joint ventures.

In March 2015, the Audit Committee considered the report on the activities of the Internal Audit Division in 2014. The members of the Audit Committee unanimously resolved that the results of the Internal Audit Division activities were positive.

¹ Some members of NOVATEK's Board of Directors are simultaneously members of the Management Board. Payments to such members in relation to their activities as members of the Management Board are included in the total payments to members of the Management Board.

EXTERNAL AUDITOR

The Annual General Meeting of Shareholders appoints an external auditor to conduct independent review of NOVATEK's financial statements. The Audit Committee gives recommendations to the Company's Board of Directors regarding the candidatures of external auditors and the price of their services. Based on the Committee's recommendations, the Board proposes the auditor's candidature for the consideration and for approval by the Annual General Meeting of Shareholders.

ZAO PricewaterhouseCoopers Audit was approved as the Company's external auditor to conduct independent audit of the Company's financial statements for 2014.

In selecting the auditor's candidature, attention is paid to level of their professional qualifications, independence, possible risk of any conflict of interest, terms of the contract, and an amount of remuneration requested by the candidates. The Audit Committee oversees the external auditor's independence and objectivity as well as the quality of the audit conducted. The Committee annually provides to the Board of Directors the results of review and evaluation of the audit opinion regarding the Company's financial statements. The Audit Committee meets with the auditor's representatives at least once per year.

NOVATEK's management is aware of and accepts recommendations on independence of the external auditor by restricting such auditor's involvement in providing non-audit services. Remuneration paid to the principle auditors for auditing and other services is specified in the Note 23 to the consolidated financial statements prepared in accordance with IFRS standards for 2014.

Share Capital

Our share capital is RR 303,630,600 and consists of 3,036,306,000 ordinary shares, each with a nominal value of RR 0.1. As of 31 December 2014, NOVATEK did not have privileged shares.

Our shares are traded in US dollars and Russian roubles on the Moscow Stock Exchange and have an A1 listing (symbol: NVTK).

The Federal Financial Market Service issued to NOVATEK a permit for circulation of shares beyond the Russian Federation of 910,589,000 ordinary shares comprising 29.99% of the Company's share capital.

Our Global Depositary Receipts (GDR) are listed on the London Stock Exchange (symbol: NVTK), with each GDR representing

Equity stakes in NOVATEK's share capital and the number of shares owned by members of the Board of Directors and Management Board¹

	Equity stake as of 31 December 2014, %	Number of shares
Board of Directors		
Alexander E. Natalenko	—	—
Andrei I. Akimov	—	—
Burckhard Bergmann	0.0007	20,000*
Yves-Louis Darricarrère	—	—
Vladimir A. Dmitriev	—	—
Leonid V. Mikhelson	0.7152	21,717,112
Victor P. Orlov	—	—
Gennady N. Timchenko	—	—
Andrei V. Sharonov	—	—
Management Board		
Vladimir A. Baskov	0.0288	874,408
Tatyana S. Kuznetsova	0.1944	5,903,035
Iosif L. Levinzon	—	—
Mark A. Gyetvay	—	—
Mikhail V. Popov	0.1440	4,372,038
Alexander M. Fridman	0.0817	2,481,049
Kirill N. Yanovskiy	0.1051	3,192,530

* In the form of GDRs.

¹ The equity stakes are given based on the records in the register of NOVATEK's shareholders in accordance with the Russian Federation laws.

10 ordinary shares. As of 31 December 2014, NOVATEK's GDRs were issued on 906,637,970 ordinary shares comprising 29.86% of the Company's share capital.

In 2014 the Member of the Board of Directors and the Chairman of the Management Board of OAO "NOVATEK", L.V. Mikhelson made the following transactions on purchases of NOVATEK's shares:

Transaction date	Number of acquired shares
11.03.2014	199,850
17.03.2014	272,400
29.04.2014	362,110

Dividends

In order to improve the transparency of the dividend policy, in 2014, the Board of Directors approved the Regulations on Dividend Policy of OAO "NOVATEK" (Minutes No 168 of 28.04.2014). The main change compared with the previous dividend policy is application of consolidated net income under IFRS (instead of unconsolidated net income under RAS) for calculation of the dividend size.

NOVATEK's dividend policy is based on keeping the balance between the Company's business goals and shareholder's interests. A decision to pay dividends as well as the size, payout time and form of the dividend is passed by the Annual General Meeting of Shareholders according to the recommendation of the Board of Directors. Dividends are paid twice a year. In determining the recommended amount of dividend payments to be distributed the Board of Directors consider the current competitive and financial position of the Company, as well as its development prospects, including operating cash flow and capital expenditure forecasts, financing requirements, debt servicing and other such factors as it may deem relevant to maintaining financial stability and flexible capital structure of the Company. NOVATEK is strongly committed to its dividend policy.

On 12 March 2015, the Board of Directors of OAO NOVATEK recommended to the Annual General Meeting of Shareholders to pay dividends for FY 2014 in the amount of RR 5.2 per ordinary share or RR 52 per one Global Depositary Receipt (GDR), exclusive of RR 5.1 of interim dividends per ordinary share or RR 51 per one GDR for the first six months of 2014.

Thus, should the General Meeting of Shareholders approve the above recommended dividend, the dividends for 2014 will total RR 10.3 per ordinary share (RR 103 per one GDR), and the total amount of dividends payable for 2014 will be RR 31,273,951,800. This will represent a 30.5% increase in dividend per share compared to 2013.

Information Transparency

NOVATEK is committed to providing objective, reliable, and consistent information about the Company and its activities to all stakeholders and also complies with best practices for information disclosure while adhering to a maximum level of transparency. The Regulations on Information Policy approved by the Board of Directors (Minutes No. 45 of 10 May 2005), define main principles for disclosing information and increasing information transparency.

Material information about the Company is disclosed in a timely manner in the form of press releases and material facts through authorized disclosure in accordance with the applicable laws of Russian Federation and United Kingdom. The Company discloses quarterly financial statements in accordance with the Russian ("RAS") and International Financial Reporting Standards ("IFRS"), Management's Discussion and Analysis of Financial Condition and Results of Operations as well as presentations for investors.

In addition to press releases and material facts, the Company's website provides detailed information on all aspects of its activities, including our Sustainability Report. We regularly participate in information disclosure on greenhouse gas emissions and energy efficiency of production – the Carbon Disclosure Project (CDP), and on the use of water resources – the CDP Water Disclosure Project, as well as other industry's publications and studies.

Accrued and paid dividends on NOVATEK shares for the period 2009 to 2014

Dividend Accrual Period	Amount of dividends, RR per share	Total amount of dividends accrued, RR	Total amount of dividends paid, RR
2009	2.75	8,349,841,500	8,349,681,894
2010	4.00	12,145,224,000	12,144,967,156
2011	6.00	18,217,836,000	18,217,663,073
2012	6.86	20,829,059,160	20,829,052,028
2013	7.89	23,956,454,340	23,956,348,044
First half 2014	5.10	15,485,160,600	15,485,113,250

The amount of paid dividends accrued for the years 2009 to 2013, and for the first six months 2014 is reported as of 31 December 2014. Partial payment of the accrued dividends was made due to provision by shareholders (nominee holders) of incorrect postal and/or banking details and insufficient information regarding banking or postal details of shareholders.

The Company maintains an ongoing dialogue with shareholders and investors in order to ensure full awareness of investment community about its activities. The main channels of communication with the investment community are through the Chairman of the Management Board, Deputy Chairman and the Investor Relations department. The Company's representatives meet on a regular base with key financial audiences to discuss issues of interest to them.

In accordance with principles of its unified information policy, NOVATEK conducts an active, ongoing dialog with representa-

tives of media outlets. The information disclosed to mass media comprises all aspects of the Company's activities, including financial and operating results and projects under development, as well as socially or environmentally important aspects.

NOVATEK actively involves in a variety of outside Exhibitions and Conferences. During 2014, representatives of the Company participated in more than 20 exhibitions, conferences and round tables. One of the most important events of the past year was NOVATEK's participation in the 21st World Petroleum Congress and the WPC Exhibition 2014 held in Moscow.

ADDITIONAL INFORMATION

Major Risk Factors

The Company's activities are subject to risks inherent only to the Company or associated with the Company's core business-

es. The risks described herein are not exhaustive and reflect an opinion about the most material risks based on the estimates of the Company's management.

Risk	Risk description	Risk management approaches used by the Company
OPERATIONAL RISKS		
Risks of emergencies and incidents	The Company's subsidiaries and joint ventures are subject to the risks of emergencies and incidents at hazardous production facilities that may entail business interruption, hazardous emissions or spills, which in turn may have a negative effect on the Company's business reputation and financial performance.	The Company performs continuous monitoring of industrial safety compliance, develops and implements organizational and technical measures aimed at mitigating the risks of emergencies and incidents and reducing potential losses as part of its existing integrated industrial safety management system that is certified under the OHSAS 18001:2007 standard. The Company holds property and business interruption insurance policies. The Company adheres to the principle of responsible investments which implies that new design solutions, technologies and equipment installed help significantly mitigate accident risks.
Monopoly risks	The Company depends on monopoly suppliers of transport services (such as Gazprom, RZD, or Transneft). The Company has no influence on the capacity of transport facilities of the above monopolies and rates established by the Federal Tariff Service.	The Company enters into long-term agreements and in a timely manner arranges for interaction with monopolies regarding hydrocarbon transportation by pipeline and railway transport. To reduce its dependency, the Company implements investment projects that reduce the length of transportation of finished products, and concludes agreements enabling it to use alternative methods of product transportation (an agreement with SIBUR for the supply of light hydrocarbons to Tobolsk Petrochemical Complex).
Competitive risks	The Company operates in an environment of tough competition with Russian and international oil and gas companies in the following areas: ■ obtaining of subsoil licenses and acquisition of companies holding subsoil licenses ■ selling natural gas on the Russian market ■ selling liquid hydrocarbons in the Russian and global markets ■ acquisition of oil and gas equipment and services ■ employment of highly qualified specialists to work for the Company and its subsidiaries and joint ventures.	The Company monitors commercially available assets with regard to the objectives of its long-term development strategy, enabling the Company to make an objective assessment of its competitive positions and to take the maximum benefit of its competitive advantages that include extensive regional work experience and synergy with the existing producing, transport, processing and distribution infrastructure. When acquiring equipment and services, the Company holds public tenders allowing it to diversify the suppliers and to ensure the best conditions. The Company works continuously to structure its relations with key service providers. Given the volatility in international relations with certain countries that are providers of sophisticated oil & gas equipment, the Company pursues import replacement policies where it is appropriate. The Company pursues an active marketing policy and takes efforts to expand its customer base, and to enter into long-term agreements with buyers. To diversify its natural gas marketing portfolio, throughout the reporting period the Company was engaged in trading in the Natural Gas Section of the St. Petersburg International Mercantile Exchange. The Company implements an active HR policy and applies efficient mechanisms of attracting and retaining highly qualified employees.

Risk	Risk description	Risk management approaches used by the Company
Commodity price risks	As an independent natural gas producer, NOVATEK is not subject to state regulation of natural gas prices. Nevertheless, the Company's prices are strongly influenced by the prices established by the Federal Tariff Service (FTS). Moreover, the Company is exposed to the current pricing environment on the Russian and international liquid hydrocarbon markets as it has no power over the contracts' base prices. Reduction of prices for liquid hydrocarbons may have a negative effect on the Company's financial performance.	State regulation of gas prices significantly reduces the risk of price volatility on the Russian gas market, but does not exclude potential price reduction. In view of the vertically integrated production chain for liquid hydrocarbons and taxation peculiarities, the Company does not use commodity derivative financial instruments to reduce the risk of price changes for such type of products.
Geological risks	Exploration drilling is associated with multiple risks, including the risk of non-discovery of commercial reserves. Information on the Company's reserves depends on a number of factors and assumptions. Actual production volumes at the fields, along with the cost-effectiveness of reserve development may deviate from estimates.	To minimize geological risks, the Company relies on the geological modeling and engages major contractors that apply state-of-the-art exploration technologies and methods. The Company makes annual assessment and evaluation of its reserves based on the results of exploration and production drilling and other research information. An independent international adviser evaluates the Company's reserves according to international standards on annual basis.
Risk of early termination, suspension or restriction of the right to use subsurface mineral resources	Exploration and production of hydrocarbons in Russia is subject to licensing. The Company is thus exposed to the risk of early termination, suspension or restriction of its right to use subsurface mineral resources.	The Company strives to comply, and maintains a continuous monitoring of its compliance with the license agreements and the subsoil use laws, and submits timely requests for adjusting the terms of its license agreements.
Environmental risks	The Company is subject to the probability of events having adverse consequences for the environment and caused by a negative impact of its industrial and other activities, as well as natural and technology-related emergencies.	The Company and its key subsidiaries have an environmental management system according to ISO 14001:2004 standard to ensure rational use of resources and to minimize the adverse effect the Company's operation may have on the environment. The Company adheres to the principle of responsible investment in operations which implies that new design solutions, technologies and equipment installed help minimize environmental impact.
Ethical risks	The Company is exposed to the risks of disturbed relationships within the Company and with its subsidiaries and joint ventures, shareholders, investors, the government, the public, consumers or suppliers or other corporate entities or individuals, including the risk of fraud, corruption, and conflict of interest.	In 2011 in order to minimize ethical risks, the Company introduced a Code of Business Conduct and Ethics. To exclude ethical risks with respect to its shareholders and investors, the Company is governed by the provisions of the internal Code of Business Conduct and Ethics and Code of Corporate Conduct, as well as the applicable Russian and English law in terms of public company regulation. To exclude ethical risks in its relations with third parties, the Company carries out tender procedures to select counterparties and has a well established internal control and audit system. In 2014 the Board of Directors approved NOVATEK Anti-Corruption Policy that establishes key principles and standards of anti-corruption practices for employees and includes a set of corruption prevention measures.

Risk	Risk description	Risk management approaches used by the Company
Social risks	The Company is subject to the following risks of a social nature: ■ internal risks associated with a possible incompliance of social programs implemented by the Company with the industry's average level that may lead to a higher labor turnover; ■ internal risks associated with potential impediments in normal production activities caused by the public living in proximity to the production facilities	The Company strives to ensure compliance of its social programs with the industry's average level and uses the up-to-date mechanisms for attracting and retaining highly professional employees. The Company's production facilities are located outside densely populated territories, and the Company monitors compliance with the rules and regulations while operating its facilities. The risks related to possible military conflicts, announcement of a state of emergency, or strikes, are insignificant, as the Company operates in economically and socially stable regions.
Terrorism risks	The Company is subject to a risk of terrorist threat.	The Company takes measures required to ensure strict compliance with Federal Law No. 256-FZ of 21 July 2011 concerning the Fuel and Energy Complex Security. A complex of organizational and practical measures is constantly in place to ensure security of facilities, including linear ones.
Country risk	NOVATEK is a Russian company operating in a number of Russian regions. Country risk is defined by the fact that Russia is still an emerging economy, the economic environment of which is not sufficiently stable. In 2014, dropping oil prices and international sanctions caused volatility in foreign currencies, growing inflation rates, an increase in interest rates and an economic growth slowdown. The said factors may have a negative impact on the Company's operational and financial performance.	Export of liquid hydrocarbons, a balanced financial policy and an active marketing policy enable the Company to mitigate the potential effect of the country risk. Moreover, the Company's management continuously analyzes the macro-economic environment and makes prompt decisions to mitigate potential risks.
Regional risk	The Company produces and processes hydrocarbons within Western Siberia, a region with a challenging climate.	The Company's vulnerability to region-specific impacts is insignificant and is entirely taken into account by the Company's management when carrying out financial and production operations.
FINANCIAL RISKS		
Credit risk	The Company is exposed to a risk of losses related to a failure by counterparties to perform their contractual financial obligations when due, and in particular depends on the reliability of banks in which the Company deposits its available cash.	When selling natural gas on the domestic market, the Company continuously monitors the financial soundness of its consumers and takes actions in case there are overdue payments. Most of NOVATEK's international liquid sales are made to major customers with independent ratings. Almost all domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis. When selecting banks, the Company is governed by the bank's reliability confirmed by international ratings.
Reinvestment risk	The Company's business requires substantial investments into field exploration and development, followed by the production, transportation, and processing of natural gas, oil, gas condensate and petroleum products. Insufficient funding for these and other expenditures may affect the Company's financial standing and performance.	The Company's capital investment plans are defined in its long-term development strategy, are revised on an annual basis and are generally in line with the Company's ability to generate cash flow from operations taking into account the need to pay dividend and service its debt.

Risk	Risk description	Risk management approaches used by the Company
Interest risks	As a major borrower, the Company is subject to risks associated with an increase in interest rates. Interest rates on some of the Company's loans may be linked to floating international and Russian base rates which dynamics is hard to predict. Growth of the interest rates may restrict the use of borrowed capital as a financing source for the Company's investment activity and may increase interest rate expenses.	The Company pursues a balanced debt policy and strives to maximize the share of long-term liabilities with fixed rates in its debt portfolio. The Company works to maintain the flexibility of its investment program and to fund its capital expenditures mainly with its own funds.
Currency risks	Part of the Company's liabilities is denominated in foreign currencies which may lead to losses in the event of ruble depreciation. On the other hand, part of the Company's proceeds is also denominated in foreign currencies which may lead to losses in the event of ruble appreciation.	The liabilities expressed in foreign currency on the one hand, and export proceeds on the other generally offset each other and serve as a natural mechanism to hedge currency risks.
Liquidity risk	Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.	The Company's approach to managing liquidity risk 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 Company's reputation. In managing its liquidity risk, NOVATEK maintains an adequate ratio between cash reserves and debt, monitors forecast and actual cash flows and matches the financial assets and liabilities maturity profiles. The Company uses various short-term borrowings. The Company may use credit facilities and bank overdrafts to satisfy its short-term finance needs. To satisfy its needs for cash on a more permanent basis, the Company will normally raise long-term loans in the available markets.
Inflation risk	Changes in the consumer price index have an impact on NOVATEK's profitability and, as a consequence, its financial standing. The significant ruble depreciation in 2014 caused a surge in inflation rates which are impossible to accurately predict.	NOVATEK may not be able to predict the inflation level, since, apart from the consumer price level, it is necessary to take into account the change in the real purchasing power of the Russian ruble, the pricing conditions in liquid hydrocarbon export markets, and government policy in relation to tariffs for natural gas. NOVATEK monitors the consumer price index and accordingly acts to mitigate its costs.
LEGAL RISKS		
Risk of law changes	The Company is subject to a risk of facing consequences of changes in Russian laws in the following areas: ■ currency laws (in areas concerning export/import and borrowing operations) ■ tax laws (in areas regulating taxation systems and rates applicable to companies in general, and to companies producing and marketing natural gas and liquid hydrocarbons, specifically) ■ customs laws (in areas concerning the export of liquid hydrocarbons, including petroleum products); and ■ licensing requirements for natural resource extraction.	The Company is constantly monitoring draft laws enabling it to evaluate the consequences of such changes and to take them into account in its plans.
Litigation risks	The Company may be involved as a defendant or plaintiff in a number of proceedings arising in the normal course of its business.	When conducting its business, the Company adheres to the principle of prudence. Due to this fact, as of the approval date of the Annual Report, the Company was not involved in any material litigation and the associated risks are insignificant.

Risk	Risk description	Risk management approaches used by the Company
Risk of sanctions	In 2014, the Company was included into the US sectoral sanctions list whereby the US persons are prohibited to participate in providing financing to the Company for more than 90 days. The sanctions imposed restrict the Company's ability to refinance its debt. Furthermore, there is a risk of tougher US sanctions and risk of including the Company into other countries' sanctions lists, which may undermine the Company performance.	The Company follows a balanced financial policy enabling it to minimize its fundraising needs. Moreover, the Company still has a full access to the Russian capital market and a limited access to the international market. In case the US sanctions are toughened and the Company is included in other countries' sanctions lists, the Company management will make every possible effort to minimize the negative impact on the Company's business operations and financial standing.

Risk Insurance

Risk insurance is an integral part of NOVATEK's risk management system. In 2014, the insurance coverage guaranteed adequate protection against the risks of damage to the business of the Company or its subsidiaries and joint ventures. Insurance is provided by reputable insurance companies that have high ratings by leading rating agencies (Expert RA, M. Best, Standard & Poor's) with the risks reinsured by major international insurance companies.

OBLIGATORY RISK INSURANCE

The Company and its subsidiaries and joint ventures fully meet the requirements of the applicable laws for maintaining obligatory insurance, such as civil liability insurance of:

- owners of hazardous production facilities;
- owners of transport vehicles.

OPTIONAL RISK INSURANCE

To reduce the risk of financial losses, the Company and its subsidiaries and affiliates maintain the following types of optional insurance:

- Insurance of the risk of property damage/loss, including the risk of mechanical failures;
- Insurance of the risk of damage from business interruption;
- Management liability insurance.

On 1 May 2014, the Company restructured and implemented a comprehensive program of property and business risk insurance with respect to its and its subsidiaries' and joint venture's key assets. The program makes it possible to reduce potential losses resulting from the materialization of technology-related risks at gas production, processing and marketing facilities, including possible losses from reduced volumes of hydrocarbon production and processing and, as a result, reduced sales proceeds. The cumulative insured amount for the risks of property damage and business interruption is RR 309 bln. Full cost recovery is in place. The program meets all current international standards for oil and

gas insurance, takes into account the technological characteristics of NOVATEK enterprises and the business processes of the Company. The implemented program is viewed by the Company's management as an additional measure for mitigating the consequences of potential accidents and provides additional guarantees for the attainment of the expected net profit and key indicators of the Company's performance.

During the comprehensive insurance program validity period, an incident occurred that was recognized as an insured event. The cost of restoring the property reached RR 106 mln and was reimbursed by the insurance company less the deductibles, within the contractual deadlines. The claims settlement process was completed in 2014 without any disputes arising.

For more than nine (9) years the Company has maintained a management liability insurance for the top management of the Company and its subsidiaries against possible third-party claims for any losses incurred through any wrong action (or decision) made by its management bodies. The overall limit of all insurance coverage is Euro 120 mln.

Information on Members of NOVATEK's Board of Directors

MR. ALEXANDER Y. NATALENKO

- Chairman of NOVATEK's Board of Directors and Chairman of its Strategy Committee

Born in 1946

Mr. Natalenko completed his studies at the Irkutsk State University in 1969 with a primary focus in Geological Engineering. Subsequently, he worked with the Yagodninskaya, Bagdarinskaya, Berelekhskaya, Anadirkaya and East-Chukotskaya geological expeditions. In 1986, Mr. Natalenko headed the North-East Industrial and Geological Association and, in 1992, he was elected president of AO "Magadan Gold & Silver Company". He subsequently held various executive positions in Russian and foreign geological organizations. From 1996 to

2001, Mr. Natalenko held the position of Deputy Minister of Natural Resources of the Russian Federation. He is a member of the Board of Directors of OAO Rosgeologia. From 2004 to present he is the Chairman of NOVATEK's Board of Directors.

Mr. Natalenko is the recipient of the State Prize of the Russian Federation and an Honored Geologist of Russia.

MR. ANDREI I. AKIMOV

- Member of NOVATEK's Board of Directors and Member of its Strategy Committee

Born in 1953

Mr. Akimov graduated from the Moscow Financial Institute in 1975 where he specialized in international economics. Between 1974 and 1987, Mr. Akimov held various executive positions in the Bank for Foreign Trade of the USSR. From 1985 to 1987 he served as Deputy Chief General Manager of the Bank for Foreign Trade branch in Zurich (Switzerland) and between 1987 and 1990, Mr. Akimov was the Chairman of the Management Board of Donau Bank in Vienna (Austria). From February 1991 to January 2003 he was Managing Director of financial company, IMAG Investment Management & Advisory Group AG (Austria). Since 2003, Mr. Akimov has been the Chairman of the Management Board of Gazprombank (OAO). He is a member of Board of Directors of OAO Gazprom, Gazprombank (OAO), OAO Rosneft, OAO Rosneftegaz, Gazprom Germania GmbH, OOO Gazprom gas motor fuel, GPB International S.A. and other.

DR. BURCKHARD BERGMANN

- Member of NOVATEK's Board of Directors, its Remuneration and Nomination Committee, its Audit Committee and its Strategy Committee

Born in 1943

Dr. Bergmann studied physics at the Freiburg and Aachen Universities from 1962 to 1968 and was awarded a Doctorate in Engineering by Aachen University of Technology in 1970. From 1968 to 1969, Dr. Bergmann worked at the German Federal Ministry for Research and Technology and from 1969 to 1972 – at the Jülich Nuclear Research Center. In 1972, Dr. Bergmann joined Ruhrgas AG (from 1 July 2004 – E.ON Ruhrgas AG), heading the LNG Purchasing Department. In 1978, he became Head of the Gas Purchasing Division responsible for gas purchasing, commercial aspects of gas transmission and storage. In 1980, he was elected as a member of the Management Board of E.ON Ruhrgas AG, serving from June 1996 as its Vice-Chairman and from June 2001 to February 2008 as its Chairman. From March 2003 to February 2008 he was also a member of the Management Board of E.ON AG.

Dr. Bergmann is also a member of the Board of Directors (Supervisory Board) of: Allianz Lebensversicherungs-AG, (till 2013), Commerzbank AG, (till 2013), Contilia GmbH, Telenor ASA. In addition, he is a member of the Advisory Boards for Dana Gas International, IVG Immobilien AG. He has been elected as Chairman of the Advisory Board of Jaeger Beteiligungsgesellschaft mbH & Co KG, Vice Chairman of the Advisory Board of Accumulatoren-

werke Hoppecke GmbH and is elected a member of the Board of Trustees of RAG AG.

Dr. Bergmann holds the following distinctions: Commander of the Royal Norwegian Order of Merit (1997); Honorary Consul of the Russian Federation in the State of North Rhine-Westphalia a Foreign Member of the Academy of Technological Sciences of the Russian Federation (2003); Order of Merit of the State of North Rhine-Westphalia (2004) as well as a winner of Director of the Year, Moscow (2007); Officer's Cross of the Order of Merit of the Federal Republic of Germany (2008). In June 2011, by means of presidential Decree he became a recipient of the Order of the Friendship of Peoples award for significant contribution in development of the Russian-German relations.

MR. YVES-LOUIS CHARLE JUSTIN DARRICARRÈRE

- Member of NOVATEK's Board of Directors and its Strategy Committee

Born in 1951

After lecturing at the Ecole des Mines de Paris for 3 years, Yves-Louis Darricarrère began his career in Elf Aquitaine in 1978, first in the Mining Division in Australia and later in the Exploration & Production Branch, where he was appointed successively Country Representative for Australia and Egypt at head office; Managing Director of the subsidiaries in Egypt and then in Colombia; Director Business development and new ventures, then Finance Director of the Exploration & Production Branch and of the Oil and Gas directorate. In 1998, he was appointed Deputy Director-General of Elf Exploration-Production responsible for Europe and the United States and was nominated a member of the Management Board of Elf-Aquitaine.

In 2000, he was appointed Senior Vice-President for Exploration & Production Northern Europe and became a member of the Total Group Management Board.

On 1st September 2003, Yves-Louis Darricarrère was nominated to the Group's Executive Committee and was appointed President of Total Gas & Power. On 14th February 2007, he became President of Total Exploration & Production. On 1st July 2012, he became President of Total Upstream regrouping Total Exploration & Production and Total Gas & Power.

Yves-Louis Darricarrère is a graduate of the Ecole Nationale Supérieure des Mines and the Institut d'Etudes Politiques in Paris and holds a master's degree in economic science. He is chevalier de la Légion d'Honneur (Knight of the French Legion of Honour).

MR. VLADIMIR A. DMITRIEV

- Member of NOVATEK's Board of Directors and Chairman of its Strategy Committee

Born in 1953

In 1975, graduated from the Moscow Finance Institute, specialty – "International Economic Relations". Doctor of Economics. Corresponding member, Russian Academy of Natural Sciences.

1975-1979 – State Committee of USSR Council of Ministers for Foreign Economic Relations, engineer. 1979-1986 – Attache, third secretary, USSR Foreign Ministry Department. 1986-1987 – Institute of World Economics and International Relations, USSR Academy of Sciences, research worker. 1987-1992 – USSR Embassy of USSR Ministry for Foreign Affairs, Second, First Secretary. 1992-1993 – Russian Embassy of Russian Ministry for Foreign Affairs, First Secretary. 1993-1997 – Deputy Chief Executive Officer, Russian Finance Ministry Department. 1997-2002 – Bank for Foreign Economic Affairs of the USSR, First Deputy Chairman. 2002-2004 – Bank for Foreign Trade of the USSR (OJSC), Deputy President – Chairman of the Board. 2004-2007 – Bank for Foreign Economic Affairs of the USSR, Chairman. From June 2007 – State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”, Chairman.

For outstanding contribution to the development of the financial and banking system of Russia, long-standing and dedicated work he was awarded the Order of Alexander Nevsky, the Order “For Merits and Dedicated Service to the Country”, IV Degree, the Order of Honor, the Order of Saint Sergiy Radonezhsky, II Degree, the Order of Blessed Prince Daniil Moskovsky, II Degree, the Medal of the Order “For the Merits and Dedicated Service to the Country”, the Order of the Banner of the Republic of Serbia with Golden Wreath, the Order of Merit of the Italian Republic, Grand Officer Grade, the Russian Association of Banks Decoration of Honor “For Merits and Dedicated Service to the Banking Community”, “Excellent Employee of Vnesheconombank” Badge, his name is recorded in Vnesheconombank’s Book of Honor, he was also officially thanked by the President and the Government of the Russian Federation.

MR. LEONID V. MIKHELSON

- Member of NOVATEK’s Board of Directors
- Chairman of NOVATEK’s Management Board

Born in 1955

Mr. Mikhelson received his primary degree from the Samara Institute of Civil Engineering in 1977, where he specialized in Industrial Civil Engineering. That same year, Mr. Mikhelson began his career as foreman of a construction and assembling company in Surgut, Tyumen region, where he worked on the construction of the first section of Urengoi-Chelyabinsk gas pipeline. In 1985, Mr. Mikhelson was appointed Chief Engineer of Ryazantruboprovodstroy. In 1987, he became General Director of Kuibishevtruboprovodstroy, which in 1991, was the first company in the region to sell its shares and became private company, AO SNP NOVA. Mr. Mikhelson remained SNP NOVA’s Managing Director from 1987 through 1994. Subsequently, he became a General Director of the management company “Novafininvest”.

Since 2003, Mr. Mikhelson has served as a member of the Board of Directors and Chairman of the Management Board of NOVATEK. From March 2008 to December 2010, he has been a member of the Board of Directors of OAO Stroytransgas. From 2009 to 2010 he was the Chairman of the Board of Directors of OAO Yamal LNG and from 2008 to 2011 he was a member of the Board of Directors of OOO Art Finance. From 2011 he is the Chairman of the Board of Directors of PJSC

SIBUR Holding and from 2011 to 2013 he was a member of the Supervisory Board of the OAO Russian Regional Development Bank. Mr. Mikhelson is the recipient of the Russian Federation’s Order of the Badge of Honor, the Order of Merit for the Fatherland 2 degree and the title of honor “Honored man of the gas industry”.

MR. VICTOR P. ORLOV

- Member of NOVATEK’s Board of Directors
- Chairman of NOVATEK’s Remuneration and Nomination Committee
- Member of NOVATEK’s Strategy Committee
- Member of NOVATEK’s Audit Committee

Born in 1940

In 1968, Mr. Orlov graduated from the Tomsk State University as a geological engineer with a degree in “Geological survey and exploration of mineral deposits”, and in 1986 from the Academy of National Economy under the USSR Council of Ministers, with a specialty in “Economics and Management of a National Economy”.

From 1957 to 1963, he worked at coal mine and served in the Soviet Army. From 1968 to 1975, he was head of a geological survey, prospecting and exploration works in the geological organizations of Western Siberia, held positions of the geologist, chief geologist, chief of geological exploration crew. 1975-1978 – Consultant on geological exploration works in Iran. 1979-1981 – Deputy Head of the Geological Division of the Production Geological Association of central areas of Russia (Tsentrgeologiya). 1981-1986 – Deputy Head of Geology and Production departments of the Ministry of Geology of the RSFSR. 1986-1990 – CEO of Tsentrgeologiya. 1990-1992 – Deputy Minister of Geology of the USSR, First Deputy Chairman of the RSFSR State Committee for Geology and Use of Energy and Mineral Resources. 1992-1996 – Chairman of the Russian Federation Committee on Geology and Mineral Resources. 1996-1999 – Minister of Natural Resources of the Russian Federation. 2001-2012 – Member of the Federation Council of the Federal Assembly of the Russian Federation. 2001-2004 – First Deputy Chairman of the Federation Council Committee on Natural Resources and Environmental Protection. 2004-2011 – Chairman of the Federation Council Committee on Natural Resources and Environmental Protection.

Professor, Doctor of Economics, Candidate of geological-mineralogical sciences, an Honored Geologist of Russia. Laureate of the State Prize of the Russian Federation in the field of science and technology. He was awarded the Order of Merit for the Fatherland 4 degree, 18 non-governmental awards, including 3 appreciation letters of the President of the Russian Federation, the Certificate of Merit of the Government of the Russian Federation.

MR. GENNADY N. TIMCHENKO

- Member of NOVATEK’s Board of Directors
- Chairman of NOVATEK’s Strategy Committee

Born in 1952

In 1976, Mr. Timchenko graduated with a Master's of Science from the Mechanical University in Leningrad. He began his career at the Izjorskii Factory in Leningrad, an industrial plant which made components for the energy industry. Between 1982 and 1988, he was a Senior Engineer at the Ministry of Foreign Trade. Mr. Timchenko has more than 20 years of experience in Russian and International energy sectors and he has built interests in trading, logistics and transportation related companies.

In 1988, Mr. Timchenko became a vice president of Kirishineft-ekhimexport, the export and trading arm of the Kirishi refinery in the Leningrad region. In 1991, he worked for Urals Finland which specialized in oil and petrochemical trading. Between 1994 and 2001, Mr. Timchenko was managing Director of IPP OY Finland and IPP AB Sweden. Between 1997 and 2014, he co-founded Gunvor, a leading independent oil-trading company. Mr. Timchenko was a member of the Board of Directors of OOO Transoil and OOO BalttransService, Airfix Aviation OY. Since 2009, he is a member of the Board of Directors of OAO NOVATEK. He is a member of the Board of Directors of PJSC SIBUR Holding, the Chairman of the Board of Directors, President of the Ice Hockey Club SKA St-Petersburg, as well as the Chairman of the Board of Directors of OOO Kontinental Hockey League, a member of the Board of Trustees of the All-Russian public organization Russian Geographical Society, the Chairman of the Russian Council of the NPO Russian Chinese Business Council, the Chairman of the Board to promote OCD, Vice- President of the Olympic Committee of the Russian Federation, the Chairman of the Economic Council of the Franco-Russian Chamber of Commerce (CCIFR).

MR. ANDREI V. SHARONOV

- Member of NOVATEK's Board of Directors
- Chairman of NOVATEK's Audit Committee
- Member of NOVATEK's Remuneration and Nomination Committee

Born in 1964

Mr. Sharonov graduated from the Ufa Aviation Institute and the Russian Academy of State Service at the President of the Russian Federation.

1989-1991 – Member of the USSR Parliament, until 1996 he headed the Committee for Matters Concerning Young Persons of the Russian Federation. From 1996 to 2007 – Head of Department, Deputy Minister, State Secretary in the Ministry of Economic Development and Trade of the Russian Federation. From 2007 to 2010 – Managing Director and Chairman of the Board of Directors of ZAO Investment Company Troika Dialog, head of the investment banking sector. From 2010 to 2013 – Deputy Mayor of Moscow for economic policy, was responsible for budgeting, procurement, industrial policy and business support, regulated market of trade and services. Served as a Chairman of the Regional Energy Commission. From September 2013 – President of the Moscow School of Management SKOLKOVO and Adviser to the Mayor of Moscow.

Member of ALROSA's Supervisory Board (OAO); Member of the Board of Directors of OAO Bank of Moscow; Member of the Board of Directors, Member of the Strategy Committee, Member

of Committee on Innovative Development and Technology Policy of OAO Sovkomflot; Chairman of the Board of Directors, an Independent Member of the Board of Directors of OOO Management Company NefteTransService; Chairman of the Board of Directors of OAO Management Company Eko-sistema.

Candidate of sociological sciences, an Honored Economist of the Russian Federation. He is the recipient of the "Aristos" Award in the "Independent Director" category in 2009, the National Award "Director of the Year – 2009" in the "Independent Director" category and the International Award "Person of the Year – 2012" in the "Business reputation" category. He was awarded the Order of Honor of the Russian Federation.

Information on Members of NOVATEK's Management Board

MR. LEONID V. MIKHELSON

- Chairman of NOVATEK's Management Board
- Member of NOVATEK's Board of Directors

Born in 1955

Details on Mr. Leonid V. Mikhelson are available in the "Information on Members of NOVATEK's Board of Directors" section.

MR. VLADIMIR A. BASKOV

- Deputy Chairman of NOVATEK's Management Board

Born in 1960

In 1986, Mr. Baskov graduated from the Moscow Higher Police School of the USSR. In 2000, he completed courses at the Management Academy at the Russian Ministry for Internal Affairs. From 1981 to 2003, he served in various departments within the Russian Ministry for Internal Affairs. From 1991 to 2003, Mr. Baskov held managerial positions within the aforementioned Ministry's organizational structures. In 2003 he was appointed Director of the Business Support Department for NOVATEK. In 2005 he was appointed Deputy Chairman of NOVATEK's Management Board and in August 2007 he became a member of NOVATEK's Management Board. Candidate of legal Sciences. He was awarded the Order For Personal Courage, the Russian Federation's Order of the Badge of Honor and other state and departmental awards: Honorary Diplomas of the President of the Russian Federation, the Ministry of Internal Affairs, the Governor of the Moscow Region. He also has the awards of the Russian Orthodox Church (Order of Holy Prince Daniel of Moscow and a medal of St. Sergius).

MR. MARK A. GYETVAY

- Deputy Chairman of NOVATEK's Management Board

Born in 1957

Mr. Gyetvay studied at Arizona State University (Bachelor of Science, Accounting, 1981) and later at Pace University, New York

(Graduate Studies in Strategic Management, 1995). After graduation, Mr. Gyetvay worked in various capacities at a number of independent oil and gas companies (Champlin Petroleum Co., Texas, Ensource Inc. and MAG Enterprises, Colorado, and Amerada Hess Corporation, New Jersey) where he specialized in financial and economic analysis for both upstream and downstream segments of the petroleum industry.

In 1994, Mr. Gyetvay began his work at Coopers and Lybrand, as Director, Strategic Energy Advisory Services. He subsequently moved to Moscow in 1995 with Coopers & Lybrand to lead the oil and gas practice. He was admitted as a partner of PricewaterhouseCoopers Global Energy where he assumed the role of client service engagement partner, Utilities and Mining practice, based in Russia (Moscow office). Mr. Gyetvay was an engagement partner on various energy and mining clients providing overall project management, financial and operational expertise, maintaining and supporting client service relationships as well as serving as concurring partner on transaction services to the petroleum sector.

Mr. Gyetvay is a Certified Public Accountant, a member of the American Institute of Certified Public Accountants and an associate member of the Society of Petroleum Engineers.

From 2003 to 2014, Mr. Gyetvay became a member of NOVATEK's Board of Directors. Since 2004-2008, he has been Chief Financial Officer and, in August 2007, Mr. Gyetvay was elected to NOVATEK's Management Board. Since July 2010, he became Deputy Chairman of NOVATEK's Management Board.

MS. TATYANA S. KUZNETSOVA

- Deputy Chairman of NOVATEK's Management Board
- Director of NOVATEK's Legal Department

Born in 1960

Ms. Kuznetsova graduated from the Far East State University with a degree in Law. From 1986, she was Senior Legal Advisor for a legal bureau. In 1993, Ms. Kuznetsova became Deputy General Director for Legal Issues and from 1996, Marketing Director for OAO Purneftegasegeologiya. In 1998, she was appointed Deputy General Director of OAO Nordpipes. Since 2002, she has been Director of the Legal Department for NOVATEK. Since 2005, she has been the Deputy Chairman of NOVATEK's Management Board – Director of NOVATEK's Legal Department and in August 2007, she became a member of NOVATEK's Management Board. Has the title "Honored employee of OAO NOVATEK", awarded the Order of Merit for the Fatherland 2 degree.

MR. IOSIF L. LEVINZON

- Deputy Chairman of NOVATEK's Management Board

Born in 1956

Mr. Levinzon graduated from the Tyumen Industrial Institute specializing in geology and is a Candidate of Geological and Mineralogical Science. He continued postgraduate studies in

Perm State Technical University. From 1978 to 1987, he was the Head of the Urengoy oil expedition and from 1987 to 1996 he was the General Director of Purneftegasegeologiya. From 1996 to 2005, Mr. Levinzon was the Deputy Governor, 1st Deputy Governor and Vice-Governor of the Yamal-Nenets Autonomous Region. From 2005 to 2006, Mr. Levinzon he has been an Advisor to the Chairman of the Federation Council of the Federal Assembly of the Russian Federation. From 2006 to 2009, Mr. Levinzon has been an Advisor on Corporate and Strategic Development at ZAO OSTER and also at ZAO Investgeoservis. Since August 2009, Mr. Levinzon has held the position of Deputy Chairman of NOVATEK's Management Board and in December 2009 he was elected a member of NOVATEK's Management Board. Mr. Levinzon is a recipient of the Honored Geologist of Russia, the Order of the Badge of Honor and the Order of the Friendship of Peoples awards and has been awarded the Certificate of Merit from the Governor of the Yamal-Nenets Autonomous Region.

MR. MIKHAIL V. POPOV

- First Deputy Chairman of NOVATEK's Management Board
- Commercial Director

Born in 1969

Mr. Popov studied at the Gubkin State Academy of Oil and Gas until 1992 and in 1994, graduated from the Kiev Institute of National Economy. In 1992, he held the position of Deputy Chairman of AO Bankomsvyaz's Managing Committee (Kiev). In 2002, he was appointed Director of the Capital Construction Department and Deputy General Director of OAO Novafininvest. From 2003, Mr. Popov served as Director of Crude Oil and Oil Products Department of OAO NOVATEK. In 2004, Mr. Popov was elected First Deputy Chairman of NOVATEK's Management Board. Since August 2007, he has been a member of the Management Board and since May 2011, he has been NOVATEK's First Deputy Chairman-Commercial Director.

MR. ALEXANDER M. FRIDMAN

- Deputy Chairman of NOVATEK's Management Board

Born in 1951

In 1973, Mr. Fridman graduated from the Gubkin Institute of Oil and Gas in Moscow, with a degree in Oil and Gas Fields Development and Exploitation. Since 1973, he was employed by various Gazprom companies: as Chief Engineer of Nadymgazprom, Head of the Production and Technical Department of the Industrial Association, and Chief Engineer of Mostransgaz's Kaluga Department for Gas Transportation and Underground Storage. From 1992 to 2003, he was First Deputy General Director of a joint venture established by OAO Gazprom and DKG-EAST (Hungary). Since 2003 Mr. Fridman was the Deputy General Director of Novafininvest. In 2004, Mr. Fridman was elected Deputy Chairman of the Management Board of OAO NOVATEK. In August 2007, he has been a member of NOVATEK's Management Board. Mr. Fridman is the recipient of the title of honor "Honored man of the oil and gas industry".

MR. KIRILL N. YANOVSKIY

- Member of NOVATEK's Management Board
- Director for Finance and Strategy

Born in 1967

In 1991, Mr. Yanovskiy graduated from the Gubkin Institute of Oil and Gas in Moscow. From 1992, he headed a department of the Yugorsky Joint-Stock Bank. From 1995, he headed the Securities Department at the Neftek Joint-Stock Commercial Bank. Since 2002, he has been Director of NOVATEK's Financial Planning, Analysis and Control Department. In August 2007, Mr. Yanovskiy was elected to NOVATEK's Management Board and in 2007 was appointed Deputy Director for Finance and Strategy. Since May 2011 he has been Director for Finance and Strategy.

Major Transactions and Interested Party Transactions

In 2014, NOVATEK consummated no interested party and major transactions.

Forward-looking Statements

This Annual Review includes 'forward-looking information' within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the US Securities Exchange Act of 1934, as amended. Certain statements included in this Annual Report and Accounts, including, without limitation, statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words "believe," "expect," "anticipate," "intends," "estimate," "forecast," "project," "will," "may," "should" and similar expressions identify forward-looking statements. Forward-looking statements include statements regarding: strategies, outlook and growth prospects; future plans and potential for future growth; liquidity, capital resources and capital expenditures; growth in demand for our products; economic outlook and industry trends; developments of our markets; the impact of regulatory initiatives; and the strength of our competitors. The forward-looking statements in this Annual Review are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies, which are difficult or impossible to predict and are beyond our control. As a result, we may not achieve or accomplish these expectations, beliefs or projections. In addition, important factors

that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in the balance of oil and gas supply and demand in Russia and Europe;
- the effects of domestic and international oil and gas price volatility and changes in regulatory conditions, including prices and taxes;
- the effects of competition in the domestic and export oil and gas markets;
- our ability to successfully implement any of our business strategies;
- the impact of our expansion on our revenue potential, cost basis and margins;
- our ability to produce target volumes in the event, among other factors, of restrictions on our access to transportation infrastructure;
- the effects of changes to our capital expenditure projections on the growth of our production;
- potentially lower production levels in the future than currently estimated by our management and/or independent petroleum reservoir engineers;
- inherent uncertainties in interpreting geophysical data;
- changes to project schedules and estimated completion dates;
- our success in identifying and managing risks to our businesses;
- the effects of changes to the Russian legal framework concerning currently held and any newly acquired oil and gas production licenses;
- changes in political, social, legal or economic conditions in Russia and the CIS;
- the effects of technological changes;
- the effects of changes in accounting standards or practices.

This list of important factors is not exhaustive. When relying on forward-looking statements, one should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. The information and opinions contained in this document are provided as at the date of this review and are subject to change without notice.

Terms and Abbreviations

Mentions in this Annual Report of "OAO NOVATEK", "NOVATEK", "the Company", "we" and "our" refer to OAO NOVATEK and/or its subsidiaries (according to IFRS methodology) and/or joint ventures (accounted for on an equity basis according to IFRS standards), depending upon the context, in which the terms are used.

barrel	one stock tank barrel, or 42 US gallons of liquid volume
bcm	billion cubic meters
boe	barrels of oil equivalent
km	kilometer(s)
mboe	thousand boe
mcm	thousand cubic meters
mt	thousand metric tons
mmbae	million boe
mmcm	million cubic meters
mmt	million metric tons
ton	metric ton
SEC	United States Securities and Exchange Commission
PRMS	Petroleum Resources Management System
YNAO	Yamal-Nenets Autonomous Region
RR	Russian rouble
LPG	liquified petroleum gases
LNG	liquified natural gas

Conversion Factors

1000 cubic meters of gas = 6.54 boe.

To convert crude oil and gas condensate reserves from tons to barrels we used various coefficients depending on the liquids density at each field.

NOTES

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NOTES

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OAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

AND INDEPENDENT AUDITOR'S REPORT

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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.

25 February 2015

Moscow, Russian Federation



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.

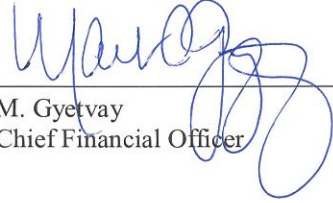
ОАО NOVATEK
Consolidated Statement of Financial Position
(in millions of Russian roubles)

	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

25 February 2015


M. Gyetvay
Chief Financial Officer

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.

ОАО 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 ОАО 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)

OAO NOVATEK**Consolidated Statement of Cash Flows**

(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.

ОАО NOVATEK
Consolidated Statement of Changes in Equity

(in millions of Russian roubles, except for number of shares)

	<i>Number of ordinary shares (in millions)</i>	<i>Ordinary share capital</i>	<i>Treasury shares</i>	<i>Additional paid-in capital</i>	<i>Currency translation differences</i>	<i>Asset revaluation surplus on acquisitions</i>	<i>Retained earnings</i>	<i>Equity attributable to OAO NOVATEK shareholders</i>	<i>Non- controlling interest</i>	<i>Total equity</i>
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.

ОАО NOVATEK
Consolidated Statement of Changes in Equity

(in millions of Russian roubles, except for number of shares)

	<i>Number of ordinary shares (in millions)</i>	<i>Ordinary share capital</i>	<i>Treasury shares</i>	<i>Additional paid-in capital</i>	<i>Currency translation differences</i>	<i>Asset revaluation surplus on acquisitions</i>	<i>Retained earnings</i>	<i>Equity attributable to OAO NOVATEK shareholders</i>	<i>Non- controlling interest</i>	<i>Total equity</i>
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 SeverEnergiya 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 SeverEnergiya, 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 SeverEnergiya 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.

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:

Russian roubles to one currency unit	At 31 December 2014	At 31 December 2013	Average rate for the year ended 31 December:	
			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 Liabilities*, 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 ОАО 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 ОАО 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 ОАО 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.

ОАО NOVATEK**Notes to the Consolidated Financial Statements**

(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 ООО NOVATEK-Kostroma

In February 2014, the Group acquired an additional 15 percent participation interest in ООО 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 ОАО Rosneft 51 percent ownership in ОАО 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 ООО 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 ООО 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 ОАО 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.

OAO NOVATEK**Notes to the Consolidated Financial Statements**

(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.

ОАО NOVATEK**Notes to the Consolidated Financial Statements**

(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

ОАО NOVATEK**Notes to the Consolidated Financial Statements**

(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 Transshipment 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 ООО NovaEnergo and ЗАО 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.

ОАО NOVATEK**Notes to the Consolidated Financial Statements**

(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:		
ОАО Yamal LNG	63,783	77,875
ZАО Nortgas	47,998	45,605
Artic Russia B.V.	30,489	59,315
ООО Yamal Development	19,639	23,720
ZАО 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".

ОАО 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.

ZАО Nortgas. The Group holds a 50 percent ownership in Nortgas, its joint venture with ОАО Gazprom and ОАО Gazprom Neft. Joint venture operates the North-Urengoykoye 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 SeverEnergiya.

OAO NOVATEK**Notes to the Consolidated Financial Statements**

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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 SeverEnergiya and an 80 percent ownership interest in Artic Russia (at 31 December 2013: 60 percent in Artic Russia).

OOO SeverEnergiya. The Group holds an effective 54.9 percent participation interest in SeverEnergiya through two of the Group's other joint ventures, Yamal Development and Artic Russia (at 31 December 2013: 59.8 percent in SeverEnergiya). SeverEnergiya through its wholly owned subsidiary OAO Arcticgas operates the Samburgskoye and Urengoiyskoye 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 SeverEnergiya 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.

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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:

<i>At 31 December 2014</i>	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

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7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

<i>At 31 December 2013</i>	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:

<i>For the year ended 31 December 2014</i>	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
<i>For the year ended 31 December 2013</i>			
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.

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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:

<i>As at and for the year ended 2014</i>	Yamal LNG	SeverEnergiya	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
<i>As at and for the year ended 31 December 2013</i>	Yamal LNG	SeverEnergiya	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 SeverEnergiya. 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 SeverEnergiya.

In December 2013, Yamal Development, the Group's joint venture, provided an effective 40.2 percent ownership in SeverEnergiya 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 SeverEnergiya applied was equal to RR 77,097 million and RR 73,156 million, respectively.

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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
OAQ 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

OAQ 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.

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.

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9 OTHER NON-CURRENT ASSETS

	<u>At 31 December 2014</u>	<u>At 31 December 2013</u>
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

	<u>At 31 December 2014</u>	<u>At 31 December 2013</u>
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

	<u>At 31 December 2014</u>	<u>At 31 December 2013</u>
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.

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).

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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

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.

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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:

<i>Maturity period:</i>	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.

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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
<i>Defined benefit plan (benefits) costs were recognized in:</i>		
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.

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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

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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 ОАО 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.

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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 SeverEnergiya (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).

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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

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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)

<i>Interest expense (including transaction costs)</i>	Year ended 31 December:	
	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

<i>Interest income</i>	Year ended 31 December:	
	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

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

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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.

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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)
<i>Less: deferred tax assets offset</i>	<i>1,970</i>	<i>(255)</i>	<i>-</i>	<i>2,225</i>
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
<i>Less: deferred tax liabilities offset</i>	<i>(1,970)</i>	<i>255</i>	<i>-</i>	<i>(2,225)</i>
Total deferred income tax assets	4,651	3,121	16	1,514
Net deferred income tax liabilities	(16,412)	323	(30)	(16,705)

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26 INCOME TAX (CONTINUED)

	At 31 December 2013	Statement of Income effect	Statement of Comprehensive Income effect	At 31 December 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)
<i>Less: deferred tax assets offset</i>	<i>2,225</i>	<i>(820)</i>	<i>-</i>	<i>3,045</i>
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
<i>Less: deferred tax liabilities offset</i>	<i>(2,225)</i>	<i>820</i>	<i>-</i>	<i>(3,045)</i>
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:

<i>Financial assets</i>	At 31 December 2014		At 31 December 2013	
	Non-current	Current	Non-current	Current
<i>Loans and receivable</i>				
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
<i>At fair value through profit or loss</i>				
Loans receivable	83,113	-	45,415	-
Commodity derivatives	1,871	2,758	471	316
Total	96,020	87,875	49,815	57,786

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

<i>Financial liabilities</i>	At 31 December 2014		At 31 December 2013	
	Non-current	Current	Non-current	Current
<i>At amortized cost</i>				
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
<i>At fair value through profit or loss</i>				
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.

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:

<i>Commodity derivatives</i>	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:	
<i>Included in other operating income (loss)</i>	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:

<i>Sensitivity summary (RR million)</i>	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.

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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:

<i>At 31 December 2014</i>	Russian rouble	US dollar	Euro	Other	Total
<i>Financial assets</i>					
<i>Non-current</i>					
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
<i>Current</i>					
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
<i>Financial liabilities</i>					
<i>Non-current</i>					
Long-term debt	(13,956)	(190,743)	-	-	(204,699)
Other non-current liabilities	-	(2,194)	-	-	(2,194)
Commodity derivatives	-	-	(192)	-	(192)
<i>Current</i>					
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)

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27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

<i>At 31 December 2013</i>	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
<i>Non-current</i>					
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
<i>Current</i>					
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					
<i>Non-current</i>					
Long-term debt	(33,891)	(107,704)	-	-	(141,595)
Commodity derivatives	-	-	(228)	-	(228)
<i>Current</i>					
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:

<i>Effect on profit before income tax</i>	Increase in exchange rate	Year ended 31 December:	
		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*.

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:

<i>Effect on profit before income tax</i>	Year ended 31 December:	
	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.

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:

<i>Moody's, Fitch and/or Standard & Poor's</i>	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:

<i>Moody's, Fitch and/or Standard & Poor's</i>	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.

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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:

<i>At 31 December 2014</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
<i>Principal</i> ^(*)	21,619	33,755	14,000	92,826	162,200
<i>Interest</i>	9,451	6,886	15,251	11,086	42,674
Debt at variable rate					
<i>Principal</i> ^(*)	19,474	25,965	38,948	-	84,387
<i>Interest</i>	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
<i>At 31 December 2013</i>					
Debt at fixed rate					
<i>Principal</i> ^(*)	24,115	20,000	33,638	54,003	131,756
<i>Interest</i>	7,379	6,649	10,707	9,301	34,036
Debt at variable rate					
<i>Principal</i> ^(*)	-	8,082	26,938	-	35,020
<i>Interest</i>	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:

<i>At 31 December 2014</i>	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
<i>At 31 December 2013</i>					
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 Khancheyevskoye (through 2016), the North-Khancheyevskoye 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-Urengoyevskoye (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 ОАО 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.

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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-Tarkosaleneftgas	2043
Khancheykoye	OOO NOVATEK-Tarkosaleneftgas	2044
North-Russkoye	OOO NOVATEK-Tarkosaleneftgas	2031
East-Tazovskoye	OOO NOVATEK-Tarkosaleneftgas	2033
Urengoykoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftgas	2026
Dobrovolskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftgas	2026
Yarudeyskoye	OOO Yargeo	2029
Malo-Yamalskoye	OOO NOVATEK-Yarsaleneftgas	2034
Joint ventures:		
South-Tambeyskoye	OAo Yamal LNG	2045
Urengoykoye (within the Samburgskiy and Yevo-Yakhinskiy license areas)	OAo Arcticgas (Subsidiary of OOO SeverEnergiya)	2034
Yaro-Yakhinskoye	OAo Arcticgas (Subsidiary of OOO SeverEnergiya)	2034
Samburgskoye	OAo Arcticgas (Subsidiary of OOO SeverEnergiya)	2034
North-Chaselskoye	OAo Arcticgas (Subsidiary of OOO SeverEnergiya)	Life of field
North-Urengoykoye	ZAO Nortgas	2038
Termokarstovoye	ZAO Terneftgas	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.

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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:		Country of incorporation	Principal activities
	2014	2013		
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:				
ОАО Yamal LNG	60	60	Russia	Exploration and development
ZAO Terneftegas	51	51	Russia	Exploration and development
ООО Yamal Development	50	50	Russia	Holding company
Artic Russia B.V.	60	70	Netherland	Holding company
ООО SeverEnergia (includes a producing subsidiary, see Note 7)	54.9	59.8	Russia	Holding company
ZAO Nortgas	50	50	Russia	Exploration and production

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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.

<i>Related parties – joint ventures</i>	Year ended 31 December:	
	2014	2013
Transactions		
<i>OAO Sibneftegas (until December 2013):</i>		
Interest income on loans issued	-	307
Purchases of natural gas	-	(7,017)
<i>OOO SeverEnergiya and its subsidiary:</i>		
Purchases of unstable gas condensate	(15,624)	(5,975)
Other revenues (operator services sales)	110	59
<i>ZAO Terneftegas:</i>		
Interest income on loans issued	205	129
<i>OAO Yamal LNG:</i>		
Interest income on loans issued	3,516	1,373
Other revenues (operator services sales)	149	96
<i>ZAO Nortgas:</i>		
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	-
<i>OOO Yamal Development:</i>		
Interest income on loans issued	601	7

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30 RELATED PARTY TRANSACTIONS (CONTINUED)

<i>Related parties – joint ventures</i>	At 31 December 2014	At 31 December 2013
Balances		
OOO SeverEnergiya 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.

<i>Related parties – parties under control of key management personnel</i>	Year ended 31 December:	
	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)

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30 RELATED PARTY TRANSACTIONS (CONTINUED)

<i>Related parties – parties under control of key management personnel</i>	At 31 December 2014	At 31 December 2013
Balances		
ОАО Pervobank:		
Cash and cash equivalents	9,365	2,040
ОАО 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
ООО 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
ООО 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.

<i>Related parties – members of the key management personnel</i>	Year ended 31 December:	
	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.

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31 SEGMENT INFORMATION (CONTINUED)

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

<i>For the year ended 31 December 2014</i>	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	<i>a - e</i>	(242,632)	(242,632)	6,120	(236,512)
Other operating income (loss)	<i>f, g</i>	4,368	4,368	2,264	6,632
Interest expense	<i>h, i, k</i>	(7,368)	(7,368)	1,646	(5,722)
Interest income	<i>h</i>	3,984	3,984	1,079	5,063
Change in fair value of non-commodity financial instruments	<i>j</i>	-	-	(20,205)	(20,205)
Foreign exchange gain (loss)	<i>k</i>	(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	<i>a</i>	21,854	21,854	(4,682)	17,172
Capital expenditures	<i>k</i>	59,660	59,660	6,870	66,530

Reconciling items mainly related to:

- 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;
- 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;
- 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;
- 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;
- 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;
- 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;
- 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;
- 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;

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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:

<i>For the year ended 31 December 2013</i>	<i>References</i>	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	<i>a - e</i>	(196,794)	(196,794)	4,033	(192,761)
Other operating income (loss)	<i>e - g</i>	37,103	37,103	1,426	38,529
Interest expense	<i>h - j</i>	(8,081)	(8,081)	2,734	(5,347)
Interest income	<i>i</i>	1,893	1,893	448	2,341
Foreign exchange gain (loss)	<i>j</i>	(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	<i>a</i>	18,554	18,554	(5,051)	13,503
Capital expenditures	<i>j</i>	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 methodology in valuation of inventory balances under IFRS and management accounting, which resulted in reversal of operating expenses of RR 438 million under IFRS;

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:

<i>For the year ended 31 December 2014</i>	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

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31 SEGMENT INFORMATION (CONTINUED)

<i>For the year ended 31 December 2013</i>	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 SeverEnergiya.

⁽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 SeverEnergiya 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 SeverEnergiya.

⁽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 SeverEnergiya 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.

ОАО NOVATEK
Contact Information

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations as of 31 December 2014 and for the year then ended in conjunction with our audited consolidated financial statements as of and for the years ended 31 December 2014 and 2013. The consolidated financial statements and the related notes thereto have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial and operating information contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" comprises information of OAO NOVATEK, its consolidated subsidiaries and joint ventures (hereinafter jointly referred to as "we" or the "Group").

OVERVIEW

We are Russia's largest independent natural gas producer and the second-largest producer of natural gas in Russia according to the Central Dispatch Administration of the Fuel and Energy Complex for both reporting periods. In terms of proved natural gas reserves, we are the second largest holder of natural gas resources in Russia after Gazprom, under the Petroleum Resources Management System ("PRMS") reserve reporting methodology.

Our exploration, development, production and processing of natural gas, gas condensate and crude oil are conducted within the Russian Federation.

In accordance with Russian law, we sell all of our produced natural gas volumes exclusively in the Russian domestic market.

We deliver our extracted unstable gas condensate through our own pipelines to our Purovsky Gas Condensate Plant for processing into stable gas condensate and liquefied petroleum gas ("LPG"). Prior to the third quarter of 2013, the majority of our stable gas condensate from the Purovsky plant was shipped to international markets, but commencing from the third quarter of 2013, most of our stable gas condensate is sent as raw material feedstock for further processing to our Gas Condensate Fractionation and Transshipment Complex located at the Port of Ust-Luga on the Baltic Sea. The remaining stable gas condensate volumes are sold domestically.

The Ust-Luga Complex consists of two stable gas condensate fractionation units (launched in June and October 2013) with a total capacity of six (6) million tons per annum. The complex processes our stable gas condensate into light and heavy naphtha, jet fuel, gasoil and fuel oil, nearly all of which we sell to the international markets. The Ust-Luga complex enables us to increase the added value of our liquid hydrocarbons sales and allows us to diversify sales market.

Effective June 2014, the majority of our produced LPG is dispatched via pipeline to the refining capacities of Tobolsk-Neftekhim where, after additional processing, the majority of volumes are transported by rail to our end-customers on the domestic and international markets. The remaining LPG volumes produced at the Purovsky Plant are sold directly from the plant without incurring additional transportation expenses.

We deliver our crude oil to both international and domestic markets.

The Group jointly with our partners, TOTAL and China National Petroleum Corporation, undertakes a large-scale project on constructing a liquefied natural gas plant with an annual capacity of 16.5 million tons based on the feedstock resources of the South-Tambeyskoye field located at the northeast of the Yamal Peninsula. The project also requires the construction of transportation infrastructure, including the seaport and the international airport. Commercial launch of the LNG plant and start of shipments is planned in 2017.

RECENT DEVELOPMENTS

Acquisitions and disposals

In December 2014, the Group acquired a 100% equity stake in OOO NovaEnergio for RR 229 million. NovaEnergio provides repair and maintenance services of energy generating equipment and was acquired for servicing the Group's production facilities located in the Yamal-Nenets Autonomous region ("YNAO").

In August 2014, the Group purchased a land plot for RR 4,895 million next to our corporate head office in Moscow for construction of a future new office building that became necessary as a result of expansion of Group's activities.

In December 2013, our joint venture OOO Yamal Development acquired a 60% equity stake in Artic Russia B.V. from Eni, the Italian energy company. Artic Russia B.V. owns a 49% participation interest in SeverEnergia. In December 2013, the Group also swapped its 51% stake in OAO Sibneftegas for a 40% stake in Artic Russia B.V. Following the completion of these two transactions, the Group's effective share in SeverEnergia increased to 59.8%. SeverEnergia produces hydrocarbons at the Samburgskoye and Urengoysskoye fields, and is currently undertaking the preparatory works to launch the Yevo-Yakhinskoye, Yaro-Yakhinskoye and Severo-Chaselskoye fields located in YNAO.

In March 2014, the Group approved a series of transactions which, when concluded, will enable the shareholders to equalize their equity stakes in the SeverEnergia joint venture. Consequently, on 31 March 2014, the Group sold its 20% equity stake in Artic Russia B.V. to its joint venture Yamal Development thus decreasing its effective interest in SeverEnergia from 59.8% to 54.9%. 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 February 2014, the Group acquired an additional 15% equity stake in OOO NOVATEK-Kostroma, a regional natural gas trader in the Kostroma region of the Russian Federation, thus increasing the Group's effective participation interest to 100 percent.

Increasing our resource base

In December 2014, based on auction results held by the Federal Agency for the Use of Natural Resources of the Russian Federation, the Group acquired a license for geological and geophysical research works, exploration and production of hydrocarbons at the Trekhuborniy license area located in the YNAO. As of 31 December 2014, the field's recoverable reserves according to the Russian reserve classification C1+C2 totaled 5.9 billion cubic meters ("bcm") of natural gas. The resources of natural gas and liquid hydrocarbons according to the Russian reserve classification C3+D amounted to approximately 1.0 trillion of cubic meters of natural gas and 92 million tons of liquid hydrocarbons, respectively. We paid RR 435 million for the license.

In June 2013 and August 2014, as a result of geological and geophysical research works performed at the North-Russkiy license area located in the YNAO, the Group discovered Dorogovskoye and Kharbeyskoye oil and gas condensate fields. The Dorogovskoye field's recoverable reserves as of 31 December 2014 according to the Russian reserve classification C1+C2 totaled to 35.1 bcm of natural gas and 2.5 million tons of liquid hydrocarbons. The recoverable reserves of the Kharbeyskoye field as of 31 December 2014 according to the Russian reserve classification C1+C2 totaled 26.7 bcm of natural gas and 7.8 million tons of liquid hydrocarbons.

In March 2013, the Group won the right to purchase an oil and gas exploration and production license for the East-Tazovskoye field located in the YNAO, based on auction results held by the Federal Agency for the Use of Natural Resources of the Russian Federation. As of 31 December 2014, the estimated proved reserves appraised under the PRMS reserve methodology totaled to 17.1 bcm of natural gas and 2.5 million tons of liquid hydrocarbons. We paid RR 3.2 billion for the mineral license.

Production growth

In December 2014, our joint venture SeverEnergiya reached the capacity of the first phase of the Urengoykoye field located within the Samburgskoye license. Furthermore, in December, the second stage of field development that includes the second gas condensate de-ethanization unit was launched. The cumulative capacity of the two phases totaled approximately 13 bcm of natural gas and more than 4.7 million tons of gas condensate per annum.

In September 2014, SeverEnergiya launched the third phase of the Samburgskoye field, also located within the Samburgskoye license area. The launch of the third phase allowed us to increase the fields' production capacity to the planned annual production level of about seven (7) bcm of natural gas and more than 900 thousand tons of gas condensate.

In October 2013, our joint venture ZAO Nortgas launched the Eastern dome of the North-Urengoykoye field as a result of which the field reached its planned production capacity of 10.8 bcm of natural gas and 1.3 million tons of gas condensate per annum.

In October 2013, the Group launched production at the Urengoykoye field located within the Group's Olimpiyskiy license area, with an annual natural gas production capacity estimated at approximately one (1) bcm.

Increasing refining capacity

In January 2014, we launched the third stage of our Purovsky Gas Condensate Plant, completing the expansion of the plant's processing capacity from five (5) million tons per annum to 11 million tons per annum. Four gas condensate stabilization trains were launched with an annual capacity of 1.5 million tons each. The completion of this strategic project allowed us to achieve a balance between our gas condensate production potential and processing capacity. We increased volumes processed at the Purovsky Plant during 2014 by approximately 36% compared to 2013.

In June and October 2013, the Group launched the first and the second stages of a stable gas condensate fractionation unit located at the Port of Ust-Luga on the Baltic Sea (the as of 31 December 2014 Ust-Luga Complex"). The Ust-Luga Complex consists of two stable gas condensate fractionation units with a total nameplate capacity of six (6) million tons per annum (three (3) million tons each), 520 thousand cubic meters of storage facilities for feedstock and products, two deep-water berths and other infrastructure facilities. The commissioning of the Ust-Luga Complex increased the added value of our liquid hydrocarbons sales and allowed us to diversify our sales market.

Optimization of our liquefied petroleum gas distribution logistics and sales

Prior to 2014, we delivered our liquefied petroleum gas produced at the Purovsky Plant via rail from the plant to the domestic and international sales markets. Effective January 2014, we optimized our liquefied petroleum gas production, transportation and sales and began producing natural gas liquids ("NGL") at our Purovsky Plant in addition to other sorts of liquefied petroleum gas, and, as a result, commenced selling NGL ex-works Purovsky Plant without incurring additional transportation expenses.

Effective June 2014, we completely ceased the production of other sorts of liquefied petroleum gas (technical propane, technical propane-butane, technical butane) at the Purovsky Plant and produced only NGL which, except volumes sold directly at the plant, we dispatch to the 1,100 kilometers long pipeline launched in 2014 to the refining capacities of OOO Tobolsk-Neftekhim where, after processing, we receive liquefied petroleum gas of the required quality. Volumes received after processing are transported by rail from the Tobolsk station to our end-customers in the domestic and international markets. Such sales and distribution logistics of our liquefied petroleum gas allows us to bypass one of the busiest areas of the Russian railroad and diversify our sales. In the Consolidated financial statements and this "Management's discussion and analysis of financial condition and results of operations", we disclose NGL, as well as liquefied petroleum gas, received from the additional processing at Tobolsk-Neftekhim, as "liquefied petroleum gas".

Implementation of the Yamal LNG project

The Yamal LNG project envisages the construction of a liquefied natural gas (“LNG”) plant with an annual capacity of 16.5 million tons based on the feedstock resources of the South-Tambeyskoye field located at the northeast of the Yamal Peninsula. The project also requires the construction of transportation infrastructure including the seaport at Sabetta and an international airport. Estimated capital cost of the project is USD 26.9 billion. The commercial launch of the first LNG train is planned in 2017.

In September 2014, our joint venture OAO Yamal LNG, received a license from the Russian Federation Ministry of Energy for export of LNG in accordance with the LNG export liberalization law (Federal Law 318-FZ) passed in December 2013. According to this law, companies with mineral licenses as of 1 January 2013 stipulating LNG plant construction or shipment of gas produced to a LNG plant for liquefaction are allowed to export LNG. The receipt of a LNG export license is an important milestone for successful implementation of the Yamal LNG project.

In May 2014, under the framework agreement with China National Petroleum Corporation (“CNPC”) regarding the Yamal LNG project, the Group signed a long-term contract with CNPC for the supply of three (3) million tons of LNG per annum for a period of 15 years with possible supply extensions. In January 2015, we also signed a long-term contract with OAO Gazprom for the supply of 2.9 million tons of LNG per annum for a period of no less than 20 years produced from the project. Management believes that the conclusion of LNG supply agreements is also an important step in the implementation of the Yamal LNG project.

In December 2013, under the framework agreement with CNPC on the Yamal LNG project signed in September 2013, the Group sold a 20% equity stake in OAO Yamal LNG to CNPC. As a result, the Group’s share of Yamal LNG decreased to 60%.

In 2014, Yamal LNG signed a number of long-term agreements for time chartering of ten LNG carriers with an ice classification of ARC7 for shipments of LNG produced within the Yamal LNG project and obtained an exclusive right to use these tankers for the period of up to 2045. Furthermore, in December 2014, Yamal LNG entered into an agreement with Daewoo Shipbuilding & Marine Engineering to build additional five tankers of the same ice classification which, in the future, may be sold to and leased back from the shipping companies.

In December 2014, the Russian Federation government approved the allocation of RR 150 billion from the National Wealth Fund (“NWF”) for financing the Yamal LNG project through the purchase of interest bearing Yamal LNG bonds. In February 2015, the Central Bank of the Russian Federation registered the issuance prospectus for the Yamal LNG bonds, and, at the end of February, the Ministry of Finance purchased RR 75 billion (nominal amount of USD 1.21 billion) of Yamal LNG’s bonds by subscribing to the first tranche allocation. The repayment of the bonds is expected to be in Russian roubles at the US dollar exchange rate at the date of repayment. The bonds’ redemption will take place in parts pro rata from 2022 to 2030.

Development of our operations at Gydan peninsula and the Gulf of Ob

In May 2014, the Group established wholly-owned subsidiaries OOO Arctic LNG 1, OOO Arctic LNG 2, and OOO Arctic LNG 3 for further development and operation of the Salmanovskoye (Utrenneye) and Geofizicheskoye fields as well as the North-Obskiy license area located on the Gydan peninsula and the Gulf of Ob. The estimated aggregate proved, probable and possible reserves of the Salmanovskoye (Utrenneye) and Geofizicheskoye fields appraised under the PRMS reserve methodology as of 31 December 2014 totaled 1.2 trillion cubic meters of natural gas and 46.9 million tons of liquid hydrocarbons. The resources of the North-Obskiy license area according to the Russian reserve classification C3+D1L as of 31 December 2014 totaled 1.1 trillion cubic meters of natural gas and 71 million tons of liquid hydrocarbons.

In October 2014, the Russian Federation government included the above-mentioned subsidiaries of the Group to the list of companies with a right to export natural gas in a liquid form in compliance with the LNG export liberalization law. In addition, in June 2014, the State Duma of the Russian Federation approved changes to the Tax Code allowing zero unified production tax rates to natural gas and gas condensate produced at fields located fully or partially in the Gydan peninsula and the Gulf of Ob if natural gas is used exclusively for LNG production. Zero UPT rates are to remain in force for the cumulative production volumes of up to 250 bcm of natural gas and 20 million tons of gas condensate and not more than 12 years from the production commencement for each field.

The Group considers fields located on the Gydan peninsula and the Gulf of Ob as a platform for increasing our resource base and for further development of LNG production.

Natural gas exchange trading in the Russian Federation

In June 2014, the Russian Federation government approved the resolution “Concerning the amendments to several Russian Federation governmental acts related to natural gas sales” which eliminated contradictions in previous governmental acts on natural gas sales at the commodity exchange. The changes allow companies to trade natural gas at both the commodity exchanges and at electronic trading systems registered according to established procedures, facilitating the development of natural gas spot trading in the Russian Federation. We believe that this measure is an important step towards forming a competitive natural gas market on the territory of the Russian Federation.

The trading sessions for “Natural gas” takes place each month commencing from the 24 October 2014 on the Saint-Petersburg International Mercantile Commodities Exchange. In December 2014, the Group concluded contracts for the purchase of small volumes of natural gas at the commodity exchange during January 2015, and plans to take an active part in the natural gas exchange trading in the future.

Inclusion of the Group to the OFAC’s Sectoral List

On 16 July 2014, OAO NOVATEK was included on the OFAC’s Sectoral Sanctions Identification List (the “List”) which imposed sanctions that prohibit individuals or legal entities registered or working on the territory of the United States from providing new credit facilities to the Group for longer than 90 days. Despite the inclusion on the List, the Group may conduct any other activities, including financial transactions, with U.S. investors and partners. NOVATEK was included on the List even though the Group does not conduct any business activities in Ukraine, nor does it have any impact on the political and economic processes taking place on its territory.

Management has assessed the impact of the sanctions described above on the Group's activities taking into consideration the current state of the world economy, the condition of domestic and international capital markets, the Group’s business, and long-term projects with foreign partners. We have concluded that the inclusion on the List does not significantly impede the Group’s operations and business activities in any jurisdiction, nor does it affect the Group’s assets and exchange listed shares and debt, and does not have a material effect on the Group’s financial position.

We have reviewed the Group’s capital expenditure programs and existing debt portfolio and have concluded that the Group’s current financial position is stable and expected operating cash flows are sufficient to service and repay its existing debt, and fund the Group’s planned capital expenditure programs.

We together with our international partners, TOTAL and CNPC, have analyzed and will continue to monitor the impact of these sectoral sanctions on the implementation of our joint investment projects and are currently undertaking all necessary actions to implement the investment projects on time as planned, including, but not limited to, attraction of financing from domestic and non-US capital markets.

SELECTED DATA

millions of Russian roubles except as stated	Year ended 31 December:		Change %
	2014	2013	
Financial results			
Total revenues ⁽¹⁾	357,643	298,158	20.0%
Operating expenses	(236,512)	(192,761)	22.7%
Profit attributable to shareholders of OAO NOVATEK	37,296	110,006	(66.1%)
Normalized profit attributable to shareholders of OAO NOVATEK ⁽²⁾	35,197	79,825	(55.9%)
EBITDA ⁽³⁾	162,254	167,019	(2.9%)
Normalized EBITDA ⁽²⁾	159,631	129,370	23.4%
Normalized EBITDAX ⁽⁴⁾	159,743	129,797	23.1%
Earnings per share (in Russian roubles)	12.34	36.31	(66.0%)
Normalized earnings per share (in Russian roubles) ⁽²⁾	11.65	26.35	(55.8%)
Net debt ⁽⁵⁾	204,361	157,732	29.6%
Production costs (USD per barrel of oil equivalent)	9.53	10.63	(10.3%)
Production volumes ⁽⁶⁾			
Total hydrocarbons production (million barrels of oil equivalent)	456.7	439.0	4.0%
Total daily production (thousand barrels of oil equivalent per day)	1,251	1,203	4.0%
Operating results			
Natural gas sales volumes (million cubic meters)	67,231	64,152	4.8%
Naphtha sales volumes (thousand tons)	3,319	1,328	149.9%
Liquefied petroleum gas sales volumes (thousand tons)	1,434	1,078	33.0%
Other gas condensate refined products (thousand tons) ⁽⁷⁾	1,119	278	302.5%
Crude oil sales volumes (thousand tons)	903	627	44.0%
Stable gas condensate sales volumes (thousand tons)	303	2,117	(85.7%)
Oil and gas reserves ⁽⁸⁾			
Total proved reserves SEC (million barrels of oil equivalent)	12,578	12,537	0.3%
Total natural gas proved reserves SEC (billion cubic meters)	1,747	1,740	0.4%
Total natural gas proved reserves PRMS (billion cubic meters)	2,134	2,141	(0.3%)
Total liquids proved reserves SEC (million tons)	135	134	0.7%
Total liquids proved reserves PRMS (million tons)	174	187	(7.0%)
Cash flow results			
Net cash provided by operating activities	110,253	88,525	24.5%
Capital expenditures ⁽⁹⁾	63,179	59,254	6.6%
Free cash flow ⁽¹⁰⁾	47,074	29,271	60.8%

Reconciliation of normalized EBITDA and EBITDAX to profit (loss) attributable to shareholders of OAO NOVATEK is as follows:

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Profit attributable to shareholders of OAO NOVATEK	37,296	110,006	(66.1%)
Depreciation, depletion and amortization	17,172	13,503	27.2%
Net impairment reversals (expenses)	(229)	2,611	n/a
Loss (income) from changes in fair value of derivative financial instruments	(2,093)	(549)	281.2%
Total finance expense (income)	46,745	6,684	n/a
Total income tax expense	15,928	27,185	(41.4%)
Share of loss (profit) of joint ventures, net of income tax	28,175	112	n/a
EBITDA from subsidiaries	142,994	159,552	(10.4%)
Share in EBITDA of joint ventures	19,260	7,467	157.9%
EBITDA ⁽³⁾	162,254	167,019	(2.9%)
Net loss (gain) on disposal of interest in subsidiaries and joint ventures	(2,623)	(37,649)	(93.0%)
Normalized EBITDA ⁽²⁾	159,631	129,370	23.4%
Exploration expenses	112	427	(73.8%)
Normalized EBITDAX ⁽⁴⁾	159,743	129,797	23.1%

⁽¹⁾ Net of VAT, export duties, excise and fuel taxes.

⁽²⁾ Excluding the effect from the disposal of interest in joint ventures.

⁽³⁾ EBITDA includes our proportionate share in the EBITDA of our joint ventures and represents profit (loss) attributable to shareholders of OAO NOVATEK adjusted for the add-back of net impairment expenses (reversals), depreciation, depletion and amortization, income tax expense, share of profit (loss) of joint ventures, net of income tax and finance income (expense) from the Consolidated Statement of Income, as well as income (loss) from changes in fair value of derivative financial instruments.

⁽⁴⁾ Normalized EBITDAX represents EBITDA as adjusted for the add-back of exploration expenses and excludes the effect from the disposal of interest in joint ventures.

⁽⁵⁾ Net Debt represents our total debt net of cash and cash equivalents.

⁽⁶⁾ Total hydrocarbons production and total daily production are calculated based on net production, including our proportionate share in the production of our joint ventures.

⁽⁷⁾ Other gas condensate refined products include jet fuel, gasoil and fuel oil.

⁽⁸⁾ Oil and gas reserves are attributable to all consolidated subsidiaries and joint ventures based on the Group's equity ownership interest in the respective fields.

⁽⁹⁾ Capital expenditures represent additions to property, plant and equipment excluding payments for mineral licenses.

⁽¹⁰⁾ Free cash flow represents the excess of Net cash provided by operating activities over Capital expenditures.

SELECTED MACRO-ECONOMIC DATA

<i>Exchange rate, Russian roubles for one US dollar⁽¹⁾</i>	1Q		2Q		3Q		4Q		Year		Change
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	Y-o-Y, %
Average for the period	34.96	30.41	35.00	31.61	36.19	32.80	47.42	32.53	38.42	31.85	20.6%
At the beginning of the period	32.73	30.37	35.69	31.08	33.63	32.71	39.39	32.35	32.73	30.37	7.8%
At the end of the period	35.69	31.08	33.63	32.71	39.39	32.35	56.26	32.73	56.26	32.73	71.9%
Depreciation (appreciation) of Russian rouble to US dollar	9.0%	2.3%	(5.8%)	5.2%	17.1%	(1.1%)	42.8%	1.2%	71.9%	7.8%	n/a

⁽¹⁾ According to the Central Bank of Russian Federation (CBR). The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

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<i>Crude oil prices, USD per bbl ⁽²⁾</i>	1Q		2Q		3Q		4Q		Year		Change
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	Y-o-Y, %
Brent											
Average for the period	108.2	112.6	109.7	102.4	101.9	110.3	76.6	109.2	98.9	108.7	(9.0%)
At the end of the period	106.0	107.4	111.0	102.5	94.8	108.1	55.0	110.3	55.0	110.3	(50.1%)
Dubai											
Average for the period	104.4	108.1	106.1	100.8	101.4	106.2	74.4	106.8	96.7	105.5	(8.3%)
At the end of the period	104.8	107.1	109.2	100.4	94.6	104.8	52.9	108.1	52.9	108.1	(51.1%)
Urals											
Average for the period	106.5	110.8	107.7	102.1	101.1	109.7	75.6	108.2	97.6	107.7	(9.4%)
At the end of the period	105.3	106.5	109.2	102.5	93.2	106.4	53.4	109.1	53.4	109.1	(51.1%)

⁽²⁾ Based on Brent (Dtd) prices, Dubai prices and Russian Urals CIF Rotterdam spot assessments prices as provided by Platts.

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<i>Oil products prices, USD per ton ⁽³⁾</i>	1Q		2Q		3Q		4Q		Year		Change
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	Y-o-Y, %
Naphtha Japan											
Average for the period	935	960	951	858	913	919	646	946	862	920	(6.3%)
At the end of the period	936	922	981	856	850	900	461	984	461	984	(53.2%)
Naphtha CIF NWE											
Average for the period	915	945	939	831	882	906	614	928	836	903	(7.4%)
At the end of the period	918	881	965	831	811	886	415	949	415	949	(56.3%)
Jet fuel											
Average for the period	975	1,038	970	930	938	993	753	997	908	990	(8.3%)
At the end of the period	956	984	987	938	881	977	574	1,023	574	1,023	(43.9%)
Gasoil											
Average for the period	917	961	911	872	869	932	686	932	845	924	(8.5%)
At the end of the period	899	918	918	886	809	918	517	950	517	950	(45.6%)
Fuel oil											
Average for the period	625	654	637	609	584	615	418	609	565	622	(9.2%)
At the end of the period	647	628	643	607	554	608	273	607	273	607	(55.0%)

⁽³⁾ Based on Naphtha C+F (cost plus freight) Japan, Naphtha CIF NWE, Jet CIF NWE, Gasoil 0.1% CIF NWE, Fuel Oil 1.0% CIF NWE prices provided by Platts.

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<i>Liquefied petroleum gas prices, USD per ton ⁽⁴⁾</i>	1Q		2Q		3Q		4Q		Year		Change
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	Y-o-Y, %
Average for the period	758	699	668	605	794	674	623	828	711	702	1.3%
At the end of the period	654	633	769	570	725	762	398	838	398	838	(52.5%)

⁽⁴⁾ Based on spot prices for propane-butane mix at the Belarusian-Polish border (DAF, Brest) as provided by Argus.

Export duties, USD per ton ⁽⁵⁾	1Q		2Q		3Q		4Q		Year		Change Y-o-Y, %
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	
Crude oil, stable gas condensate											
Average for the period	388.5	406.5	382.7	379.7	380.4	383.2	313.0	399.3	366.1	392.2	(6.7%)
At the end of the period	384.4	420.6	385.0	359.3	367.6	400.7	277.5	385.7	277.5	385.7	(28.1%)
Liquefied petroleum gas											
Average for the period	189.3	176.8	101.1	71.4	152.7	53.7	131.9	159.7	143.8	115.4	24.6%
At the end of the period	169.1	131.4	86.0	72.2	221.0	75.5	124.8	203.5	124.8	203.5	(38.7%)
Naphtha											
Average for the period	349.6	365.9	344.4	341.8	342.3	344.9	281.6	359.4	329.5	353.0	(6.7%)
At the end of the period	345.9	378.6	346.5	323.3	330.8	360.6	249.7	347.1	249.7	347.1	(28.1%)
Jet fuel, fuel oil											
Average for the period	256.4	268.3	252.6	250.6	251.0	252.9	206.5	263.5	241.6	258.8	(6.6%)
At the end of the period	253.7	277.6	254.1	237.1	242.6	264.4	183.1	254.5	183.1	254.5	(28.1%)
Gasoil											
Average for the period	252.5	268.3	248.7	250.6	247.2	252.9	203.4	263.5	237.9	258.8	(8.1%)
At the end of the period	249.8	277.6	250.2	237.1	238.9	264.4	180.3	254.5	180.3	254.5	(29.2%)

⁽⁵⁾ Export duties are determined by the Russian Federation government in US dollars and are paid in Russian roubles.

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Current financial market conditions

Political events in Ukraine post March 2014 have prompted a negative reaction by the world community, including economic sanctions levied by the United States of America, Canada and the European Union against certain Russian individuals and legal entities. We continue to monitor the world community's reaction to the political events in Ukraine.

Despite benign economic growth numbers, the economic and financial situation in the Euro-Zone has stabilized as a result of the various measures taken by the respective governments, Central Banks and other quasi-governmental financial institutions. Although the main financial and economic issues plaguing the Euro-Zone over the last few years still remain, we will continue to monitor the credit situation very closely and take various measures, we deem necessary, to ensure the integrity of our financial condition and mitigate counter-party credit exposure from our natural gas and liquid hydrocarbon sales. In addition, we continue to take proactive steps to ensure the safety of our excess funds deposited with both domestic and international banks, as well as limit our risk exposure from prepayments to various service providers. Presently, our cash and deposits are diversified and maintained in banks that we believe are well capitalized in accordance with international capital adequacy rules.

During 2014, the Russian economy began experiencing signs of weakness on the domestic market which became especially apparent during the fourth quarter of 2014: the severe devaluation of the Russian rouble, a contraction of the Country's gross domestic product (GDP), a significant increase in the Central Bank's lending rates as well as a general weakening of other macro-economic indicators. The domestic market situation was further exasperated by the rapid commodity price decline in global oil markets and the Russian Federation's dependence on the strength and vitality of the oil and gas industry and the collection of tax revenues for budgetary purposes.

More recently, the international credit rating agencies have placed the Russian sovereign credit rating on negative credit watch implying the likelihood of potential rating downgrades of the Russian Federation, which in turn, implies the likelihood of possible future downgrading of private and state-owned companies with external credit ratings. In January and February of 2015, both Standard & Poor's (S&P) and Moody's downgraded the Russian sovereign rating to below investment rating status as well as the corresponding downward adjustments to Russian issuers, including NOVATEK. We strongly disagree with the position taken by both S&P and Moody's regarding our credit rating because our operating results and cash flow generating capabilities to support our liquidity position remain strong. As of this date, the aforementioned downgrades have not had a negative effect on our exchange listed shares.

We have reviewed our capital expenditure program for the upcoming year and have concluded that internal operating cash flows and available borrowing facilities are sufficient to adequately fund our core natural gas business operations and planned capital expenditure programs.

Management will continue to closely monitor the economic and political environment in Russia and the world community, as well as the domestic and international capital markets to determine if any further corrective and/or preventive measures are required to sustain and grow our business. In addition, we will continue to assess the trends in the capital markets for opportunities to access long-term funding at a reasonable cost to the Group commensurate with our capital requirements.

The effect of foreign currency change

As of 31 December 2014, the Russian rouble depreciated relative to the US dollar by approximately 71.9% since 31 December 2013, with significant Russian rouble currency volatility to US dollar and euro noted in December 2014. The Russian Federation government took and continues to take necessary efforts to stabilize the Russian rouble, including regulation of the Russian Federation Central Bank's lending rate, support of the banking system and provision of the currency liquidity to the members of the market.

The significant depreciation of the Russian rouble in the fourth quarter of 2014 resulted in a significant revaluation of our assets and liabilities denominated in foreign currency, primarily US dollar denominated long-term debt. Furthermore, significant non-cash losses were also realized by our joint ventures, which have significant US dollar denominated loans. Despite significant non-cash foreign currency exchange losses realized in 2014, we believe that the Group's financial results are mitigated from the negative effect of the foreign currency fluctuations since approximately 26% of our revenues for the year ended 31 December 2014 are denominated in US dollars. With the launches of new fields at the end of 2014, as well as an increased capacity of the Purovsky Plant, we intend to continue increasing our proportional share of liquids sales, which will result in an increased share of foreign currency dominated revenues.

A significant non-cash foreign exchange loss recognized by our joint venture Yamal LNG was primarily due to the revaluation its long term debt as of the balance sheet date. We expect that once commercial production commences, the effects of the foreign currency movements relative to our US denominated debt portfolio will be mitigated by the fact that sales of our products (liquefied natural gas, stable gas condensate and refined products) delivered to international markets will be denominated in US dollars and other foreign currencies.

Natural gas prices

The Group's natural gas prices on the domestic market are strongly influenced by the prices regulated by the Federal Tariffs Service ("FTS"), a Russian Federation governmental agency, and present market conditions.

In 2013, natural gas prices for sales to end-customers on the domestic market (excluding residential customers) were set by the FTS using a price formula. The price formula provided for quarterly changes of natural gas prices, as well as the possibility of adjusting natural gas prices within the quarter in case there was a significant deviation (more than 5%) of natural gas prices calculated using a price formula in the previous quarter from the annual wholesale price changes set by the Russian Federation government.

In 2013, natural gas prices for sales to end-customers on the domestic market (excluding residential customers) were decreased by an average of 3.0% from 1 April and subsequently increased by an average of 15.0%, 3.1% and 1.9% from 1 July, 1 August and 1 October, respectively. 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% from the December 2013 price levels.

In March 2014, the FTS made changes to the "Statement of Gas Price Formula Definition", which effectively abandoned the quarterly wholesale price calculation based on the natural gas price formula. As a result, natural gas prices in 2014 for sales to all customer categories on the domestic market (excluding residential customers) were calculated using a price formula based on parameters set by FTS in December 2013 and did not change during 2014 (effectively remained at the same price level as the August-September 2013 prices).

Based on the Ministry of Economic Development Forecast published in September 2014, wholesale natural gas prices for sales to all customer categories (excluding residential customers) in July 2015, 2016 and 2017 will be increased by 7.5%, 5.5% and 3.6%, respectively. The Russian Federation government continues to debate various policies relating to the natural gas industry development and natural gas prices growth rate on the Russian domestic market.

Based on changes to the Russian Federation Tax Code, effective 1 July 2014, adjustments to the natural gas prices together with transportation expenses effective 1 January 2015 are taken into account as main parameters for the calculation of UPT rates for natural gas (see "Our tax burden and obligatory payments" below). Therefore, future potential deviations of natural gas prices and transportation tariffs from the parameters as defined in the current Forecasts of the Ministry of Economic Development will be considered in the determination of UPT rates, thus smoothing fluctuations and decreasing the volatility of gross profits of independent gas producers.

The specific terms for delivery of natural gas affect our average realized prices. The majority of our natural gas volumes are sold directly to end-customers in the region of natural gas consumption so transportation tariff to the end customer's location is included in the contract sales price. The remaining small volumes of natural gas we sell "ex-field" primarily to wholesale gas traders, in which case the buyer is responsible for the payment of further gas transportation tariff. Sales to wholesale gas traders allow us to diversify our natural gas sales without incurring additional commercial expenses.

We deliver natural gas to residential customers of the Chelyabinsk and Kostroma regions of the Russian Federation at regulated prices through our subsidiaries OOO NOVATEK-Chelyabinsk and OOO NOVATEK-Kostroma, respectively. We disclose such residential sales within our end-customers category.

In 2014, our average natural gas price on end-customers sales increased by 4.8% due to a cumulative increase in the average regulated FTS price by 7.4% as compared to 2013 (the cumulative effect of a decrease of 3.0% from 1 April 2013 and 1.9% effective from 1 January 2014 and an increase of 15.0%, 3.1% and 1.9% effective from 1 July, 1 August and 1 October 2013), that was partially offset by sales to our end-customers located closer to our production fields in the reporting period as compared to 2013. The change in the sales geography also had an impact on the dynamics of our average transportation expense per mcm resulting in a 0.7% decrease although the natural gas transportation tariff set by the FTS increased by 6.4% effective from 1 August 2013 (see “Transportation tariffs” below).

As a result of the change in the sales geography and the reallocation of natural gas sales volumes between customers our average netback price on end-customers sales increased by 9.0%, while our total average natural gas price excluding transportation expense increased by 8.7% compared to the respective prices in 2013.

The following table shows our average realized natural gas sales prices (net of VAT):

<i>Russian roubles per mcm</i>	Year ended 31 December:		Change %
	2014	2013	
Average natural gas price to end-customers ⁽¹⁾	3,527	3,366	4.8%
Average natural gas transportation expense for sales to end-customers	(1,463)	(1,473)	(0.7%)
Average natural gas netback price on end-customer sales	2,066	1,895	9.0%
Average natural gas price ex-field (wholesale traders)	1,833	1,830	0.2%
Total average natural gas price excluding transportation expense	2,052	1,887	8.7%

⁽¹⁾ Includes cost of transportation.

Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices

Crude oil, stable gas condensate, LPG and oil products prices on international markets have historically been volatile depending on, among other things, the balance between supply and demand fundamentals, the ability and willingness of oil producing countries to sustain or change production levels to meet changes in global demand and potential disruptions in global crude oil supplies due to war, geopolitical developments, terrorist activities or natural disasters.

The actual prices we receive for our liquid hydrocarbons on both the domestic and international markets are dependent on many external factors beyond the control of management, such as movements in international benchmark crude oil and oil products prices. Crude oil that we sell bound for international markets is transported through the pipeline system where it is blended with other producers' crude oil of varying qualities to produce an export blend commonly referred to as “Urals blend”, which historically trades at a discount to the international benchmark Brent crude oil. Among many other factors volatile movements in benchmark crude oil and oil products prices can have a positive and/or negative impact on the ultimate prices we receive for our liquids volumes sold on both the domestic and international markets.

Our stable gas condensate and refined products (except domestic sales), LPG (except for ex-works Purovsky Plant and Tobolsk-Neftekhim refining facilities sales) and crude oil prices on both the international and domestic markets include transportation expenses in accordance with the specific terms of delivery.

Stable gas condensate and refined products

There were no sales of stable gas condensate to export markets in 2014 as a result of substantially all stable gas condensate volumes produced at the Purovsky Plant being transferred to the Ust-Luga Complex for the processing into higher value added gas condensate refined products.

In 2013, our average realized stable gas condensate export contract price, including export duties, was USD 904 per ton and our average realized net export price, excluding export duties and translated to US dollars using the average exchange rate for the period, amounted to USD 493.0 per ton.

In 2014, our average realized export contract prices for naphtha and all other gas condensate refined products produced at the Ust-Luga Complex, including export duties, decreased by USD 118 and USD 167 per ton, or 12.1% and 17.6%, to approximately USD 855 and USD 783 per ton, respectively. The decrease in our average realized export contract prices was as a result of a decrease in the underlying commodity prices of the respective products on the international markets used in the price calculation (see “Selected macro-economic data” above).

Our average realized net export price, excluding export duties and translated to US dollars using the average exchange rate for the period, for naphtha and other gas condensate refined products produced at the Ust-Luga Complex in 2014 decreased by USD 145.0 and USD 175.8 per ton, or 22.9% and 24.6%, and amounted to USD 488.5 and USD 538.6 per ton, respectively. Our average realized net export prices in Russian roubles showed a lower decrease due to a 20.6% increase in the average exchange rate of US dollar to Russian rouble in 2014 compared to 2013.

In both reporting periods we sold naphtha and other gas condensate refined products to the export markets at different delivery terms: cost and freight (CFR), priced at cost, insurance and freight (CIF), delivery to the port of destination ex-ship (DES), or delivery at point of destination (DAP) or free on board (FOB) (only in 2013).

In 2014, we sold small volumes of other gas condensate refined products produced at the Ust-Luga Complex domestically at an average price of RR 20,102 per ton. We expect that we will continue to sell small volumes of other gas condensate refined products domestically in 2015 depending on the situation in the domestic and export markets.

The following table shows our average realized stable gas condensate and refined products sales prices, excluding trading activities. Prices are shown net of VAT and export duties, where applicable. Prices in US dollars were translated from Russian roubles using the average exchange rate for the period:

Russian roubles or US dollars per ton	Year ended 31 December:		Change %
	2014	2013	
Stable gas condensate			
Net export price, RR per ton	-	15,703	n/a
Net export price, USD per ton	-	493.0	n/a
Domestic price, RR per ton	12,547	12,979	(3.3%)
Naphtha			
Net export price, RR per ton	18,767	20,176	(7.0%)
Net export price, USD per ton	488.5	633.5	(22.9%)
Other gas condensate refined products			
Net export price, RR per ton	20,692	22,674	(8.7%)
Net export price, USD per ton	538.6	711.9	(24.3%)
Domestic price, RR per ton	20,102	-	n/a

Liquefied petroleum gas

In 2014, our average realized LPG export contract price, including export duties, excise and fuel taxes expense, and excluding trading activities, increased by USD 28 per ton, or 3.5%, and was approximately USD 835 per ton compared to USD 807 per ton in 2013. The increase in our average realized contract price was due to an increase in the underlying benchmark prices for LPG on international markets used in price calculation (see “Selected macro-economic data” above). Despite an increase in the average realized export contract price our average realized LPG net export price, excluding export duties, excise and fuel taxes expense, and translated to US dollars using the average exchange rate for the period, decreased by USD 69.0 per ton, or 11.0%, to USD 555.7 per ton from USD 624.7 per ton due to a significant 24.6% increase in our average export duty per ton set by the Russian Federation government (see “Selected macro-economic data” above). Our average realized LPG net export price in Russian roubles increased by 7.3% due to a 20.6% increase in average exchange rate of US dollar to Russian rouble in 2014 compared to 2013.

In both reporting periods our LPG export delivery terms were DAP at the border of the customer’s country or free carrier (FCA) at terminal points in Poland.

In 2014, our average realized LPG domestic price decreased by RR 658 per ton, or 4.5%, to RR 13,869 per ton from RR 14,527 per ton in 2013 as a result of the commencement of ex-works Purovsky Plant LPG sales effective January 2014 with no additional transportation expenses associated with such sales. In addition, effective June 2014, we started delivering our LPG from the Tobolsk rail station located closer to our end-customers (see “Transportation tariffs” below).

The following table shows our average realized LPG sales prices, excluding trading activities. Prices are shown net of VAT, export duties, excise and fuel taxes expense, where applicable. Prices in US dollars were translated from Russian roubles using the average exchange rate for the period:

<i>Russian roubles or US dollars per ton</i>	Year ended 31 December:		Change %
	2014	2013	
LPG			
Net export price, RR per ton	21,349	19,897	7.3%
Net export price, USD per ton	555.7	624.7	(11.0%)
Domestic price, RR per ton	13,869	14,527	(4.5%)

Crude oil

Our average realized crude oil export contract price, including export duties, decreased by USD 80 per ton, or 10.4%, and was approximately USD 688 per ton compared to USD 768 per ton in 2013. The decrease in our average crude oil contract price was a result of a decrease in Brent benchmark crude oil price on the international markets used in price calculation (see “Selected macro-economic data” above).

Our average realized crude oil net export price, excluding export duties and translated to US dollars using the average exchange rate for the period, decreased by USD 58.4 per ton, or 15.6%, to USD 317.1 per ton from USD 375.5 per ton in 2013. Our average realized crude oil net export price in Russian roubles increased by 1.9% due to a 20.6% increase in average exchange rate of Russian rouble to US dollar in 2014 compared to 2013.

In 2014 and 2013, our crude oil export delivery terms were DAP (Budkovtse, Slovakia). In addition, in 2014, we delivered small volumes of Siberian Light Crude Oil via the new route to the port of Novorossiysk and sold those volumes under FOB delivery terms.

In 2014, our average realized crude oil domestic price was RR 12,561 per ton (excluding VAT) representing an increase of RR 742 per ton, or 6.3%, from RR 11,819 per ton (excluding VAT) in 2013 as a result of changes in customer mix and delivery of crude oil to the more remote regions.

The following table shows our average realized crude oil sales prices, net of VAT and export duties, where applicable. Prices in US dollars were translated from Russian roubles using the average exchange rate for the period:

<i>Russian roubles or US dollars per ton</i>	Year ended 31 December:		Change %
	2014	2013	
Crude oil			
Net export price, RR per ton	12,183	11,959	1.9%
Net export price, USD per ton	317.1	375.5	(15.6%)
Domestic price, RR per ton	12,561	11,819	6.3%

Transportation tariffs

Natural gas

We transport our natural gas through our own pipelines into the Unified Gas Supply System (“UGSS”), which is owned and operated by OAO Gazprom, a Russian Federation government controlled monopoly. Transportation tariffs for the use of the Gas Transmission System (“GTS”), as part of the UGSS, by independent producers are set by the FTS.

In accordance with the existing methodology of calculating transportation tariffs for natural gas produced in the Russian Federation for shipments to consumers located within the customs territory of the Russian Federation and the member states of the Customs Union Agreement (Belarus, Kazakhstan, Kyrgyzstan and Tajikistan), the transportation tariff consists of two parts: a rate for the utilization of the trunk pipeline and a transportation rate per mcm per 100 kilometers (km). The rate for utilization of the trunk pipeline is based on an “input/output” function, which is determined by where natural gas enters and exits the trunk pipeline and includes a constant rate for end-customers using Gazprom’s gas distribution systems. The constant rate is deducted from the utilization rate for end-customers using non-Gazprom gas distribution systems.

From the beginning of 2013, the transportation rate was set at RR 12.02 (excluding VAT) per mcm per 100 km, and the rate for utilization of the trunk pipeline was set on an average between RR 50.78 to RR 1,995.44 (excluding VAT) per mcm. Effective 1 August 2013, the FTS approved a 6.4% average increase of the transportation tariff for natural gas. As a result, the transportation rate was increased to RR 12.79 (excluding VAT) per mcm per 100 km and the rate for utilization of the trunk pipeline was set on an average between RR 57.18 to RR 2,048.11 (excluding VAT) per mcm. The transportation tariffs for natural gas did not change during 2014.

According to the Ministry of Economic Development Forecast of the Russian Federation published in September 2014, transportation tariffs for natural gas produced by independent producers in 2015, 2016 and 2017 will not exceed the increase in wholesale natural gas prices and will be increased by 7.5%, by 5.5% and by 3.6%, respectively. In addition, in 2015 to 2017 it is planned to implement the long-term (from 3 to 5 years) tariffs regulation for natural gas transportation through the gas distribution systems.

Stable gas condensate and LPG by rail

We transport our stable gas condensate from the Purovsky Plant to the Port of Ust-Luga on the Baltic Sea (and to the Port of Vitino on the White Sea in 2013) and to customers on the domestic markets by rail which is owned by Russia’s state-owned monopoly railway operator – OAO Russian Railways (“RZD”). The launch of our Ust-Luga Complex resulted in a decrease in our average stable gas condensate transport distance to further processing due to the route from the Purovsky Plant to the Port of Ust-Luga being almost 400 kilometers less than the route to the Port of Vitino.

We formerly transported all of our LPG by rail from the Purovsky Plant to our end customers, but starting from January 2014, we commenced selling part of our produced LPG ex-works Purovsky Plant, and from April 2014 began dispatching LPG via pipeline for further processing at the Tobolsk-Neftekhim facilities as a result of the change in our LPG sales and logistics arrangement (see “Recent developments” above). From June 2014, we completely ceased LPG railroad transportation from the Purovsky Plant and commenced transporting LPG to our end-customers from the Tobolsk rail station located near the Tobolsk-Neftekhim facilities thus decreasing our LPG rail transportation distance.

The railroad transportation tariffs are set by the FTS and vary depending on the type of a product, direction and the length of the transport route.

In December 2012, the FTS made amendments to the regulations governing railroad transportation tariffs within the territory of the Russian Federation, and approved the terms and conditions of applying the railroad tariffs within the predetermined limits. According to the amendments, the FTS sets the range of railroad tariffs (the minimum and maximum range) for the transportation of all types of goods transported by the railroad system and for certain segments of railroad services within which the monopoly railway operator RZD may vary railroad transportation tariffs based on the type of product, direction and length of the transportation route taking into account current railroad transportation and market conditions.

In 2013 and 2014, the FTS did not change the range of railroad tariffs. Effective 1 January 2015, the FTS increased railroad freight transportation tariffs by 10% in accordance with the Ministry of Economic Development Forecast published in September 2014.

Effective 18 April 2013, we applied the discount co-efficient of 0.917 to the existing railroad transportation tariffs related to stable gas condensate deliveries from the Limbey rail station set by the Management Board of RZD in March of the same year. Starting from January 2014 the discount co-efficient was set at 0.94 to the existing railroad transportation tariffs and will be in effect until the end of 2014. In December 2014, the Management Board of RZD extended the validity of the discount co-efficient of 0.94 to the existing railroad transportation tariffs related to stable gas condensate deliveries from the Limbey rail station. We will apply the discount co-efficient during the whole year of 2015.

Effective 9 August 2014, RZD, within the range of railroad tariffs set by FTS, increased railroad transportation tariffs within the Russian Federation territory for LPG deliveries to the export markets by 13.4%.

For our stable gas condensate and LPG transportation purposes we use our own rail cars and rail cars provided by independent Russian transportation companies.

Stable gas condensate and refined products by tankers

In 2013, we delivered our stable gas condensate to international markets via the Port of Vitino on the White Sea and the Port of Ust-Luga on the Baltic Sea using chartered tankers. After the launch of the Ust-Luga Complex in June 2013, we deliver stable gas condensate refined products (naphtha, jet fuel, gasoil and fuel oil) to international markets by tankers via the loading terminal at the Port of Ust-Luga on the Baltic Sea. The tanker transportation cost is determined by the distance to the final destination, tanker availability, seasonality of deliveries and standard shipping terms.

Crude oil

We transport practically all of our crude oil through the pipeline network owned by Transneft, Russia's state-owned monopoly crude oil pipeline operator. The FTS sets tariffs for transportation of crude oil through Transneft's pipeline network, which includes transport, dispatch, pumping, loading, charge-discharge, transshipment and other related services. The FTS sets tariffs for each separate route of the pipeline network, so the overall expense for the transport of crude oil primarily depends on the length of the transport route from the producing fields to the ultimate destination, transportation direction and other factors.

In both reporting periods crude oil transportation tariffs within the Russian Federation territory did not change. Effective 1 January 2015, the FTS increased crude oil transportation tariffs within the Russian Federation territory through pipeline network owned by Transneft by an average of 6.75%.

Our tax burden and obligatory payments

We are subject to a wide range of taxes imposed at the federal, regional, and local levels, many of which are based on revenue or volumetric measures. In addition to income tax, significant taxes to which we are subject include VAT, unified natural resources production tax ("UPT", commonly referred as "MET" – mineral extraction tax), export duties, property tax, payments to non-budget funds and other contributions.

In practice, Russian tax authorities often have their own interpretation of tax laws that rarely favors taxpayers, who have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to an inspection of their activities for a period of three calendar years immediately preceding the year in which the audit is conducted. Previous audits do not completely exclude subsequent claims relating to the audited period. In addition, in some instances, new tax regulations may have a retroactive effect.

We have not employed any tax minimization schemes using offshore or domestic tax zones in the Russian Federation.

UPT

Prior to 1 July 2014, the UPT rate for natural gas and gas condensate was set at a fixed rate by the Tax Code of the Russian Federation. The UPT rate for natural gas produced by independent natural gas producers was determined by a stated base rate and a reducing co-efficient for independent natural gas producers. Effective from 1 January 2013, the UPT rate for independent natural gas producers was set at RR 265 per mcm and was increased to RR 402 per mcm effective from 1 July 2013, and to RR 471 per mcm from 1 January 2014. In 2013, the UPT rate for gas condensate was set at RR 590 per ton and was increased to RR 647 per ton effective from 1 January 2014.

In September 2013, the State Duma of the Russian Federation approved the amendments to the Russian Federation Tax Code that substituted the current approach to natural gas and gas condensate UPT rate calculation based on a fixed rate with a new approved formula-based approach. Effective 1 July 2014, the UPT rates for natural gas and gas condensate are calculated according to a formula based on which the base UPT rate is multiplied by the base value of a standard fuel equivalent and a co-efficient characterizing the difficulty of extracting natural gas and gas condensate from each particular field. Furthermore, from 1 January 2015, the UPT rate for natural gas also depends on the excess of the set average transportation tariff for the prior year over the 2013 tariff adjusted to the change in consumer prices. The base UPT rate is set at RR 35 per one thousand cubic meters of extracted natural gas and at RR 42 per one ton of extracted gas condensate. The base value of a standard fuel equivalent is calculated monthly and depends, among other parameters, on natural gas prices, Urals crude oil prices and crude oil export duty rate. A co-efficient characterizing the difficulty of extracting natural gas and gas condensate defined as a minimum value from the co-efficients characterizing either the reserves' depletion, the field's geographical location, the deposit's (or reservoir's) depth, assignment of the field to the regional gas supply chain or particular features of certain field deposits development.

In addition, in June 2014, the State Duma of the Russian Federation approved changes to the Tax Code of the Russian Federation which set a zero UPT rate effective from 1 January 2015 for natural gas and gas condensate produced at fields located fully or partially in the Gydan Peninsula in YNAO and used exclusively for production of LNG. Zero UPT rates for each field are to remain in force for the cumulative production volumes of natural gas and gas condensate up to 250 bcm and 20 million tons, respectively, but not more than 12 years from the production commencement.

During the years of 2013 and 2014, the UPT rate for crude oil was calculated each month by multiplying the base UPT rate and co-efficients characterizing crude oil world price dynamics and production peculiarities (reserve depletion and the amount of reserves for a particular field, the difficulty of extracting and reserve depletion of a particular hydrocarbon deposit). The base crude oil UPT rate in 2013 was set at RR 470 per ton and increased to RR 493 per ton effective 1 January 2014. The UPT rate for crude oil is calculated in US dollar and translated into Russian roubles using the monthly average exchange rate established by the Central Bank of Russian Federation.

The Tax Code of the Russian Federation provides for reduced or zero UPT rate for crude oil produced in certain geographical areas of Russian Federation. According to the Russian Tax Code a zero UPT rate is set for crude oil produced at fields located fully or partially in the YNAO to the north of the 65th degree of the northern latitude effective from 1 January 2012. Our Yurkharovskoye, East-Tarkosalinskoye and Khancheykskoye fields are located in the mentioned geographical areas; therefore, we applied the zero UPT rate for crude oil produced at these fields.

In November 2014, as part of the tax maneuver in the oil industry, the State Duma of the Russian Federation adopted a federal law №366-FZ "Concerning introducing changes to the second part of the Tax Code of the Russian Federation and certain legislative acts of the Russian Federation" which envisages the increase in national budgetary income as a result of the phased (during three (3) years) increases in UPT rates with a simultaneous decrease in excise taxes and export duties. As a result of these changes, the UPT rate for gas condensate was increased by 4.4, 5.5 and 6.5 times from 1 January 2015, 2016 and 2017, respectively, in relation to 2014 UPT rate.

As a result of the changes in the Tax Code of the Russian Federation, effective from 1 January 2015, the UPT rate for crude oil is calculated as the base UPT rate multiplied by a co-efficient characterizing the dynamics of world crude oil prices decreased by a co-efficient characterizing crude oil production peculiarities. The base crude oil UPT rate in 2015 is set as RR 766 and increased to RR 857 and RR 919 per ton effective from 1 January 2016 and 2017, respectively. For crude oil produced by the Group from the fields located fully or partially in the YNAO to the north of the 65th degree of the northern latitude, effective from 1 January 2015, the UPT rate is calculated using a base rate of RR 236 per ton (the rate will increase to RR 298 and RR 360 per ton from 1 January 2016 and 2017, respectively) multiplied by a co-efficient characterizing the dynamics of world crude oil prices.

Export duties

According to the Law of the Russian Federation “Concerning the Customs Tariff” we are subject to export duties on our exports of liquid hydrocarbons (stable gas condensate and refined products, LPG and crude oil). Formulas for export duty rates calculation are set by the Russian Federation government. Based on the set formulas the Ministry of Economic Development calculates and publishes export duty rates on a monthly basis for exported liquid hydrocarbons (see “Selected macro-economic data” above).

The export duty rate for stable gas condensate and crude oil is calculated based on the average Urals crude oil price for the period from the 15th calendar day in the previous month to the 14th calendar day of the current month and is set for the following month after the current calendar month. In 2013, calculation of the export duty rate when the average Urals crude oil price is more than USD 182.5 per ton was set as follows: USD 29.2 plus 60% of the difference between the average Urals crude oil price and USD 182.5 per ton. The set percentage of the difference used in the formula was decreased from 60% to 59%. Changes in the regulations, which became effective 1 January 2015, decreased the set percentage as part of the tax maneuver (see above) to 42%, 36% and 30% in 2015, 2016 and 2017, respectively.

The export duty rate for LPG is calculated based on the average LPG price at the Polish border (DAF, Brest) for the period from the 15th calendar day in the previous month to the 14th calendar day of the current month and is set for the following month after the current calendar month.

The export duty rate for oil products is calculated based on the export duty rate for crude oil and is adjusted by a co-efficient set for each category of oil products. The export duty rates for our exported gas condensate refined products as a percentage of the crude oil export duty rate are presented below:

<i>Co-efficients, % from the crude oil export duty rate</i>	2013	2014	2015	2016	2017 and further
Naphtha	90%	90%	85%	71%	55%
Jet fuel	66%	66%	48%	40%	30%
Gasoil	66%	65%	48%	40%	30%
Fuel oil	66%	66%	76%	82%	100%

The phased decrease in export duty rates for crude oil and oil products (except fuel oil) is implemented as part of the tax maneuver in the oil industry with a simultaneous increase in the UPT rates for gas condensate and crude oil (see above).

Social insurance tax

In 2013 and 2014, the social insurance tax rates for contributions to the Pension Fund of the Russian Federation, the Federal Compulsory Medical Insurance Fund and the Social Insurance Fund of the Russian Federation paid by the employer on behalf of employees did not change and were set at 22.0%, 5.1% and 2.9%, respectively, for a cumulative social burden of 30.0%. The maximum taxable base for these rates per employee was set at RR 568 thousand of annual income in 2013 and was increased to RR 624 thousand of annual income in 2014. For annual income above the maximum taxable base, the tax rate was set to 10.0% to the Pension Fund and nil for other funds.

In 2015, social insurance tax rates to non-budgetary funds will not change; however, the maximum taxable base will only be accepted for contributions to the Pension Fund of the Russian Federation (increased to RR 711 thousand of annual income) and to the Social Insurance Fund of the Russian Federation (increased to RR 670 thousand of annual income). Contribution to the Federal Compulsory Medical Insurance Fund in 2015 will be applied at a 5.1% tax rate regardless of the employee’s annual income.

OIL AND GAS RESERVES

We do not file with the Securities and Exchange Commission (“SEC”) nor are obliged to report our reserves in compliance with these standards. However, we have consistently disclosed proved oil and gas reserves as unaudited supplemental information in the Group’s IFRS audited consolidated financial statements. The Group’s total proved reserves, comprised of proved developed and proved undeveloped reserves as of 31 December 2014 and 2013, are provided using the SEC reserves reporting classification. We also provide additional information about our hydrocarbon reserves based on the widely-industry accepted PRMS reserves reporting classification, which in addition to total proved reserves discloses information on our probable and possible reserves. Our reserves estimates are appraised annually by the Group’s independent petroleum engineers, DeGolyer and MacNaughton (“D&M”).

Proved reserves disclosed in the *“Unaudited Supplemental Oil and Gas Disclosures”* in the Group’s IFRS consolidated financial statements are presented under SEC reserve reporting methodology based on 100% of the reserves attributable to all consolidated subsidiaries (whether or not wholly owned), as well as our proportionate share of proved reserves in companies accounted for by the equity method based on our equity ownership interest.

Our total SEC proved reserves, as presented in the tables below, differ from the total net proved reserves as reported in the *“Unaudited Supplemental Oil and Gas Disclosures”* in the Group’s IFRS consolidated financial statements, in that total net proved reserves as presented in the Group’s IFRS consolidated financial statements include net proved reserves of natural gas and liquids attributable to non-controlling interest in our subsidiaries. Thus the proved reserves disclosure in this report differs from the proved reserves disclosure in the consolidated financial statements, and reconciliation of our reserves is provided.

The tables below provide a comparison of the Group's estimated proved reserves under SEC and PRMS reserve classifications attributable to all consolidated subsidiaries and joint ventures based on the Group's equity ownership interest in the respective fields.

	Natural gas			
	SEC		PRMS	
	Billions of cubic feet	Billions of cubic meters	Billions of cubic feet	Billions of cubic meters
<i>Based on our equity ownership interest in the fields</i>				
Total proved reserves at 31 December 2012	62,087	1,758	77,514	2,195
<i>including subsidiaries</i>	38,324	1,085	44,062	1,248
<i>including joint ventures</i>	23,763	673	33,452	947
Changes attributable to:				
Revisions of previous estimates, extensions and discoveries	2,899	82	1,880	53
Acquisitions ⁽¹⁾	5,699	161	7,727	219
Disposals ⁽²⁾	(7,073)	(200)	(9,349)	(265)
Production	(2,157)	(61)	(2,157)	(61)
Total proved reserves at 31 December 2013	61,455	1,740	75,615	2,141
<i>including subsidiaries</i>	36,824	1,042	42,622	1,207
<i>including joint ventures</i>	24,631	698	32,993	934
Changes attributable to:				
Revisions of previous estimates, extensions and discoveries	3,240	92	2,456	69
Acquisitions in 2013 ⁽³⁾	24	1	559	16
Disposals ⁽⁴⁾	(841)	(24)	(1,066)	(30)
Production	(2,192)	(62)	(2,192)	(62)
Total proved reserves at 31 December 2014	61,686	1,747	75,372	2,134
<i>including subsidiaries</i>	35,807	1,014	42,063	1,191
<i>including joint ventures</i>	25,879	733	33,309	943
Plus: non-controlling interest	149	4		
Total proved reserves at 31 December 2014 per the consolidated financial statements	61,835	1,751		

⁽¹⁾ Acquisitions represent reserves attributable to the East-Tazovskoye field acquired in March 2013, as well as acquisition of additional shares of our joint ventures Nortgas and SeverEnergiya acquired in June and December 2013, respectively.

⁽²⁾ Disposals represent reserves related to the sale of a 51% ownership interest in Sibneftegas and a 20% ownership interest in Yamal LNG in December 2013.

⁽³⁾ Acquisitions in 2013 represent natural gas reserves related to the expansion of Geofizicheskoye field borders in November 2013, which was assessed in 2014.

⁽⁴⁾ Disposals represent reserves related to the sale of a 4.9% effective interest in our joint venture SeverEnergiya in March 2014.

<i>Based on our equity ownership interest in the fields</i>	Crude oil, gas condensate and natural gas liquids			
	SEC		PRMS	
	Millions of barrels	Millions of metric tons	Millions of barrels	Millions of metric tons
Total proved reserves at 31 December 2012	896	106	1,242	149
<i>including subsidiaries</i>	526	63	706	86
<i>including joint ventures</i>	370	43	536	63
Changes attributable to:				
Revisions of previous estimates, extensions and discoveries	98	10	64	6
Acquisitions ⁽¹⁾	236	27	375	43
Disposals ⁽²⁾	(34)	(4)	(51)	(6)
Production	(40)	(5)	(40)	(5)
Total proved reserves at 31 December 2013	1,156	134	1,590	187
<i>including subsidiaries</i>	485	58	649	79
<i>including joint ventures</i>	671	76	941	108
Changes attributable to:				
Revisions of previous estimates, extensions and discoveries	89	11	(11)	(1)
Disposals ⁽³⁾	(40)	(4)	(55)	(6)
Production	(51)	(6)	(51)	(6)
Total proved reserves at 31 December 2014	1,154	135	1,473	174
<i>including subsidiaries</i>	474	57	608	74
<i>including joint ventures</i>	680	78	865	100
Plus: non-controlling interest	38	5		
Total proved reserves at 31 December 2014 per the consolidated financial statements	1,192	140		

⁽¹⁾ Acquisitions represent reserves attributable to the East-Tazovskoye field acquired in March 2013, as well as acquisition of additional shares of our joint ventures Nortgas and SeverEnergiya acquired in June and December 2013, respectively.

⁽²⁾ Disposals represent reserves related to the sale of a 51% ownership interest in Sibneftegas and a 20% ownership interest in Yamal LNG in December 2013.

⁽³⁾ Disposals represent reserves related to the sale of a 4.9% effective interest in our joint venture SeverEnergiya in March 2014.

The following table provides for our combined SEC and PRMS proved reserves on a total barrel of oil equivalent basis.

<i>Based on our equity ownership interest in the fields</i>	Combined natural gas, crude oil, gas condensate and natural gas liquids in millions of barrels of oil equivalent	
	SEC	PRMS
Total proved reserves:		
At 31 December 2012	12,394	15,597
At 31 December 2013	12,537	15,593
At 31 December 2014	12,578	15,431
<i>including subsidiaries</i>	7,105	8,397
<i>including joint ventures</i>	5,473	7,034

As of 31 December 2014, the Group's SEC proved reserves attributable to all consolidated subsidiaries and joint ventures based on the Group's equity ownership interest in the respective fields aggregated approximately 1.75 trillion cubic meters ("tcm") of natural gas and 135 million tons of crude oil, gas condensate and natural gas liquids. Combined, these proved reserves represent approximately 12.58 billion barrels of oil equivalent.

A slight increase in our total SEC proved reserves in barrels of oil equivalent basis from 12.54 billion to 12.58 billion barrels of oil equivalent in 2014 was primarily due to the increase in our natural gas reserves by seven (7) billion cubic meters to 1,747 billion cubic meters related to revisions of previous estimates, extensions and discoveries in our SeverEnergiya joint venture, discoveries of reserves at our Salmanovskoye (Utrenneye) field as well as the acquisition of natural gas related to the expansion of Geofizicheskoye field borders, which was assessed in 2014. The increase was mostly offset by a disposal of a 4.9% effective ownership interest in our joint venture SeverEnergiya as well as increased production of natural gas and liquid hydrocarbons in our joint ventures as a result of the launch of additional production capacities (see “Recent developments” above).

As we continue to invest capital into the development of our fields, we anticipate that we will increase our resource base as well as migrate reserves among the reserve categories.

The PRMS reserve classification standards allows for the reporting of reserves estimates for probable and possible reserves as presented in the following table:

<i>Under PRMS classification (based on our equity ownership interest in the fields)</i>	Natural gas		Crude oil, gas condensate and natural gas liquids	
	<i>Billions of cubic feet</i>	<i>Billions of cubic meters</i>	<i>Millions of barrels</i>	<i>Millions of metric tons</i>
Probable reserves:				
At 31 December 2012	32,168	911	801	98
At 31 December 2013	34,760	984	1,055	126
At 31 December 2014	34,895	988	992	119
<i>including subsidiaries</i>	<i>22,837</i>	<i>647</i>	<i>477</i>	<i>58</i>
<i>including joint ventures</i>	<i>12,058</i>	<i>341</i>	<i>515</i>	<i>61</i>
Possible reserves:				
At 31 December 2012	24,664	698	1,193	146
At 31 December 2013	23,649	670	1,390	171
At 31 December 2014	23,553	666	1,364	170
<i>including subsidiaries</i>	<i>14,548</i>	<i>411</i>	<i>601</i>	<i>75</i>
<i>including joint ventures</i>	<i>9,005</i>	<i>255</i>	<i>763</i>	<i>95</i>

The increase in the Group’s PRMS natural gas probable reserves during 2014 was primarily due to the increased probable reserves at our Geofizicheskoye and Yarudeyskoye fields while our liquid hydrocarbons reserves decreased mostly due to the sale of a 4.9% effective share in our SeverEnergiya joint venture.

The Group’s reserves are located in the Russian Federation, in the Yamal-Nenets Autonomous Region (Western Siberia), thereby representing one geographical area.

The below table contains information about reserve/production ratios for the years ended 31 December 2014 and 2013 under both reserves reporting methodologies based on our equity ownership interest in the fields attributable to consolidated subsidiaries and joint ventures:

<i>Number of years (based on our equity ownership interest in the fields)</i>	SEC		PRMS	
	At 31 December: 2014	2013	At 31 December: 2014	2013
Total proved reserves to production	28	29	34	36
Total proved and probable reserves to production	-	-	50	53
Total proved, probable and possible reserves to production	-	-	63	66

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

The Group provides D&M annually with engineering, geological and geophysical data, actual production histories and other information necessary for reserve appraisal. 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. Our reserves estimates were prepared using standard geological and engineering methods generally accepted in the petroleum industry. The Group and D&M's technical staffs meet to review and discuss the information provided, and upon completion of the process, senior management reviews and approves the final reserves estimates issued by D&M.

The Reserves Management and Assessment Group ("RMAG") is comprised of qualified technical staff from various departments – geological and geophysical, gas and liquids commercial operations, capital construction, production, financial planning and analysis and includes technical and financial representatives from the Group's subsidiaries, which are the principal holders of the mineral licenses. The person responsible for overseeing the work of the RMAG is a member of the Management Board.

The approval of the final reserve estimates is the sole responsibility of the Group's senior management.

OPERATIONAL HIGHLIGHTS

Oil and Gas Production Costs

Oil and gas production costs are derived from our results of operations for oil and gas producing activities as reported in the “*Unaudited Supplemental Oil and Gas Disclosures*” in our consolidated financial statements and relate to the fields of our consolidated subsidiaries. Oil and gas production costs do not include general corporate overheads or their associated tax effects. The following tables set forth certain operating information with respect to our oil and gas production costs during the years presented in millions of Russian roubles and on a barrel of oil equivalent (boe) basis in Russian roubles and US dollars:

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Production costs:			
Lifting costs	7,177	7,103	1.0%
Taxes other than income tax	29,035	21,296	36.3%
Transportation expenses	87,043	87,157	(0.1%)
Total production costs before DDA	123,255	115,556	6.7%
Depreciation, depletion and amortization (“DDA”)	15,913	12,274	29.6%
Total production costs	139,168	127,830	8.9%
<i>RR per boe</i>	Year ended 31 December:		Change %
	2014	2013	
Production costs:			
Lifting costs	18.9	18.8	0.5%
Taxes other than income tax	76.4	56.4	35.5%
Transportation expenses	229.1	230.8	(0.7%)
Total production costs before DDA	324.4	306.0	6.0%
Depreciation, depletion and amortization	41.9	32.6	28.5%
Total production costs	366.3	338.6	8.2%
<i>USD per boe ⁽¹⁾</i>	Year ended 31 December:		Change %
	2014	2013	
Production costs:			
Lifting costs	0.49	0.59	(16.9%)
Taxes other than income tax	1.99	1.77	12.4%
Transportation expenses	5.96	7.25	(17.8%)
Total production costs before DDA	8.44	9.61	(12.2%)
Depreciation, depletion and amortization	1.09	1.02	6.9%
Total production costs	9.53	10.63	(10.3%)

⁽¹⁾ Production costs in US dollars per boe were translated from Russian roubles per boe using the average exchange rate for the period (see “Selected macro-economic data” above).

Oil and gas production costs represent the amounts directly related to the extraction of natural gas, gas condensate and crude oil from the reservoir and other related costs; including production expenses, taxes other than income tax (unified natural resources production tax, property tax and other taxes), insurance expenses and shipping, transportation and handling costs to end-customers. The average production cost on a barrel of oil equivalent basis is calculated by dividing the applicable costs by the respective barrel of oil equivalent of our hydrocarbons produced during the year. Natural gas, gas condensate and crude oil volumes produced by our fields are converted to a barrel of oil equivalent based on the relative energy content of each fields’ hydrocarbons.

Our lifting costs, as presented in the tables above, differ from lifting costs as reflected in the “*Unaudited Supplemental Oil and Gas Disclosures*” in the Group’s IFRS consolidated financial statements, in that the lifting costs as presented in the Group’s IFRS consolidated financial statements include changes in balances of natural gas and hydrocarbon liquids to more appropriately match costs incurred to revenues under the IFRS matching principles. A reconciliation of lifting costs as reflected in the “*Unaudited Supplemental Oil and Gas Disclosures*” in the Group’s IFRS consolidated financial statements is set forth below:

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Lifting costs presented in “Oil and Gas Production Costs” above	7,177	7,103	1.0%
Change in balances of natural gas and hydrocarbon liquids stated at cost in the Group’s Consolidated Statement of Financial Position	1,019	1,927	(47.1%)
Lifting costs per “Unaudited Supplemental Oil and Gas Disclosures”	8,196	9,030	(9.2%)

Hydrocarbon production and sales volumes

Our natural gas sales volumes in 2014 increased by 3,079 mmcm, or 4.8%, due to increased volumes of natural gas withdrawn from the Underground Gas Storage Facilities (“UGSF”) with relatively stable volumes of injection compared to 2013. Furthermore, increased sales volumes were a result of the natural gas production growth at our Olimpiyskiy license area and the Yurkharovskoye field, as well as an increase in the natural gas production in our Nortgas joint venture.

Our liquids sales volumes increased significantly by 1,651 thousand tons, or 30.4%, due to an increase in production of unstable gas condensate in our joint ventures and crude oil production in our subsidiaries. At the same time, our liquids inventory balances as of 31 December 2014 increased compared to 31 December 2013 whereas in 2013 our liquids inventory balance decreased. Our liquids inventory balances tend to fluctuate periodically due to loading schedules and delivery points of our liquid hydrocarbons.

Natural gas production volumes

In 2014, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 913 mmcm, or 1.5%, to 62,129 mmcm from 61,216 mmcm in 2013 due to an increase in our subsidiaries and joint ventures production that was mostly offset by the disposal of our joint venture OAO Sibneftegas in December 2013.

<i>millions of cubic meters</i>	Year ended 31 December:		Change %
	2014	2013	
Production by subsidiaries from:			
Yurkharovskoye field	38,154	37,775	1.0%
East-Tarkosalinskoye field	10,348	10,946	(5.5%)
Khancheyevskoye field	2,933	3,256	(9.9%)
Other fields	1,163	237	390.7%
Total natural gas production by subsidiaries	52,598	52,214	0.7%
Group’s proportionate share in the production of joint ventures:			
Nortgas	5,402	2,382	126.8%
SeverEnergia	4,129	1,224	237.3%
Sibneftegas	-	5,396	n/a
Total Group’s proportionate share in the natural gas production of joint ventures	9,531	9,002	5.9%
Total natural gas production including proportionate share in the production of joint ventures	62,129	61,216	1.5%

In 2014, total volumes of natural gas produced by our subsidiaries increased by 384 mmcm, or 0.7%, to 52,598 mmcm from 52,214 mmcm in 2013 mainly due to the launch at the end of 2013 of Urengoykskoye and Dobrovolskoye fields, located within the Olimpiyskiy license area, production of which is included in the line “Other fields” in the table above, as well as an increased production from cenomanian layers at our Yurkharovskoye field. At the same time, our production at East-Tarkosalinskoye and Khancheykskoye fields decreased as a result of the natural decline in the reservoir pressure at the current gas producing horizons.

In 2014, our proportionate share in the production of our joint ventures increased by 529 mmcm, or 5.9%, to 9,531 mmcm from 9,002 mmcm in 2013. Our proportionate share in the production of Nortgas significantly increased due to the launch of the Eastern dome of the North-Urengoykskoye field in October 2013. The significant increase in our proportionate share in the production of SeverEnergia was influenced by an increase in the effective share in SeverEnergia from 25.5% to 54.9%, commencement of production at the Urengoykskoye field effective in April 2014, as well as the launch of the third phase of the Samburgskoye field in September 2014 (see “Recent developments” above). The increase in the production of our joint ventures completely offset the volumes disposed due to the sale of Sibneftegas in December 2013.

Natural gas sales volumes

In 2014, our total natural gas sales volumes increased by 3,079 mmcm, or 4.8%, to 67,231 mmcm from 64,152 mmcm in 2013.

<i>millions of cubic meters</i>	Year ended 31 December:		Change %
	2014	2013	
Natural gas production by subsidiaries	52,598	52,214	0.7%
Purchases from the Group’s joint ventures	5,402	7,799	(30.7%)
Other purchases	7,165	6,443	11.2%
Total production and purchases	65,165	66,456	(1.9%)
Purovsky Plant, own usage and methanol production	(181)	(137)	32.1%
Decrease (increase) in GTS, UGSF and own pipeline infrastructure	2,247	(2,167)	n/a
Total natural gas sales volumes	67,231	64,152	4.8%
<i>Sold to end-customers</i>	<i>63,281</i>	<i>57,021</i>	<i>11.0%</i>
<i>Sold ex-field</i>	<i>3,950</i>	<i>7,131</i>	<i>(44.6%)</i>

In 2014, natural gas purchases from our joint ventures decreased to 5,402 mmcm from 7,799 mmcm in 2013 due to the disposal of our equity interest in Sibneftegas in December 2013.

Other natural gas purchases increased by 722 mmcm, or 11.2%, due to increased purchases from SIBUR and third parties. Other natural gas purchases are included in our natural gas volumes for sale, which allows us to coordinate sales across geographic regions as well as optimizing customers’ portfolios.

In 2014, we used 78 mmcm of natural gas as feedstock for the production of methanol compared to 77 mmcm in 2013. A significant portion of the methanol we produce is used for our own internal purposes to prevent hydrate formation during the production, preparation and transportation of hydrocarbons.

As of 31 December 2014, our natural gas inventory balance in the GTS, the UGSF and our own pipeline infrastructure comprised 1,049 mmcm and decreased by 2,247 mmcm during the year as compared to an increase by 2,167 mmcm in 2013. Decreased natural gas inventory balances in 2014 was a result of the increased demand for natural gas from our end-customers during the winter period, while increased inventory balances of natural gas in 2013 was related to an abnormally warm winter in Russian Federation in the fourth quarter of 2013 (see “Change in natural gas, liquid hydrocarbons and work-in-progress” below).

Liquids production volumes

In 2014, our total liquids production (including our proportionate share in the production of joint ventures) increased by 1,285 thousand tons, or 27.0%, to 6,036 thousand tons from 4,751 thousand tons in 2013.

thousands of tons	Year ended 31 December:		Change %
	2014	2013	
Production by subsidiaries from:			
Yurkharovskoye field	2,496	2,712	(8.0%)
East-Tarkosalinskoye field	1,293	1,094	18.2%
Khancheyskoye field	445	483	(7.9%)
Other fields	106	38	178.9%
Total liquids production by subsidiaries			
<i>including gas condensate</i>	3,272	3,582	(8.7%)
<i>including crude oil</i>	1,068	745	43.4%
Group's proportionate share in the production of joint ventures:			
SeverEnergia	1,063	174	n/m
Nortgas	633	250	153.2%
Total Group's proportionate share in the liquids production of joint ventures	1,696	424	300.0%
Total liquids production including proportionate share in the production of joint ventures	6,036	4,751	27.0%

In 2014, the volumes of liquids produced by our subsidiaries slightly increased by 13 thousand tons, or 0.3%, whereby a decrease in gas condensate production was completely offset by an increase in crude oil production. In 2014, we ramped up crude oil production due to the production growth at the East-Tarkosalinskoye and Khancheyevskoye fields resulting from new wells drilled and technological works performed to increase the crude oil production flow rates. Gas condensate production at our mature fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyevskoye) decreased due to the natural declines in the concentration of gas condensate as a result of decreasing reservoir pressure at the current gas condensate producing horizons. The decrease in gas condensate production was partially offset by the launch at the end of 2013 of the Dobrovolskoye field, located within the Olimpiyskiy license area (the production at this field is included in the line "Other fields" in the table above).

In 2014, our proportionate share in liquids production of joint ventures increased by 1,272 thousand tons to 1,696 thousand tons from 424 thousand tons in 2013 due to the launch of additional production facilities by our joint ventures, as well as an increase in the effective share in SeverEnergia from 25.5% to 54.9% (see "Recent Developments" above).

Liquids sales volumes

In 2014, our total liquids sales volumes increased by 1,651 thousand tons, or 30.4%, to 7,089 thousand tons from 5,438 thousand tons in the corresponding period in 2013.

<i>thousands of tons</i>	Year ended 31 December:		Change %
	2014	2013	
Liquids production by subsidiaries	4,340	4,327	0.3%
Purchases from the Group's joint ventures	3,180	1,170	171.8%
Other purchases	49	15	226.7%
Total production and purchases	7,569	5,512	37.3%
Losses and own usage ⁽¹⁾	(276)	(102)	170.6%
Filling the system of processing facilities and pipelines at the Ust-Luga Complex	-	(3)	n/a
Decreases (increases) in liquids inventory balances	(204)	31	n/a
Total liquids sales volumes	7,089	5,438	30.4%
<i>Naphtha export</i>	3,319	1,328	149.9%
<i>Other gas condensate refined products export</i>	1,096	278	294.2%
<i>Other gas condensate refined products domestic</i>	23	-	n/a
Subtotal gas condensate refined products	4,438	1,606	176.3%
<i>LPG export</i>	559	576	(3.0%)
<i>LPG domestic</i>	875	502	74.3%
Subtotal LPG	1,434	1,078	33.0%
<i>Crude oil export</i>	313	231	35.5%
<i>Crude oil domestic</i>	590	396	49.0%
Subtotal crude oil	903	627	44.0%
<i>Stable gas condensate export</i>	-	1,973	n/a
<i>Stable gas condensate domestic</i>	303	144	110.4%
Subtotal stable gas condensate	303	2,117	(85.7%)
<i>Other oil products domestic</i>	11	10	10.0%
Subtotal other oil products	11	10	10.0%

⁽¹⁾ Losses associated with processing at the Purovsky Plant, the Ust-Luga Complex and Tobolsk-Neftekhim, as well as during railroad, trunk pipeline and tanker transportation.

In 2014, our purchases of liquid hydrocarbons from joint ventures increased by 2,010 thousand tons, or 171.8%, and related to a significant increase in our purchases of unstable gas condensate from SeverEnergia resulting from the commencement of production at the Urengoykoye field effective April 2014 and the launch of the third phase of the Samburgskoye field in September 2014, as well as an increase in unstable gas condensate purchases from Nortgas resulting from the launch of the Eastern dome of the North-Urengoykoye field in October 2013.

Other purchases increased by 34 thousand tons and represent purchases of oil products and LPG for resale (see "Purchases of natural gas and liquid hydrocarbons" below).

From July 2013, most of our stable gas condensate produced at the Purovsky Plant was sent as raw material feedstock to the Ust-Luga Complex for further processing. As a result, there were no stable gas condensate sales to export markets in 2014. Jet fuel, gasoil and fuel oil sales volumes received from the processing of stable gas condensate are disclosed as "Other gas condensate refined products export" and "Other gas condensate refined products domestic".

Our liquids inventory balances significantly increased to 739 thousand tons as of 31 December 2014 as compared to 535 thousand tons as of 31 December 2013. The accumulated inventory balance will be sold in next reporting period thus increasing our sales volumes in the first quarter of 2015. Our liquids inventory balances tend to fluctuate periodically due to loading schedules and final destinations of stable gas condensate and its refined products shipments (see "Change in natural gas, liquid hydrocarbons and work-in-progress" below).

**RESULTS OF OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2014
COMPARED TO THE YEAR ENDED 31 DECEMBER 2013**

The following table and discussion is a summary of our consolidated results of operations for the years ended 31 December 2014 and 2013. Each line item is also shown as a percentage of our total revenues.

<i>millions of Russian roubles</i>	Year ended 31 December:			
	2014	% of total revenues	2013	% of total revenues
Total revenues ⁽¹⁾	357,643	100.0%	298,158	100.0%
<i>including:</i>				
natural gas sales	230,447	64.4%	204,969	68.7%
liquids' sales	125,226	35.0%	92,530	31.0%
Operating expenses	(236,512)	(66.1%)	(192,761)	(64.7%)
Other operating income (loss)	4,009	1.1%	880	0.3%
Profit from operations before disposal of interests in joint ventures	125,140	35.0%	106,277	35.6%
Net gain (loss) on disposal of interests in joint ventures	2,623	0.7%	37,649	12.7%
Profit from operations	127,763	35.7%	143,926	48.3%
Finance income (expense)	(46,745)	(13.0%)	(6,684)	(2.3%)
Share of profit (loss) of joint ventures, net of income tax	(28,175)	(7.9%)	(112)	(0.0%)
Profit before income tax	52,843	14.8%	137,130	46.0%
Total income tax expense	(15,928)	(4.5%)	(27,185)	(9.1%)
Profit (loss)	36,915	10.3%	109,945	36.9%
Minus: profit (loss) attributable to non-controlling interest	381	0.1%	61	0.0%
Profit attributable to shareholders of OAO NOVATEK	37,296	10.4%	110,006	36.9%

⁽¹⁾ Net of VAT, export and import duties, excise and fuel taxes expense, where applicable.

Total revenues

The following table sets forth our sales (net of VAT, export duties, excise and fuel taxes expense, where applicable) for the years ended 31 December 2014 and 2013:

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Natural gas sales	230,447	204,969	12.4%
End-customers	223,209	191,920	16.3%
Ex-field sales	7,238	13,049	(44.5%)
Gas condensate refined products sales	85,420	33,111	158.0%
Export – naphtha	62,280	26,789	132.5%
Export – other refined products	22,668	6,322	258.6%
Domestic – other refined products	472	-	n/a
Liquefied petroleum gas sales	24,401	18,770	30.0%
Export	12,177	11,474	6.1%
Domestic	12,224	7,296	67.5%
Crude oil sales	11,226	7,443	50.8%
Export	3,813	2,760	38.2%
Domestic	7,413	4,683	58.3%
Stable gas condensate sales	3,797	32,847	(88.4%)
Export	-	30,980	n/a
Domestic	3,797	1,867	103.4%
Other refined products sales	382	359	6.4%
Domestic	382	359	6.4%
Total oil and gas sales	355,673	297,499	19.6%
Other revenues	1,970	659	198.9%
Total revenues	357,643	298,158	20.0%

Natural gas sales

In 2014, our revenues from sales of natural gas increased by RR 25,478 million, or 12.4%, compared to 2013 due to an increase in our average sales prices and sales volumes. An increase in our natural gas average sales prices was due to a cumulative increase of regulated FTS prices by 7.4% compared to 2013, as well as an increase in the proportion of end-customer sales to total natural gas sales volumes that was partially offset by a closer location of our end-customers to our production fields in 2014 as compared to the prior year (see “Natural gas prices” above).

Our proportion of natural gas sold to end-customers to total natural gas sales volumes increased to 94.1% in 2014 as compared to 88.9% in 2013 due to the cessation of natural gas deliveries to a major trader in December 2013. In addition, we significantly increased natural gas deliveries to our end-customers located at the Khanty-Mansiysk Autonomous Region under long-term natural gas sales contracts.

Gas condensate refined products sales

Gas condensate refined products sales represent our revenues from sales of naphtha, jet fuel, gasoil and fuel oil produced from our stable gas condensate at the Ust-Luga Complex.

In 2014, our revenues from sales of gas condensate refined products increased by RR 52,309 million, or 158.0%, as compared to 2013 due to a significant increase in sales volumes as a result of the commencement of gas condensate refined products sales effective from the second half of 2013.

In 2014, our revenues from sales of naphtha increased by RR 35,491 million, or 132.5%, as compared to 2013 mainly due to an increase in sales volumes by 149.9%.

In 2014, we exported 3,319 thousand tons of naphtha to the Asian Pacific Region (APR), European markets, United States, South America and Canada whereas in 2013, we exported 1,328 thousand tons of naphtha to the APR and South America. Our average realized naphtha net export price, excluding export duties, decreased by RR 1,409 per ton, or 7.0%, to RR 18,767 per ton (CFR, CIF, DES and DAP) from RR 20,176 per ton (CFR, CIF, DAP, DES and FOB) in 2013 (see “Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices” above).

In 2014, our revenues from sales of jet fuel, gasoil and fuel oil on the domestic and export markets increased by RR 16,818 million, or 266.0%, as compared to 2013 also due to an increase in sales volumes. In 2014 and 2013, we exported in aggregate 1,096 thousand and 278 thousand tons of these products, or 97.9% of our total sales volumes, to the European markets. Our average realized net export price, excluding export duties, decreased by RR 2,062 per ton, or 9.1%, to RR 20,692 per ton (CIF) from RR 22,754 per ton (CIF) in 2013 (see “Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices” above).

Liquefied petroleum gas sales

In 2014, our revenues from sales of LPG increased by RR 5,631 million, or 30.0%, compared to 2013 due to an increase in sales volumes as a result of an increase in volumes of de-ethanized condensate processed at the Purovsky Plant and optimization of our LPG distribution logistics and sales (see “Recent developments” above).

In 2014, we sold 559 thousand tons of LPG, or 39.0% of our total LPG sales volumes, to export markets as compared to sales of 576 thousand tons, or 53.4%, in 2013. Our average realized LPG net export price, excluding export duties, excise and fuel taxes expense and including trading activities, increased by RR 1,870 per ton, or 9.4%, (see “Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices” above).

In both reporting periods our main export LPG markets were Poland and Finland and our cumulative LPG export sales volumes to these countries in 2014 exceeded 95% of total LPG export volumes, while in 2013 sales volumes to these markets exceeded 80% of total LPG export volumes.

In 2014, we sold 875 thousand tons of LPG on the domestic market compared to sales of 502 thousand tons in 2013. Our average realized LPG domestic price, including trading activities, in 2014, was RR 13,973 per ton representing a decrease of RR 554 per ton, or 3.8%, compared to 2013 (see “Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices” above).

Crude oil sales

In 2014, revenues from sales of crude oil increased by RR 3,783 million, or 50.8%, compared to 2013 primarily due to an increase in sales volumes and, to a lesser extent, an increase in average realized crude oil domestic prices. Our crude oil sales volumes increased by 276 thousand tons, or 44.0%, to 903 thousand tons from 627 thousand tons in 2013 mainly due to an increase in crude oil production at our East-Tarkosalinskoye field.

In 2014, we sold 65.3% of our total crude oil volumes domestically at an average price of RR 12,561 per ton (excluding VAT) representing an increase of RR 742 per ton, or 6.3%, as compared to 2013.

The remaining 34.7% of our crude oil volumes were sold to export markets at an average price of RR 12,183 per ton (DAP and FOB, excluding export duties) representing an increase of RR 224 per ton, or 1.9%, as compared to 2013 (see “Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices” above).

Stable gas condensate sales

In 2014, our revenues from sales of stable gas condensate decreased by RR 29,050 million, or 88.4%, compared to 2013 due to a decrease in volumes sold resulting from the start of processing of stable gas condensate at the Ust-Luga Complex into naphtha and other gas condensate refined products effective June 2013.

Our total stable gas condensate sales volumes decreased by 1,814 thousand tons, or 85.7%, due to the transfer of substantially all stable gas condensate produced at the Purovsky Plant as raw material feedstock to be subsequently processed at the Ust-Luga Complex. As a result, in 2014, we did not sell stable gas condensate to the export markets. In 2013, we sold 1,973 thousand tons of stable gas condensate, or 93.2% of our total sales volumes, to the APR, Europe and United States at an average realized net export price, excluding export duties, of RR 15,703 per ton (CFR, DES, DAP and CIF).

In 2014, we sold 303 thousand tons of stable gas condensate on the domestic market compared to 144 thousand tons in 2013. Our average realized price for stable gas condensate sales on the domestic market in 2014 amounted to RR 12,547 per ton (net of VAT), representing a decrease of RR 432 per ton, or 3.3%, as compared to 2013 (see “Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices” above).

Other refined products sales

Other refined products sales represent our revenues from methanol sales on the domestic market and revenues from trading operations with oil products (diesel fuel and petrol) through our retail stations. In 2014, our revenues from other refined products sales increased by RR 23 million, or 6.4%, to RR 382 million from RR 359 million in 2013.

Other revenues

Other revenues include geological and geophysical research services, rent, sublease, transportation and other services. In 2014, other revenues increased by RR 1,311 million, or threefold, to RR 1,970 million from RR 659 million in 2013 primarily due to RR 648 million of revenues from the sublease of rail cars in 2014, as well as increases in revenues from the sublease of tankers by RR 505 million and from geological and geophysical research services provided primarily to our joint ventures by RR 183 million. The related sublease of rail cars and tankers expenses are included in our transportation expenses in lines “Stable gas condensate and liquefied petroleum gas transportation by rail” and “Gas condensate refined products and stable gas condensate transportation by tankers”, respectively.

The remaining change in other revenues related to various immaterial items.

Operating expenses

In 2014, our total operating expenses increased by RR 43,751 million, or 22.7%, to RR 236,512 million compared to RR 192,761 million in 2013 primarily due to increased purchases of natural gas and liquid hydrocarbons from our joint ventures, as well as increased transportation expenses and taxes other than income tax. As a percentage of total operating expenses, our non-controllable expenses, such as transportation and taxes other than income tax, decreased to 60.8% in 2014 compared to 64.8% in 2013 primarily due to a significant increase in purchases of hydrocarbons, the growth rate of which exceeded the growth rate of transportation expenses and taxes other than income tax.

In 2014, our total operating expenses as a percentage of total revenues increased to 66.1% compared to 64.7% in 2013, as shown in the table below. The increase in this ratio was mainly due to a significant increase in purchases of natural gas and liquid hydrocarbons from our joint ventures that allowed us to realize increased volumes of our hydrocarbons in the sales markets (see “Purchases of natural gas and liquid hydrocarbons” below).

<i>millions of Russian roubles</i>	Year ended 31 December:			
	2014	% of total revenues	2013	% of total revenues
Transportation expenses	114,511	32.0%	103,245	34.6%
Taxes other than income tax	29,336	8.2%	21,645	7.3%
Subtotal non-controllable expenses	143,847	40.2%	124,890	41.9%
Purchases of natural gas and liquid hydrocarbons	52,596	14.7%	34,707	11.6%
Depreciation, depletion and amortization	17,172	4.8%	13,503	4.5%
General and administrative expenses	11,831	3.3%	11,029	3.7%
Materials, services and other	11,442	3.2%	8,282	2.8%
Exploration expenses	112	n/m	427	n/m
Net impairment expenses (reversals)	(229)	n/m	2,611	0.9%
Change in natural gas, liquid hydrocarbons and work-in-progress	(259)	n/m	(2,688)	n/m
Total operating expenses	236,512	66.1%	192,761	64.7%

Non-controllable expenses

A significant proportion of our operating expenses are characterized as non-controllable expenses since we are unable to influence the increase in regulated tariffs for transportation of our hydrocarbons or the rates imposed by federal, regional or local tax authorities.

In 2014, our non-controllable expenses increased by RR 18,957 million, or 15.2%, to RR 143,847 million from RR 124,890 million in 2013. An increase in transportation expenses was mainly due to an increase in the natural gas volumes sold to end-customers in which we incurred transportation expenses, as well as an increase in liquid hydrocarbons transportation volumes (see “Transportation expenses” below). Taxes other than income tax increased due to a significantly increased natural gas production tax rate (see “Our tax burden and obligatory payments” above). Despite an increase in non-controllable expenses, as a percentage of total revenues they decreased to 40.2% in 2014 compared to 41.9% in 2013 due to a higher increase in revenues as a result of the average realized natural gas prices growth and the commencement of higher value added products sales from the Ust-Luga Complex.

Transportation expenses

In 2014, our total transportation expenses increased by RR 11,266 million, or 10.9%, to RR 114,511 million as compared to RR 103,245 million in 2013.

<i>million of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Natural gas transportation			
by trunk and low-pressure pipelines	92,494	83,884	10.3%
Stable gas condensate and			
liquefied petroleum gas transportation by rail	16,007	13,996	14.4%
Gas condensate refined products and			
stable gas condensate transportation by tankers	4,749	4,439	7.0%
Crude oil transportation by trunk pipeline	1,223	885	38.2%
Other	38	41	(7.3%)
Total transportation expenses	114,511	103,245	10.9%

In 2014, our transportation expenses for natural gas increased by RR 8,610 million, or 10.3%, to RR 92,494 million from RR 83,884 million in 2013. The increase was mainly due to an 11.0% increase in our natural gas sales volumes to end-customers, for which we incurred transportation expenses. An increase in natural gas transportation tariff set by the FTS by an average of 6.4% effective from 1 August 2013 (see “Transportation tariffs” above) was entirely offset by a decrease in our average transportation distance related to higher natural gas deliveries to the Khanty-Mansiysk Autonomous Region. Our average transportation distance for natural gas sold to end-customers fluctuates period-to-period and depends on the location of end-customers and the specific routes of transportation.

In 2014, our total expenses for stable gas condensate and LPG transportation by rail increased by RR 2,011 million, or 14.4%, to RR 16,007 million from RR 13,996 million in 2013 due to an increase in volumes of liquids sold and transported via rail by 822 thousand tons, or 17.1%, to 5,618 thousand tons from 4,796 thousand tons.

Our weighted average transportation tariff for stable gas condensate and LPG delivered by rail depends on the products type and the geography of deliveries and fluctuates period-to-period. Although, effective 9 August 2014 RZD increased the railroad transportation tariffs within the Russian Federation territory for LPG deliveries to the export markets by 13.4%, our weighted average transportation tariff for liquids delivered by rail decreased by 2.4% to RR 2,849 per ton from RR 2,918 per ton in 2013 primarily due to a decrease in the share of LPG volumes in total liquids volumes transported via rail (effective January 2014 we started selling part of the LPG ex-works Purovsky Plant). The change in the share of LPG volumes in our total liquids volumes delivered by rail affects the weighted average tariff due to higher transportation expense for LPG per ton compared to other liquid hydrocarbons. Furthermore, our liquefied petroleum gas rail transportation distance to our end customers has decreased as a result of the implementation of the new transportation arrangement from January 2014. In addition, the launch of our Ust-Luga Complex had an impact on the decrease of transportation expenses per ton as the distance from Purovsky Plant to the Port of Ust-Luga is almost 400 kilometers less than the route to the Port of Vitino.

Total transportation expenses for liquids delivered by tankers to international markets increased by RR 310 million, or 7.0%, to RR 4,749 million in 2014 from RR 4,439 million in 2013 due to an increase in volumes of liquids sold and transported via tankers by 23.4%, as well as a 20.6% increase in the Russian rouble average exchange rate against the US dollar since most of our tankers transportation expenses are US dollar denominated. The increase was mostly offset by the change in the geography of stable gas condensate sales in 2013 and refined products shipments (see below), closer location of the Port of Ust-Luga to our sales markets as compared to the Port of Vitino, as well as the usage of larger capacity tankers for liquids transportation. Furthermore, as a result of the Ust-Luga Complex launch in June 2013, we began saving on costs for our liquid hydrocarbons transshipment into tankers as such services are performed internally at the Ust-Luga Complex as compared to the Port of Vitino.

The change in the geography of stable gas condensate and refined products shipments affects our tanker transportation expenses per ton since expenses incurred for transportation to the APR, as well as to North and South America are higher compared to the European sales markets. In 2014, we sold to the APR, Europe and North and South America 46.8%, 40.6%, 11.3% and 1.3% of our total gas condensate refined products export volumes, respectively, whereas in 2013 we sold to these markets 65.8%, 28.6%, 3.4% and 2.2%, respectively, of our stable gas condensate and refined products volumes.

In 2014, our expenses for crude oil transportation to customers by trunk pipeline increased by RR 338 million, or 38.2%, to RR 1,223 million from RR 885 million in 2013 due to a 44.5% increase in volumes transported.

Other transportation expenses include liquid hydrocarbons motor transportation expenses, insurance expenses related to our liquid hydrocarbons transportation and other insignificant expenses.

Taxes other than income tax

In 2014, taxes other than income tax increased by RR 7,691 million, or 35.5%, to RR 29,336 million from RR 21,645 million in 2013 primarily due to an increase in the unified natural resources production tax expense.

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Unified natural resources production tax (UPT)	26,962	19,619	37.4%
Property tax	2,095	1,790	17.0%
Other taxes	279	236	18.2%
Total taxes other than income tax	29,336	21,645	35.5%

In 2014, our unified natural resources production tax expense increased by RR 7,343 million, or 37.4%, to RR 26,962 million from RR 19,619 million in 2013 due primarily to a significant increase in the natural gas production tax rate per mcm from RR 265 to RR 402 from 1 July 2013 and to RR 471 from 1 January 2014.

In 2014 and 2013, we applied a zero UPT rate for crude oil produced at our Yurkharovskoye, East-Tarkosalinskoye and Khancheyevskoye fields (see “Our tax burden and obligatory payments” above).

In 2014, our property tax expense increased by RR 305 million, or 17.0%, to RR 2,095 million from RR 1,790 million in 2013 due to additions to property, plant and equipment at our production subsidiaries.

Purchases of natural gas and liquid hydrocarbons

In 2014, our purchases of natural gas and liquid hydrocarbons increased by RR 17,889 million, or 51.5%, to RR 52,596 million from RR 34,707 million in 2013.

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Unstable gas condensate	26,669	10,304	158.8%
Natural gas	24,801	23,992	3.4%
Other liquid hydrocarbons	1,126	411	174.0%
Total purchases of natural gas and liquid hydrocarbons	52,596	34,707	51.5%

In 2014, our purchases of unstable gas condensate from our joint ventures significantly increased by RR 16,365 million, or 158.8%, as compared to 2013. We increased our purchases of unstable gas condensate from Nortgas as a result of the launch of the Eastern dome of the North-Urengoyevskoye field in October 2013 and from SeverEnergiya as a result of the commenced production at the Urengoyevskoye field effective April 2014 and the launch of the third phase of the Samburgskoye field in September 2014.

In 2014, our purchases of natural gas increased by RR 809 million, or 3.4%, as compared to 2013 primarily due to higher purchases from our joint venture Nortgas as a result of the launch of the Eastern dome of the North-Urengoyevskoye field in October 2013. In addition, in 2014 we increased purchases from our related party SIBUR and from third parties due to the Group’s demand for additional natural gas volumes to fulfill our contractual obligations as a result of the termination of purchases from Sibneftegas (disposed in December 2013).

Other liquid hydrocarbons purchases represent our purchases of oil products and LPG for subsequent resale. In 2014, our purchases of other liquid hydrocarbons increased by RR 715 million, or 174.0%, as compared to 2013 mainly due to LPG purchases for subsequent resale caused by the temporary reduction of volumes refined at Tobolsk-Neftekhim in the third quarter 2014 due to the planned repair works.

Depreciation, depletion and amortization

In 2014, our depreciation, depletion and amortization (“DDA”) expense increased by RR 3,669 million, or 27.2%, to RR 17,172 million from RR 13,503 million in 2013 mainly due to the launch of the first and second stages at the Ust-Luga Complex in June and October 2013, respectively, and the third stage of our Purovsky Gas Condensate Plant in January 2014, as well as additions of property, plant and equipment at our production subsidiaries with a slight decrease of our proved reserves estimates as of 31 December 2014 compared to 31 December 2013 at our core producing fields. The Group accrues depreciation and depletion on oil and gas assets using the “units-of-production” method and straight-line method for other facilities.

In 2014, our DDA per barrel of oil equivalent was RR 33.7 as compared to RR 27.6 in 2013. The increase in our DDA charge calculated on a barrel of oil equivalent basis was due to the capitalization of costs primarily related to further development of our Yurkharovskoye field and ongoing crude oil development activities at the East-Tarkosalinskoye field, as well as a slight decrease in our proved reserves estimates as of 31 December 2014 compared to 31 December 2013 at our core producing fields.

Our reserve base is only appraised on an annual basis as of 31 December and does not fluctuate during the year till the subsequent appraisal, whereas our depletable cost base does change each quarter due to the ongoing capitalization of our costs throughout the year.

General and administrative expenses

In 2014, our general and administrative expenses increased by RR 802 million, or 7.3%, to RR 11,831 million compared to RR 11,029 million in 2013. The main components of these expenses were employee compensation, social expenses and compensatory payments, as well as legal, audit and consulting services, which, on aggregate, comprised 79.1% and 82.4% of total general and administrative expenses in the years ended 31 December 2014 and 2013, respectively.

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Employee compensation	7,147	6,983	2.3%
Legal, audit and consulting services	1,205	924	30.4%
Social expenses and compensatory payments	1,009	1,178	(14.3%)
Advertising expenses	461	213	116.4%
Business trips expense	423	363	16.5%
Fire safety and security expenses	291	231	26.0%
Insurance expense	280	191	46.6%
Repair and maintenance expenses	215	192	12.0%
Rent expense	130	118	10.2%
Other	670	636	5.3%
Total general and administrative expenses	11,831	11,029	7.3%

Employee compensation related to administrative personnel increased by RR 164 million, or 2.3%, to RR 7,147 million in 2014 from RR 6,983 million in 2013 as a result of an indexation of base personnel salaries effective 1 July 2014 and the related increase in insurance payments to medical and social insurance and pension funds that was partially offset by a decrease in bonuses accrued to key management based on second half of 2014 results.

In 2014, legal, audit, and consulting services expenses increased by RR 281 million, or 30.4%, to RR 1,205 million compared to RR 924 million in 2013 primarily due to consulting services related to research works on production methods and construction of potential production facilities in the Yamal and Gydan Peninsulas and the Gulf of Ob.

In 2014, our social expenses and compensatory payments decreased by RR 169 million, or 14.3%, to RR 1,009 million compared to RR 1,178 million in 2013 primarily due to decreased donations to sport clubs and sport activities. Our compensatory payments as a part of the development of Salmanovskoye and Geofizicheskoye fields in 2013 and 2014 changed insignificantly. Social expenses and compensatory payments fluctuate period-on-period depending on the implementation schedules of specific programs we support.

Advertising expenses increased by RR 248 million, or 116.4%, to RR 461 million in 2014 from RR 213 million in 2013 primarily due to the commencement of a corporate sponsorship contract for advertising during sporting events at the end of 2013.

Fire safety and security expenses increased by RR 60 million, or 26.0%, to RR 291 million in 2014 from RR 231 million in 2013 primarily due to an increase in rates charged for security services starting from January 2014.

Insurance expenses increased by RR 89 million, or 46.6%, to RR 280 million in 2014 from RR 191 million in 2013 due to the commencement of operations and property insurance at the Ust-Luga Complex and an increase in insurance rates in our production subsidiaries from May 2014.

Other items of our general and administrative expenses changed marginally.

Materials, services and other

In 2014, our materials, services and other expenses increased by RR 3,160 million, or 38.2%, to RR 11,442 million compared to RR 8,282 million in 2013. The main components of this expense category were employee compensation and repair and maintenance services, which on aggregate comprised 60.2% and 68.5% of total materials, services and other expenses in 2014 and 2013, respectively.

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Employee compensation	4,862	3,920	24.0%
Repair and maintenance	2,026	1,755	15.4%
Materials and supplies	879	698	25.9%
Electricity and fuel	845	638	32.4%
Services for preparation, transportation and processing of hydrocarbons	807	161	n/m
Rent expenses	633	47	n/m
Transportation services	422	307	37.5%
Security services	392	327	19.9%
Other	576	429	34.3%
Total materials, services and other	11,442	8,282	38.2%

Operating employee compensation increased by RR 942 million, or 24.0%, to RR 4,862 million compared to RR 3,920 million in 2013. The increase was due to an increase in the average number of employees as a result of the launch of the Ust-Luga Complex in June 2014 and an expansion of our activities at the Purovsky Plant in January 2014, indexation of base salaries effective from 1 July 2014 and the related increase in payments to medical, social insurance and pension funds.

Repair and maintenance services expenses increased by RR 271 million, or 15.4%, to RR 2,026 million in 2014 compared to RR 1,755 million in 2013 due to planned repair works at our production subsidiary NOVATEK-Yurkharovneftegas and increased maintenance expenses related to an expansion of our activities at the Ust-Luga Complex and Purovsky Plant.

Materials and supplies expense increased by RR 181 million, or 25.9%, to RR 879 million in 2014 compared to RR 698 million in 2013 as a result of an increase in materials used to support the technological process at our East-Tarkosalinskoye field.

In 2014, electricity and fuel expenses increased by RR 207 million, or 32.4%, to RR 845 million from RR 638 million in 2013. The increase was due to higher electricity rates, as well as an increase in electricity consumption at our processing facilities related to new energy-consuming projects and an increase in hydrocarbon volumes processed at these facilities.

Services for preparation, transportation and processing of hydrocarbons expense increased by RR 646 million, or five-fold, to RR 807 million in 2014 compared to RR 161 million in 2013 mostly due to the change in our LPG sales and logistics arrangement in the first half of 2014 (see “Recent developments” above).

Rent expenses increased by RR 586 million, or 13.5 times, to RR 633 million from RR 47 million in 2013 primarily due to the commencement of LPG rail deliveries from the Tobolsk station from the second quarter of 2014 utilizing rail cars rented by us from a third party. Subsequently, we subleased the leased rail cars to the transportation services provider and include the corresponding revenues in “Other revenues”. In 2013, we used leased rail cars for transportation of our own LPG and included these costs as part of our transportation by rail expenses.

In 2014, transportation expenses increased by RR 115 million, or 37.5%, to RR 422 million from RR 307 million in 2013 due to an increase in expenses related to the delivery of materials to our main fields and processing facilities, as well as our operating personnel transportation.

Security expenses increased by RR 65 million, or 19.9%, to RR 392 million in 2014 from RR 327 million in 2013 due to additional security services related to recently completed capital construction projects in our production subsidiaries, as well as an increase in security services rates effective from January 2014.

In 2014, other material, services and other expenses increased by RR 147 million, or 34.3%, to RR 576 million from RR 429 million in 2013 primarily due to ensuring ecological safety at our Ust-Luga Complex.

Exploration expenses

In 2014, our exploration expenses decreased by RR 315 million, or 73.8%, to RR 112 million from RR 427 million in 2013.

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Cost of seismic surveys	1,049	1,680	(37.6%)
Less: capitalized 3-D seismic surveys	(937)	(1,253)	(25.2%)
Total exploration expenses per the Consolidated Statement of Income	112	427	(73.8%)

In 2014, our costs of seismic surveys decreased by RR 631 million, or 37.6%, to RR 1,049 million from RR 1,680 million in 2013 in accordance with the approved working schedule of seismic surveys at our production subsidiaries. The costs of 3-D seismic surveys to sustain production, increase reserves’ recoverability and the efficiency of drilling additional development wells on our proved properties are capitalized to property, plant and equipment used in oil and gas exploration according to our accounting policy.

Net impairment expenses (reversals)

In 2014, we recognized a reversal to our net impairment expense of RR 229 million related to the management’s revision of the probability of trade accounts receivable repayment by our customers, as a result of which we recovered a portion of a provision for impairment of receivables made at the end of 2013. In 2013, we recognized an impairment expense of RR 2,611 million of which RR 2,203 million related to the impairment of oil and gas properties at West-Tazovskiy and Pilyalkinskiy license areas, and the remaining net impairment expense primarily related to trade accounts receivable for natural gas sold to small-scale companies and residential customers.

Change in natural gas, liquid hydrocarbons and work-in-progress

In 2014, we recorded a reversal of RR 259 million to change in inventory expense as compared to a reversal of RR 2,688 million in 2013:

<i>millions of Russian roubles</i>	Year ended 31 December:	
	2014	2013
Natural gas	1,680	(2,148)
Naphtha	(968)	(963)
Stable gas condensate	(501)	746
Other	(470)	(323)
Increase (decrease) in operating expenses due to change in natural gas, liquid hydrocarbons and work-in-progress	(259)	(2,688)

In 2014, we recorded a charge to our operating expenses of RR 1,680 million due to a 2,247 mmcm decrease in our cumulative natural gas inventory balance in the UGSF, the GTS and own pipeline infrastructure, that was partially offset by an increase in the cost of natural gas inventories on a per mcm basis. The decrease in natural gas inventory balance at the end of 2014 was a result of the increased demand for natural gas from our end-customers during the winter period whereby the increase in natural gas inventory balances at the end of 2013 related to an abnormally warm winter in Russian Federation in the fourth quarter of 2013. Our volumes of natural gas injected into Gazprom's underground gas storage facilities fluctuate period-to-period depending on market conditions, storage capacity constraints and our development plans to sustain and/or grow production during periods of seasonal fluctuation.

In 2014, we recorded reversals to our operating expenses of RR 968 million and RR 501 million due to increases in our naphtha and stable gas condensate inventory balances by 112 thousand tons and 39 thousand tons, respectively, which were recognized as inventory in transit or in storage, as well as a slight increase in the cost of inventories on a per ton basis. Inventory balances of stable gas condensate and refined products tend to fluctuate period-to-period depending on shipment schedules and final destination of our shipments.

The following table highlights movements in our hydrocarbons inventory balances:

<i>Inventory balances in transit or in storage</i>	2014			2013		
	At 31 December	At 1 January	Increase / (decrease)	At 31 December	At 1 January	Increase / (decrease)
Natural gas (millions of cubic meters)	1,049	3,296	(2,247)	3,296	1,129	2,167
<i>including Gazprom's UGSF</i>	<i>1,016</i>	<i>2,334</i>	<i>(1,318)</i>	<i>2,334</i>	<i>1,096</i>	<i>1,238</i>
Liquid hydrocarbons (thousand tons)	739	535	204	535	563	(28)
<i>including naphtha</i>	<i>305</i>	<i>193</i>	<i>112</i>	<i>193</i>	<i>-</i>	<i>193</i>
<i>stable gas condensate</i>	<i>219</i>	<i>180</i>	<i>39</i>	<i>180</i>	<i>461</i>	<i>(281)</i>

Other operating income (loss)

Other operating income (loss) includes income (loss) from natural gas foreign trading in the European markets under long-term and short-term purchase and sales contracts, purchases and sales of various derivative instruments (trading activities), income (loss) from the change in the fair value of aforementioned contracts, as well as other income (loss) related to penalty charges, disposal of materials, fixed assets and other transactions. In 2014, we recognized other operating income of RR 4,009 million compared to RR 880 million in 2013.

In 2014, within our trading activities on the European market we purchased and sold 29.5 terawatt-hours (or approximately 2.8 bcm) of natural gas, as well as various derivative commodity instruments, and recognized the aggregate gross income from trading activities of RR 927 million as compared to RR 180 million of income in 2013. At the same time, in 2014, we recognized a non-cash income of RR 2,093 million as a result of a significant increase in the fair value of the purchase and sales contracts as compared to RR 549 million of non-cash income in 2013. All trading contracts are classified as derivative instruments in accordance with IAS 39 *“Financial instruments: recognition and measurement”*.

We recorded other operating income of RR 989 and RR 151 million in 2014 and 2013, respectively, which primarily related to the income from sales of rail cars (in 2014), penalties charges received from our suppliers due to non-compliance of their contractual obligations, profit (loss) on disposal of materials and fixed assets, as well as other similar transactions.

Net gain (loss) on disposal of interests in joint ventures

In 2014, the Group recorded a gain on the disposal of interest in joint venture Artic Russia B.V. in the amount of RR 2,623 million as compared to a gain on the disposal of interest in joint ventures Sibneftegas and Yamal LNG in the aggregate amount of RR 37,649 million in 2013.

In March 2014, the Group approved a series of transactions on restructuring procedures to achieve parity shareholdings in SeverEnergiya (see “Recent Developments” above). As part of these transactions, the Group sold a 20% ownership interest in Artic Russia B.V. for RR 34,972 million to its joint venture Yamal Development (both Artic Russia B.V. and Yamal Development hold participation interests in SeverEnergiya) and realized a gain on disposal of RR 2,623 million.

In December 2013, the Group exchanged its 51% of equity stake in joint venture Sibneftegas for a 40% of equity stake in Artic Russia B.V., which holds a 49% participation interest in SeverEnergiya. As a result of the transaction, the Group recorded a gain of RR 27,111 million, net of associated income tax of RR 6,693 million.

In December 2013, the Group sold its 20% equity stake in Yamal LNG, the Group’s joint venture, to CNPC, a partner of the Group in the Yamal LNG project, which resulted in a gain of RR 3,070 million, net of associated income tax of RR 775 million.

Profit from operations

As a result of the factors discussed above, our profit from operations decreased by RR 16,163 million, or 11.2%, to RR 127,763 million in 2014, as compared to RR 143,926 million in 2013. Our normalized profit from operations net of gain (loss) on the disposal of interests in joint ventures increased by RR 18,863 million, or 17.7%, to RR 125,140 million in 2014 as compared to RR 106,277 million in 2013 mainly due to an increase in average realized natural gas prices, natural gas and liquid hydrocarbons sales volumes and the commencement of higher value added products sales from the Ust-Luga Complex. In 2014, our profit from operations net of gain (loss) on the disposal of interests in joint ventures, as a percentage of total revenues, did not change significantly (35.0% as compared to 35.6% in 2013).

Finance income (expense)

In 2014, we recorded net finance expense of RR 46,745 million mainly due to the recognition of a significant foreign exchange loss, as well as a result of the remeasurement of the shareholders' loans provided to our joint ventures. The net finance expense of RR 6,684 million in 2013 was mainly due to a net foreign exchange loss, as well as the excess of interest expense over interest income.

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Foreign exchange gain (loss)	(25,881)	(3,678)	n/m
Change in fair value of non-commodity financial instruments	(20,205)	-	n/a
Interest expense	(5,722)	(5,347)	7.0%
Interest income	5,063	2,341	116.3%
Total finance income (expense)	(46,745)	(6,684)	n/m

In 2014, we recorded a net foreign exchange loss of RR 25,881 million compared to a net foreign exchange loss of RR 3,678 million in 2013 primarily due to the revaluation of our foreign currency denominated borrowings and loans provided. At 31 December 2014, the Russian rouble depreciated by 71.9% against the US dollar at 31 December 2013 compared to the depreciation by 7.8% in 2013. The Group will continue to record foreign exchange gains and losses each period based on the movements between exchange rates and the currency denomination of our debt portfolio.

In 2014, we recognized a loss of RR 20,205 million from the remeasurement of shareholders' loans issued to our joint ventures due to the increase in the underlying discount rate used in the fair value calculation of these loans in accordance with Group's accounting policy as a result of a significant increase in interest rates in the market in the fourth quarter of 2014. The effect of the fair value remeasurement of shareholders' loans may change period to period due to the change in interest rates in the market and other macroeconomic parameters and does not affect real future cashflows of loans repayments.

In 2014, accrued interest expense on loans received increased by RR 752 million, or 8.8%, to RR 9,311 million from RR 8,559 million in 2013 as a result of an increase in loans received by the Group and denominated in foreign currencies, while the weighted-average interest rate in 2014 was lower compared to 2013 due to more favorable conditions for loans received by the Group, as well as the depreciation of the average exchange rate of the Russian rouble relative to the US dollar in 2014 as compared to the average rate in 2013 (see "Selected macro-economic data" above).

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Accrued interest expense on loans received	9,311	8,559	8.8%
Less: capitalized interest	(3,837)	(3,460)	10.9%
Provisions for asset retirement obligations: effect of the present value discount unwinding	248	248	0.0%
Total interest expense per the Consolidated Statement of Income	5,722	5,347	7.0%

Interest income significantly increased by RR 2,722 million, or 116.3%, to RR 5,063 million in 2014 from RR 2,341 million in 2013 due to a significant increase in loans provided to our joint ventures mostly denominated in foreign currencies related to the development and expansion of their activities, as well as the result of the average Russian rouble depreciation relative to the US dollar in 2014 compared to the average rate in 2013.

Share of profit (loss) of joint ventures, net of income tax

In 2014, the Group's proportionate share of loss of joint ventures accounted for RR 28,175 million as compared to a loss of RR 112 million in 2013.

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
SeverEnergiya	5,213	708	n/m
Nortgas	4,243	1,316	222.4%
Terneftegas	(4,128)	(30)	n/m
Yamal Development	(5,787)	(1,419)	307.8%
Yamal LNG	(27,716)	(2,038)	n/m
Sibneftegas	-	1,351	n/a
Total share of profit (loss) of joint ventures, net of income tax	(28,175)	(112)	n/m

In 2014, our proportionate share of profit of SeverEnergiya and Nortgas significantly increased due to higher operating results (increased hydrocarbons production and sales prices), as well an increase in the effective share in SeverEnergiya from 25.5% in 2013 to 54.9%.

Our proportionate share of loss of Yamal LNG and Terneftegas related to the recognition of a significant non-cash foreign exchange loss on foreign currency denominated loans as a result of the Russian rouble depreciation against the US dollar by 71.9% as of 31 December 2014 relative to 31 December 2013 as compared to the 7.8% depreciation during 2013. The depreciation of the Russian rouble in 2014 resulted in our share of non-cash foreign currency losses in the amount of RR 60.9 and RR 6.3 billion of Yamal LNG and Terneftegas, respectively. We expect that once commercial production commences, the effects of the foreign currency movements relative to our US denominated debt portfolio will be mitigated by the fact that sales of our products (liquefied natural gas, stable gas condensate and refined products) delivered to international markets will be denominated in US dollars and other foreign currencies. Our share of non-cash foreign currency loss was partly offset by our share of non-cash profit from remeasuring the fair value of shareholders' loans in Yamal LNG and Terneftegas by RR 29.5 and RR 1.3 billion, respectively.

Our proportionate share of the loss from Yamal Development increased primarily due to an increase in interest expense on loans received by Yamal Development in 2014.

We had no share of profit of Sibneftegas in 2014 due to its disposal in December 2013.

Income tax expense

Our overall consolidated effective income tax rate (total income tax expense calculated as a percentage of our reported IFRS profit before income tax) was 30.1% and 19.8% for the years ended 31 December 2014 and 2013, respectively.

The Russian statutory income tax rate for both reporting periods was 20%. The income tax rate of 30.1% was due to recording of the Group's share of losses from joint ventures. 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) on 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% 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, our effective income tax rate in 2014 was 19.7%.

The effective income tax rate of 19.7% was due to our ability to use a reduced income tax rate of 15.5% on a number of the Group's investment projects in the Russian Federation included by the regional government authorities in the list of priority projects.

Also, the difference between our effective and statutory income tax rates is related to other certain non-deductible expenses or non-taxable income.

Profit attributable to shareholders and earnings per share

Our profit attributable to shareholders and earnings per share may vary period-to-period due to one-off events or extraordinary items. In order to normalize earnings and make period-on-period comparisons more meaningful certain adjustments are required to exclude these events.

As a result of the factors discussed in the respective sections above, our profit for the period decreased by RR 73,030 million, or 66.4%, to RR 36,915 million in 2014 from RR 109,945 million in 2013. The profit attributable to shareholders of OAO NOVATEK decreased by RR 72,710 million, or 66.1%, to RR 37,296 million in 2014 from RR 110,006 million in 2013. The profit attributable to shareholders of OAO NOVATEK, excluding the effect of the disposal of interests in joint ventures, decreased by RR 44,628 million, or 55.9%, to RR 35,197 million in 2014 as compared to RR 79,825 million in 2013.

Our EBITDA, excluding the effect of the disposal of interests in joint ventures, increased by RR 30,261 million, or 23.4%, to RR 159,631 million in 2014 from RR 129,370 million in 2013 due to an increase in average natural gas sales prices, increased natural gas and liquid hydrocarbons sales volumes, commencement of the Ust-Luga Complex higher value added products sales from the third quarter of 2013, as well as an increase in our share of our joint ventures' EBITDA that was partially offset by an increase in our expenses related to purchases and transportation of natural gas and liquid hydrocarbons.

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of OAO NOVATEK, decreased by RR 23.97 per share, or 66.0%, to RR 12.34 per share in 2014 from RR 36.31 per share in 2013. Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of OAO NOVATEK, excluding the effect of the disposal of interests in joint ventures, decreased by RR 14.70 per share, or 55.8%, to RR 11.65 per share in 2014 from RR 26.35 per share in 2013.

LIQUIDITY AND CAPITAL RESOURCES

The following table shows our net cash flows from operating, investing and financing activities for the years ended 31 December 2014 and 2013:

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Net cash provided by operating activities	110,253	88,525	24.5%
Net cash provided by (used in) investing activities	(47,495)	(100,492)	(52.7%)
Net cash provided by (used in) financing activities	(36,251)	(7,132)	n/m

<i>Liquidity and credit ratios</i>	31 December 2014	31 December 2013	Change, %
Current ratio	1.56	1.38	13.0%
Total debt to total equity	0.63	0.44	43.2%
Long-term debt to long-term debt and total equity	0.35	0.28	25.0%
Net debt to total capitalization ⁽¹⁾	0.31	0.28	10.7%
Net debt to EBITDA ⁽²⁾	1.26	0.94	34.0%
Net debt to normalized EBITDA ⁽²⁾	1.28	1.22	4.9%
Interest coverage ratio ⁽³⁾	37	21	76.2%

⁽¹⁾ Net debt represents total debt less cash and cash equivalents. Total capitalization represents total debt, total equity and deferred income tax liability.

⁽²⁾ Net debt to EBITDA and to normalized EBITDA ratios are calculated as Net debt divided by EBITDA or normalized EBITDA for the last twelve months.

⁽³⁾ Interest coverage ratio is calculated as normalized EBITDA divided by interest expense, including capitalized interest, less interest income from the Consolidated Statement of Income.

Net cash provided by operating activities

In 2014, our net cash provided by operating activities increased by RR 21,728 million, or 24.5%, to RR 110,253 million compared to RR 88,525 million in 2013 mainly due to the working capital changes (see “Working capital” below) and higher operating results (higher sales volumes of natural gas and liquid hydrocarbons, as well as higher average realized natural gas prices).

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Operating profit	134,451	119,478	12.5%
Working capital changes	2,566	(16,276)	n/a
Income taxes paid	(26,764)	(14,677)	82.4%
Total net cash provided by operating activities	110,253	88,525	24.5%

Net cash provided by (used for) investing activities

In 2014, our net cash used for investing activities decreased by RR 52,997 million, or 52.7%, to RR 47,495 million from RR 100,492 million in 2013.

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Purchases of property, plant and equipment (financing of capital expenditures)	(56,233)	(51,127)	10.0%
Acquisition of subsidiaries net of cash acquired	(1,476)	(556)	165.5%
Additional capital contributions to joint ventures	(4,342)	(2,247)	93.2%
Proceeds from disposal of participation interest in joint ventures	53,534	-	n/a
Loans provided to joint ventures	(45,906)	(45,801)	0.2%
Repayments of loans provided to joint ventures	11,747	8,564	37.2%
Acquisition of additional stakes in joint ventures	-	(1,703)	n/a
Other	(4,819)	(7,622)	(36.8%)
Net cash provided by (used for) investing activities	(47,495)	(100,492)	(52.7%)

Our cash used for purchases of property, plant and equipment increased by RR 5,106 million, or 10.0%, and related in 2014 mainly to the development of the Yarudeyskoye and the East-Tarkosalinskoye field's crude oil deposits, ongoing development activities at the Yurkharovskoye field, as well as Salmanovskoye (Utrenneye) field development.

In August 2014, we acquired 100% of the outstanding shares of ZAO Office for total consideration of RR 4,895 million, of which RR 1,283 million was paid in 2014. In addition, in December 2014, we acquired a 100% equity stake in OOO NovaEnergo for RR 229 million (RR 193 million net of cash acquired).

In 2014 and 2013, we made additional capital contributions to our joint venture Terneftegas in the amount of RR 4,342 million and RR 2,247 million, respectively.

In 2014, we received RR 34,893 million from the disposal of 20% participation interest in Artic Russia B.V. in March 2014, as well as RR 18,641 million from the disposal of 20% participation interest in Yamal LNG joint venture in December 2013.

In 2014, we provided loans to our joint ventures Yamal LNG and Yamal Development in the amount of RR 45,906 million as compared to RR 45,801 million provided to Yamal LNG, Terneftegas and Yamal Development in 2013. In addition, in 2014, we received RR 11,747 million as a partial repayment of the loan provided to Yamal LNG as compared to RR 8,564 million as a repayment of the loan provided to Sibneftegas in 2013 (see "Loans provided" below).

In 2013, we increased our participation interest in Nortgas from 49% to 50% as a result of entity's additional shares emission acquisition in the amount of RR 1,703 million.

Net cash provided by (used for) financing activities

In 2014, our net cash used for financing activities amounted to RR 36,251 million as compared to RR 7,132 million in 2013.

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Proceeds from loans	17,170	56,867	(69.8%)
Repayments of loans	(16,656)	(37,464)	(55.5%)
Dividends paid	(28,967)	(22,002)	31.7%
Other	(7,798)	(4,533)	72.0%
Net cash provided by (used for) financing activities	(36,251)	(7,132)	n/m

In 2014, we received RR 17,170 million due to a withdrawal of USD 430 million in March 2014 under the syndicated credit line facility and obtained a short-term loan from a non-controlling shareholder in the amount of RR 1,619 million, as well as repaid loans in the total amount of USD 200 million from BNP PARIBAS Bank and Credit Agricole Corporate and Investment Bank in January 2014 and a loan from Sberbank in the amount of RR 10 billion in March 2014 (see "Debt obligation" below).

In 2013, we received RR 56,867 million due to the issuance of Russian rouble denominated Eurobonds in the amount of RR 14 billion, a withdrawal of USD 1.07 billion under the syndicated term credit line facility, as well as obtaining short-term loans in the amount of USD 200 million from BNP PARIBAS Bank and Credit Agricole Corporate and Investment Bank. Furthermore, we repaid loans from Sberbank in the amount of RR 15 billion in February 2013 and a USD 200 million loan from Nordea Bank in March 2013, as well as repaid Russian rouble denominated bonds in the amount of RR 10 billion in June 2013.

The remaining change related to the repayment of interest on borrowings and loans and other items.

Working capital

Our net working capital position (current assets less current liabilities) as of 31 December 2014 was a positive RR 45,383 million compared to RR 22,553 million as of 31 December 2013. The increase in our working capital was primarily due to an increase in our cash and cash equivalents as a result of a sale of our 4.9% effective share in SeverEnergiya and increased current assets as a result of a portion of a loan issued to our joint venture Yamal Development being classified as current assets (repayment is scheduled in December of 2015), which was partially offset by increased current portion of a long-term debt (see “Debt obligations” below).

The Group’s management believes that it presently has and will continue to have the ability to generate sufficient cash flows (from operating and financing activities) to repay all current liabilities and to finance the Group’s capital construction programs.

Capital expenditures

Total capital expenditures on property, plant and equipment were as follows:

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2014	2013	
Capital expenditures	63,179	59,254	6.6%
Payment for mineral licenses	435	3,196	(86.4%)
Total additions to property, plant and equipment per Note “Property, plant and equipment” in the Group’s IFRS Consolidated Financial Statements	63,614	62,450	1.9%

Our total capital expenditures represent our investments in developing our oil and gas properties. In addition, in 2014, the Group acquired a license for geological and geophysical research works, exploration and production of hydrocarbons at the Trekhubgorniy license area for RR 435 million, whereas in 2013 the Group paid RR 3,196 million for East-Tazovskoye field’s oil and gas exploration and production license. The following table shows the expenditures at our main fields and processing facilities:

<i>millions of Russian roubles</i>	Year ended 31 December:	
	2014	2013
Yarudeyskiy license area	18,485	1,499
East-Tarkosalinskoye field	12,543	10,788
Yurkharovskoye field	10,612	18,777
Salmanovskoye (Utrennee) field	5,741	1,963
Khancheyevskoye field	3,696	2,478
North-Khancheyevskiy license area	3,396	872
Olimpiyskiy license area	2,026	2,793
Ust-Luga Complex	830	6,360
Geofizicheskoye field	723	209
North-Russkiy license area	706	662
Purovsky Plant	600	8,633
Other	3,821	4,220
Capital expenditures	63,179	59,254

Total capital expenditures on property, plant and equipment in 2014 increased by RR 3,925 million, or 6.6%, to RR 63,179 million from RR 59,254 million in 2013.

In 2014, our main investments related to the development of the Yarudeyskoye and East-Tarkosalinskoye field’s crude oil deposits, Yurkharovskoye field’s production maintenance, as well as Salmanovskoye (Utrennee) field’s development. In 2013, we invested in the development activities at Yurkharovskoye field, further development of the East-Tarkosalinskoye field’s crude oil deposits, construction of the third stage development at the Purovsky Plant (launched in January 2014), as well as the construction of two stages development at the Ust-Luga Complex (launched in June and October 2013, respectively).

Loans provided

Total loans provided by the Group increased from RR 47,638 million at 31 December 2013 to RR 96,474 million at 31 December 2014, or by RR 48,836 million.

Our loans provided with a breakdown by borrowers (remeasured based on commercial market borrowing rates adjusted for the borrower credit risk in accordance with IAS 39 “*Financial instruments: recognition and measurement*”) at 31 December 2014 and 31 December 2013 were as follows (in millions of Russian roubles):

Borrower	Currency	Maturity	Interest rate	At 31 December 2014	At 31 December 2013
Yamal LNG	USD	after the commencement of commercial production	5.09%-4.46%	62,547	42,804
Yamal LNG	EUR	after the commencement of commercial production	4.46%	16,278	-
Yamal Development	RR	December 2015, 2021	9.25%, 10.9%	13,361	2,200
Terneftegas	USD	after the commencement of commercial production	3.88%-4.52%	4,288	2,611
Other				-	23
Total loans provided				96,474	47,638

The increase in total loans provided was due to the depreciation of the Russian rouble relative to the US dollar by 71.9% at 31 December 2014 compared to 31 December 2013, as well as the increase in loans provided to our joint ventures. In 2014, we issued USD 492 million and EUR 324 million loans to our joint venture Yamal LNG (while USD 364 million was repaid by Yamal LNG in January 2014), as well as a total of RR 11.2 billion to our joint venture Yamal Development under credit line facilities provided in December 2013 and August 2014.

Debt obligations

We utilize a variety of financial instruments to ensure the flexibility of our financing strategy. This includes maintaining a debt portfolio with a balance of short-term and long-term financing, a mix of fixed and floating interest rate instruments and a debt portfolio denominated in Russian roubles and other foreign currencies.

Overview

Our total debt (in Russian roubles and translated to Russian roubles from US dollars using the exchange rate at the end of the current reporting period) increased from RR 165,621 million at 31 December 2013 to RR 245,679 million at 31 December 2014, or by RR 80.1 billion, out of which RR 86.9 billion related to the revaluation of our US dollar denominated loans as a result of the Russian rouble depreciation relative to the US dollar partially offset by loans repaid in 2014. In March 2014, we withdrew a final tranche of USD 430 million under our syndicated credit line facility obtained in June 2013 in the amount of USD 1.5 billion, and received a short-term loan from a non-controlling shareholder in the amount of RR 1,619 million. Furthermore, the Group repaid short-term loans, including bank overdrafts, in the amount of USD 431 million from BNP PARIBAS Bank and Credit Agricole Corporate and Investment Bank in January 2014, as well as repaid a loan from Sberbank in the amount of RR 10 billion in March 2014 ahead of its maturity schedule, that partially offset the increase in total debt. We utilize credit facilities to supplement our internally generated cash flows for the financing of capital expenditures related to the development of our fields and to construct and/or expand processing assets, as well as acquisitions of new oil and gas assets.

Our total debt position (net of unamortized transaction costs) at 31 December 2014 and 31 December 2013 was as follows:

Facility	Amount	Maturity	Interest rate	At 31 December 2014	At 31 December 2013
Syndicated term credit line facility	USD 1.5 billion	June 2018	LIBOR+1.75%	83,938	34,363
Eurobonds Ten-Year	USD 1 billion	December 2022	4.422%	56,059	32,595
Eurobonds Ten-Year	USD 650 million	February 2021	6.604%	36,409	21,163
Eurobonds Five-Year	USD 600 million	February 2016	5.326%	33,707	19,583
Russian bonds	RR 20 billion	October 2015	8.35%	19,991	19,980
Eurobonds Four-Year	RR 14 billion	February 2017	7.75%	13,956	13,911
Sberbank	RR 10 billion	December 2014	8.9%-7.9%	-	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
Short-term debt				1,619	14,115
Plus: 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
Total debt				245,679	165,621

Maturities of long-term loans

Scheduled maturities of our long-term debt at 31 December 2014 were as follows:

<i>Maturity schedule:</i>	RR million
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

Available credit facilities

At 31 December 2014, the Group also had funds available under credit facilities with interest rates predetermined or negotiated at time of each withdrawal:

	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

At 31 December 2014, the Group had available funds in the form of bank overdrafts with various international banks in the aggregate amount of RR 15.5 billion (USD 275 million) on variable interest rates subject to the specific type of credit facility. The receipt of funds under the credit lines described above is available in different currencies and is negotiated at each time of withdrawal.

Management believes it has sufficient internally generated cash flows to fund its capital expenditure programs, service its existing debt and meet its current obligations as they become due.

QUALITATIVE AND QUANTITATIVE DISCLOSURES AND MARKET RISKS

We are exposed to market risk from changes in commodity prices, foreign currency exchange rates and interest rates. We are exposed to commodity price risk as our prices for crude oil, stable gas condensate and refined products destined for export sales are linked to international crude oil prices and other benchmark price references. We are exposed to foreign exchange risk to the extent that a portion of our sales, costs, receivables, loans and debt are denominated in currencies other than Russian roubles. We are subject to market risk from changes in interest rates that may affect the cost of our financing. From time to time we may use derivative instruments, such as commodity forward contracts, commodity price swaps, commodity options, foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks, and we may hold or issue derivative or other financial instruments for trading purposes.

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the Russian rouble relative to the US dollar. As of 31 December 2014, the total amount of our long-term debt denominated in US dollars was RR 190,742 million, or 77.6% of our total borrowings at that date. Changes in the value of the Russian rouble relative to the US dollar will impact our foreign currency-denominated costs and expenses and our debt service obligations for foreign currency-denominated borrowings in Russian rouble terms, as well as receivables at our foreign subsidiaries. We believe that the risks associated with our foreign currency exposure are partially mitigated by the fact that a portion of our total revenues, approximately 26% in 2014, was denominated in US dollars.

In addition, our share of profit (loss) of joint ventures is also exposed to foreign currency exchange rate due to the significant amount of foreign currency-denominated borrowings in our joint ventures, mostly in Yamal LNG. We expect that once commercial production commences, the effects of the foreign currency movements relative to our US denominated debt portfolio will be mitigated by the fact that all of our products will be delivered to international markets and our revenues will be denominated in foreign currencies.

As of 31 December 2014, the Russian rouble depreciated by 71.9% against the US dollar since 31 December 2013.

Commodity risk

Substantially all of our stable gas condensate and refined products, LPG and crude oil export sales are sold under spot market contracts. Our export prices are primarily linked to international crude oil and oil products prices. External factors such as geopolitical developments, natural disasters and the actions of the Organization of Petroleum Exporting Countries affect crude oil prices and thus our export prices.

The weather is another factor affecting demand for natural gas. Changes in weather conditions from year to year can influence demand for natural gas and to some extent gas condensate and refined products.

From time to time we may employ derivative instruments to mitigate the price risk of our sales activities. In our consolidated financial statements all derivative instruments are recorded at their fair values. Unrealized gains or losses on derivative instruments are recognized within other operating income (loss), unless the underlying arrangement qualifies as a hedge.

The Group purchases and sells natural gas on the European market under long-term contracts 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. Therefore, the Group's financial results from natural gas trading activities are subject to commodity price volatility based on fluctuations or changes in the respective benchmark reference prices.

Pipeline access

We transport substantially all of our natural gas through the Gas Transmission System (“GTS”) owned and operated by OAO Gazprom, which is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia. Under existing legislation, Gazprom must provide access to the GTS to all independent suppliers on a non-discriminatory basis provided there is capacity available that is not being used by Gazprom. In practice, Gazprom exercises considerable discretion over access to the GTS because it is the sole owner of information relating to capacity. There can be no assurance that Gazprom will continue to provide us with access to the GTS; however, we have not been denied access in prior periods.

Ability to reinvest

Our business requires significant ongoing capital expenditures in order to grow our production and meet our strategic plans. An extended period of reduced demand for our hydrocarbons available for sale and the corresponding revenues generated from these sales would limit our ability to maintain an adequate level of capital expenditures, which in turn could limit our ability to increase or maintain current levels of production and deliveries of natural gas, gas condensate, crude oil and other associated products; thereby, adversely affecting our financial and operating results.

Off balance sheet activities

As of 31 December 2014, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.

RESPONSIBILITY STATEMENT

I hereby confirm that to the best of my knowledge:

- (a) the set of financial statements, which has been prepared in accordance with International Accounting Standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the consolidation as a whole as required by the Disclosure and Transparency Rule (DTR) 4.1.6R,
- (b) the management report includes a fair review of the information required by DTR 4.1.9R-4.1.11R, being a balanced and comprehensive analysis of development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the company faces.

A handwritten signature in black ink, appearing to read 'Mark Gyetvay', with a stylized, looping flourish at the end.

Mark Gyetvay,

Deputy Chairman of the Management Board