Sustainability forms the basis for development. Solid **Growth** allows reaching new heights. **Transformation** opens new horizons.

NOVATEK

Leading independent natural gas producer in Russia

2015

ANNUAL REPORT

Sustainability enables us to confidently deliver our long-term strategy in challenging macroeconomic environments.

We demonstrate solid **Growth** building up on our competitive advantages and reaching new levels of operational and financial performance.

Transformation of our business, resulting from rapid growth in our liquid hydrocarbons and planned expansion into the global LNG market, opens up new horizons for long-term and efficient development.

NOVATEK

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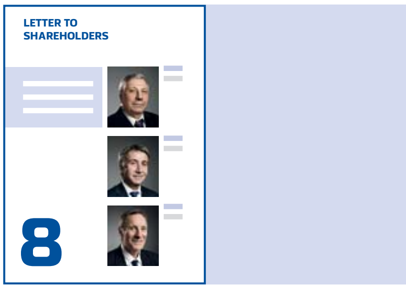
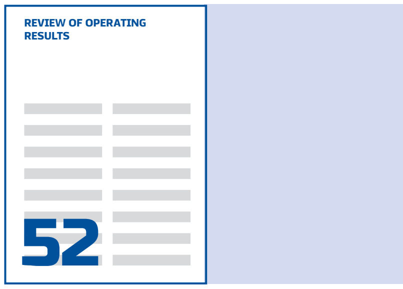




NOVATEK IS RUSSIA'S LARGEST INDEPENDENT NATURAL GAS PRODUCER AND THE SECOND LARGEST NATURAL GAS PRODUCER IN RUSSIA.

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: ensuring development of hydrocarbon resource base, including efficient reserve management; growth in hydrocarbon production; maintaining a low-cost structure; optimizing and expanding existing marketing channels, and creating new marketing channels; and expansion into the international market for liquefied natural gas.

12.8

bln boe of proved hydrocarbon reserves under SEC

67.9

bcm of natural gas produced in 2015

11%

of total Russian natural gas production

#3

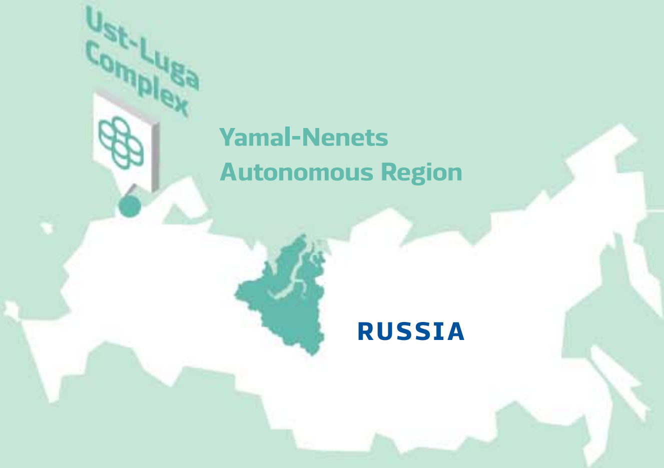
globally among publicly traded companies by proved natural gas reserves

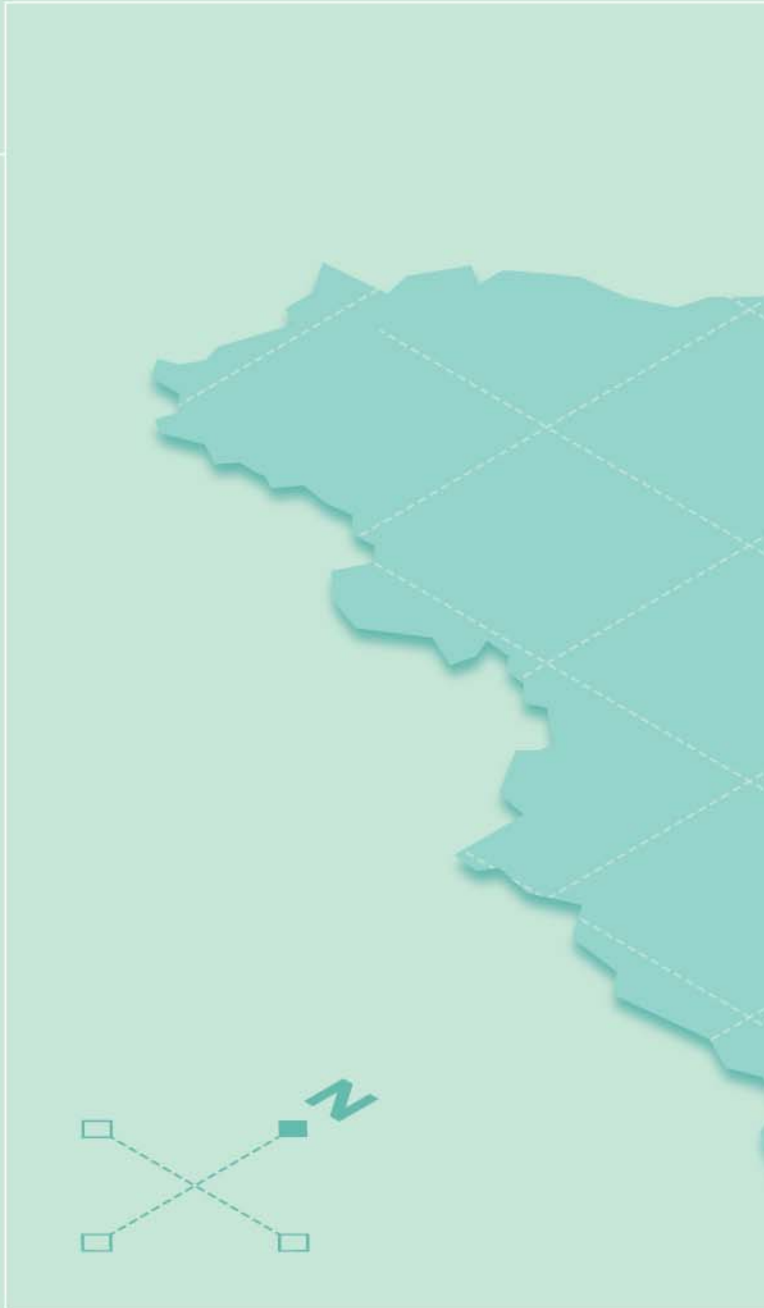
#6

globally among publicly traded companies by natural gas production volumes

20%

of the overall gas supply to Russian market





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.

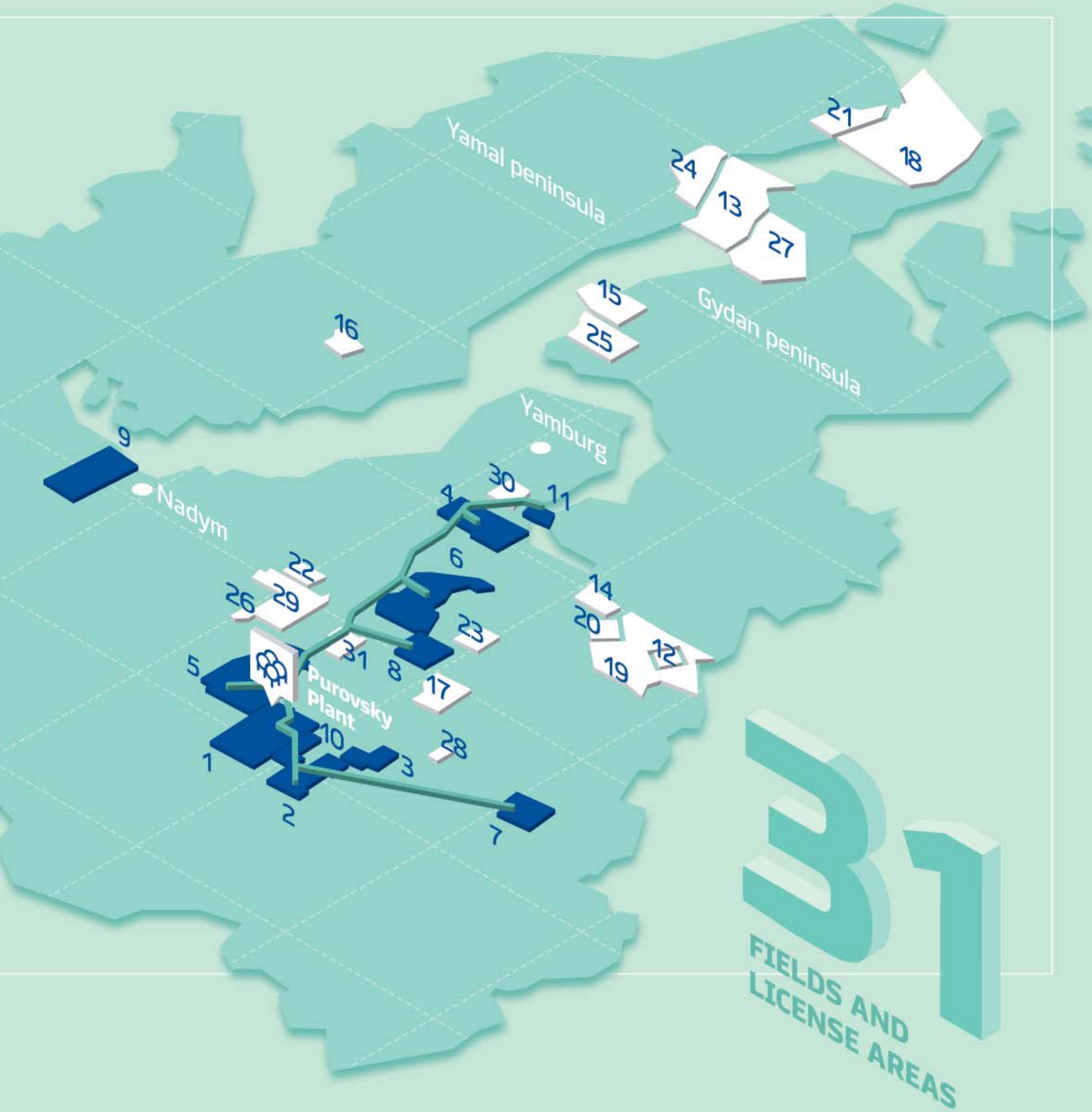
WE HAVE A LARGE CONVENTIONAL RESERVE BASE WITH HIGH RESERVES CONCENTRATION AND HIGH POTENTIAL OF NEW GEOLOGICAL DISCOVERIES.

FIELDS AND LICENSE AREAS WITH COMMERCIAL PRODUCTION

1. East-Tarkosalinskoye field
2. Khancheyskoye field
3. North-Khancheyskoye field[1]
4. North-Urengoyskoye field
5. Olimpiyskiy license area
6. Samburgskiy license area
7. Termokarstovoye field
8. Yaro-Yakhinskiy license area
9. Yarudeyskoye field
10. Yumantilskiy license area
11. Yurkharovskoye field

PROSPECTIVE FIELDS AND LICENSE AREAS

12. Dorogovskoye field
13. East-Tambeyskiy license area
14. East-Tazovskoye field
15. Geofizicheskoye field
16. Malo-Yamalskoye field
17. North-Chaselskiy license area
18. North-Obskiy license area
19. North-Russkiy license area
20. North-Russkoye field
21. North-Tasiyskiy license area
22. North-Yubileynoye field



23. Raduzhnoye field
24. South-Tambeyskoye field
25. Trekhbugorniy license area
26. Ukrainsko-Yubileynoye field
27. Utrenneye field
28. West-Chaselskoye field
29. West-Urengoiskiy license area
30. West-Yurkharovskoye field
31. Yevo-Yakhinskiy license area

1. Since October 2014 — North-Khancheyskoye + Khadyryakhinskoye field.

LEGEND

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 pipelines of NOVATEK. Connect the producing fields with the Purovsky plant.

LETTER TO SHAREHOLDERS

WE SUCCESSFULLY IMPLEMENTED ALL OF OUR OPERATIONAL AND INVESTMENT PLANS FOR 2015 AND CONTINUED DEVELOPING OUR BUSINESS ACCORDING TO OUR LONG-TERM STRATEGY, WHICH ONCE AGAIN PROVED RESILIENT AND EFFICIENT.

ALEXANDER NATALENKO
Chairman of NOVATEK`s Board of Directors

LEONID MIKHELSON
Chairman of NOVATEK`s Management Board

MARK GYETVAY
Deputy Chairman of NOVATEK`s Management Board

+51% growth in liquid hydrocarbon production

+82% growth in throughput volumes at the Purovsky Plant

+34% growth in EBITDA

THE GROWTH OF LIQUID HYDROCARBON SHARE IN OUR OVERALL PRODUCTION VOLUMES COMBINED WITH THE FULL UTILIZATION OF OUR VERTICALLY INTEGRATED CHAIN FOR GAS CONDENSATE CONTRIBUTED A STRONG POSITIVE EFFECT ON THE COMPANY'S FINANCIAL PERFORMANCE.

Dear Shareholders,

TWO THOUSAND AND FIFTEEN was a challenging year for the oil and gas industry. The macroeconomic environment throughout the year, including the precipitous drop in hydrocarbon prices and the significant volatility in foreign exchange rates, tested the SUSTAINABILITY of NOVATEK's business operations. Despite this fact, we are pleased to report that we successfully implemented all of our operational and investment plans for 2015 and continued developing our business according to our long-term strategy, which once again proved resilient and efficient. In the reporting year, we commissioned a number of major new fields, increasing our natural gas production by 9% and our liquid hydrocarbon production by a record GROWTH rate of 51%, thus enabling us to fully utilize our gas condensate processing plants according to the facilities rated capacities.

We achieved another important step in the ongoing TRANSFORMATION of our business — the share of liquid hydrocarbons in the Company's overall production and volumes of stable gas condensate processing into high value-added products as well as the cash flows generated therefrom grew significantly throughout the year. One of the fundamental tenets of our corporate strategy is sustainable business development. The difficult market conditions did not affect our key principle of adhering to the highest standards in environmental protection, occupational health and safety, social responsibility, corporate governance and transparency.

Many international oil and gas companies announced significant reductions in capital investment programs, staff layoffs, as well as postponing or cancelling exploration and development projects and writing off significant reserves. We have consistently highlighted our key competitive edge — our low-cost structure, including very low reserve development and lifting costs. NOVATEK is traditionally ranked as one of the lowest cost producers among the leading public oil and gas companies globally. This enviable fact along with the Company's well-balanced business structure and high operating flexibility underpin our strong SUSTAINABILITY and enables us to efficiently develop and grow our business in various hydrocarbon commodity price environments.

Despite the decline in hydrocarbon prices our SEC proved hydrocarbon reserves grew by 1.4% in the reporting year while the organic reserves replacement ratio reached 148%. We demonstrated GROWTH in our core financial indicators, enabling the Company's Board of Directors to recommend to the General Meeting of Shareholders to approve dividends for 2015 at RR 13.5 per share, which exceeds the dividend paid out for the previous year by 31%. Dividend growth highlights our confidence in the future SUSTAINABILITY of our business and sufficiency of capital resources to further implement our corporate strategy and vision. Furthermore, our operating cash flow was more than double the amount of our capital expenditures in the reporting year, while our construction and drilling works were carried out in full as planned.

Thanks to these efforts, we commissioned three major new fields in 2015. In April, commercial production started at the Yaro-Yakhinskoye oil and gas condensate field developed by the Arcticgas joint venture (JV). In May, we commissioned the Termokarstovoye gas condensate field operated by the Terneftegas JV. Both of these new fields reached their plateau production levels in June. In the beginning of December, we launched the Yarudeyskoye crude oil field developed by the Yargeo JV. This field ramped-up to its design capacity within a record-short period of time for an oil project — annualized oil production of 3.5 million tons was achieved by the end of 2015. The launch of the Yarudeyskoye field is another important milestone in the Company's history as it represents successful completion of our first major crude oil development project. The above mentioned three fields contributed to record GROWTH in NOVATEK's liquid hydrocarbons in 2015, including a 55% increase in gas condensate production.

We also realized full year run rates on facilities commissioned in 2014, which positively impacted our production dynamics during the year; namely, Phase 3 of the Samburgskoye field and two phases of the Urengoyskoye field within the Samburgsky license area developed by Arcticgas. Liquid hydrocarbons increased by four percentage points as part of our overall production as compared to 2014 and amounted to 15%. The fields we commissioned in 2015 will generate double-digit liquids production growth in 2016 as well.

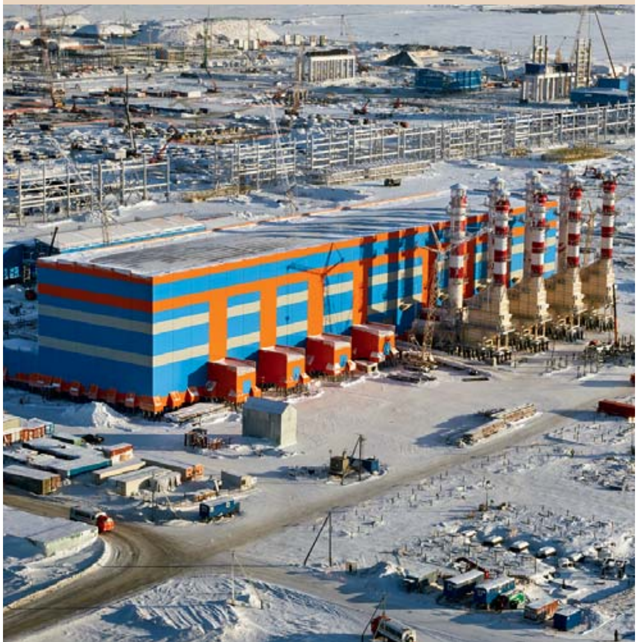
With the timely capacity expansion at our Purovsky Gas Condensate Stabilization Plant we fully covered the steep growth in this feedstock production by relevant processing capabilities. The Purovsky Plant raised its processing volumes by 82% to fully utilize its design capacity in the reporting year, as did the Ust-Luga Stable Gas Condensate Fractionation Complex, which increased its processing volumes by 43%. The Complex's high value added products accounted for one-third of NOVATEK's total revenue for 2015.

The GROWTH of liquid hydrocarbon share in our overall production volumes combined with the full utilization of our vertically integrated chain for gas condensate, which positively impacts the unit profitability of our liquids sales, contributed a strong positive effect on the Company's financial performance. As a result, NOVATEK's revenues grew by 33% year-on-year, while our Normalized EBITDA rose to a record high of RR 214 bln. Meanwhile, our liquid revenues exceeded revenues derived from natural gas for the first time in our corporate history. Growing revenues from liquid hydrocarbon sales, denominated mainly in foreign currencies, substantially reinforced our SUSTAINABILITY in the challenging macroeconomic environment.

The formal launching of the Yarudeyskoye field at the end 2015 marked the conclusion of the first five years of our long-term development strategy that we presented to the investment community in late 2011. Compared to 2010, our proved reserves grew by 58%. We put on stream production facilities with the aggregate capacity of 45 bcm of natural gas and 13 million tons of liquid hydrocarbons, which equals to 7% of Russia's total natural gas production and 3% of liquid hydrocarbons production for 2010. Our gas production increased by 82% while liquid hydrocarbon production grew by 2.5 times. NOVATEK's share in the total Russian natural gas production moved up by 5 percentage points to 11%, our share in the domestic gas market went up twofold to approximately 20% and the proportional share of end customers in our overall gas sales volumes increased from 64% to 93%. We grew our revenues and EBITDA by four times and retained our lifting costs at approximately $0.5 per BOE.

We have successfully achieved all of the ambitious mid-term goals and successfully accomplished the first phase of our business TRANSFORMATION. The rapid growth in liquid hydrocarbon production provided a much higher profitability per unit of sales as compared with our natural gas sales, and has become a key driver of our financial performance over recent years. We have reinforced our SUSTAINABILITY, strengthened our competitive advantages and considerably built up the basis for a successful implementation of the next important phase of our business TRANSFORMATION — entering the international LNG market.

WE CONSIDERABLY BUILT UP THE BASIS FOR A SUCCESSFUL IMPLEMENTATION OF THE NEXT IMPORTANT PHASE OF OUR BUSINESS TRANSFORMATION — ENTERING THE INTERNATIONAL LNG MARKET



As of the end 2015, construction of the LNG plant's first train under our flagship Yamal LNG Project was more than 56% complete. Yamal LNG is built on the conventional resource base of the South-Tambeyskoye gas condensate field, which underscores the project's key competitive advantage. Our field development costs account for less than 15% of the project's overall capital expenditures, while lifting costs are estimated to match the current weighted average level achieved at NOVATEK. This distinction is important as it means that Yamal LNG's overall feedstock cost for liquefaction will be considerably lower as compared to other LNG projects currently implemented around the globe. The very low upstream cost base more than compensates for higher shipping costs due to the Arctic navigation conditions and remoteness from the Asia-Pacific markets. This makes Yamal LNG economically feasible in today's low hydrocarbon price environment and highly competitive in key importing markets.

Forty-one production wells have been drilled at the South-Tambeyskoye field, representing approximately 70% of the well stock required for the plant's first train. Long-lead items, including the LNG plant modules, began arriving in Sabetta in September of the reporting year. Among the items delivered as of the year end are the full equipment package for compressor lines of the plant's first and second trains, the cryogenic heat exchanger, the first seven plant modules, a number of pipe rack modules, power plant turbines and other pieces of equipment. Installation of the equipment on ready foundations started. Thus, Yamal LNG is progressing in full accordance with the project's schedule, with the intent to commence commercial LNG production in 2017.

In December 2015, we signed binding definitive agreements to sell a 9.9% equity stake in the Yamal LNG project to China's Silk Road Fund, including the receipt of a 15-year loan for the purpose of financing of Yamal LNG. This key transaction is another important step toward executing our long-term development strategy, as it enables us to achieve the appropriate target shareholder structure and contributes to the planned financing of the project and further facilitates the project's successful implementation.

Environmental protection and industrial safety remains a core focus of our operations. One of our key priorities is to protect the ecosystems of the Far North where our fields are located. Applying state-of-the-art technologies that both improve economic efficiency and make HSE systems more reliable and minimize the environmental impact is of particular interest for NOVATEK.

We take special care in preserving the cultural heritage and traditional lifestyle of indigenous minorities of the North. Working jointly with regional governments we invest in social infrastructure and are implementing several cultural, educational and charitable programs. Alongside our operational and financial performance indicators, we measure our business success by our contribution to the development of regions where we operate.

We would also like to take this opportunity to recognize the contributions our highly qualified employees make in implementing our long-term development strategy focused on GROWTH and efficient TRANSFORMATION of our business and on ensuring the Company's high SUSTAINABILITY in the challenging market conditions. We would not be able to achieve these high-level goals without their dedication and commitment to our mission.

On behalf of the Board of Directors and Management Board, we are pleased to present to our valued stakeholders the NOVATEK's 2015 Annual Report, and we would like to thank everyone for your continued confidence in the Company and our strategic plans. Although 2015 has been a challenging year for the oil and gas industry, we remain committed to delivering results according to our strategic goals and objectives consistent with internationally recognized best practices and sustainable development principles.

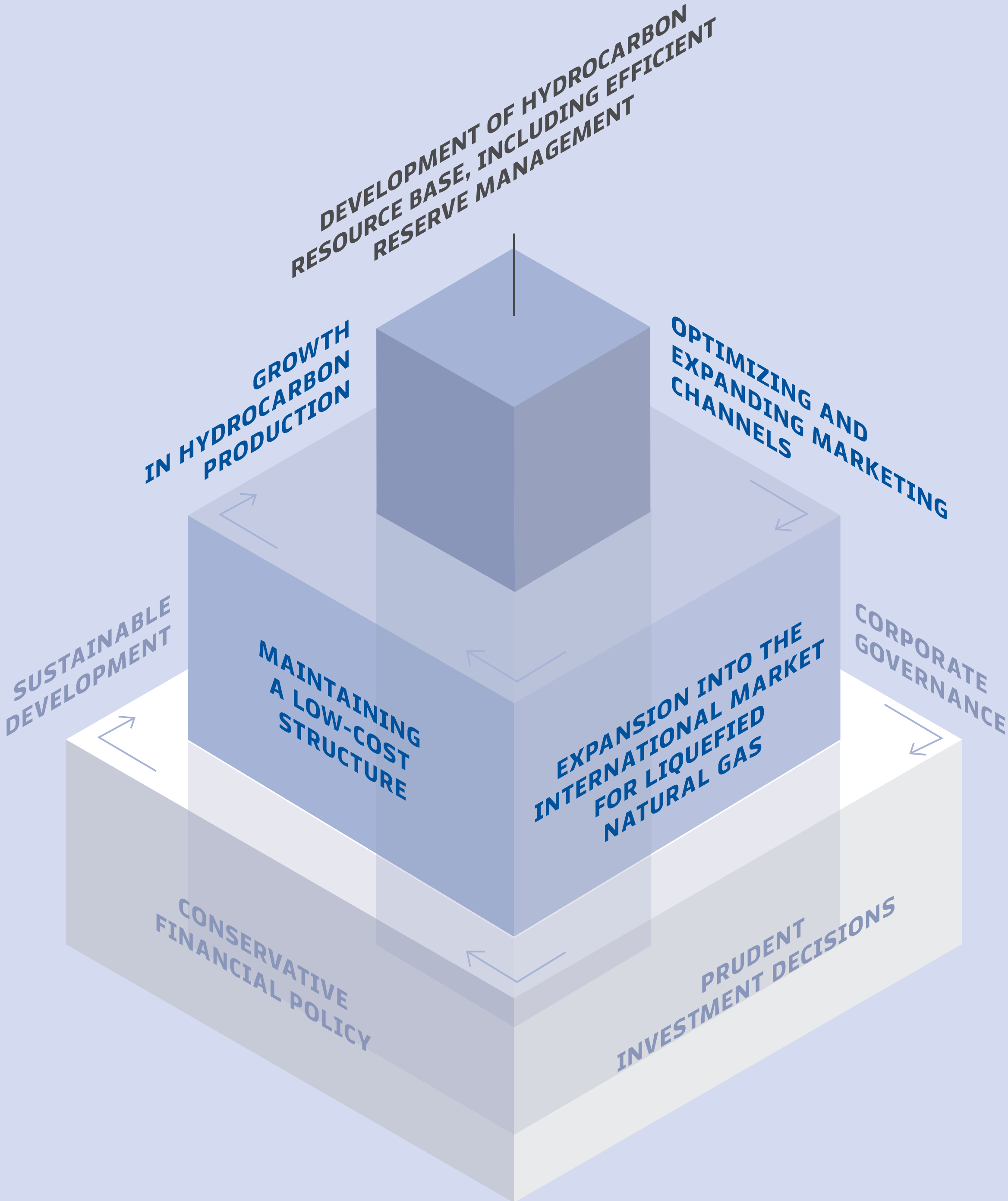
Kind regards,

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 gas (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.

KEY EVENTS AND ACHIEVEMENTS 2015

01

RECORD GROWTH IN LIQUID HYDROCARBON PRODUCTION OF 51% TO MORE THAN 9 MMT

Launch of the Yarudeyskoye oil field in the beginning of December. The field is developed by our Yargeo joint venture and ramped up to its full production capacity by the end of 2015.

02

Launch of the Termokarstovoye gas condensate field in May. The field is developed by our Terneftegas joint venture and ramped up to its full production capacity in June 2015.

03

Increase in our Normalized EBITDA by 34% to a record high of RUB 214 bln.

04

Signing of binding definitive agreements with China's Silk Road Fund on the sale of a 9.9% equity stake in the Yamal LNG project, including the receipt of a 15-year loan for the purpose of financing of Yamal LNG.

05

Record growth in our liquid hydrocarbon sales volumes by 82%, contributing to an increase in its respective share in total revenue to 53%.

06

Conclusion of a number of long-term contracts for domestic natural gas sales and international LNG sales.

07

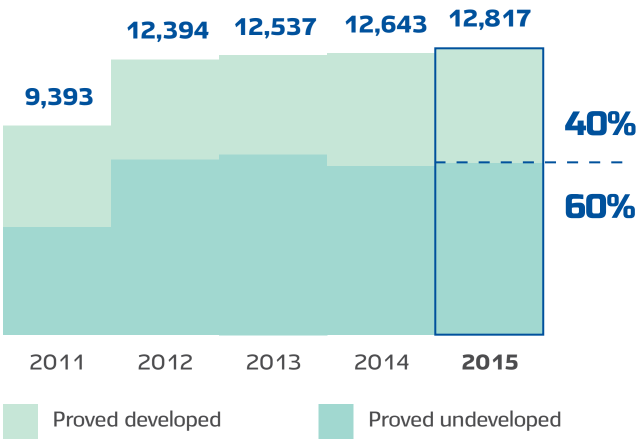
Launch of the Yaro-Yakhinskoye oil and gas condensate field in April. The field is developed by our Arcticgas joint venture and ramped up to its full production capacity in June 2015.

KEY INDICATORS

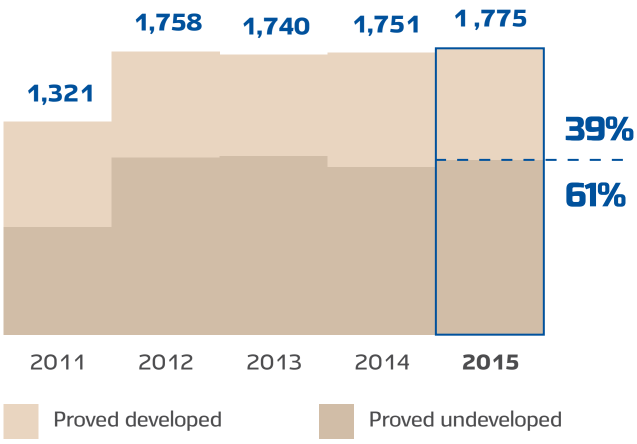
	Units	2014	2015	Change
FINANCIAL INDICATORS				
Total revenues	RR mln	357,643	475,325	32.9%
Normalized profit from operations[1]	RR mln	125,140	139,741	11.7%
Normalized EBITDA (including share in EBITDA of JVs)[1]	RR mln	159,631	214,466	34.4%
Profit attributable to shareholders of NOVATEK	RR mln	37,296	74,396	99.5%
Earnings per share, basic and diluted	RR	12.34	24.63	99.6%
Net cash provided by operating activities	RR mln	111,241	132,864	19.4%
Net cash used for capital expenditures[2]	RR mln	62,040	50,584	(18.5)%
Free cash flow	RR mln	49,201	82,280	67.2%
OPERATING INDICATORS				
Proved natural gas reserves (SEC)[3]	bcm	1,751	1,775	1.4%
Proved liquid hydrocarbon reserves (SEC)[3]	mmt	140	143	2.0%
Total proved hydrocarbon reserves (SEC)[3]	mmboe	12,643	12,817	1.4%
Marketable production of natural gas	bcm	62.13	67.91	9.3%
Marketable production of liquid hydrocarbons	mt	6,036	9,094	50.7%
Total marketable production	mmboe	456.7	521.6	14.2%
POSITIONS IN THE RUSSIAN INDUSTRY				
Share in natural gas production	%	9.7%	10.8%	1.1 p.p.
Share in liquid hydrocarbon production	%	1.1%	1.7%	0.6 p.p.

1. Adjusted for the effect on disposal of interests in joint ventures.
2. Cash used for capital expenditures represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries.
3. Proved reserves as at the end 2014 have been adjusted to include 100% of the Yarudeyskoye field reserves (previously accounted for on a 51% basis).

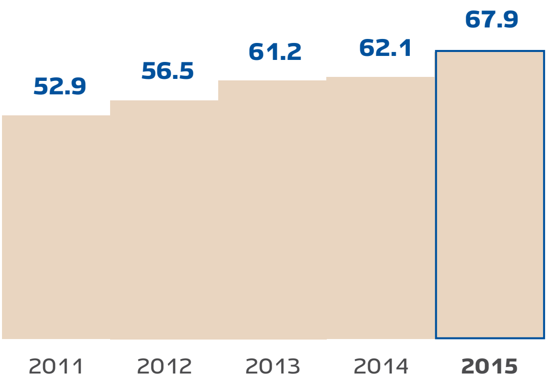
Total proved hydrocarbon reserves (SEC), mmboe



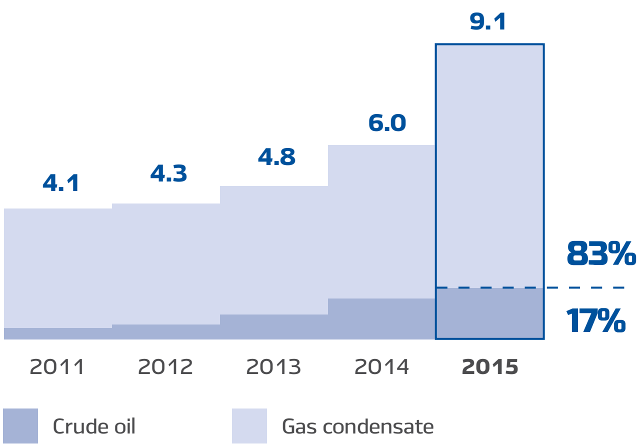
Proved natural gas reserves (SEC), bcm



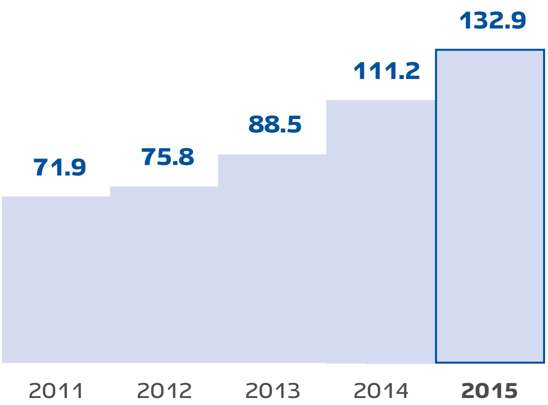
Marketable natural gas production, bcm



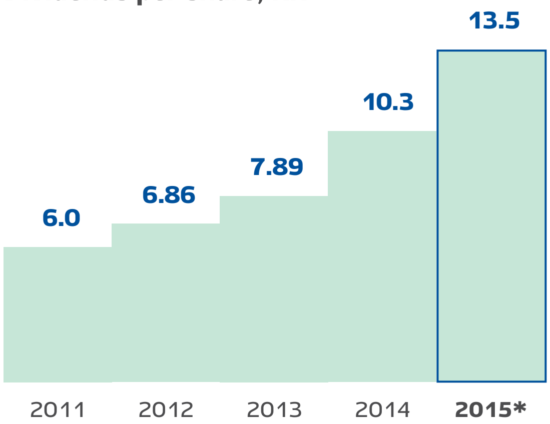
Marketable liquids production, mmt



Operating cash flow, RR bln



Dividends per share, RR



* Recommendation of the Board of Directors.

RECORD GROWTH IN LIQUID HYDROCARBON PRODUCTION

Our liquid hydrocarbon production increased by a record growth rate of 51% year-on-year. The launch of three major gas and gas condensate fields in 2014 and 2015 enabled us to achieve high growth rates of gas condensate production, while implementation of the oil program and launch of the Yarudeyskoye oil filed in 2015 resulted in higher crude oil output.

Marketable production of liquid hydrocarbons, mmt

LIQUID HYDROCARBON PRODUCTION GREW BY 1.5 TIMES AS COMPARED TO 2014

TERMOKARSTOVOYE FIELD

Launched in May 2015 and achieved planned daily production levels equivalent to approximately 2.4 bcm of natural gas and 0.8 mmt of de-ethanized gas condensate per annum as early as June 2015.

Natural gas and gas condensate is produced from the Jurassic layers, which were developed by horizontal wells with horizontal lengths of up to 2.0 km. Twenty-two production wells were drilled at the field by year-end.

A unique feature of the field is the low-temperature (minus 60°C) gas treatment process, involving adsorptive gas dehydration, gas expansion turbines and special low-temperature gas condensate de-ethanization columns. This unique treatment process doesn't require methanol and enhances extraction of liquid hydrocarbons, improving the field's economic efficiency.

1

GAS INLET AND SEPARATION SHOP

The shop separates gas from gas condensate, extracts water, connects and disconnects flow lines from well pads, reduces gas pressure and injects methanol into the flow lines.

Termokarstovoye field. August 2015

2

GAS ADSORPTION DRYING UNIT

The unit extracts water vapors from gas by using zeolites. It enables drying natural gas to a water dew-point of -60°C. Once dried in the adsorption unit, the gas flows into the low temperature separation shop where light hydrocarbon fractions are extracted from marketable gas. Adsorption drying ensures high-quality removal of water and improves economic efficiency by enabling best possible extraction of light hydrocarbons in the separation process and requiring no methanol.

3

LOW TEMPERATURE SEPARATION SHOP

This shop extracts light hydrocarbons from natural gas. Turbo expansion technology ensures separation temperatures down to minus 55-60 °C. Cooling the gas to low temperatures enables better condensation of liquid hydrocarbons and improves the efficiency of marketable gas treatment while ensuring that all quality requirements are met.

4

CONDENSATE DE-ETHANIZATION UNIT

The unit extracts methane and ethane fractions that remain after low temperature separation from gas condensate. Extracted gas is fed into the trunk pipeline while de-ethanized (unstable) gas condensate is delivered through a condensate pipeline to the Purovsky Plant for further processing.

5

POWER PLANT

With a capacity of 12.5 MW (five units 2.5 MW each), the power plant generates electricity for the field needs.

6

FIRE STATION

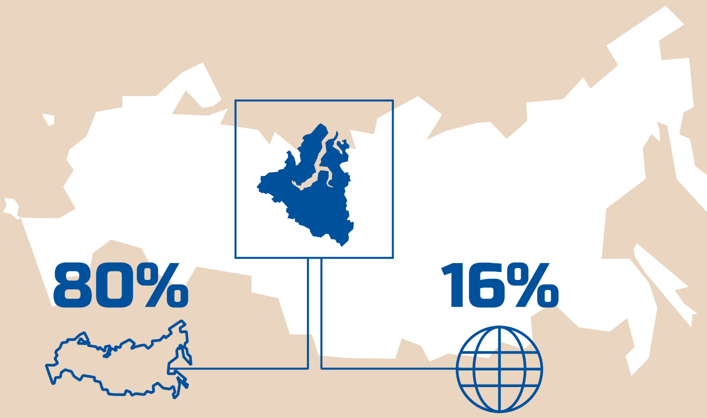
The fire station includes two fire brigades equipped with state-of-the-art firefighting tools and machinery.

7

ADMINISTRATIVE AND TECHNICAL BUILDINGS

An office and accommodation building, a chemical laboratory, repairs and maintenance area, storage facilities and technical buildings

GEOLOGICAL EXPLORATION AND HYDROCARBON PRODUCTION



THE YAMAL-NENETS AUTONOMOUS REGION OF RUSSIA ACCOUNTS FOR APPROXIMATELY 16% OF GLOBAL NATURAL GAS PRODUCTION AND 80% OF RUSSIAN NATURAL GAS PRODUCTION.

As of 31 December 2015, NOVATEK's SEC proved reserves, including the Company's proportionate share in joint ventures, aggregated 12,817 mmboe, including 1,775 bcm of natural gas and 143 mmt of liquid hydrocarbons. Despite the continued price decline for benchmark crude oil prices on the international hydrocarbon market, the Company's proved reserves increased by 1.4% compared to year-end 2014[1], and our organic proved reserve replacement rate was 148%. At year-end 2015, the Company's reserve to production ratio (or R/P ratio) was 25 years.

In 2015, we continued full-scale exploration works at our license areas located on the Gydan Peninsula and offshore in the Gulf of Ob to properly assess the resource potential of this strategically important region. We started three-dimensional (3D) seismic studies at the North-Obskiy offshore license area and also conducted 3D seismic and exploration drilling works at the Utrenniy license area.

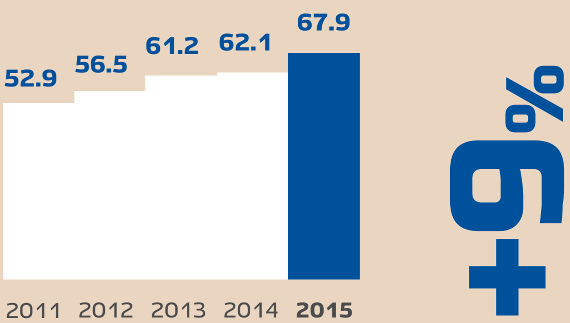
Exploration activities also continued at the fields and license areas in the Nadym-Pur-Taz region. Seismic studies were done at the North-Russkiy and Dorogovskiy license areas while exploration drilling was performed at the North-Russkiy and Malo-Yamalskiy areas, as well as at the Samburgskiy and Yevo-Yakhinskiy license areas of the Arcticgas JV.

In 2015, NOVATEK carried out commercial hydrocarbon production at 13 fields. Marketable production from all fields (including the Company's share in production of joint ventures) amounted to 521.6 mmboe, representing an increase of 14.2% over the prior year.

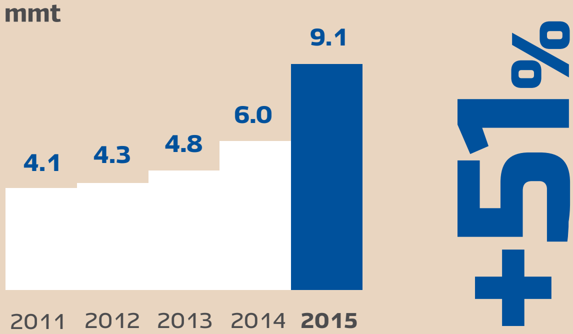
Total marketable production of natural gas including the Company's share in production of joint ventures aggregated 67.91 bcm, representing 85.1% of our total hydrocarbon output.

Marketable production of liquid hydrocarbons including the Company's share in production of joint ventures totalled 9,094 thousand tons, of which 83% was unstable de-ethanized gas condensate and the remaining 17% consisted of crude oil.

Marketable production of natural gas, bcm

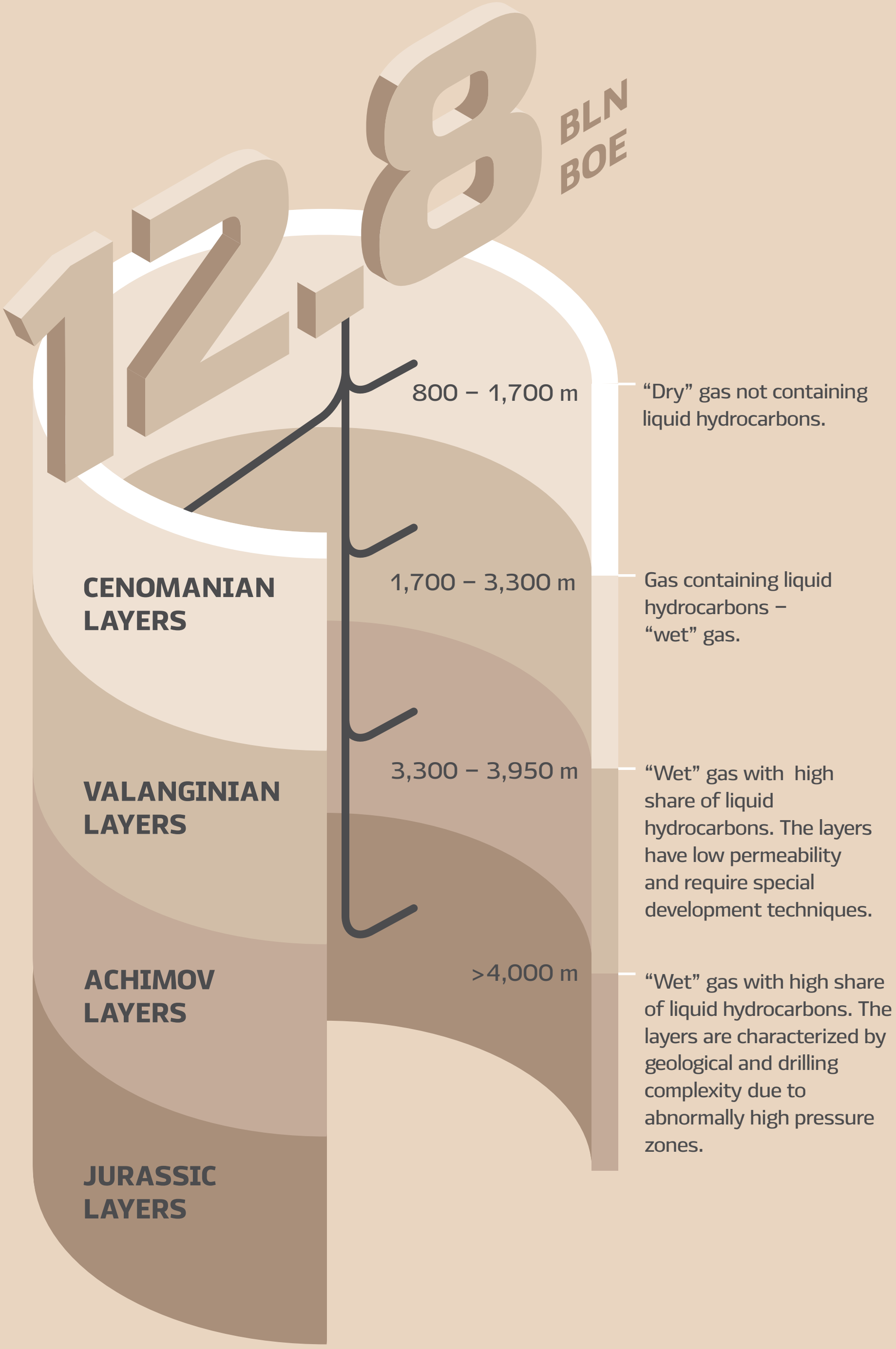


Marketable production of liquid hydrocarbons, mmt



1. Proved reserves as at the end 2014 have been adjusted to include 100% of the Yarudeyskoye field reserves (previously accounted for on a 51% basis).

SEC proved reserves of NOVATEK as of 31 December 2015



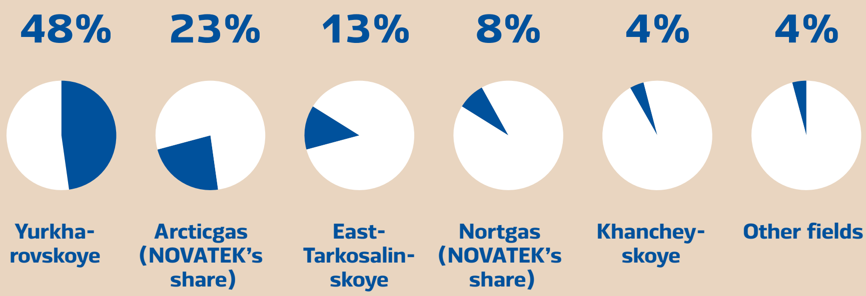
25 years — SEC proved reserve life as of 31 December 2015

2.2 USD per boe — Reserve Replacement Costs in 2011–2015

0.5 USD per boe — Lifting Costs in 2015

Structure of marketable hydrocarbon production in 2015

522 mmboe



1

FIRST AND SECOND SEPARATION UNITS

Used for a three-phase separation of oil from produced water and associated petroleum gas. The first unit allows to simultaneously separate oil from gas and partially dehydrate crude oil. After this process the water content in oil shall not exceed 1%. The second unit dehydrates crude oil to 0.1% water content.

2

TERMINAL SEPARATION UNIT

Designed for final "hot" oil stripping until desired values of saturated vapor pressure are reached and associated gas is scrubbed.

3

OIL TANKS

Six tanks with 5,000 cubic meters capacity each.

Yarudeyskoye oil field. February 2015

4

OIL PUMPING STATION FOR EXTERNAL TRANSPORTATION

Consists of four electrically driven pumping units; designed to transfer treated oil to the trunk pipeline.

5

METERING STATION

Used for automated measurement of the oil parameters and volume.

6

CRUDE OIL HEATERS

Used to heat crude oil to 45°C. The heated crude oil is then transferred to the second separation unit.

YARUDEYSKOE OIL FIELD

Launched in the beginning of December 2015. The field is developed by the Yargeo JV (NOVATEK holds a 51% share). The field ramped up to its full production capacity of 3.5 million tons per annum, or 9,700 tons of crude oil per day, by the end of December, which is a very short period of time for full ramp up of a crude oil project. Only 21 wells were required to achieve these production flow rates. As of the end 2015, a total of 39 wells were drilled at the field. The field's infrastructure also includes a central oil treatment facility, oil and gas gathering systems, a pumping station, and gas and crude oil pipelines. After treatment at the field, the crude oil is transported via our crude oil pipeline (approximately 350 km long) to Purpe, where it is injected into the trunk pipeline system operated by Transneft.

The Yarudeyskoye field is the largest oil asset in our portfolio and is characterized by unique geology, which combined with the application of state-of-the-art drilling and completion technologies allowed us to achieve the average production flow rate of more than 400 tons per day per well, with the potential flow rate of one of our most prolific wells exceeding 1,200 tons per day.

Gas treatment facility

1

GAS INLET AND SEPARATION SHOP

The shop is used to connect and disconnect flow lines from well pads, inject methanol into the flow lines, reduce gas pressure, and effect gas pre-separation by removing liquid droplets and condensate.

2

GAS AND CONDENSATE TREATMENT SHOPS

The shops separate gas from liquid droplets and condensate, dehydrate gas by means of low temperature separation, separate condensate from water-methanol mixture, and degasify condensate.

3

METHANOL RECEIVING AND INJECTION UNIT

The unit receives, stores and supplies methanol to well pads, flow lines, gas inlet and separation shop, gas and condensate treatment shops.

4

COMPRESSOR STATION

The station increases the pressure of gas flowing from the de-ethanization unit.

YARO-YAKHINSKOYE FIELD

Commissioned in April 2015 and reached its design capacity of 7.7 bcm of natural gas and more than 1.3 mmt of de-ethanized gas condensate on an annualized basis in June 2015. The field produces from the Valanginian layers. As of the end 2015, a total of 38 wells were drilled with horizontal sections of up to 1 km and initial daily flow rate of up to 1.2 mmcm of gas and 270 tons of gas condensate.

Gas condensate de-ethanization facility

5

CONDENSATE BUFFER TANKS AND PUMPS SHOP

The shop performs automated metering of de-ethanized gas condensate, injects it into trunk pipeline and keeps an inventory of de-ethanized gas condensate required for uninterrupted operation of pumps.

6

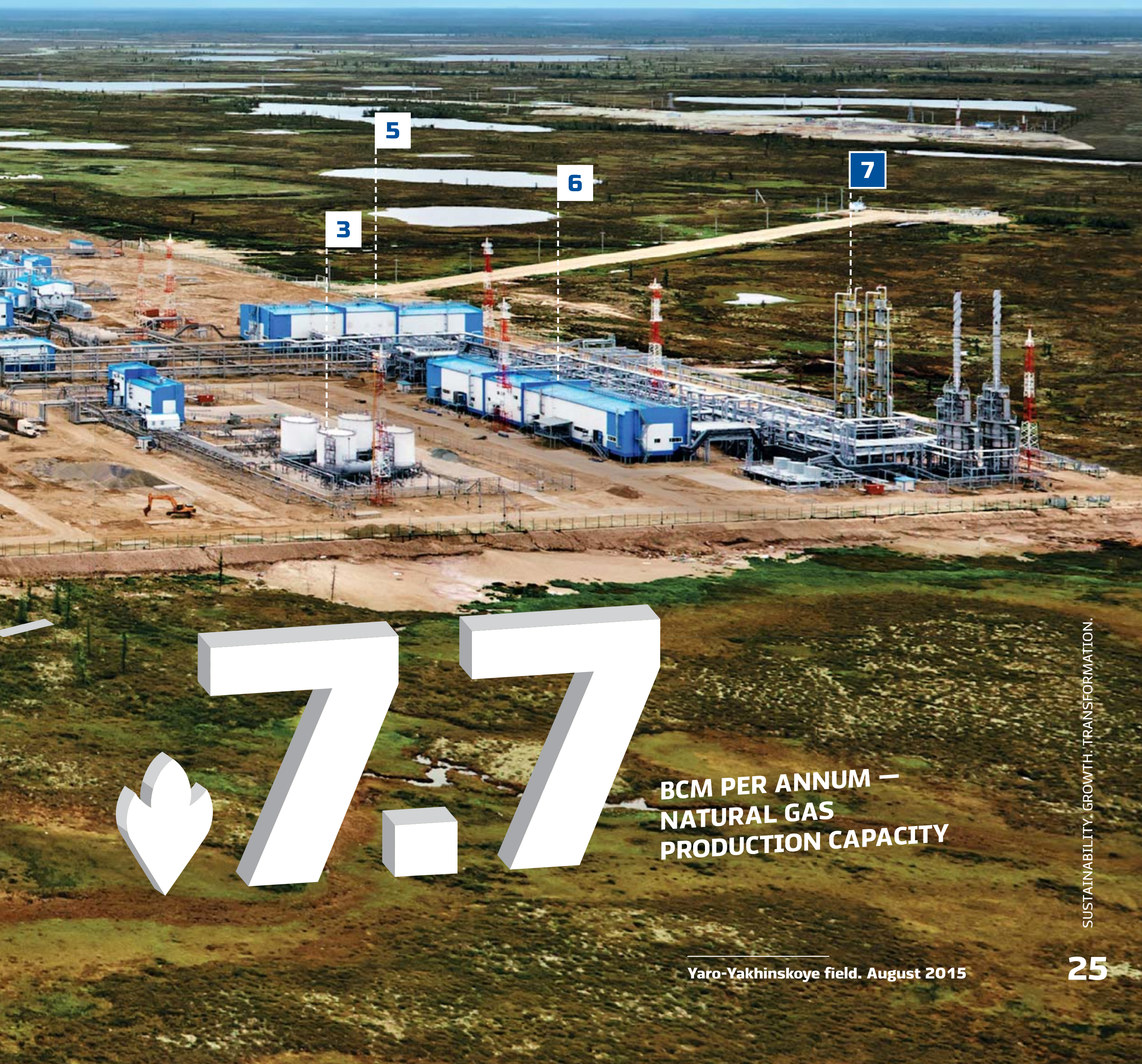
CONDENSATE DE-ETHANIZATION SHOP

The shop extracts methane-ethane fractions from gas condensate. Extracted gas is fed into the trunk pipeline, while de-ethanized (unstable) gas condensate is delivered through a condensate pipeline to the Purovsky Plant for further processing.

7

DEETHANIZATION COLUMNS

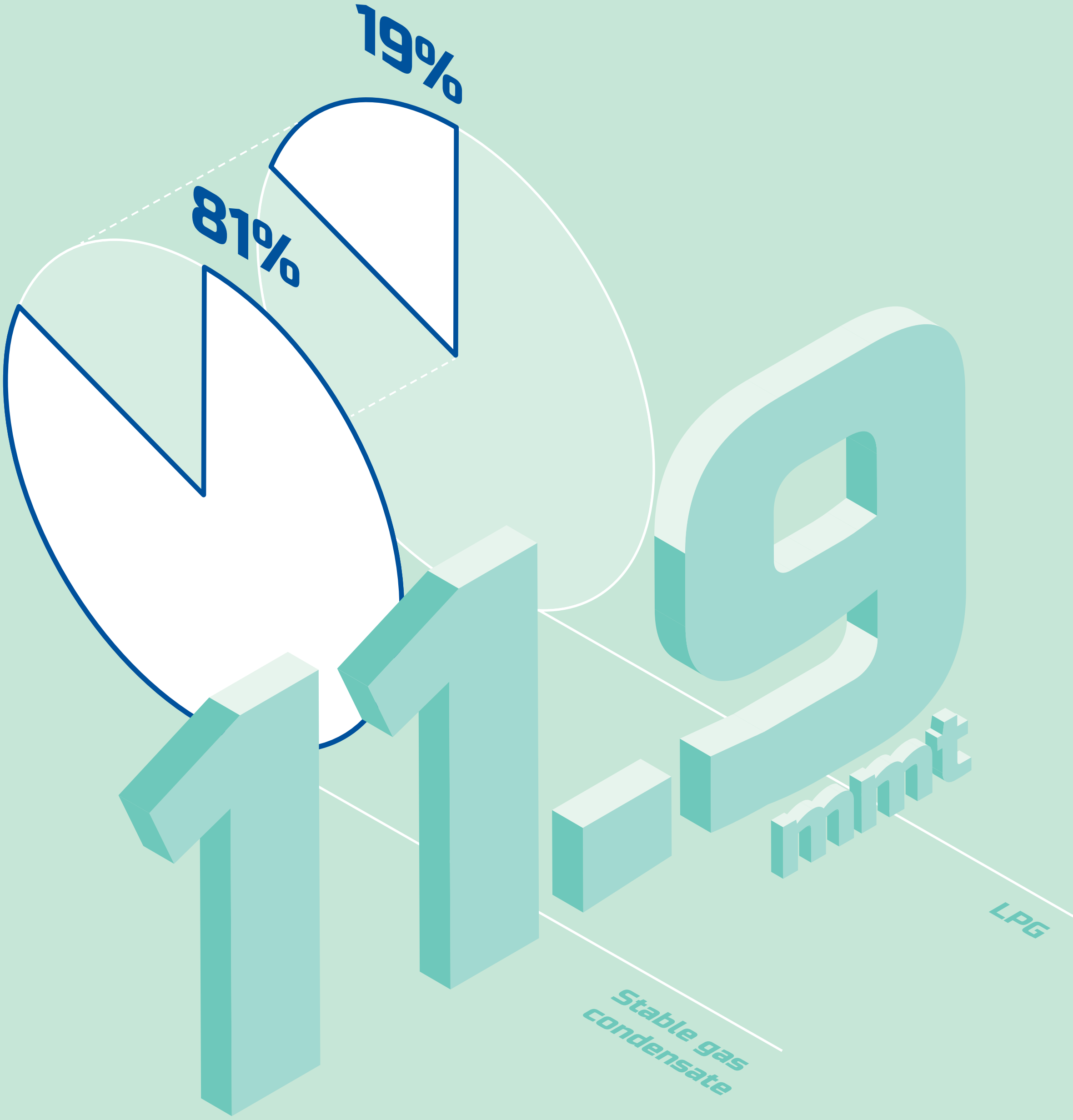
Distillation columns (de-ethanization columns) with trays fractionate condensate into de-ethanization gas and de-ethanized condensate. Hydrocarbons mixture is heated in a furnace and then flows into the columns, where vapors enriched with low-boiling cuts rise while heavier cuts descend through trays. As a result, methane and ethane (de-ethanization gas) are separated from de-ethanized condensate, the final product of de-ethanization.



Yaro-Yakhinskoye field. August 2015

FULL UTILIZATION OF PROCESSING CAPACITIES

Due to growth in gas condensate production volumes, in June 2015 the Purovsky Plant reached full utilization of its processing capacity of more than twelve (12) mmt on an annualized basis. Stable gas condensate production growth at the Purovsky Plant enabled us to fully utilize processing capacity of the Ust-Luga Complex.

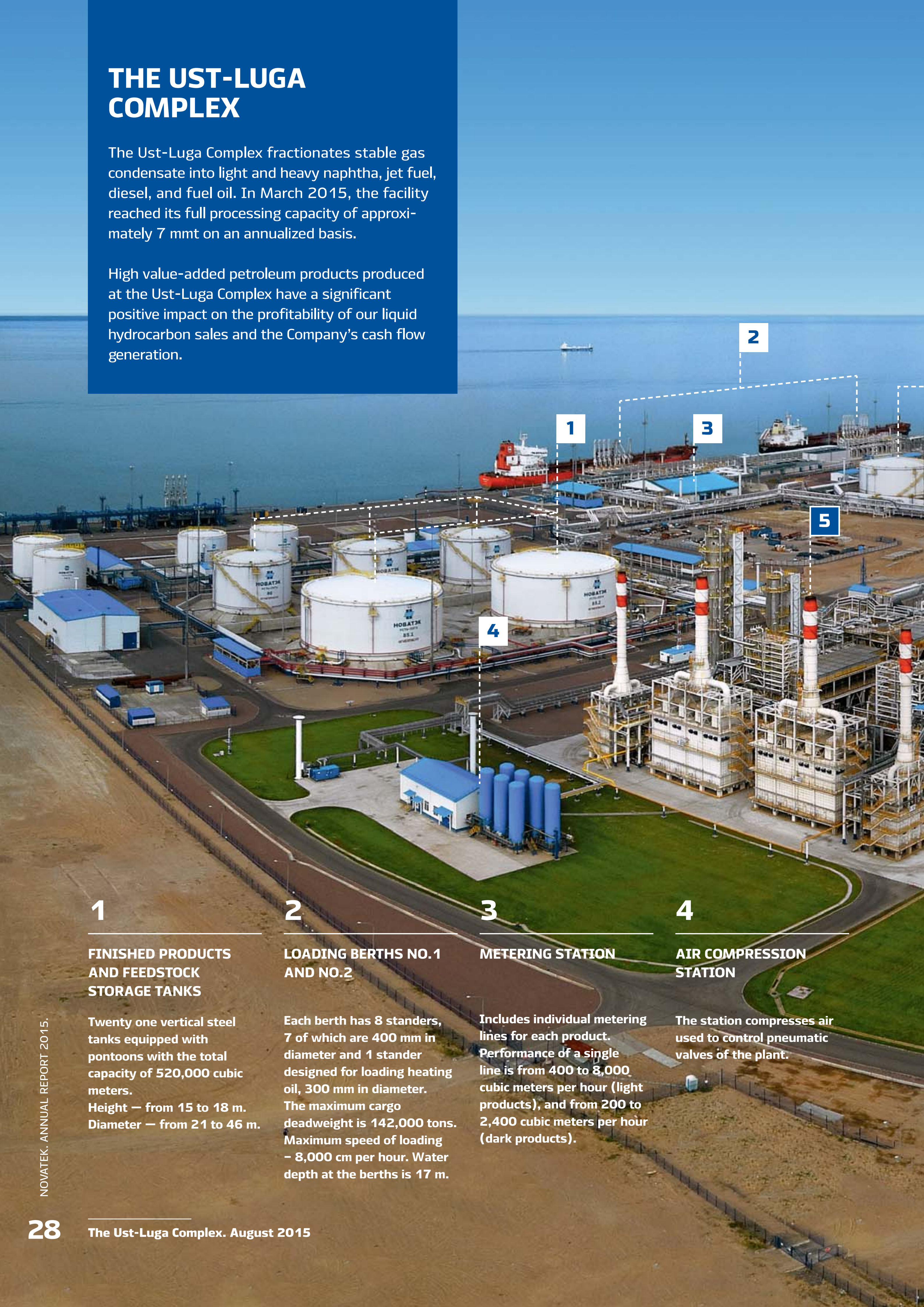


11.9 MMT – MARKETABLE PRODUCT OUTPUT OF THE PUROVSKY PLANT IN 2015

THE UST-LUGA COMPLEX

The Ust-Luga Complex fractionates stable gas condensate into light and heavy naphtha, jet fuel, diesel, and fuel oil. In March 2015, the facility reached its full processing capacity of approximately 7 mmt on an annualized basis.

High value-added petroleum products produced at the Ust-Luga Complex have a significant positive impact on the profitability of our liquid hydrocarbon sales and the Company's cash flow generation.



1
FINISHED PRODUCTS AND FEEDSTOCK STORAGE TANKS

Twenty one vertical steel tanks equipped with pontoons with the total capacity of 520,000 cubic meters.
Height — from 15 to 18 m.
Diameter — from 21 to 46 m.

2
LOADING BERTHS NO.1 AND NO.2

Each berth has 8 standers, 7 of which are 400 mm in diameter and 1 stander designed for loading heating oil, 300 mm in diameter.
The maximum cargo deadweight is 142,000 tons.
Maximum speed of loading – 8,000 cm per hour. Water depth at the berths is 17 m.

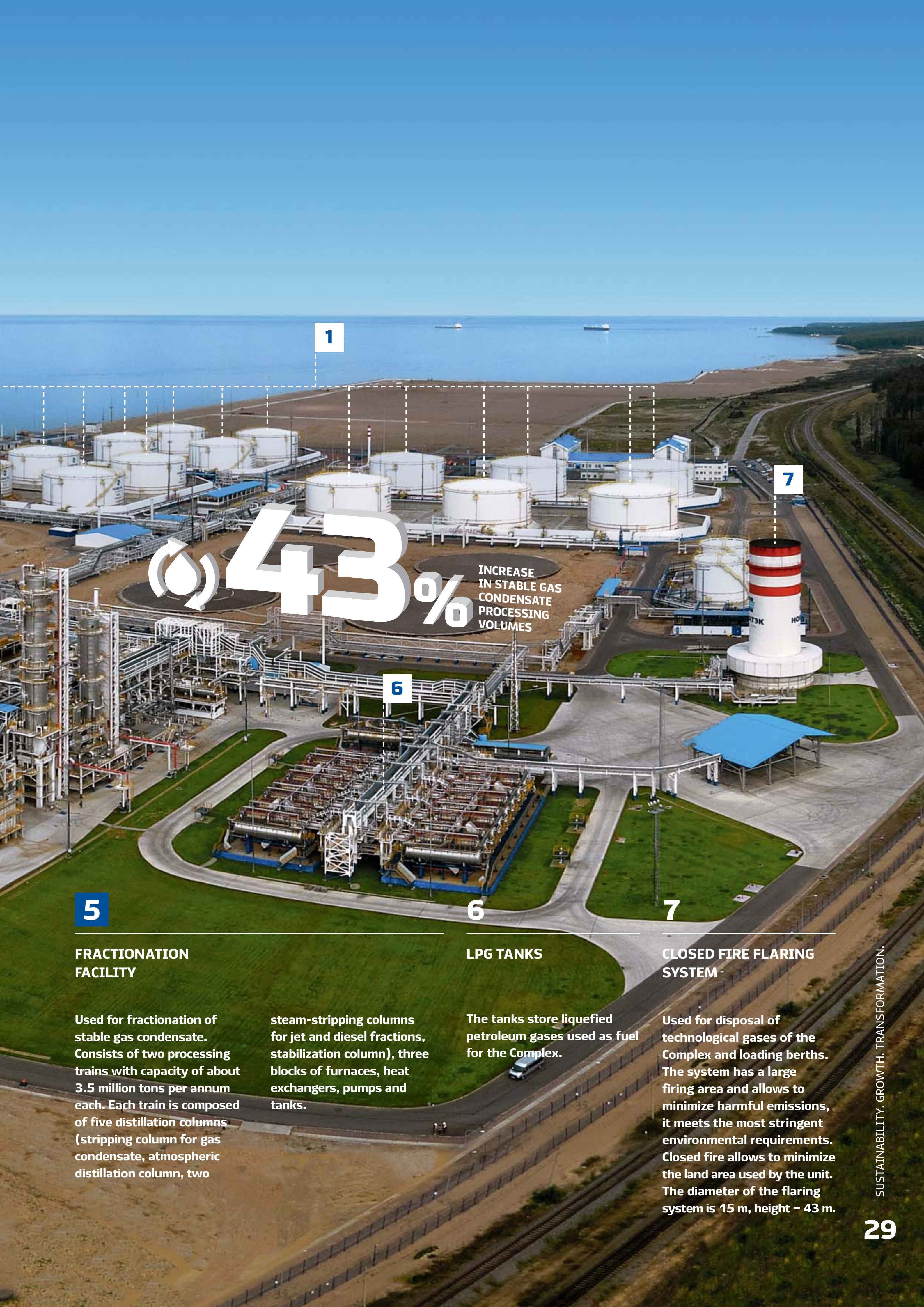
3
METERING STATION

Includes individual metering lines for each product. Performance of a single line is from 400 to 8,000 cubic meters per hour (light products), and from 200 to 2,400 cubic meters per hour (dark products).

4
AIR COMPRESSION STATION

The station compresses air used to control pneumatic valves of the plant.

The Ust-Luga Complex. August 2015



5

FRACTIONATION FACILITY

Used for fractionation of stable gas condensate. Consists of two processing trains with capacity of about 3.5 million tons per annum each. Each train is composed of five distillation columns (stripping column for gas condensate, atmospheric distillation column, two steam-stripping columns for jet and diesel fractions, stabilization column), three blocks of furnaces, heat exchangers, pumps and tanks.

6

LPG TANKS

The tanks store liquefied petroleum gases used as fuel for the Complex.

7

CLOSED FIRE FLARING SYSTEM

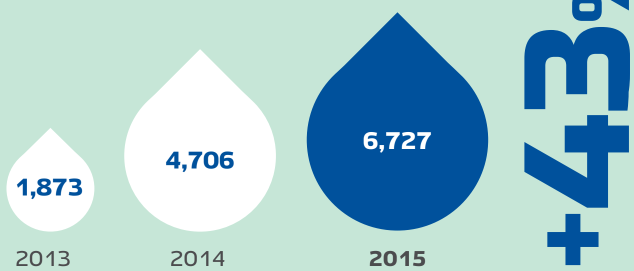
Used for disposal of technological gases of the Complex and loading berths. The system has a large firing area and allows to minimize harmful emissions, it meets the most stringent environmental requirements. Closed fire allows to minimize the land area used by the unit. The diameter of the flaring system is 15 m, height – 43 m.

UST-LUGA STABLE GAS CONDENSATE FRACTIONATION COMPLEX

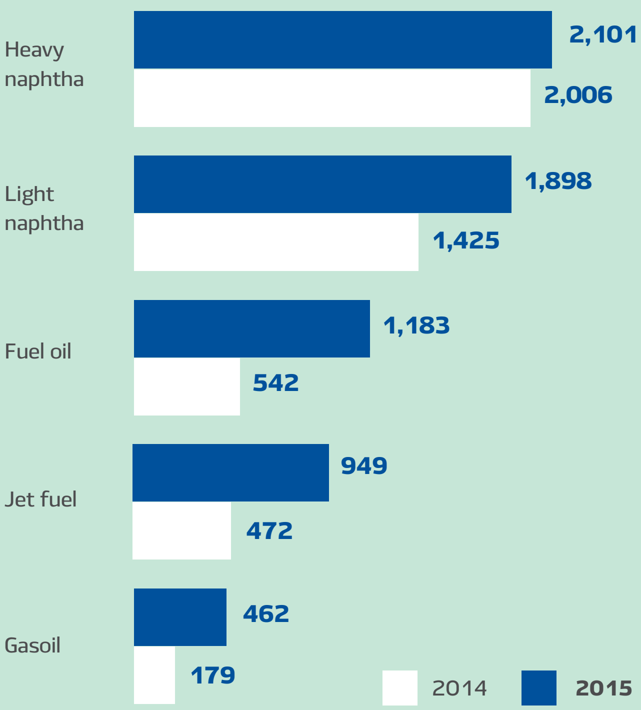
IN 2015, THE UST-LUGA COMPLEX REACHED FULL UTILIZATION OF ITS PROCESSING CAPACITY OF APPROXIMATELY SEVEN (7) MMT ON AN ANNUALIZED BASIS. HIGH VALUE-ADDED PRODUCTS PRODUCED AT THE UST-LUGA COMPLEX HAVE A SIGNIFICANT POSITIVE IMPACT ON THE COMPANY'S CASH FLOW GENERATION.

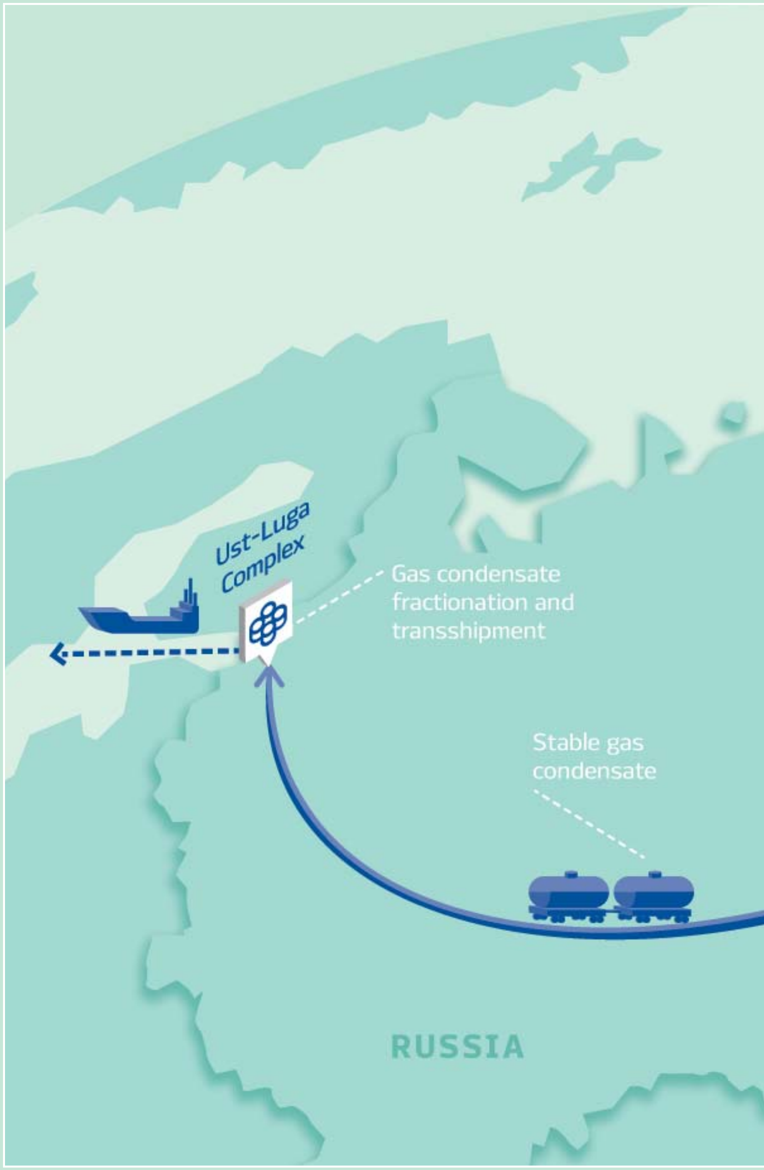
The Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea processes stable gas condensate into high value-added products like light and heavy naphtha, jet fuel, fuel oil and gasoil. Finished products are shipped to international markets and stable gas condensate is transshipped to exports. The Complex expands our vertically integrated chain, positively impacts the unit profitability of our liquids sales, widens the variety of products and allows to diversify our customer base.

Stable gas condensate processing volumes, mt



Commercial output, mt



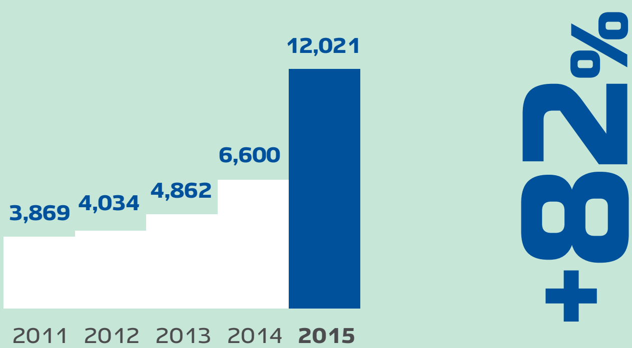


PUROVSKY GAS CONDENSATE STABILIZATION PLANT

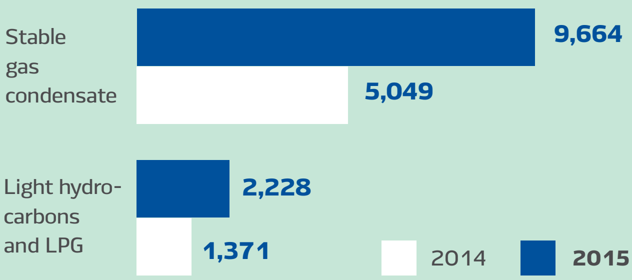
AS A RESULT OF LAUNCHES OF NEW FIELDS, IN JUNE 2015 THE PUROVSKY PLANT REACHED FULL UTILIZATION OF ITS PROCESSING CAPACITIES AMOUNTING TO MORE THAN 12 MMT OF UNSTABLE GAS CONDENSATE ON AN ANNUALIZED BASIS.

The Purovsky Plant is the integral element in our vertically-integrated production value chain that enables us to process all the volumes of de-ethanized gas condensate produced at our field into stable gas condensate and light hydrocarbons (feedstock for LPG production). Most of the stable gas condensate volumes are delivered by rail to the Ust-Luga Complex for further processing, light hydrocarbons are delivered by pipeline to SIBUR's Tobolsk Petrochemical Complex for further processing.

Unstable gas condensate processing volumes, mt



Commercial output, mt



LEGEND

- Railway transportation to Ust-Luga
- Sea transportation from Ust-Luga
- Light hydrocarbons transportation by pipeline
- Transportation by condensate pipeline

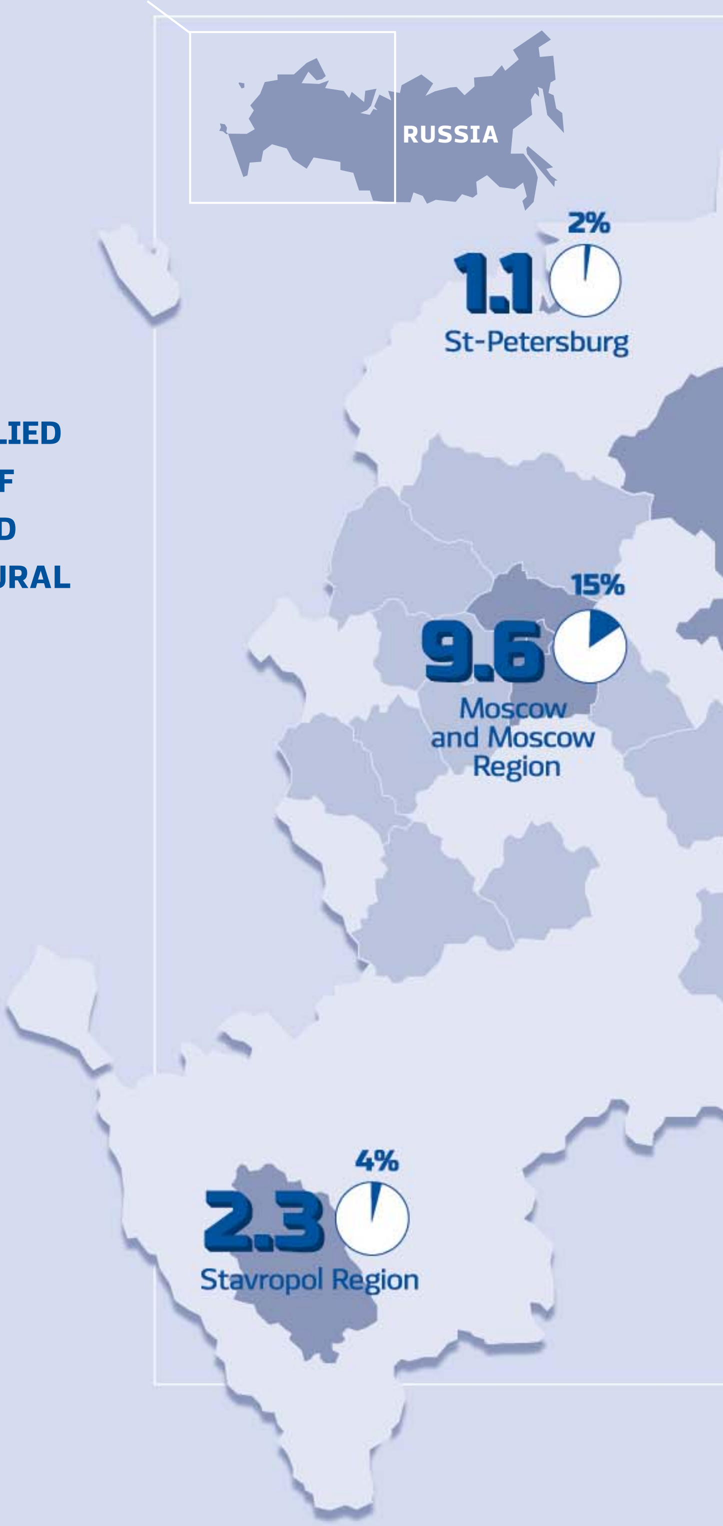
GROWTH OF LIQUID HYDROCARBONS SHARE IN REVENUES

Due to significant growth in liquid hydrocarbon production and processing volumes, their share in our total revenues reached 53%, representing an increase of 18 percentage points as compared to 2014. This share exceeded 50% for the first time in the Company's corporate history.

Liquid hydrocarbon sales volumes, mmt

82% (OR BY 5.8 MMT) INCREASE IN THE SALES VOLUMES OF LIQUID HYDROCARBONS IN 2015

NATURAL GAS SALES



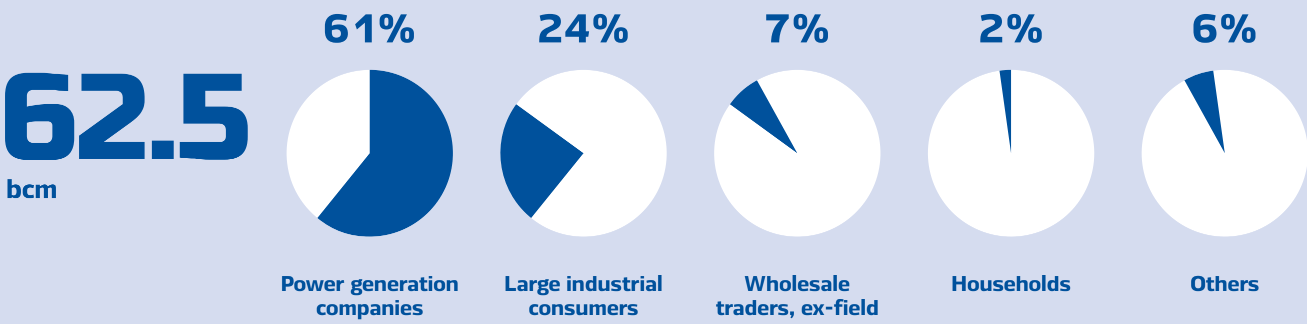
NOVATEK PLAYS AN IMPORTANT ROLE IN SUPPLIES OF NATURAL GAS TO THE RUSSIAN DOMESTIC MARKET. DURING 2015, WE SUPPLIED NATURAL GAS TO 33 CONSUMING REGIONS OF THE RUSSIAN FEDERATION AND CONTRIBUTED APPROXIMATELY 20% TO THE OVERALL NATURAL GAS SUPPLIES TO THE DOMESTIC MARKET.

NOVATEK's 2015 natural gas sales volumes totalled 62.5 bcm, representing a decrease of 7.1 % as compared to 2014 sales volumes of 67.2 bcm. Lower natural gas sales volumes resulted from one of our major customers temporarily not taking its full contracted volumes due to technical reasons and warmer weather in the Russian Federation in 2015 as compared to 2014.

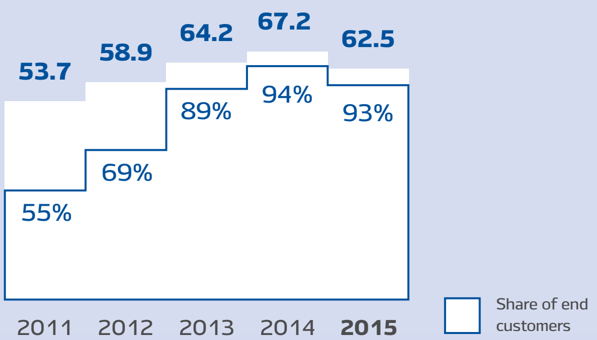
Our total revenues from natural gas sales totalled RR 222.2 billion, which is 3.6 % lower as compared to 2014. The negative effect from the lower sales volumes on our total revenues was partially offset by the growth in regulated domestic tariffs by 7.5 % effective from 1 July 2015. Our net revenues from gas sales (excluding transportation costs) demonstrated a minor decline of 1.3 % as gas transportation tariff for independent producers increased from 1 July 2015 by only 2 %.

During the reporting year, NOVATEK concluded several major domestic natural gas supply contracts. In particular, five-year contracts were signed with NLMK Group and three-year contract was concluded with Enel Russia. We also extended our gas supply contract with Mosenergo.

2015 natural gas sales volumes breakdown by customers



Natural gas sales volumes, bcm



LEGEND

Main regions (with sales volumes above 1 bcm each)

Other regions of gas sales (about 3.0 bcm in 2015)

62.5 2015 natural gas sales volumes, bcm

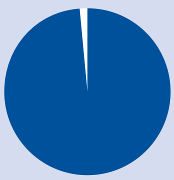
22% % of total gas sales by NOVATEK

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.

2015 liquids sales volumes breakdown, mt

1% 99%



Ust-Luga products

6,693

47% 53%

Stable gas condensate

2,786

65% 35%

Crude oil

1,090

76% 24%

LPG and light hydrocarbons

2,306

Domestic market

Exports

European market

Total sales volumes of liquid hydrocarbons in 2015 aggregated 12,888 thousand tons, representing an 82 % increase over 2014 volumes. The record high growth rate is due to higher gas condensate production volumes and higher processing volumes at the Purovsky Plant and the Ust-Luga Complex, as well as to increase in crude oil production. Our export sales of liquids grew by 70 % year-on-year to 9,004 thousand tons.

High value-added petroleum products from the Ust-Luga Complex accounted for 52 % share of our overall liquids sales volumes. Export sales of stable gas condensate were resumed in March 2015 after the Ust-Luga Complex reached full capacity utilization.

Our liquids sales revenues increased to RR 249.8 billion, or by 2 times as compared to 2014, mainly driven by much higher sales volumes as well as the growth in average prices in rouble terms due to higher US dollar to Russian rouble exchange rate and lower export duty rates. Liquid revenues exceeded revenues derived from natural gas for the first time in our corporate history.

LEGEND

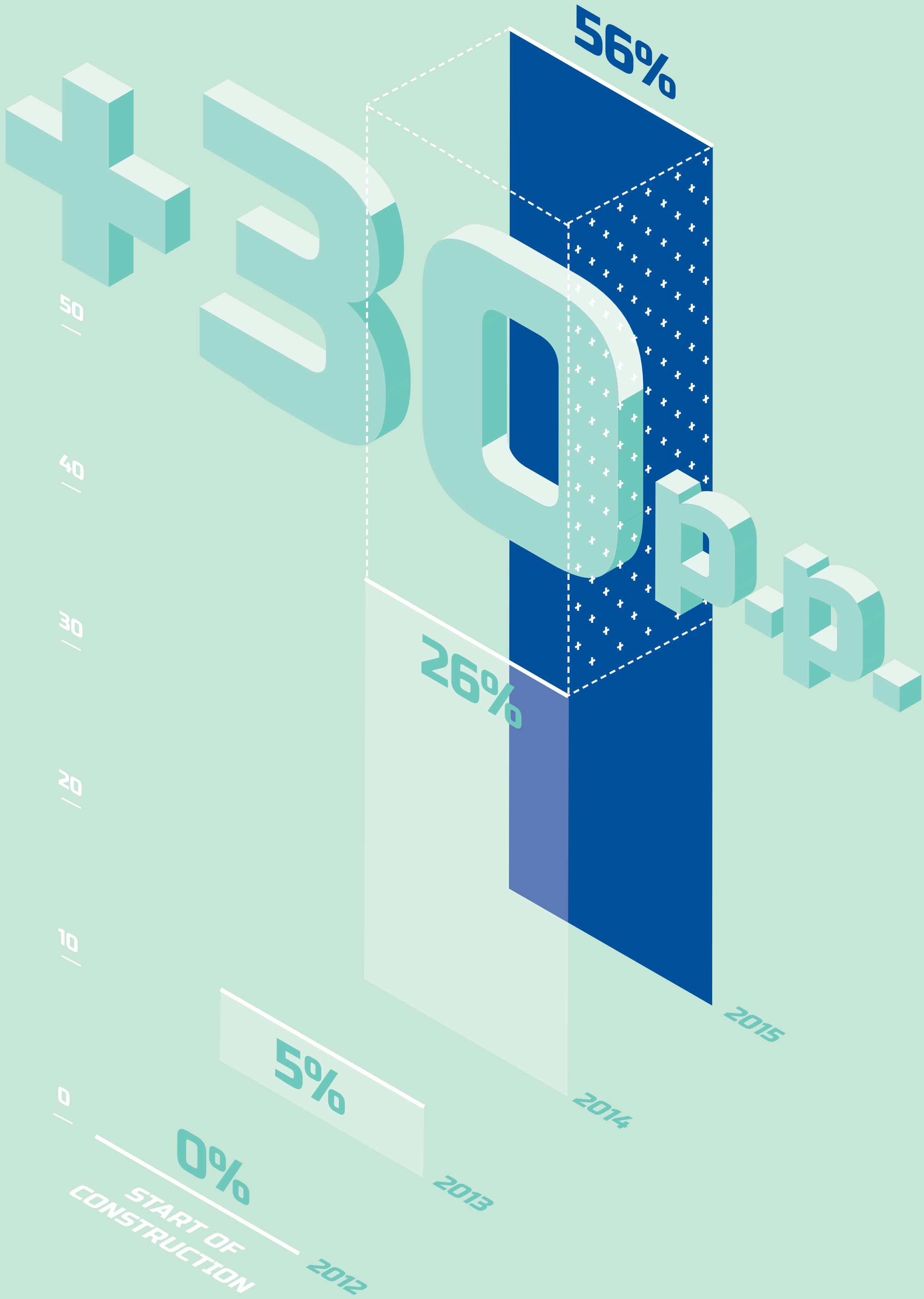
Liquids export countries

Russia

SIGNIFICANT PROGRESS AT THE YAMAL LNG PROJECT

At year-end 2015, 41 production wells were drilled at the South-Tambeyskoye field, representing approximately 70% of the well stock required to launch the first production train of the LNG plant. Long-lead items, including the LNG plant modules, began arriving to Sabetta in September 2015. Among the items delivered as of the year end there is full equipment package for compressor lines of the plant's first and second trains, the cryogenic heat exchanger, the first seven plant modules, a number of pipe rack modules, power plant turbines and other pieces of equipment. Installation of the equipment on prepared foundations started.

Completion of the first LNG train



BY 30 P.P. INCREASED COMPLETION OF THE FIRST LNG TRAIN IN 2015

1

PLANT BACK-UP HEATER

Capacity - 85 MW.
The back-up heater will be used to ensure uninterrupted operations of the heating, ventilation and air conditioning systems of the LNG plant.

2

POWER PLANT

Capacity - 376 MW (eight gas turbine units of 47 MW capacity each).
Will be used for power and heat generation for the LNG plant. Will be fueled by pre-treated gas produced at the field.

3

MAIN ELECTRICAL SUBSTATION

Is a part of the power transmission and distribution system.

Length – 89 m; width – 35 m; height – 15 m.

4

WESTERN INTERCONNECTING PIPE RACK

Designed for gas transportation from inlet facilities to the technological trains of the LNG plant.

The pipe rack consists of modules bearing pipelines, communication cables and power lines.

YAMAL LNG PROJECT PLAN

1. Plant back-up Heater
2. Power Plant
3. Main electrical substation
4. West Interconnecting Pipe Rack
5. SPP Assembly Shop
6. Sea Port
7. LNG tanks
8. Train 3
9. Plant support facilities
10. Train 2
11. Boil-off gas compressor
12. Inlet facilities
13. Train 1
14. Condensate storage area
15. Living area and support facilities
16. Flare system
17. Fractionation facility
18. Refrigerant storage area
19. Northwestern ice barrier
20. Southeastern ice barrier
21. LNG loading berth No. 1
22. LNG and stable gas condensate loading berth No. 2

5

SPP ASSEMBLY SHOP

The shop is used for the assembly of site-prefabricated pipe rack modules (SPP) which are then transported and installed at their design location.

6

SEA PORT

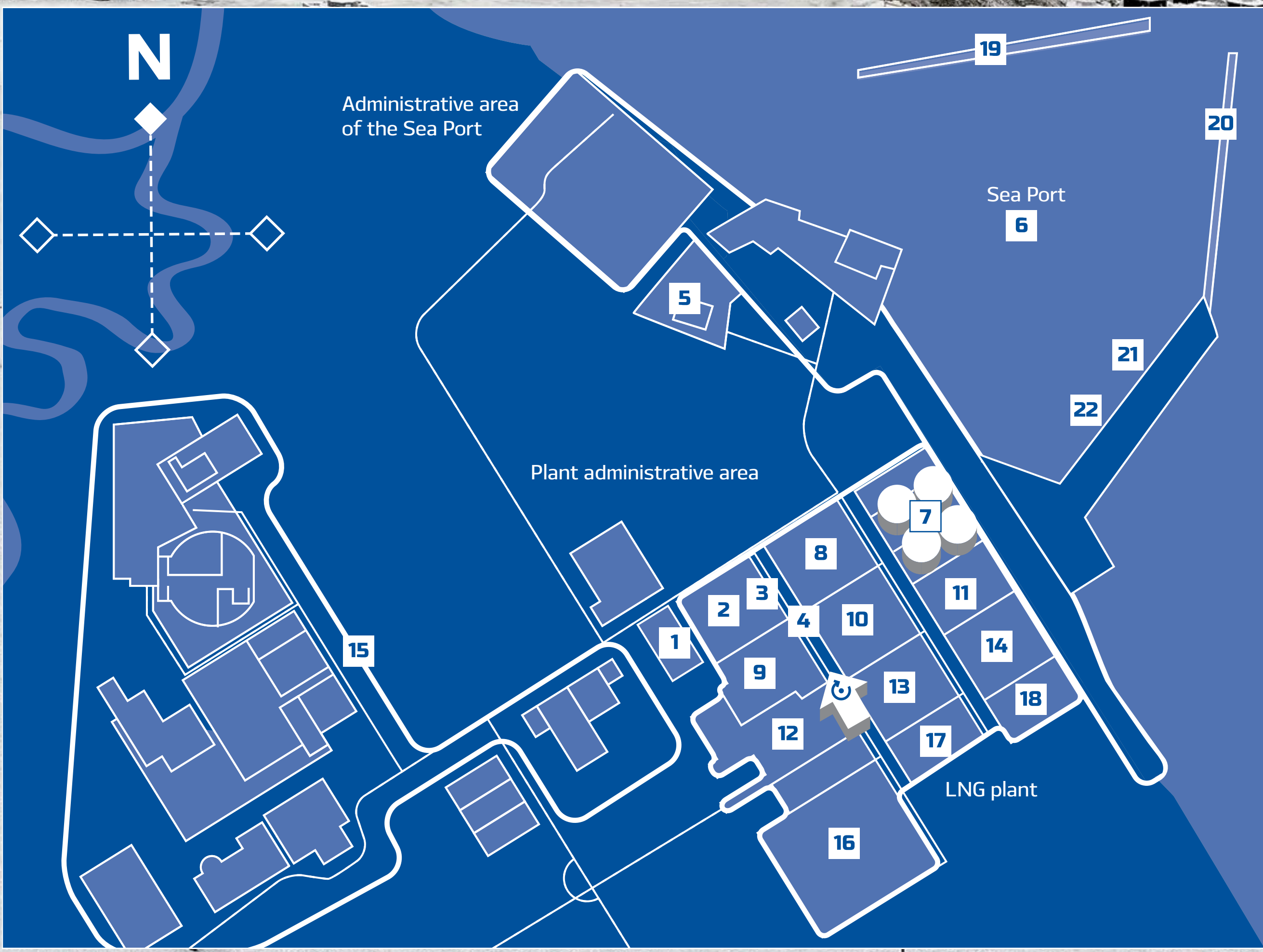
The port is used for the year-round delivery of construction cargo, steel structures and equipment for the LNG Plant, and will be used for shipment by sea tankers of LNG and gas condensate to exports.

7

LNG TANKS

Four tanks with 160,000 cubic meters capacity each. Diameter – 90 m; height – 50 m.
Will be used for storing LNG at minus 164°C before further loading into LNG carriers.

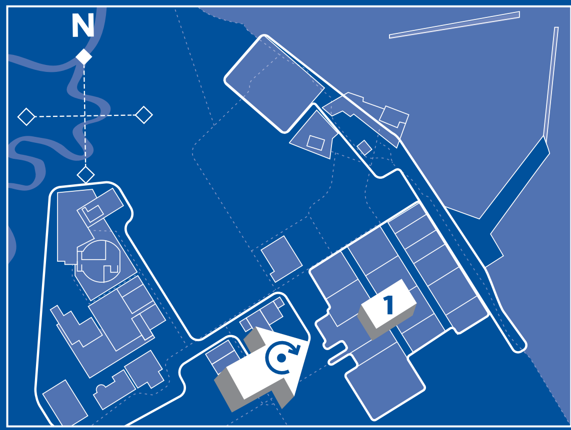
Two tanks for the first liquefaction Train, one tank for each of the second and third liquefaction trains.



MODULAR APPROACH

Modular approach was selected for the LNG plant construction. The LNG plant will consist of 173 large plant modules with the weight ranging from 85 tons to 6,400 tons. The modules are built at contractors' yards and delivered to the Sabetta construction site by sea.

In September 2015 the first module was delivered to Sabetta which is a part of the pipe rack of the first technological train. The module's height – 37 m, width – 41 m, length – 27 m, weight – 1,440 tons.



2

PILING FOUNDATION FOR THE INLET FACILITIES

The inlet facilities will be used for gas preparation for the LNG plant and gas condensate stabilization for export deliveries.

3

MIXED/PROPANE REFRIGERANT COMPRESSORS OF THE FIRST TRAIN

A key element of the liquefaction process – used for compression and transmission of the refrigerant during the process of natural gas cooling and liquefaction.

4

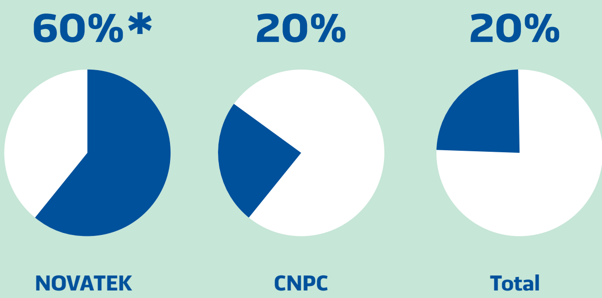
SOUTHEASTERN ICE BARRIER

The ice barrier is part of the Sabetta sea port and is designed for protection of the berths and port operations from the negative impact of ice. A loading pipe rack is being constructed on the Southeastern ice barrier which is designed for transporting of commercial LNG and stable gas condensate from the reservoirs to the tanker loading berths.

YAMAL LNG PROJECT

AS OF THE END 2015, CONSTRUCTION OF THE LNG PLANT'S FIRST TRAIN UNDER YAMAL LNG PROJECT WAS MORE THAN 56 % COMPLETE

Shareholders of Yamal LNG as of 31.12.15



Yamal LNG is the flagship project in NOVATEK asset portfolio and is considered a transformational move for the Company into the international gas market. Yamal LNG envisages the construction of an LNG liquefaction plant with annual capacity of 16.5 million tons per annum, utilizing the prolific feedstock resources of the South-Tambeyskoye field located in the Northeast of the Yamal Peninsula. The launch of the first LNG train is planned for 2017.

As of 31 December 2015, the South-Tambeyskoye field was estimated to contain 522 bcm of proved natural gas reserves and 15 mmt of proved liquid hydrocarbon reserves, under the SEC reserves methodology. The field development plan provides for the drilling of 208 wells at 19 well drilling pads, with production potential exceeding 27 bcm of natural gas and one (1) million tons of stable gas condensate per annum.

At year-end 2015, 41 production wells were drilled at the South-Tambeyskoye field, representing approximately 70% of the well stock required to launch the first production train of the LNG plant.

The LNG plant will consist of 173 plant modules with the weight ranging from 85 tons to 6,400 tons. The modules are built at contractors' yards and delivered to the Sabetta construction site by sea. Approximately 25,000 people were involved in modules fabrication for the Yamal LNG project at different construction yards.

The plant's first module was delivered to the site in September 2015, and delivery of other long-lead items also started during the past year. Among the items delivered to the Sabetta construction site by the end of the year there were seven (7) LNG plant modules, a cryogenic heat exchanger (key element of gas liquefaction technology) and the full equipment package for compressor lines of the plant's first and second trains, boil-off gas compressors, a backup heater, 46 packages of steel work pipe racks, six (6) packages of piping spools, power plant turbines and other equipment. The unloading operations for oversized equipment in the Sabetta port and its transportation to the installation site were successfully streamlined.

By the end of the reporting year, over 20,000 foundation piles for the LNG plant were installed, over 2,000 pile caps were installed on the piles, and more than 17,000 cubic meters of concrete was poured for the foundation. Compressor equipment for the first train, seven (7) modules and the backup heater were installed on the prepared concrete foundations, as well as over 6,000 tons of steel work pipe racks. The construction of a power plant with a rated capacity of 376 MW was underway: four (4) gas turbine units with a capacity of 47 MW each were installed on the concrete foundations. The outer concrete walls were completed as well as the installation of the roof on the project's four (4) LNG tanks, and the work on installing the internal multi-layer walls was underway.

* Binding definitive agreements were signed in December 2015 for selling a 9.9% equity stake in the Yamal LNG project to China's Silk Road Fund.

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

926 bcm of gas

30 mmt of liquid hydrocarbons

Possible routes of LNG transportation from the Yamal peninsula

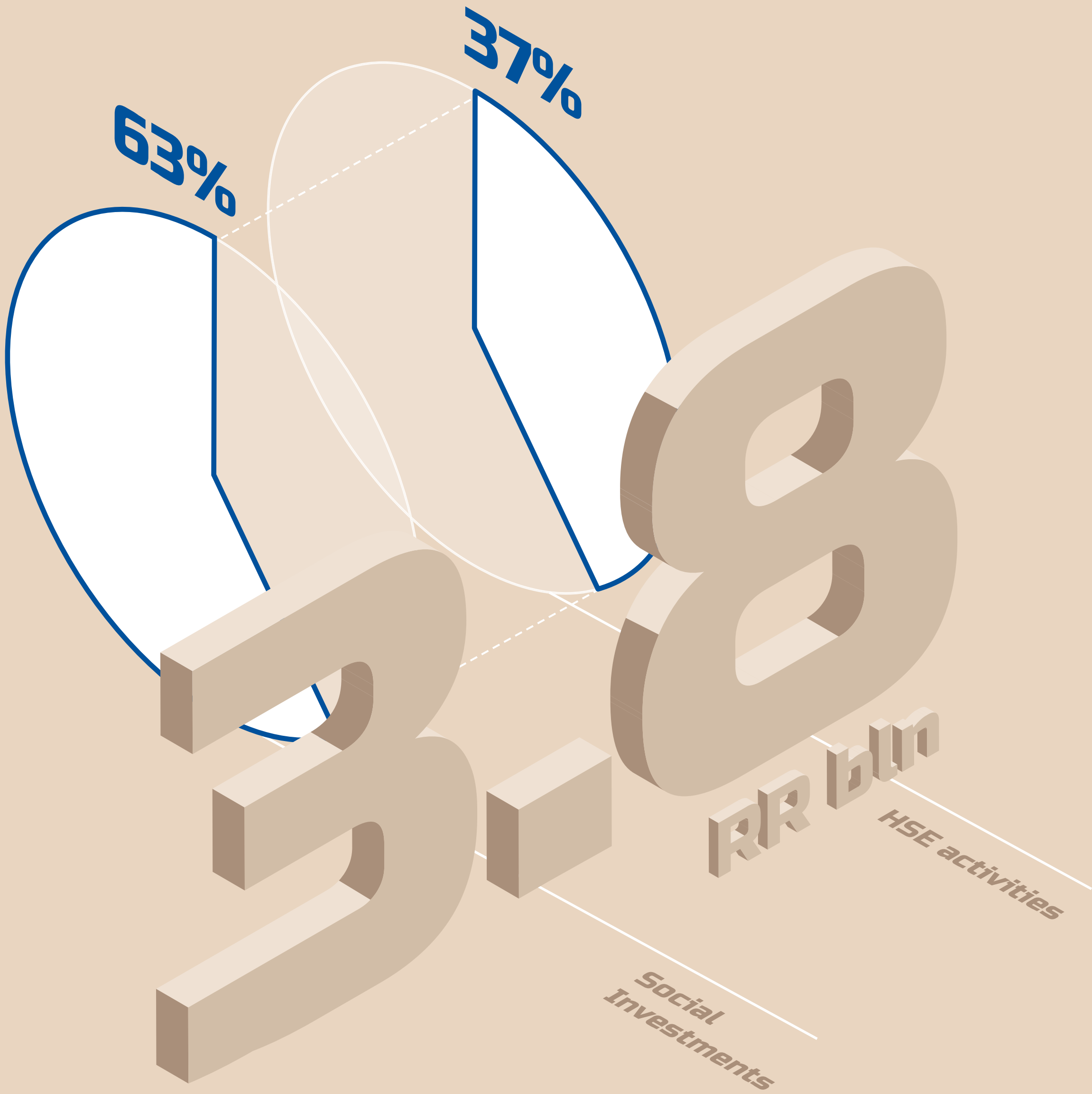
LEGEND

- Latin America
- Europe
- Asian-Pacific Countries (summer route)
- Asian-Pacific Countries (winter route)
- 12 Number of travel days
- Transshipment in Europe
- Port of Sabetta
- South-Tambeyskoye field
- Other NOVATEK license areas

HIGH LEVEL OF ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

NOVATEK adheres to the highest standards of social responsibility and is committed to environmental integrity and industrial safety as well as supporting the regional development in the Far North of Russia, where Company's core operational assets are located.

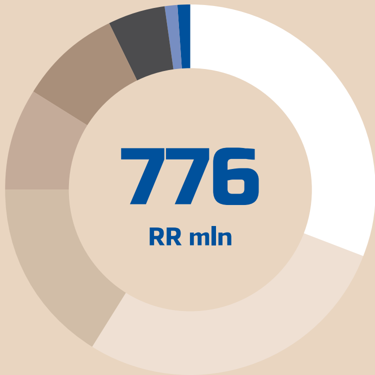
Social Investments and Expenses on HSE in 2015



RR 3.8 BLN OF SOCIAL INVESTMENTS AND EXPENSES ON HSE IN 2015

HSE AND SOCIAL RESPONSIBILITY

Environmental Expenditures in 2015



31%
Soil protection

28%
Enviromental protection against production and consumption waste

16%
Compensation payments

9%
Protection and use of water resources

9%
Environmental monitoring and evaluation of the background

5%
Subsurface protection

1%
Environmental management

1%
Atmospheric air protection

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's core producing assets are located in the Far North, a harsh Arctic region with vast mineral resources and a fragile and vulnerable eco-environment. Throughout all of its operations the Company is committed to environment protection. In 2015 environmental expenditures of NOVATEK, its subsidiaries and joint ventures aggregated RR 776 mln.

NOVATEK has implemented a corporate-wide Health, Safety and Environmental ("HSE") Policy and all of the Company's principal subsidiaries and joint ventures operate an Integrated Health, Safety and Environment Management System (IMS), which comply with the international ISO 14001:2004 and OHSAS 18001:2007 standards. In 2015, NOVATEK successfully passed another IMS compliance audit.

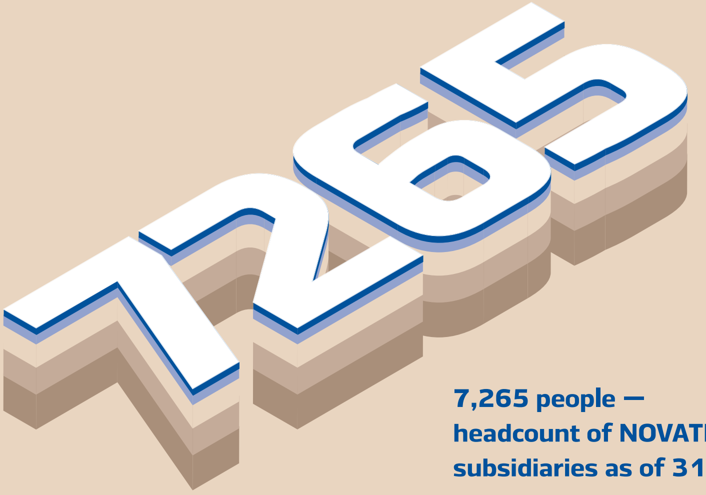
As part of our HSE activities we pay special attention to preventive measures. In particular, the environmental aspects are taken into account in designing new production facilities: cutting-edge technology and equipment are used to considerably reduce the adverse environmental impact and risk of environmental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

All of NOVATEK's subsidiaries and joint ventures conduct periodic safety training and briefings; personnel training and development programs are offered, among others, by specialized training centers; knowledge assessment is implemented on a regular basis.

665

RR mln expenses on Occupational Health and Safety in 2015

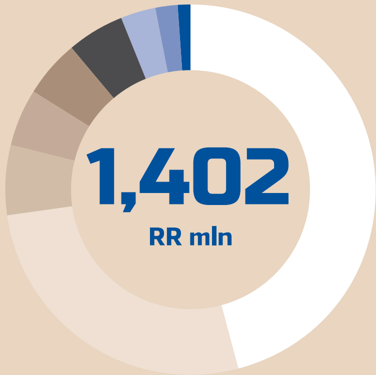
NOVATEK`s personnel structure as of 31.12.15



7,265 people — headcount of NOVATEK and its subsidiaries as of 31.12.15

- **40%** Exploration and production
- **27%** Transportation and marketing
- **18%** Processing
- **9%** Administrative personnel
- **6%** Power supply

Social Expenditures on employees in 2015

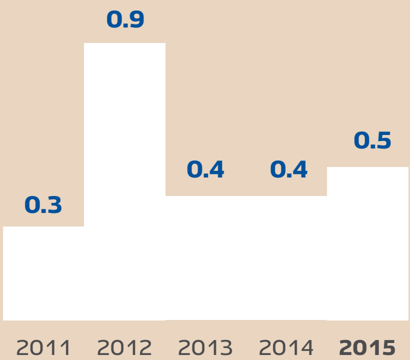


- **46%** Repayable Financial Aid Program
- **27%** Targeted Compensation and Socially Important Payments
- **6%** Voluntary Medical Insurance
- **5%** State Guarantees Support Program
- **5%** Health Resort Treatment and Rehabilitation
- **5%** Culture and sports
- **3%** Pension Program
- **2%** NOVATEK-Veteran Program
- **1%** Others

Workplace certification includes evaluating measures to control the harmful impact of hazardous factors in the workplace.

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)



6

comprehensive inspections of NOVATEK subsidiaries for occupational health, industrial, fire and environmental safety requirements in 2015

1,078

operating workplaces were certified in 2015

4,324

employees underwent HSE training courses in 2015

MANAGEMENT AND CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS MEMBERSHIP AS OF 31 DECEMBER 2015

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.

3

INDEPENDENT BOARD MEMBERS*

MR. ROBERT CASTAIGNE
Born in 1946
- Independent Director
- Member 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 Audit Committee

MR. ANDREI V. SHARONOV
Born in 1964
- Independent Director
- Chairman of the Audit Committee
- Member of the Remuneration and Nomination Committee

* Independent Director as of 31 December 2015 in accordance with the Corporate Governance Code recommended by the Central Bank of Russia and the UK Combined Code on Corporate Governance.

MR. ALEXANDER E. NATALENKO
Born in 1946

- Chairman of the Board of Directors
- Chairman of the Strategy Committee

MR. LEONID V. MIKHELSON
Born in 1955

- Chairman of the Management Board

MR. ANDREI I. AKIMOV
Born in 1953

- Member of the Strategy Committee

DR. BURCKHARD BERGMANN
Born in 1943

- Member of the Strategy Committee

MR. MICHAEL BORRELL
Born in 1962

- Member of the Strategy Committee

MR. GENNADY N. TIMCHENKO
Born in 1952

- Member of the Strategy Committee

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 80% of Russian natural gas production and 16% of global 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 over 20 years of operational 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 2015, 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 15 years: the license for the Yurkharovskoye field is valid until 2034, the East-Tarkosalinskoye field expires in 2043, the South-Tambeyskoye field in 2045, and the Samburgsky license area of Arcticgas in 2034. The license for the Termokarstovoye field was extended to 2097 in 2015 (before extension the license was valid through 2021), while the license for the Olimpiysky area is now valid through 2059 (previously through 2026).

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.

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 2015, NOVATEK's SEC proved reserves, including the Company's proportionate share in joint ventures, aggregated 12,817 mmboe, including 1,775 bcm of natural gas and 143 mmt of liquid hydrocarbons. Despite the continued price decline for benchmark crude oil prices on the international hydrocarbon market, the Company's proved reserves increased by 1.4% compared to year-end 2014*, and our reserve replacement rate was 133%. At year-end 2015, the Company's reserve to production ratio (or R/P ratio) was 25 years.

The reserves growth during the reporting period was affected by the decrease in the Company's proportional share in the Arcticgas joint venture from 54.9% as at year-end 2014 to 53.3% as at 31 December 2015 resulting from the execution of an agreement with Gazprom Neft on the gradual alignment of the ownership structure in Arcticgas to parity. Excluding this effect, the proved reserves grew by 2.0%, with an organic reserve replacement of 148% due to successful exploration works and drilling, which amounted to reserves addition of 774 million boe, inclusive of 2015 production. The primary contributors to additions were our successful ongoing exploration and development

* Proved reserves as at the end 2014 have been adjusted to include 100% of the Yarudeyskoye field reserves (previously accounted for on a 51% basis).

efforts at the Utrenneye, the North-Russkoye and the South-Tambeskoye fields, as well as the Urengoyskoye field within the Samburgsky license area of Arcticgas.

Under the PRMS reserves reporting standards, the Company's total proved plus probable reserves, including our proportionate share in joint ventures, totalled 23,117 mmboe, which includes 3,152 bcm of natural gas and 298 mln tons of liquid hydrocarbons, and represents an increase of 48 mmboe compared with year-end 2014.

The high quality of the reserve base enables NOVATEK to maintain its competitive position as one of the lowest cost producers in the global oil and gas industry. Our average 2015 and five-year (2011-2015) reserve replacement costs amounted to RR 127 (USD 2.1) per boe and RR 78 (USD 2.2) per boe, respectively.

Proved reserves under the SEC standards as of 31 December 2015 (based on our equity ownership interest in the respective fields) and duration of licenses

Field / license area	Ownership	Duration of license, year	Gas reserves, bcm	Liquids reserves, mln tons
TOTAL RESERVES	**-**	**-**	**1,774.7**	**142.6**
Yurkharovskoye	100%	2034	321.3	14.0
South-Tambeyskoye	60%	2045	312.9	9.2
Utrenneye	100%	2031	307.0	11.3
Urengoyskoye («Arcticgas»)	53.3%	2034	180.6	39.8
East-Tarkosalinskoye	100%	2043	148.8	18.6
Geofizicheskoye	100%	2034	125.6	0.4
North-Urengoyskoye	50%	2038	93.8	8.9
Yaro-Yakhinskoye	53.3%	2034	79.5	7.5
North-Russkoe	100%	2031	52.6	2.5
Samburgskoye	53.3%	2034	30.2	4.1
North-Chaselskoye	53.3%	the lifetime of the field	28.9	1.4
Khancheyskoye	100%	2044	24.0	2.6
Olimpiyskiy license area	100%	2059	21.8	2.5
East-Tazovskoye	100%	2033	17.1	2.5
Termokarstovoye	51%	2097	15.2	4.3
Yarudeyskoye	51% (100% of reserves)	2029	6.5	12.8
Other	-	-	8.9	0.2

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 our 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 2015, we continued full-scale exploration works at our license areas located on the Gydan Peninsula and offshore in the Gulf of Ob to properly assess the resource potential of this strategically important region. We started three-dimensional (3D) seismic studies at the North-Obskiy offshore license area and also conducted 3D seismic and exploration drilling works at the Utrenniy license area.

Exploration activities also continued at the fields and license areas in the Nadym-Pur-Taz region. Seismic studies were done at the North-Russkiy and Dorogovskiy license areas while exploration drilling was performed at the North-Russkiy and Malo-Yamalskiy areas, as well as at the Samburgskiy and Yevo-Yakhinskiy license areas of the Arcticgas JV.

We completed 1,004 square km of 3D seismic works in 2015. Exploration drilling (including drilling works at our joint ventures) totalled 15.2 thousand meters as well as completing the construction of five (5) prospecting and exploration wells. As a result, nine (9) new gas deposits were discovered at the Utrenneye, North-Russkoye and North-Chaselskoye fields and wet gas reserves were added at the Achimov deposits (very rich in gas condensate) of the Urengoyskoye field within the Samburgskiy and Yevo-Yakhinskiy license areas.

FIELD DEVELOPMENT

During 2015, NOVATEK's subsidiaries spent RR 56.6 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 2015, including joint ventures, reached 336 thousand meters, representing 44% less production drilling than in 2014. The decrease was anticipated due to the successful completion of the main drilling programs at the North-Urengoyskoye and Termokarstovoye fields, as well as a planned decline in drilling volumes at the Arcticgas fields. Drilling volumes increased at the Yurkharovskoye, Yarudeyskoye and South-Tambeyskoye fields.

A total of 107 wells were commissioned into operations, including 49 gas and gas condensate wells and 58 oil wells.

New facilities commissioned at producing fields

A new 2.5 MW gas turbine power plant was launched at the Yurkharovskoye field improving the field's reliability of power supply and achieving energy independence. We also actively developed the Cenomanian layer at the Yurkharovskoye field — eight (8) new production wells were drilled with average length of three

Exploration works

	Units	2014	2015	Change
3D SEISMIC	square km	**828**	**1,004**	**21.3%**
Subsidiaries	square km	730	1,004	37.5%
Joint ventures	square km	98	-	(100.0)%
EXPLORATION DRILLING	th. m	**26.3**	**15.2**	**(42.2)%**
Subsidiaries	th. m	19.3	9.6	(50.2)%
Joint ventures	th. m	7.0	5.6	(20.0)%

(3) km and vertical deviation of 2.4 km, achieving maximum initial flow rates of up to 2.2 mmcm of natural gas per day. As part of the Cenomanian development program we carried out construction of a 48 MW booster compressor station (BCS) during the reporting year.

At the East-Tarkosalinskoye field we continued our intensive drilling program by targeting the field's crude oil layers with 23 oil production wells completed during 2015. A pumping station with an initial water separation unit was launched to improve efficiency of intra-field oil transportation and treatment. Second phase of a BCS with 7.2 MW capacity was launched at the central part of the field.

A crude oil treatment facility was commissioned at the Khancheyskoye field as part of the field's oil development program. At year-end, 40 production wells were in operation at the field, including producing crude oil from 10 wells.

A condensate de-ethanization facility was commissioned at the Western Dome of the North-Urengoyskoye field to optimize the field's production activities as we previously utilized Gazprom's de-ethanization facilities. The launching our own de-ethanization facility lowered processing costs and increased product output. Two (2) production wells were drilled at the field in 2015.

New fields commissioned in 2015

In April, we commissioned the Yaro-Yakhinskoye oil and gas condensate field (developed by Arcticgas, a joint venture between NOVATEK and Gazprom Neft). Natural gas and gas condensate is produced from the field's Valanginian layers. As of the end 2015, a total of 38 wet gas production wells were drilled at the field. The wells have horizontal sections of up to one km long and their initial daily flow rate is up to 1.2 mmcm of gas and 270 tons of gas condensate. The field's infrastructure also includes a gas gathering network, a gas treatment unit, and a gas condensate de-ethanization facility. The field reached its design production capacity of approximately 7.7 bcm of natural gas and more than 1.3 mmt of de-ethanized gas condensate on an annualized basis in June 2015.

In May, the Termokarstovoye gas condensate field was successfully launched ahead of schedule and is developed by Terneftegas, a joint venture between NOVATEK and TOTAL. The field achieved planned daily production levels equivalent to approximately 2.4 bcm of natural gas and 0.8 mmt of de-ethanized gas condensate per annum as early as June 2015. Natural gas and gas condensate are produced from the Jurassic layers, which were developed by horizontal wells with horizontal lengths of 1.2 to 2.0 km, with initial daily flow rates of up to 700 mcm of natural gas and 240 tons of de-ethanized gas condensate. Twenty-two production wells were drilled at the field by year-end. The field infrastructure includes a gas gathering network, a gas treatment unit with adsorptive gas dehydration setting, as well as a gas condensate de-ethanization facility. A unique feature of the field is the low-temperature (-60°C) gas treatment process, involving adsorptive gas dehydration, gas expansion turbines and special low-temperature gas condensate de-ethanization columns. This unique treatment process doesn't require methanol and enhances extraction of liquid hydrocarbons, improving the field's economic efficiency.

In early December, commercial production started at the Yarudeyskoye oil field (NOVATEK holds a 51% share). The field ramped up to its full production capacity of approximately 3.5 million tons per annum, or 9,700 tons per day by the end of 2015, which is a very short period of time for full ramp up of a crude oil project. Only 21 wells were required to achieve these production flow rates. As of the end 2015, a total of 39 oil production wells were drilled at the field. The field's infrastructure also includes a central oil treatment facility, oil and gas gathering systems, a pumping station, and gas and crude oil pipelines. After treatment at the field, the crude oil is transported via our crude oil pipeline (approximately 350 km long) to Purpe, where it is injected into the trunk pipeline system operated by Transneft.

The Yarudeyskoye field is the largest oil asset in our portfolio and is characterized by unique geology, which combined with the application of state-of-the-art drilling and completion technologies allowed us to achieve the average production flow rate of more than 400 tons per day per well, with the potential flow rate of one of our most prolific wells exceeding 1,200 tons per day.

HYDROCARBON PRODUCTION

In 2015, NOVATEK carried out commercial hydrocarbon production at 13 fields. Marketable production from all fields (including the Company's share in production of joint ventures) amounted to 521.6 mmboe, representing an increase of 14.2% over the prior year.

Total marketable production of natural gas including the Company's share in production of joint ventures aggregated 67.91 bcm, representing 85.1% of our total hydrocarbon output. The share of gas produced from the gas condensate bearing layers (or "wet gas") in proportion to total gas production was 82.5%. As a result, our marketable natural gas production increased by 9.3% or by 5.8 bcm, as compared to 2014 volumes.

Marketable production of liquid hydrocarbons including the Company's share in production of joint ventures totalled 9,094 thousand tons, of which 83% was unstable de-ethanized gas condensate and the remaining 17% consisted of crude oil. Marketable production of liquids increased by 50.7%, or by 3,058 thousand tons as compared with 2014, with gas condensate production demonstrating a 54.6% increase to 7,526 thousand tons and crude oil production growing by 34.2% to 1,568 thousand tons. We achieved record levels of liquids production in 2015, and their share in our overall production increased by four percentage points as compared to 2014 and amounted to 15%.

Our record growth in gas condensate production and the higher natural gas output was mainly due to the successful launches of the third stage of the Samburgskoye field, the Urengoyskoye field within the Samburgsky license area and the North-Khancheyskoye field in 2014, as well as the launch of the Yaro-Yakhinskoye and Termokarstovoye fields in the first half 2015.

The increase in our crude oil production was due to production drilling at the East-Tarkosalinskoye field and launch of the Yarudeyskoye field in early December 2015, which ramped up to its full production capacity of 9,700 tons of crude oil per day or 3.5 million tons per annum as early as the end of 2015. The successful launch and quick ramp up of the Yarudeyskoye field will have a major positive impact on our liquids production dynamics in 2016 as its crude oil production capacity is more than two (2) times higher compared to NOVATEK's overall crude oil production in 2015.

We continued to achieve some of the lowest lifting costs in the industry. The Company's lifting costs were RR 30.1 (USD 0.49) per boe in 2015.

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

	Units	2014	2015	Change
TOTAL PRODUCTION	mmboe	**456.7**	**521.6**	**14.2 %**
Gas	mmcm	62,129	67,905	9.3 %
	mmboe	*406.3*	*444.1*	
Liquid hydrocarbons	mt	6,036	9,094	50.7 %
	mmboe	*50.4*	*77.5*	

	Gas, mmcm			Liquids, mt		
	2014	**2015**	**Change**	**2014**	**2015**	**Change**
TOTAL	**62,129**	**67,905**	**9.3 %**	**6,036**	**9,094**	**50.7 %**
Yurkharovskoye (100 %)	38,154	35,979	(5.7) %	2,496	2,126	(14.8) %
Arcticgas fields (54.9 % until August 2015, 53.3 % from August 2015)	4,129	12,624	205.7 %	1,063	4,016	277.8 %
East-Tarkosalinskoye (100 %)	10,348	9,075	(12.3) %	1,293	1,365	5.6 %
North-Urengoyskoye (50 %)	5,402	5,395	(0.1) %	633	622	(1.7) %
Khancheyskoye (100 %)	2,933	2,510	(14.4) %	445	392	(11.9) %
Termokarstovoye (51 %)	-	714	-	-	258	-
Yarudeyskoye (100 %)	-	-	-	-	184	-
Other	1,163	1,608	38.3 %	106	131	23.6 %

YAMAL LNG PROJECT

Yamal LNG is the flagship project in NOVATEK asset portfolio and is considered a transformational move for the Company into the international gas market. Yamal LNG envisages the construction of an LNG liquefaction plant with annual capacity of 16.5 million tons per annum, utilizing the prolific feedstock resources of the South-Tambeyskoye field located in the Northeast of the Yamal Peninsula. The launch of the first LNG train is planned for 2017.

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%). In December 2015, NOVATEK entered into a final binding agreement to sell a 9.9% share in Yamal LNG to the Silk Road Fund (SRF), a Chinese infrastructure investment fund. NOVATEK's share in the project will decrease to 50.1% after the deal is closed.

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 2015, the field was estimated to contain 522 bcm of proved natural gas reserves and 15 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 suite of exploration activities, including running 3D seismic and exploration drilling, creation of the fields' geological model and annual reserves appraised by the independent petroleum engineers, D&M. The field development plan provides for the drilling of 208 wells at 19 well drilling pads, with production potential exceeding 27 bcm of natural gas and one (1) million tons of stable gas condensate per annum.

Natural gas produced at the field will be delivered to the international markets as 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.

At year-end 2015, 41 production wells were drilled at the South-Tambeyskoye field, representing approximately 70% of the well stock required to launch the first production train of the LNG plant. Construction progress on the first train exceeded 56%.

At year-end, there were approximately 2,500 construction vehicles and 13,000 construction workers on site. In February 2015, the Sabetta Airport started servicing regular flights from Novy Urengoy, Moscow and Samara, which significantly improved the efficiency of shift workers logistics. Regular flights served approximately 130,000 people in 2015.

To minimise on site construction activities due to challenging climate conditions, a modular approach to the LNG plant construction was selected. The LNG plant will consist of 173 large plant modules with the weight ranging from 85 tons to 6,400 tons. The modules are built at contractor's yards and delivered to the Sabetta construction site by sea. Approximately 25,000 people were involved in modules fabrication for the Yamal LNG project at different construction yards.

The plant's first module was delivered to the site in September 2015, and delivery of other long-lead items also started during the past year. Among the items delivered to the Sabetta construction site by the end of the year there were seven (7) LNG plant modules, a cryogenic heat exchanger (key element of gas liquefaction technology) and the full equipment package for compressor lines of the plant's first and second trains, boil-off gas compressors, a backup heater, 46 packages of steel work pipe racks, six (6) packages of piping spools, power plant turbines and other equipment. The unloading operations for oversized equipment in the Sabetta port and its transportation to the installation site were successfully streamlined.

By the end of the reporting year, over 20,000 foundation piles for the LNG plant were installed, over 2,000 pile caps were installed on the piles, and more than 17,000 cubic meters of concrete was poured for the foundation. Compressor equipment for the first train, seven (7) modules and the backup heater were installed on the prepared concrete foundations, as well as over 6,000 tons of steel work pipe racks. The construction of a power plant with a rated capacity of 376 MW was underway: four (4) gas turbine units with a capacity of 47 MW each were installed on the concrete foundations. The outer concrete walls were completed as well as the installation of the roof on the project's four (4) LNG tanks, and the work on installing the internal multi-layer walls was underway.

In 2015, dredging was performed in the port harbor, approach and sea channels. Overall volumes of dredged sand totalled more than 16 million cubic meters. The year-round use of the Sabetta port received more than three (3) million tons of cargoes (up 50% year-on-year), delivered by 190 marine ships and 317 river barges. A two (2) km Southeastern ice barrier was being constructed to protect the port harbor. LNG and stable gas condensate shipment pipe rack was being built at the ice barrier.

More than 95% of the LNG plant output has been contracted on a long-term basis. Specially designed Arc7 ice-class LNG carriers will be used for LNG transportation, and the first tanker was placed from dry-dock into water in early 2016. In December 2015, the steel-cutting process for the second LNG tanker began.

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 and de-ethanized at the field the unstable (de-ethanized) gas condensate is delivered via a system of condensate pipelines owned and operated 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 after processing our unstable gas condensate.

As a result of launches of the Termokarstovoye and the Yaro-Yakhinskoye fields in June 2015, the Purovsky plant reached full utilization of its processing capacities amounting to more than 12 mmt of unstable gas condensate on an annualized basis. The Purovsky Plant's processing capacity matches the overall gas condensate production capacity of the Company's fields in operation as of the second half of 2015.

During the reporting year, the de-ethanized gas condensate processing volumes at the Purovsky Plant increased by 82.1% to 12,021 mt. The structure of this output included 9,664 mt of stable gas condensate, 2,228 mt of light hydrocarbons and LPG and 11 mt of regenerated methanol. Our feedstock composition changed following the launches of new fields in 2015 resulting in a higher share of stable gas condensate in the total output of the plant, which increased from 78.5% in 2014 to 81.2% in the reporting year.

The Purovsky Plant is connected via its own railway line to the Russian rail network at the Limbey rail station. Subsequent to the launch of the Ust-Luga Complex in 2013, most of the stable gas condensate volumes produced at the Purovsky Plant are delivered by rail to Ust-Luga for further processing or transshipment to exports, with most of the remaining small volume of stable gas condensate sold directly from the plant to the domestic market. Commencing from the second quarter 2014 all of the light hydrocarbon volumes (feedstock for LPG production) produced at the plant are delivered by pipeline to SIBUR's Tobolsk Petrochemical Complex for further processing.

Ust-Luga Stable Gas Condensate Transshipment and Fractionation Complex

The Gas Condensate Fractionation and Transshipment Complex (the "Ust-Luga Complex") launched in 2013 is located at the all-season port of Ust-Luga on the Baltic Sea. The Ust-Luga Complex processes stable gas condensate into light and heavy naphtha, jet fuel, ship fuel component (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 the export markets.

Processing volumes and output of the Purovsky Plant, thousand tons

	2014	2015	Change
PROCESSING OF DE-ETHANIZED CONDENSATE	**6,600**	**12,021**	**82.1%**
OUTPUT:			
Stable gas condensate	5,049	9,664	91.4%
Light hydrocarbons and LPG	1,371	2,228	62.5%
Methanol	14	11	(21.4)%

Due to growth in stable gas condensate production at the Purovsky Plant, in March 2015, the Ust-Luga Complex reached full utilization of its processing capacity of approximately seven (7) mmt on an annualized basis. In 2015, the Ust-Luga Complex processed 6,727 mt of stable gas condensate into 6,593 mt of end products, including 3,999 mt of light and heavy naphtha, 949 mt of jet fuel and 1,645 mt of ship fuel component (fuel oil) and gasoil. The share of heavy fractions like jet fuel, fuel oil and gasoil increased from 26% in 2014 to 39% in 2015 due to the change in the feedstock composition following launches of new fields.

High value-added petroleum products produced at the Ust-Luga Complex have a significant positive impact on the profitability of our liquid hydrocarbon sales and the Company's cash flow generation.

The Ust-Luga Complex reached full processing capacity and as such we began to transship stable gas condensate to the export markets by sea. During 2015, the volume of such export supplies amounted to 1.2 mmt.

NATURAL GAS SALES

NOVATEK plays an important role in ensuring supplies of natural gas to the Russian domestic market. During the past year, we supplied natural gas to 33 key consuming regions of the Russian Federation. Our customers were located primarily in the following regions (with natural 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 more than 95% of our total gas sales.

NOVATEK's 2015 natural gas sales volumes totalled 62.5 bcm, representing a decrease of 7.1% as compared to 2014 sales volumes of 67.2 bcm. Lower natural gas sales volumes resulted from one of our major customers temporarily not taking its full contracted volumes due to technical reasons and warmer weather in the Russian Federation in 2015 as compared to 2014. The proportional share of natural gas sales to end-customers remained practically unchanged compared to 2014 and amounted to 93% of our total natural gas mix.

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

	2014	2015	Change
STABLE GAS CONDENSATE PROCESSING	**4,706**	**6,727**	**42.9%**
OUTPUT:			
Heavy naphtha	2,006	2,101	4.8%
Light naphtha	1,425	1,898	33.2%
Ship fuel component (fuel oil)	542	1,183	118.3%
Jet fuel	472	949	101.1%
Gasoil	179	462	158.1%

Natural gas sales, mmcm

	2014	2015	Change
TOTAL GAS SALES, INCLUDING:	**67,231**	**62,465**	**(7.1)%**
End customers	63,281	58,054	(8.3)%
Traders	3,950	4,411	11.7%
Share of end-customers in total gas sales	94.1%	92.9%	(1.2) p.p.

Our total revenues from natural gas sales totalled RR 222.2 billion, which is 3.6% lower as compared to 2014. The negative effect from the lower sales volumes on our total revenues was partially offset by the growth in regulated domestic tariffs by 7.5% effective from 1 July 2015. Our net revenues from gas sales (excluding transportation costs) demonstrated a minor decline of 1.3% as gas transportation tariff for independent producers increased from 1 July 2015 by only 2%.

During the reporting year, we concluded several major domestic natural gas supply contracts. In particular, five-year contracts were signed with NLMK Group with annual natural gas supply volume of 2.8 bcm starting from 2016, which fully cover the needs of all Russian entities of NLMK. Another contract was signed with Enel Russia for natural gas supply to the Nevinnomysskaya GRES with annual volume of approximately 2 bcm starting from 2016. We also extended a gas supply contract with Mosenergo for a period of four (4) years and with the annual supply volumes of nine (9) bcm of natural gas.

In order to maintain production levels during periods of seasonal demand NOVATEK has entered into an agreement with OAO 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. At year-end 2015, our inventories of natural gas in underground gas storage facilities and pipelines amounted to approximately 1.2 bcm.

As part of our international marketing strategy, we concluded several long-term contracts for the supply of LNG which we will purchase from the Yamal LNG project in accordance with the previously signed agreement. The contracts were concluded with Shell, ENGIE and Gunvor.

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.

The logistical supply chain varies according to location and type of product — stable gas condensate and LPG are transported by rail, finished petroleum products produced at the Ust-Luga Complex are exported by sea, while crude oil produced from our fields is transported through the trunk pipelines owned and operated by OAO Transneft.

Total sales volumes of liquid hydrocarbons in 2015 aggregated 12,888 thousand tons, representing a 82% increase over 2014 volumes. The record high growth rate is due to higher gas condensate production volumes and higher processing volumes at the Purovsky Plant and the Ust-Luga Complex, as well as to increase in crude oil production. Our export sales of liquids grew by 70% year-on-year to 9,004 thousand tons.

Our liquids sales revenues increased to RR 249.8 billion, or by 2 times as compared to 2014, mainly driven by much higher sales volumes as well as the growth in average prices in rouble terms due to higher US dollar to Russian rouble exchange rate and lower export duty rates. Liquid revenues exceeded revenues derived from natural gas for the first time in our corporate history.

Petroleum products from the Ust-Luga Complex accounted for 52% share of our overall liquids sales volumes. Petroleum product sales volumes grew by

Liquid hydrocarbon sales, thousand tons

	2014	2015	Change
TOTAL	**7,089**	**12,888**	**81.8%**
Petroleum products (Ust-Luga)	4,438	6,693	50.8%
Stable gas condensate	303	2,786	819.5%
LPG	930	1,280	37.6%
Crude oil	903	1,090	20.7%
Light hydrocarbons	504	1,026	103.6%
Other	11	13	18.2%

1.5 times to 6,693 thousand tons. This increase in high value-added product sales volumes had a very positive impact on the financial results of the Company. We sold 4,120 thousand tons of naphtha, 935 thousand tons of jet fuel and 1,638 thousand tons of fuel oil and gasoil. The main share of stable gas condensate processing products (99%) was sold for exports. Sales to the European markets accounted for 56% of total petroleum product sales volumes, 35% were sold to the Asian-Pacific region, 8% to North America and 1% to the Middle East. Naphtha was mainly exported to the Asian-Pacific countries, while jet fuel, fuel oil and gasoil was shipped to North-Western Europe.

Export sales of stable gas condensate were resumed in March 2015 after reaching full capacity utilization at the Ust-Luga Complex. During the reporting year 1,477 thousand tons of stable gas condensate were delivered for exports by sea and railway as compared to no volumes exported in 2014. Total stable gas condensate sales volumes grew nine-fold year-on-year to 2,786 thousand tons.

A portion of light hydrocarbons produced at the Purovsky Plant is processed on tolling terms at SIBUR's Tobolsk Petrochemical Complex to commercial LPG, which is then delivered to NOVATEK's customer base, while the rest of the light hydrocarbons volumes are sold to SIBUR. We sold 1,026 thousand tons of light hydrocarbons in 2015.

LPG sales volumes totaled 1,280 thousand tons in 2015, representing a 37.6% increase compared to 2014. LPG export sales volumes amounted to 551 thousand tons or 43% of the total LPG sales volumes. Novatek Polska, our wholly owned LPG trading company in Poland, sold 415 thousand tons of LPG, representing 75% of our total LPG export sales. Other export markets for LPG were Finland, Lithuania, Hungary, Slovakia and Turkey.

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 2015, large wholesale supplies to the domestic market accounted for 602 thousand tons, representing 83% of commercial LPG domestic sales volumes. We also sold LPG via the network of 65 retail stations and seven (7) small wholesale stations in the Chelyabinsk, Volgograd, Rostov and Astrakhan regions. The total amount of LPG sold through our domestic network of retail and small wholesale stations amounted to 127 thousand tons.

Sales of crude oil in 2015 totaled 1,090 thousand tons, representing a 21% increase over 2014 volumes. We sold 65% of our crude oil volumes on the domestic market with the remaining volumes supplied to export markets.

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 eco-environment. Throughout all of its operations the Company is committed to environment protection. In 2015 environmental

Key environmental indicators of NOVATEK, its subsidiaries and joint ventures

	Units	2014	2015	Change*
Water consumption	th. cubic meters	1,347	1,716	27%
Atmosphere emissions	th. tons	51.4	66.2	28%

Energy resources consumption by NOVATEK, its subsidiaries and joint ventures in 2015

	Units	Volume	RR mln, net of VAT
Natural gas	mmcm	1,780	2,314.5
Electricity	MW•h	610,230	2,051.2
Heating energy	Gcal	254,206	389.9
Crude Oil	tons	878	3.0
Motor gasoline	tons	1,069	42.1
Diesel fuel	tons	7,634	246.4
Other	tons	2,189	12.4

* The increase in key environmental indicators is largely due to the commissioning of production facilities as well as a significant increase in the hydrocarbon production and processing volumes.

expenditures of NOVATEK, its subsidiaries and joint ventures aggregated RR 776 mln.

NOVATEK has implemented a corporate-wide Health, Safety and Environmental ("HSE") Policy and all of the Company's principal subsidiaries and joint ventures operate an Integrated Health, Safety and Environment Management System (IMS), which comply with the international ISO 14001:2004 and OHSAS 18001:2007 standards. In 2015, NOVATEK successfully passed another IMS compliance audit.

As part of 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 drilling waste 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. In order to preserve biodiversity when developing our Yarudeyskoye oil field, we released muksun and peled young fishes into the river Northern Sosva of the Ob-Irtysh basin.

Throughout 2015, we performed environmental monitoring at all of the license areas and production facilities of the Company. This monitoring process includes surveys into the condition of environment components and collecting samples of soil, ground, snow covering, water, and river-bed deposit. Air contamination levels are inspected. The status of fish stock and fodder resources in water areas is monitored as are hydrologic and hydro-chemical 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 excess permissible levels of pollution in environmental components in the monitored locations were not registered.

In 2015, under the Company's flagship Yamal LNG project, actions were taken to evaluate and mitigate the negative impact on the Atlantic walrus in and around the South-Tambeyskoye field. The field area site was cleared of scrap metal, residential and industrial waste. In the reporting year, Yamal LNG remediated 310 hectares of land and relinquished them to the Yamal district government. In order to compensate for the water resource damage, peled fry was released into the Ob-Irtysh basin river.

The Company systematically works to decrease its harmful greenhouse gas emissions into the atmosphere. In 2015, the Program for Rational Use of Associated Petroluem Gas ("APG") enabled the Company to reach a 96% APG utilization rate at the Samburgskoye and East-Tarkosalinskoye fields. A booster compressor station to be commissioned at the central oil gathering facility in 2016 will ensure rational utilization of 95% of APG at our Yarudeyskoye field.

The Company continued its participation in the Carbon Disclosure Project (CDP) in 2015 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 important 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 and reports, including via publications in federal and local media, our corporate website, amongst other communication channels.

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 2015.

HEALTH AND SAFETY

Our strategic goal is to achieve a leading position amongst oil and gas companies on all key indicators concerning 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 adopted Regulations on the organization and implementation of industrial control for compliance with these requirements. As part of the monitoring and compliance process, we have established industrial control compliance commissions, who carry out periodic audits of departments and production facilities to check adherence to our HSE requirements.

Workplace certification includes evaluating measures to control the harmful impact of hazardous factors in the workplace. Measures to improve working conditions are developed based on the results of the certification process. In the reporting year, we certified 1,078 operating workplaces. No workplaces were identified with unacceptable working conditions.

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

	2014	2015	Change
Injury frequency rate (number of injuries per million working hours)	0.41	0.53	29%
Accident severity rate (total number of employee working hours lost per accident / number of accidents)	51	29	(43)%

In 2015, the NOVATEK commission continued comprehensive inspections of NOVATEK subsidiaries for occupational health, industrial, fire and environmental safety requirements. In the reporting year, NOVATEK's commission performed comprehensive inspections on six (6) entities, and, as a result, internal policy documents were developed to address the noted violations.

All of NOVATEK's subsidiaries and joint ventures conduct periodic safety training and briefings; personnel training and development programs are offered, among others, by specialized training centers; knowledge assessment is implemented on a regular basis. During the year, all entities undertook scheduled and unscheduled Health and Safety knowledge tests and 4,324 employees underwent HSE training courses. In 2015, the financing of Occupational Health and Safety totaled approximately RR 665 million.

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 year-end 2015, NOVATEK and its subsidiaries had a total of 7,265 employees, of which 40.1% work in exploration and production, 17.5% in processing, 27.3% in transportation and marketing, 6.3% in power supply with the remaining 8.8% classified as administrative personnel. The middle-aged group (25–44 years) represents the largest age demographics in NOVATEK's personnel structure, with an average age of 40 years.

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 2015, the primary goals of training and professional development included:

- implementing an In-house Training program to improve the competences of the Company's employees;
- implementing the "Steps in Discovering Talents" program for young specialists targeted at training highly qualified personnel whose competence level fully meets business needs;
- developing and enhancing the "Corporate Technical Competency Assessment System" program; and
- involving young specialists in NOVATEK's "Research-to-Practice conference".

To ensure targeted professional upgrade, an In-house Training program started in 2015.

NOVATEK's and subsidiaries' employees provided training to their colleagues in "well workover emergency operations and equipment", "penetrating and testing producing horizons while drilling", "complications and emergencies while drilling", "gas and gas condensate wells equipment", "well logging", "structural geology", et cetera. A total of 185 employees received training under this program in 2015.

In 2015, NOVATEK continued its efforts to enhance employee skills and improve working conditions to ensure a safe environment at its production facilities. During the reporting year, 39.6% of our specialists and line workers have upgraded their respective qualifications. During 2015, 751 people were tested under the Corporate Technical Competency Assessment System, including 28 people during the hiring process to fill vacant positions and 57 employees promoted to more senior positions.

We also had our second class of graduates completing the "Steps in Discovering Talents" program, whereby 25 young specialists participated in training activities aimed at the development of their professional skills. By the autumn of 2015, 23 new young specialists joined the program.

In 2015, the young specialists participated in the "Mentoring Culture" training courses together with the mentors. In total, 17 mentors attended the training.

In November 2015, Novy Urengoy hosted the 1st Interregional Professional Skills Contest among field workers. Over 30 participants from various NOVATEK subsidiaries demonstrated their skills and expertise in the contest. NOVATEK-YURKHAROVNEFTEGAS provided its facilities for the contest to take place. The participants competed in four professional categories, namely, oil and gas production operator, process unit fitter, electrical equipment fitter, and instrument and automation fitter. All participants received valuable gifts and the winners were awarded cash prizes and personal salary allowances for their professional skills.

The 10th Interregional Research-to-Practice Conference for the Company's young specialists attended by 56 employees was held in Moscow in September 2015. Based on the results of the competition, all of the winners received cash prizes, while seven (7) of the prize-winners and the winner in the "Best Implemented Project" category, were offered to study in the international oil and gas training centers in China.

Social Programs

Employee relations primary focus is mainly on implementing social programs, and according to the Core Concept of the Company's social policy 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.

In addition to 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 2015, our employees and their family members visited exhibitions at Russia's national museums, classical music concerts, and attended sporting events like football (soccer) games and acrobatic "rock and roll" competition with the Company's assistance.

The Company publishes its corporate newsletter "NOVATEK" and corporate magazine "NOVATEK Plus" to inform employees about the Company's activities, production results, cultural, sports, and charitable programs.

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 2015, NOVATEK and its subsidiaries directly invested approximately RR one billion in charitable, cultural and educational projects and activities to support the Far North indigenous peoples.

Cooperation with the regions

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

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 herdsmen, as well as fuel for air delivery of the nomadic population and food in remote areas.

In addition, the Company provided the following sponsorship in 2015:

- Nadym district — for organizing and holding the Open Reindeer Herders Contest for the Yamal-Nenets Autonomous Region Governor's Cup, as well as for building a kindergarten for 50 kids in the village of Nori;

- Tazovsky district — for the construction of a gym and a ski lodge in the village of Gyda;
- Yamal district — for giving medical treatment and financial aid to the persons among the indigenous minorities of the North who faced various hardships, as well as for targeted training programs for indigenous minorities; and
- Purovsky district — for supporting the local movement to protect the rights and interests of indigenous population.

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. In 2015, the “Gifted Children” class was opened in Tyumen lyceum No81. 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 2015, the Company awarded 57 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 2015, six (6) 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 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.

The Company provides additional monthly payments to students in these programs who have passed their exams with good and excellent results. 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 relationships between the Company and Russia's leading cultural and educational institutions, creative groups and charity funds continued in 2015, namely the Russian State Museum (St-Petersburg), the Moscow Museum of Modern Art, the Jewish Museum & Tolerance Centre and the Multimedia Art Museum, Moscow (Moscow House of Photography).

The Company continued its partnership with the Imperial Gardens of Russia, an annual international festival organized by the Russian State Museum. Supported by NOVATEK, the Multimedia Art Museum hosted such exhibitions as “Russia. The twentieth century in photos. 1946–1964”, “Antarctic. History. Antrectomy”. Moscow Museum of Modern Art held the solo exhibition of Peter Weibel, the Austrian artist and media art theorist.

In the reporting year, the Company became a first-time partner of the Jewish Museum & Tolerance Center and supported the exhibition of one of the world's most acclaimed modern sculptors Anish Kapoor, who presented his works at the Sixth Moscow Biennale of contemporary art.

NOVATEK became a partner of the Federal Arctic forum “The Arctic Days in Moscow”, organized by the Ministry of natural resources and environment of the Russian Federation. The forum hosted the II International scientific conference “The Open Arctic”, “The Business climate in the Arctic” business session, as well as multimedia exhibition “The Arctic”, presented at the Museum of Moscow.

NOVATEK also continued as a General Partner of the Moscow Soloists Chamber Ensemble led by Yuri Bashmet.

Sports Projects

NOVATEK continued its support for popular and high-level sports programs. The Company, its subsidiaries and joint ventures organize regular tournaments in some of the most popular sports, including football (soccer), volleyball, swimming to name a few. The Company continued its long-term partnership with the NOVA Volleyball Team (Novokuybyshevsk). In 2015, NOVATEK also was a General Partner of the Russian national football team and supported the Russian Federation of acrobatic "rock and roll", the Student Basketball Association, the Figure Skating Federation of Russia and the Hockey Federation of the Yamal-Nenets Autonomous area.

Charity

The Company continued its cooperation with Chulpan Khamatova's "Gift of Life" charitable foundation in 2015. Jointly with the foundation, NOVATEK held two sessions at its Moscow headquarters whereby 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 SYSTEM

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 comprises 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 No. 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).

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, the Management Board and the Revision Commission, as well as NOVATEK's management and employees, which were drafted on the basis of moral and ethical values and professional standards. The Code also determines the rules governing 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 requirements of the Corporate Governance Code following changes were made in the reporting year:

- NOVATEK's General Meeting of Shareholders held on 24 April 2015 approved the Regulations on Remuneration and Compensations payable to members of NOVATEK's Board of Directors; and
- the Board of Directors held on 12 March 2015 approved amendments to the Regulations on NOVATEK's Risk Management and Internal Control System.

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 the Board of Directors and the Revision Commission, approval of the Company's Auditor and other corporate and business matters.

On 24 April 2015, the Annual General Meeting of Shareholders approved the annual report, annual financial statements (in accordance with the Russian Accounting Standards), distribution of profit and the size of dividends based on the results of FY2014, the amended version of the Regulations on Remuneration and Compensations payable to members of NOVATEK's Board of Directors. The meeting also elected the Board of Directors (comprising eight (8) members due to exclusion of one of the candidates nominated by shareholders following withdrawal by this candidate of his consent to be elected) 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 2015.

On 25 September 2015, the Extraordinary General Meeting of Shareholders approved the amount of interim dividend for the first half of 2015, early terminated the authority of the Board of Directors, elected a new Board of Directors and approved interested-party transactions.

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 and effective performance in order to increase shareholder value in a prudent and responsible manner.

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 General Meeting of Shareholders elects the members of the Board.

The current members of the Board were elected at the Extraordinary General Meeting of Shareholders on 25 September 2015. 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 in accordance with the Corporate Governance Code recommended by the Central Bank of Russia and the UK 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, operational, 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 impacting the business. In addition to these formal processes, Directors have access to the Company's medium-level managers for both formal and informal discussions to ensure the regular exchange of information needed to participate in the Board meetings and make balanced decisions in a timely manner.

Efficient operation of the Board of Directors is supported by the Corporate Secretary, who 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 (Minutes No. 168 of 28 April 2014 with further alterations and amendments).

The Board of Directors membership as of 31 December 2015:

- Alexander E. Natalenko – Chairman of the Board
- Andrei I. Akimov
- Burckhard Bergmann
- Michael Borrell
- Robert Castaigne
- Leonid V. Mikhelson
- Victor P. Orlov
- Gennady N. Timchenko
- Andrei V. Sharonov

On 24 April 2015, the following changes took place in the Board of Directors membership: Yves-Louis Darricarrère, Vladimir A. Dmitriev, Victor P. Orlov ceased their Board membership, and one independent director, Robert Castaigne, and one shareholder representative, Michael Borrell, joined the Board.

On 25 September 2015, the following changes took place in the Board of Directors membership: one independent director, Victor P. Orlov, joined the Board.

Board activities during the 2015 corporate year[1]

To ensure the Company's efficient performance, the Board meetings are convened on a regular basis at least once every two months. During 2015, the Board met 10 times, of which six (6) meetings were held in absentia. The following key issues were discussed and respective decision made:

- reviewed and approved the Company's 2015 full year operating and financial results;
- recommended an interim dividend for first half 2015, based on interim financial results for the period, and a full year dividend for 2015, based on full year financial results;
- reviewed and approved NOVATEK's business plan for 2016; and
- approved the transaction for the sale of 9.9% equity stake in Yamal LNG.

BOARD COMMITTEES

The Company has three (3) Board Committees: the Audit Committee, the Strategy Committee and the Remuneration and Nomination Committee. The Committees' activities are governed by the specific Committee Regulations approved by the Board of Directors and are available on our website.

The Committees play a vital role in ensuring that the high standards of 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 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,

Board and Committee meetings attendance in the 2015 corporate year

Member	Independence[2]	Board of Directors	Audit Committee	Remuneration and Nomination Committee	Strategy Committee
Alexander E. Natalenko		10/10			4/4
Andrei I. Akimov		10/10			4/4
Burckhard Bergmann		10/10	2/2	2/2	4/4
Michael Borrell		10/10			4/4
Robert Castaigne	Independent	10/10	5/5	4/4	
Leonid V. Mikhelson	Executive	10/10			
Victor P. Orlov	Independent	6/6	3/3	2/2	
Andrei V. Sharonov	Independent	10/10	5/5	4/4	
Gennady N. Timchenko		10/10			4/4

1. From the Annual General Meeting of Shareholders on 24 April 2015 until the Annual General Meeting of Shareholders on 22 April 2016.
2. Independent Director as of 31 December 2015 in accordance with the Corporate Governance Code recommended by the Central Bank of Russia and the UK Combined Code on Corporate Governance.

Committees membership as of 31 December 2015

	Audit Committee	Strategy Committee	Remuneration and Nomination Committee
Chairman	Andrei V. Sharonov	Alexander E. Natalenko	Victor P. Orlov
Members	Robert Castaigne	Andrei I. Akimov	Robert Castaigne
	Victor P. Orlov	Burckhard Bergmann	Andrei V. Sharonov
		Michael Borrell	
		Gennady N. Timchenko	

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;
- 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 2015, the Strategy Committee met four (4) times.

Remuneration and Nomination Committee

The primary functions of the Remuneration and Nomination Committee is the 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 of 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;
- analysis of professional qualifications and independence of the candidates to the Board of directors;
- plan appointments of members of the executive body and the sole executive body on the base of continuity principles; and
- supervision over disclosure of information on the Company's shares owned by the members of the Board of Directors and Management Board, and other key management employees.

In corporate year 2015, the Remuneration and Nomination Committee met four (4) 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, and the efficiency of the Company's internal control procedures and risk management system.

The Audit Committee works actively with the Revision Commission, the external auditor and 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 2015, the Audit Committee met five (5) 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) with further alterations and amendments.

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. The 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 2015 is comprised of nine (9) members elected by the Board of Directors on 30 August 2012 (Minutes No. 150 of 30 August 2012) and 12 March 2015 (Minutes No. 173 of 12 March 2015).

Management Board Members as of 31 December 2015:

- Leonid V. Mikhelson — Chairman
- Alexander M. Fridman — First Deputy Chairman
- Vladimir A. Baskov — Deputy Chairman
- Mark A. Gyetvay — Deputy Chairman
- Tatyana S. Kuznetsova — Deputy Chairman — Director of Legal Department
- Iosif L. Levinzon — Advisor on Geology
- Lev V. Feodosyev — Deputy Chairman — Commercial Director
- Sergey V. Protosenya — Deputy Chairman
- Kirill N. Yanovskiy — Director for Finance

REMUNERATION TO MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT BOARD

The procedure for calculating the remuneration and compensations to members of NOVATEK's Board of Directors is governed by the Regulations on Remuneration and Compensations payable to members of NOVATEK's Board of Directors approved by the Annual

Information on remuneration of members of NOVATEK's Board of Directors and Management Board in 2015, RR mln

	Board of Directors*	Management Board
TOTAL PAID, INCLUDING:	**148.9**	**2,053.2**
Salaries	-	625.5
Bonuses	-	1,416.1
Fees	147.0	-
Other property advancements	1.9	11.6

* 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.

General Meeting of Shareholders (Minutes No. 122 of 24 April 2015). According to the Regulations the remuneration consists of the following types:

- fixed part of remuneration;
- remuneration for attending the Board of Directors meetings; and
- remuneration for attending the meetings of the committees of the Board of Directors.

The fixed part of remuneration to a Board member constitutes RR 10 million per corporate year. The Chairman of the Board of Directors is paid a fixed remuneration for the performance of its functions in the amount of RR 20 million per corporate year. Members of the Board of Directors are also paid remuneration for attending the meetings of the Board of Directors in the maximum amount of RR 3 million per corporate year and remuneration for attending the meetings of the committees of the Board of Directors in the maximum amount of RR 2 million per corporate year. The Board members are also compensated for travel and lodging expenses related to implementation of their functions as NOVATEK Board of Directors members.

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.

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

In order to combat corruption, mitigate compliance, operational and reputation risks, the Company adopted the Anti-Corruption Policy and the Regulation on NOVATEK Risk Management and Internal Audit System approved by the Board of Directors on 1 September, 2014 (Minutes No. 170 of 1 September 2014).

Throughout the reporting year, the Company maintains a Security Hotline in accordance with the Anti-Corruption Policy. All necessary inspections have been promptly made in response to the complaints reported to the Hotline.

Revision Commission

The Revision Commission consisting of four (4) members who are 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 performs audits of the Company's financial and business performance for the year, as well as 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 of these audits are presented in the form of findings by the Revision Commission.

In March 2016, the Revision Commission completed the on-site audit revision of financial and business activity of the Company for the year 2015. As a result, the conclusions about the reliability of the data contained in the Company's 2015 Financial Statements (under the Russian accounting standards) 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 performs internal audits of the Company's operations. 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 also adheres to the principles and rules of conduct stated in internal auditor's Code of Business Conduct of the Institute of Internal Auditors.

The Division carries out its activities on the basis of an annual 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. Implementation of the measures is monitored on a regular basis.

The Internal Audit Division regularly interacts with the external auditor by exchanging information on action plans, audit results and other matters of significance to ensure the effective discharge of their responsibilities.

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

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' candidature for the consideration and for approval by the Annual General Meeting of Shareholders.

AO PricewaterhouseCoopers Audit (an internationally recognized audit firm) was chosen as the Company's external auditor to conduct the audit of the annual financial statements for 2015 under RAS, as well as independent reviews of the Company's quarterly financial statements and audit of the annual financial statements under IFRS.

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 twice per year.

NOVATEK's management is aware of and accepts recommendations on the 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 2015.

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 2015, NOVATEK did not have privileged shares.

Our shares are traded in Russian roubles on the Moscow Exchange and have a first grade 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 10 ordinary shares. As of 31 December 2015, NOVATEK's GDRs were issued on 906,782,300 ordinary shares comprising 29.86% of the Company's share capital.

On 24 December 2015, the Member of the Board of Directors of OAO NOVATEK, Gennady N. Timchenko made the transaction on the purchase of NOVATEK's shares in the amount of 435,102,064 shares. In 2015, the Member of the Board of Directors of OAO NOVATEK, Burckhard Bergmann made the transaction on the sale of NOVATEK's shares (in a form of GDRs) in the amount of 200,000 shares.

DIVIDENDS

The Company's Dividend Policy is regulated by the Regulations on Dividend Policy of OAO NOVATEK approved by the Board of Directors on 28.04.2014 (Minutes No. 168 of 28.04.2014). According to the Regulations, consolidated net income under IFRS is applied 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 amount of the dividend, the payment deadline 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.

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

	Equity stake as of 31 December 2015, %	Number of shares
BOARD OF DIRECTORS		
Alexander E. Natalenko	-	-
Andrei I. Akimov	-	-
Burckhard Bergmann	-	-
Michael Borrell	-	-
Robert Castaigne	-	-
Leonid V. Mikhelson	0.7152	20,717,112
Victor P. Orlov	-	-
Andrei V. Sharonov	-	-
Gennady N. Timchenko	14.33	435,102,064
MANAGEMENT BOARD		
Vladimir A. Baskov	0.0288	874,408
Lev V. Feodosyev	-	-
Alexander M. Fridman	0.0817	2,481,049
Mark A. Gyetvay	-	-
Tatyana S. Kuznetsova	0.1944	5,903,035
Iosif L. Levinzon	-	-
Sergey V. Protosenya	0.0765	2,323,223
Kirill N. Yanovskiy	0.1051	3,192,530

Accrued and paid dividends on NOVATEK shares for the period 2010 to 2015

Dividend accrual period	Amount of dividends, RR per share	Total amount of dividends accrued, RR	Total amount of dividends paid, RR
2010	4.00	12,145,224,000	12,144,967,156
2011	6.00	18,217,836,000	18,217,661,063
2012	6.86	20,829,059,160	20,829,058,569
2013	7.89	23,956,454,340	23,956,347,687
2014	10.30	31,273,951,800	31,273,843,933
First half 2015	6.60	20,039,619,600	20,039,504,550

The amount of paid dividends accrued for the years 2010 to 2014, and for the first six months 2015 is reported as of 31 December 2015. Partial payment of the accrued dividends was made due to provision by shareholders of incorrect postal and/or banking details and insufficient information regarding banking or postal details of shareholders.

* The equity stakes are given based on the records in the register of NOVATEK's shareholders and notifications received from members of the Board of Directors and Management Board, in accordance with the Russian Federation laws.

On 10 March 2016, the Board of Directors of OAO NOVATEK recommended to the Annual General Meeting of Shareholders to pay dividends for FY 2015 in the amount of RR 6.9 per ordinary share or RR 69.0 per one Global Depositary Receipt (GDR), exclusive of RR 6.60 of interim dividends per ordinary share or RR 66.0 per one GDR paid for the first six months of 2015.

Thus, should the General Meeting of Shareholders approve the recommended dividend, the dividends for 2015 will total RR 13.5 per ordinary share (RR 135.0 per one GDR), and the total amount of dividends payable for 2015 will be RR 40,990,131,000. This will represent a 31% increase in dividend per share compared to 2014.

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.

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.

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 the principles of its unified information policy, NOVATEK is engaged in an active, ongoing dialog with representatives of media. 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 matters. The Public Relations Department of the Company frequently holds press conferences, briefings, and press tours.

NOVATEK actively involves in a variety of industry exhibitions and conferences. In 2015, NOVATEK's management and employees participated in more than 15 exhibitions, conferences and round tables. The Company annually takes part in St Petersburg International Economic Forum (SPIEF). In the reporting year, NOVATEK's delegation participated in the largest international events such as 26th World Gas Conference and WGC 2015 in Paris as well as Gastech 2015 in Singapore.

ADDITIONAL INFORMATION

RISK MANAGEMENT SYSTEM

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

A multilevel system of risk management has been implemented at the Company. Powers, duties and responsibilities for specific risk management procedures are delegated to different governance levels of the Company depending on the assessment of financial impact of risk. The Company's risk management policy is laid out in the Regulations on NOVATEK Risk Management and Internal Control System approved by the Board of Directors on 1 September 2014 (Minutes No. 170 of 1 September 2014) with amendments.

The Board of Directors' Audit Committee is responsible for the supervision over the reliability and efficiency of the risk management framework and review of the risk management policy. In the reporting year, the Audit Committee after careful review and analysis of the information provided, recognized NOVATEK's risk management activities as compliant with the risk management policy of the Company.

Below is the list of risks and approaches to risk management applied by the Company. The risks described herein are not exhaustive and reflect the opinion on 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 a Federal body.	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).

Risk	Risk description	Risk management approaches used by the Company
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; • access to transportation infrastructure, which has technological limitations; • 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.
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 a Federal body. 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. 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.

Risk	Risk description	Risk management approaches used by the Company
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.
Project risks	Volatile exchange rates of the national currency and unstable lending conditions, growing funding costs, drop in hydrocarbon prices, precarious financial position of contractors and oil and gas equipment suppliers may affect the Company's Investment Program leading to delays in project execution and/or rising project costs.	The Company implements expert review of projects at the project development stage. Investments are only channeled into the projects that are most likely to help the Company achieve its strategic objectives. The Company has tightened its selection requirements for contractors and suppliers of oil and gas equipment. There is ongoing monitoring of their performance, including on-site visits to the oil and gas equipment plants involved in production and testing of the equipment for the Company.
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. 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. This mitigates ethical risk to stakeholders and investors. 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's Anti-Corruption Policy that established key principles and standards of anti-corruption practices for employees and includes a set of corruption prevention measures. As part of the Anti-Corruption Policy implementation a Security Hotline is in a 24/7 operation.
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; • external 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.

Risk	Risk description	Risk management approaches used by the Company
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 2015, a precipitous decline in crude 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 have a negative impact on the Company's operational and financial performance.	Active marketing and financial policy enable the Company to mitigate 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 at the facilities design and operation stage.
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 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.
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 are hard to predict. Volatile 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 strives to maintain flexibility in its investment program.
Currency risks	Part of the Company's liabilities is denominated in foreign currencies, which may lead to losses in the event of Russian rouble 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 Russian rouble 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.

Risk	Risk description	Risk management approaches used by the Company
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 currency depreciation in 2015 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 rouble, 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 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 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 2015, 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 (Standard & Poor`s, Expert RA, A.M. Best) with partial reinsurance of risks by major international insurance and reinsurance 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; and
- 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;
- Insurance of risks related to prospecting, exploration and production (risk of loss of control over a well); and
- Management liability insurance.

Since 2013, the Company implemented a comprehensive program of property and business risk insurance with respect to its and its subsidiaries' and joint venture's key assets. The cumulative insured amount for the risks of property damage and business interruption as at the end 2015 was RR 482 billion. The implemented program is viewed by the Company's management as an efficient 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.

In the reporting year, no insured major accidents or incidents occurred.

For more than ten (10) 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 E. Natalenko
Born in 1946

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

Mr. Natalenko completed his studies at the Irkutsk State University in 1969 with a primary focus in Geological Engineering. Subsequently, he worked with the Yagodinskaya, Bagdarinskaya, Berelekhskaya, Anadirskaya 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. From 2013 to 2015 he was a member of the Board of Directors of AO 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
Born in 1953

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

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 PAO Gazprom, Gazprombank (AO), OAO Rosneft, OAO Rosneftegaz, Gazprom Germania GmbH, OOO Gazprom gas motor fuel, GPB International S.A. and other.

Dr. Burckhard Bergmann
Born in 1943

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

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.

Till 2013 Dr. Bergmann was a member of the Boards of Directors (Supervisory Boards) of: Allianz Lebensversicherungs-AG, Commerzbank AG, Contilia GmbH. At present, he is a member of the Advisory Boards for Dana Gas International, Vice Chairman of the Advisory Board of Accumulatoren-werke Hoppecke GmbH and a member of the Board of Trustees of RAG AG and a member of the Board of Directors of Telenor ASA.

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. Michael Borrell
Born in 1962

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

Mr. Borrell graduated from the University of Cambridge with a degree in Chemical and Mechanical Engineering (Master of Science — 1993, Bachelor — 1984). He joined TOTAL in 1985. Mr. Borrell worked with the affiliated companies of the concern; from 1995 he held a number of senior management positions in TOTAL. From 2003, he worked at the position of Vice-President for Corporate Planning and Business Development in Total E&P Indonesia. In July 2006, he was appointed President and CEO of TOTAL E&P Canada in Calgary. From September 2009 to June 2010, he was Vice President of the Caspian Area and Central Asia for TOTAL Exploration and Production. From July 2010, he worked as First Vice President of Continental Europe and Central Asia. Since 1 January 2015, he has been appointed Senior Vice-President of Europe and Central Asia.

Mr. Robert Castaigne
Born in 1946

- Independent member of NOVATEK's Board of Directors
- Member of the Remuneration and Nomination Committee of NOVATEK's Board of Directors
- Member of the Audit Committee of NOVATEK's Board of Directors

Mr. Castaigne graduated from the Ecole Centrale de Lille in 1968 and the Ecole nationale supérieure du pétrole et des moteurs, he holds a doctorate in economics. He has spent his whole career at TOTAL SA, first as an engineer, then in various positions. From 1994 to 2008, he was Member of the Executive Committee, Executive Vice-President and Chief Financial Officer of TOTAL SA. He is Member of SANOFI's Board of Directors and Chairman of its Audit Committee, Member of VINCI's Board of Directors and its Audit and Remuneration Committees, Member of Societe Generale's Board of Directors and its Risk, Audit and Internal Control Committees. He is Chevalier of the National Order of the Legion of Honour.

Mr. Leonid V. Mikhelson
Born in 1955

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

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 and the Chairman 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 PAO 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 person of the gas industry".

Mr. Victor P. Orlov
Born in 1940

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

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. From 1998 to present — President of "Russian Geological Society" public organization. Author and co-author of over 300 scientific publications.

Professor, Doctor of Economics (1991), Candidate of geological-mineralogical sciences (1974), 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 (2001), the Order of Honor (2015), 18 non-governmental awards, including 3 appreciation letters of the President of the Russian Federation, 2 Certificates of Merit of the Government of the Russian Federation.

Mr. Andrei V. Sharonov
Born in 1964

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

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.

From 2011 to 2015 at various times he was a member of ALROSA's Supervisory Board (OAO); member of the Board of Directors of OAO Bank of Moscow and of "National Research University "Higher School of Economics".

He is currently a member of the Board of Directors of PAO Sovcomflot; 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; a member of the Board of Directors of AO Rosgeologia, a member of the Supervisory Board of PAO Moscow Stock Exchange and the Bank VTB (PAO).

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.

Mr. Gennady N. Timchenko
Born in 1952

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

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 Kirishineftekhimexport, the export and trading arm of the Kirishi refinery. 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 PAO 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).

INFORMATION ON MEMBERS OF NOVATEK'S MANAGEMENT BOARD

Mr. Leonid V. Mikhelson
Born in 1955

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

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

Mr. Vladimir A. Baskov
Born in 1960

- Deputy Chairman of NOVATEK's Management Board

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 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 Minister 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. Lev V. Feodosyev
Born in 1979

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

In 2002, Mr. Feodosyev graduated from the Bauman Moscow State Technical University with a degree in Machinery and Foundry Engineering Technologies. In 2002, Mr. Feodosyev was appointed lead specialist at the Ministry of Energy of the Russian Federation. From 2003, he has served as lead specialist, senior specialist, adviser, deputy head of section, Deputy Director of Department at the Ministry of Economic Development and Trade of the Russian Federation. From October 2007, Mr. Feodosyev worked in NOVATEK as Director of the Strategic Planning and Development Department. From 2011, he was appointed as Deputy Commercial Director, Director of the Marketing and Gas

Sales Department of NOVATEK. Since February 2015, he has been appointed Commercial Director, Deputy Chairman of the Management Board of NOVATEK.

In 2014, Mr. Feodosyev was awarded NOVATEK's Honorary Certificate.

Mr. Alexander M. Fridman
Born in 1951

- First Deputy Chairman of NOVATEK's Management Board

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 Technical Director, 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 was appointed a member of NOVATEK's Management Board. From February 2015 First Deputy Chairman of the Management Board of OAO NOVATEK. Mr. Fridman is the recipient of the title of honor "Honored man of the oil and gas industry".

Mr. Mark A. Gyetvay
Born in 1957

- Deputy Chairman of NOVATEK's Management Board

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. He is a recognized expert in the oil and gas industry, a frequent speaker at various industry and investor conferences, has published numerous articles on various oil and gas industry topics and was a former member of PwC's Petroleum Thought Leadership team. He has been recognized by Investor Relations Magazine as one of the best CFO's in Russia and the CIS, and more recently by Institutional Investor magazine as one of the Top Five CFO's in Europe's Oil and Gas sector. Finance Monthly magazine recently named Mark Gyetvay the Best CFO in Russia 2015.

From 2003 to 2014, Mr. Gyetvay was a member of NOVATEK's Board of Directors and served on the Investment and Strategy Committee. In 2003–2014, he has been Chief Financial Officer and, in August 2007, Mr. Gyetvay was elected to NOVATEK's Management Board. In July 2010, he became Deputy Chairman of NOVATEK's Management Board.

Ms. Tatyana S. Kuznetsova
Born in 1960

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

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 Purneftegasgeologiya. 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. Ms. Kuznetsova has the title "Honored employee of OAO NOVATEK", and is awarded the Order of Merit for the Fatherland 2 degree.

Mr. Iosif L. Levinzon
Born in 1956

- Member of NOVATEK's Management Board
- Advisor on Geology

Mr. Levinzon graduated from the Tyumen Industrial Institute specializing in geology of oil and gas fields. From 1978 to 1987, he was the operator and then Head of the Urengoy oil expedition. From 1987 to 1996 he was the General Director of Purneftegasgeologiya. 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 an Honored Geologist of Russia, a recipient of 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. Sergey V. Protosenya
Born in 1966

- Deputy Chairman of NOVATEK's Management Board

In 1991, Mr. Protosenya graduated from the Moscow Institute of Engineering and Construction named after Kuybyshev with a degree in Engineering and Economics. From 1991 to 1992, he was Chief Accountant of a small enterprise RESTEPP and from 1992 to 1993 worked as Deputy Chief Accountant in the Moscow branch of Uzinbank. In 1993, Mr. Protosenya took a position of Deputy Head of Division for Analysis, Accounting and Reporting in Lefko-Bank (joint-stock commercial bank). From 1995 to 1997, he held a position of Deputy Director of AOOT SNP Nova. From 1997, Mr. Protosenya was Deputy Director General for Economics of OAO FIK Novafininvest (financial and investment company) and then took a position of Finance Director of OAO NK Tarkosaleneftegas. In 2001, he was appointed Head of Accounting, Reporting, Analysis and Business Planning Department of OAO Pur-Land. In 2002, Mr. Protosenya worked as First Deputy Chief Accountant of OOO NK ITERA.

In 2002–2014 — Chief Accountant of OAO NOVATEK, Deputy Chairman of the Management Board — Chief Accountant of OAO NOVATEK. From February to December 2015 — Deputy Chairman of the Management Board of OAO NOVATEK.

Mr. Protosenya holds Honorary Certificate awarded by the Ministry of Energy of the Russian Federation.

Mr. Kirill N. Yanovskiy
Born in 1967

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

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, since February 2015 he is Director for Finance of OAO NOVATEK.

MAJOR, MATERIAL AND RELATED PARTY TRANSACTIONS

In 2015, no related party transactions were entered into by NOVATEK.

The Company entered into one **major transaction** as follows:

Transaction type and scope: associated transactions, including the Share Purchase Agreement (the "Agreement") and Parent Company Guarantee (the "Guarantee").

Scope of the Agreement: sale and purchase of three hundred fifty seven thousand four hundred and fifteen (357,415) ordinary registered shares of OAO Yamal LNG with a nominal value of one hundred roubles (RUB 100) each (the issue's state registration number — 1-01-10428-A), comprising nine point nine percent (9.9%) of OAO Yamal LNG's issued share capital (the "Shares"). The transaction shall be closed following the effective date of the Protocol to the Agreement between the Government of the Russian Federation and the Government of the People's Republic of China on Cooperation in the Implementation of the Yamal LNG Project.

Scope of the Guarantee: provision of collateral for all of NOVATEK EQUITY (CYPRUS) LIMITED's obligations to the Lender under the Loan Agreement totaling approximately 730,000,000 euro for a period of 15 years (the "Secured Loan Agreement").

Parties to the Agreement:
- Sellers: OAO NOVATEK, NOVATEK Moscow Region LLC and NOVATEK-Perm LLC;
- Buyer: YAYM LIMITED.

Parties to the Guarantee:
- Guarantor: OAO NOVATEK;
- Beneficiary: YAYM LIMITED (Lender under the Secured Loan Agreement).

Transaction size: comprises the price of the Shares and the total of the secured obligations (loan principal and interest) exceeding 25% of NOVATEK's assets value as at 30 September 2015.

Transaction date: 17 December 2015.

The transaction was approved by OAO NOVATEK's Board of Directors on 10 December 2015 (Minutes No. 181 of 10 December 2015).

NOVATEK also entered into several material transactions that are not major transactions.

A material transaction that is not a major transaction

Transaction type and scope: National Wealth Fund Debt Service Undertaking (the "DSU").

Parties:
- DSU Guarantors: OAO NOVATEK, TOTAL S. A., China National Oil and Gas Exploration and Development Corporation and OAO Yamal LNG;
- DSU Beneficiary: Ministry of Finance of the Russian Federation acting for and on behalf of the Russian Federation.

DSU scope: with OAO Yamal LNG ("Yamal LNG") issuing bonds to be purchased by the Ministry of Finance of the Russian Federation (the "Ministry"), OAO NOVATEK ("NOVATEK"), TOTAL S. A. ("Total") and China National Oil and Gas Exploration and Development Corporation (the "CNODC") undertake that, in case of Yamal LNG's failure to pay any amount due to the Ministry under the bonds (or under any other document signed by the Ministry in respect of such bonds, including those signed with the project finance lenders), they shall pay the pro rata share of the amount owed by Yamal LNG to the Ministry.

NOVATEK's obligations under the DSU end on the earlier of (provided there are no outstanding obligations as at the said date):

(1) completing the construction of all the three process trains at the LNG plant and passing a defined set of tests confirming the successful completion of such construction;
(2) NOVATEK fulfilling its obligations under the DSU in full; or
(3) Yamal LNG repaying its debt under the bonds in full.

NOVATEK's liabilities under the DSU: 59.9738% (inclusive of an adjustment in line with the DSU and contracts related thereto) of the bonds' principal amount of up to one hundred and fifty billion roubles (RUB 150,000,000,000) as at the date of issue, the interests payable on the above principal and other amounts payable in connection with the bonds. NOVATEK's liability totals 16.9833% of the issuer's assets value.

Transaction date (DSU date): 5 August 2015.

The transaction was approved by OAO NOVATEK's Board of Directors on 22 July 2015 (Minutes No. 177 of 22 July 2015).

A material transaction that is not a major transaction:

Transaction type and scope: an agreement to supply 2.6 bcm per annum of combustible natural gas from 1 January 2016 to 31 December 2020.

The term of the gas supply obligations extends from the date PAO Gazprom's consent to sign an agreement with the Supplier to transport gas to the Buyer to 31 December 2020.

Parties:

- Joint Stock Company NOVATEK as the Supplier;
- Open Joint Stock Company NLMK as the Buyer.

The estimated transaction value exceeds seventy billion roubles (RUB 70,000,000,000), i. e. more than 13% of NOVATEK's assets value as at 30 June 2015.

Transaction date (date of the Agreement): 21 August 2015.

The transaction has not been approved yet.

A material transaction that is not a major transaction:

Transaction type and scope: Master Agreement for a Framework Revolving Credit Facility with Differentiated Interest Rates signed by OAO NOVATEK (the "Borrower") and PAO Sberbank of Russia (the "Lender").

The Lender shall open for the Borrower a framework revolving credit facility to finance the Borrower's ongoing operations, including provision of loans, for the period up until 24 September 2018 and with a financing limit of fifty billion roubles (RUB 50,000,000,000).

Under the Agreement, the Lender and the Borrower shall enter into separate Credit Transactions on terms and conditions agreed by the Parties, including:

- loan amount;
- loan issue and maturity dates;
- interest rate or criteria used to determine and change such interest rates, interest periods;
- commitment and early repayment fees.

Full loan repayment date: on or prior to 24 September 2018.

Transaction size: comprises credit facilities (with a financing limit of fifty billion roubles (RUB 50,000,000,000)), commitment fee, early repayment fee and interest; may exceed 10% of NOVATEK's assets value.

Transaction date (date of the Agreement): 14 October 2015.

The transaction has not been approved yet.

On top of that, a material entity controlled by the Company entered into a major transaction in 2015 as follows:

Transaction type and scope: LNG Sale and Purchase Agreement between OAO Yamal LNG (the "Seller") and Yamal Trade PTE. LTD. (the "Buyer"). The Seller shall supply 100% of LNG produced at the Yamal LNG facilities to meet its LNG supply obligations under the LNG Sale and Purchase Agreement to the effect that the Buyer in its turn could meet its obligations under agreements on subsequent LNG sales entered into with the next buyers.

The LNG Sale and Purchase Agreement shall be effective until 31 December 2045 (except if early terminated or if the Parties agree to extend the Agreement).

Transaction date (date of the Agreement): 31 March 2015.

The transaction was approved by OAO Yamal LNG's Board of Directors on 17 March 2015 (Minutes No. 163 of 17 March 2015).

INFORMATION (REPORT) ON THE OBSERVANCE BY A JOINT STOCK COMPANY OF THE PRINCIPLES AND THE RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE RECOMMENDED FOR APPLICATION BY THE BANK OF RUSSIA

Corporate governance system, including the model and corporate governance practices, are described in detail in the "Corporate Governance" section of this Annual Report. The Company complies with the basic principles of the Corporate Governance Code recommended for application by the Bank of Russia. Some principles are not formally respected due to the absence of relevant rules in the internal documents, but are complied with in our actual activities.

In assessing our compliance with the corporate governance principles we used a form received from ZAO "MICEX Stock Exchange" (Information letter No 31-14/236 of 13.03.2015) and placed on the website of ZAO "MICEX Stock Exchange" at http://moex.com/s22.

In order to improve the Company's corporate governance system it is planned to amend the Regulation on the General Meeting of Shareholders of OAO NOVATEK in 2016, as well as implement additional analysis of the Corporate Governance system in connection with the changing corporate law with a view to planning the measures aimed at further development of our corporate governance system.

	PRINCIPLE	OBSERVANCE	COMMENT
No.	**Corporate governance principle(s) or key criterion (recommendation)**	**A brief description of non-compliance with the corporate governance principle or key criterion**	**The explanation of the key reasons, factors and circumstances due to which the principle or key criterion is not complied with or is complied with in part, the description of alternative corporate governance mechanisms and tools**
I. SHAREHOLDER RIGHTS AND EQUITABLE TREATMENT OF SHAREHOLDERS			
1.1.	**The company should ensure equitable and fair treatment of every shareholder exercising their right to take part in managing the company. Corporate governance framework and practices should ensure equality for the shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equitable treatment by the company.**		

	PRINCIPLE	OBSERVANCE	COMMENT
1.1.1.	The company has an approved internal regulation setting forth key procedures to prepare for, convene and hold general meetings of shareholders in compliance with recommendations of the Corporate Governance Code, including the company's obligations to: • notify shareholders of general meetings and provide access to the relevant materials, including by posting the notice and materials at the corporate website, at least 30 days prior to such meeting, unless a longer time period is required by the applicable Russian law; • announce the record date at least seven days prior to such date; • provide additional information and materials on the general meeting agenda as recommended by the Corporate Governance Code.	The Company's internal regulation setting forth key procedures to prepare for, convene and hold general meetings of shareholders does not formalize the obligations to: • provide access to the relevant materials at the Company's website; • announce the record date at least seven days prior to such date; • provide additional information and materials on the general meeting agenda as recommended by the Corporate Governance Code.	As per Clause 2, Article 24 of NOVATEK's Regulations on General Meeting of Shareholders, the Company may post information (materials) to be made available to the persons entitled to attend general meetings at its corporate website (www.novatek.ru). As a matter of fact, in preparing the general meeting of shareholders the Company posts such information (materials) at its corporate website no later than 30 days prior to the meeting. Under the applicable Russian law, public joint-stock companies are required to announce the record date at least nine days prior to such date (see Paragraph 2, Clause 1, Article 51 of the Federal Law On Joint-Stock Companies). Hence, this Corporate Governance Code recommendation is not up to date any longer.
1.1.2.	The company undertakes to enable its shareholders to put questions on the company's operations to members of the management and control bodies, audit committee, chief accountant, company's auditors, and nominees to management and control bodies, during the general meeting and in the course of respective preparations. The said obligations are set forth in the company's articles of association or internal regulations.	This principle is complied with.	-
1.1.3.	The company observes the principle of preventing any action that may result in an artificial redistribution of corporate control (for example, voting with quasi-treasury shares, decision to pay dividends on preferred shares regardless of limited financial capacities, decision not to pay dividends on preferred shares as required by the articles of association regardless of sources being sufficient for payment). The said obligations are set forth in the company's articles of association or internal regulations.	The Company's articles of association and other internal regulations do not impose restrictions on voting with quasi-treasury shares.	In fact, the Company does not vote with quasi-treasury shares during general meetings of shareholders, as required by international best practices.
1.1.4.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
1.2	**Shareholders should be given equal and fair opportunities to receive a share of the company's profit in the form of dividends.**		
1.2.1.	The company has an approved internal regulation stipulating its dividend policy in compliance with recommendations of the Corporate Governance Code, including, inter alia: • procedures to determine a portion of the company's net profit (for companies issuing consolidated financial statements — a minimum portion (share) of consolidated net profit) to be distributed in the form of dividends, and conditions to declare dividends; • minimum dividends payable on different types (classes) of shares; • mandatory disclosure of the document governing the company's dividend policy at its corporate website.	The Company's internal regulation governing its dividend policy does not require a mandatory disclosure of this document at its corporate website.	NOVATEK's Regulation on Dividend Policy is disclosed through the Company's website.

	PRINCIPLE	OBSERVANCE	COMMENT
1.2.2.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

II. THE COMPANY'S BOARD OF DIRECTORS

2.1 The board of directors' core responsibilities should include determining the company's long-term strategic targets, key performance indicators (KPIs), key risk management and internal control principles and approaches, strategic governance, exercising control over the company's executive bodies, articulating the company's policy on remunerating its directors and executive body members, etc.

2.1.1.	The company has a board of directors to: • determine the company's long-term strategic targets and KPIs; • control the company's executive bodies; • determine the company's risk management and internal control principles and approaches; • articulate the company's policy on remunerating its directors, executive body members and other key managers.	This principle is complied with.	-
2.1.2	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	

2.2. The board of directors should manage the company in an efficient and competent manner and make fair and independent judgments and decisions in line with the best interests of the company and its shareholders. The chairperson of the board should ensure that the board of directors discharges its duties in the most effective and efficient way. The board of directors should ensure proper discharge of its duties by conducting meetings attended by directors and making the respective preparations.

2.2.1.	The board is chaired by an independent director, or a senior independent director supervising the activities of other independent directors and interacting with the board's chairperson should be appointed from among the elected independent directors.	This principle is not complied with.	For chairmanship purposes, the directors elected the most experienced of the Board members who is not an independent director. No senior independent director was appointed to supervise the activities of other independent directors and interact with the board's chairperson.
2.2.2.	The company's internal regulations stipulate the procedure to prepare for and hold the board's meetings, enabling the directors to make proper preparations, including, inter alia: • meeting notice period; • deadlines for circulating voting ballots and submitting the completed ones in case of in-absentia meetings; • option to submit and consider a director's written opinion on the agenda items if they are not present at an in-person meeting; • option to participate in a meeting and voting via an audio or video conference.	The Company's internal regulations do not provide for audio/video conference debates and voting at the Board's meetings.	Due to the efficient planning of Board meetings held in person and in absentia and directors' commitment to attend any such meeting, the Company does not need to arrange for audio/video conferencing during the debates and voting at the Board's meetings. Should the need arise, the Company will be able to provide audio/video conference solutions to support debates and voting at the Board's meetings.

	PRINCIPLE	OBSERVANCE	COMMENT
2.2.3.	Resolutions on the most important matters are passed at the board's in-person meetings. The list of such matters is compliant with the Corporate Governance Code.[1]	This principle is not fully complied with, as the Board of directors considered some of the matters specified in Clause 168, Part B of the Corporate Governance Code at in-absentia meetings.	In preparing its meeting schedule, the Board of directors is guided by this corporate governance principle. Some urgent matters however might be arising in the normal course of the Company's business throughout the year. For the purposes of quick decision-making, the Board of directors brings up such matters at in-absentia meetings providing the directors with materials required to perform thorough analysis and make well-informed decisions.
2.2.4.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
2.3.	**The board of directors should include a sufficient number of independent directors.**		
2.3.1.	Independent directors make up at least one third of the elected board members.	This principle is complied with.	-
2.3.2.	Independent directors fully meet the independence criteria set forth in the Corporate Governance Code.	This principle is complied with.	-
2.3.3.	The board of directors (nomination/HR committee) verifies a board nominee's compliance with the independence criteria.	This principle is complied with.	-
2.3.4.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
2.4.	**The board of directors should set up committees for preliminary consideration of key matters related to the company's operations.**		
2.4.1.	The board of directors has set up an audit committee made up of independent directors. Its responsibilities are set forth in the company's internal regulations and are compliant with recommendations of the Corporate Governance Code[2].	This principle is complied with.	-
2.4.2.	The board of directors has set up a remuneration committee made up of independent directors (it may be combined with the nomination/HR committee). Its responsibilities are compliant with recommendations of the Corporate Governance Code[3].	This principle is complied with.	-
2.4.3.	The board of directors has set up a nomination/HR committee predominantly made up of independent directors (it may be combined with the remuneration committee). Its responsibilities are compliant with recommendations of the Corporate Governance Code[4].	This principle is complied with.	-

1. See Clause 168, Part B of the Corporate Governance Code
2. See Clause 172, Part B of the Corporate Governance Code
3. See Clause 180, Part B of the Corporate Governance Code
4. See Clause 186, Part B of the Corporate Governance Code

	PRINCIPLE	OBSERVANCE	COMMENT
2.4.4.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
2.5.	**The board of directors should assess its own, along with its members' and committees', performance.**		
2.5.1.	The board's performance is assessed regularly at least once a year, and at least once in three years the company engages an external advisor to conduct such assessment.	This principle is not complied with.	The Board of directors is currently considering the possibility of applying this Corporate Governance Code recommendation.
2.5.2.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
III. THE COMPANY'S CORPORATE SECRETARY			
3.1	**The company's corporate secretary (or a dedicated business unit headed by such) should ensure efficient ongoing interaction with shareholders, coordinate the company's efforts to protect shareholder rights and interests and support the board's activities.**		
3.1.1.	The corporate secretary reports to the board of directors and is appointed or removed from office by the board's resolution or approval.	This principle is complied with.	-
3.1.2.	The company has an approved internal regulation setting forth the corporate secretary's rights and obligations (Regulation on the Corporate Secretary) as recommended by the Corporate Governance Code[1].	This principle is complied with.	-
3.1.3.	The corporate secretary holds no concurrent positions in the company. His/her responsibilities are compliant with recommendations of the Corporate Governance Code[2]. The corporate secretary has sufficient resources to discharge his/her duties.	This principle is complied with.	-
3.1.4.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
IV. REMUNERATION OF DIRECTORS, EXECUTIVE BODY MEMBERS AND OTHER KEY MANAGERS			
4.1.	**Remuneration paid by the company should be sufficient to attract, motivate and retain persons who have competencies and qualifications required by the company. Directors, executive body members and other key managers should be remunerated as per the company's remuneration policy.**		
4.1.1.	Payments, benefits and privileges available to directors, executive body members and other key managers are governed by the company's internal regulations.	This principle is complied with.	-
4.1.2.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

1. See Clause 217, Part B of the Corporate Governance Code
2. See Clause 218, Part B of the Corporate Governance Code

	PRINCIPLE	OBSERVANCE	COMMENT
4.2.	**Directors' remuneration should ensure that their financial interests are aligned with long-term financial interests of shareholders.**		
4.2.1.	The company pays no cash remuneration to directors other than their fixed annual remuneration.	This principle is complied with.	Board members are paid a fixed fee for attending the Board of directors, as well as a fixed fee for attending each meeting of the Board of directors or the Board Committee. The remuneration of the Board members is independent of the Company's performance targets.
4.2.2.	Directors are not entitled to participate in the company's stock option plans, and their right to dispose of the company shares owned by them is not linked to their performance targets.	This principle is complied with.	-
4.2.3.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
4.3.	**Remuneration of executive body members and other key managers should be linked to the company's results and their personal contribution thereto.**		
4.3.1.	The company has in place a long-term incentive programme for the executive body members and other key managers.	This principle is complied with.	-
4.3.2.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
V. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM			
5.1.	**The company should put in place an effective risk management and internal control system to guarantee, in a reasonable manner, fulfilment of the company's goals.**		
5.1.1.	The Board of Directors has defined the Company's risk management and internal control principles and approaches.	This principle is complied with.	-
5.1.2.	The company has established a standalone risk management and internal control unit.	This principle is complied with.	-
5.1.3.	The company has drafted and implemented an anti-corruption policy specifying measures to develop anti-corruption elements of its culture and organisational structure as well as respective rules and regulations.	This principle is complied with.	-
5.1.4.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

	PRINCIPLE	OBSERVANCE	COMMENT
5.2.	**The company should arrange for an internal audit, to assess reliability and performance of the risk management and internal control system on a regular and independent basis.**		
5.2.1.	The company has set up a standalone internal audit unit functionally reporting to the Board of Directors. The said unit's functions are compliant with recommendations of the Corporate Governance Code and include: • assessing internal control performance; • assessing risk management performance; • assessing corporate governance framework (in case there is no Corporate Governance Committee).	This principle is complied with.	-
5.2.2.	Head of Internal Audit reports to the Board of Directors and is appointed or removed from office by the Board's resolution.	This principle is complied with.	-
5.2.3.	The company has an approved internal audit policy (Regulation on Internal Audit) defining internal audit goals, objectives and functions.	This principle is complied with.	-
5.2.4.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
VI. DISCLOSURE OF INFORMATION ABOUT THE COMPANY AND ITS INFORMATION POLICY			
6.1.	**The company and its operations should be transparent for its shareholders, investors and other stakeholders.**		
6.1.1.	The company has an approved internal regulation defining its information policy as recommended by the Corporate Governance Code. The company's information policy provides for the following ways of liaising with investors and other stakeholders: • a dedicated page at the corporate website featuring FAQs from investors and shareholders and respective replies, a regularly updated corporate calendar, and other useful information; • regular meetings between executive body members and other key managers and analysts; • regular presentations, including via teleconferences and webcasts, and meetings attended by governance body members and other key managers, including those related to the release of financial statements or the company's key investment projects and strategic plans.	This principle is complied with.	-
6.1.2.	The company's executive bodies are in charge of implementing its information policy. Control over proper disclosure and compliance with the information policy is exercised by the company's Board of Directors.	This principle is complied with.	-

	PRINCIPLE	OBSERVANCE	COMMENT
6.1.3.	The company has in place procedures to align all its functions and structural units whose activities are related to or may require information disclosure.	This principle is complied with.	-
6.1.4.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
6.2.	**The company should, in due time, disclose up-to-date, complete and reliable information on its operations, to enable its shareholders and investors to make informed decisions.**		
6.2.1.	If foreign investors hold a substantial share of the company's capital, the company discloses, along with disclosure of information in Russian, key information about itself (including an announcement of a general meeting to be held, its annual report) in a foreign language generally accepted on the financial market	This principle is complied with.	-
6.2.2.	The company discloses information both about itself but also about legal entities controlled by and material to the company	This principle is complied with.	-
6.2.3.	The company discloses annual and interim (half-year) consolidated or individual financial statements prepared in accordance with the International Financial Reporting Standards (IFRS). The company's annual consolidated or individual financial statements are disclosed together with the auditor's report, while its interim (half-year) consolidated or individual financial statements are disclosed together with the auditor's review report or the auditor's opinion.	This principle is complied with.	-
6.2.4.	The company discloses a special memorandum setting out the controlling person's plans for the company. The said memorandum complies with the recommendations of the Corporate Governance Code*.	Not applicable as there is no controlling person in respect of the Company.	-
6.2.5.	The company ensures disclosure of biographical details of its directors, including information as to whether they are independent directors and timely disclosure of information as to whether a director has lost their independent status.	This principle is complied with.	-
6.2.6.	The company discloses information on its capital structure in compliance with recommendations of the Corporate Governance Code.	This principle is not fully complied with.	The Company discloses information on the persons who directly or indirectly dispose votes on shares constituting five or more percent of the share capital, in the form of material facts, and in the quarterly report on the basis of the notifications received from such persons.

* See Clause 279, Part B of the Corporate Governance Code

	PRINCIPLE	OBSERVANCE	COMMENT
6.2.7.	The company's annual report includes the following additional information recommended by the Corporate Governance Code: 1. a brief review of the most significant transactions entered into by the company and by legal entities controlled by it, including associated transactions, during the past year; 2. a report by the board of directors and its committees for the year, containing, inter alia, information on the number of meetings held in person (in absentia), attendance of each director, the most important and complicated matters discussed by the board and its committees, and principal recommendations by the committees to the board; 3. information on shares in the company directly or indirectly owned by its directors and / or executive body members; 4. information on whether the company's directors and / or executive body members have conflicts of interest (including those linked to their membership in competitors' governance bodies); 5. a description of remuneration of directors, including the amount of individual remuneration payable to each director based on annual performance (broken down into the base fee, additional remuneration for the chairing of the board of directors and chairing of / membership in its committees, the extent of participation in a long-term incentive program, the amount of each director's participation in an option plan, if any), reimbursement of related expenses, and costs incurred by the company in connection with liability insurance for its directors in their capacity of governance body members; 6. information on the total remuneration for the year: • in respect of a group of at least five top paid executive body members and other key managers of the company, broken down by type of remuneration; • in respect of all executive body members and other key managers covered by the company's remuneration policy, broken down by type of remuneration; 7. information on the sole executive body's remuneration for the year, which they have received or are to receive from the company (legal entity from a group that includes the company), broken down by type of remuneration, both for performing their duties of the sole executive body and on other grounds.	The annual report does not contain information on the remuneration for the year of the sole executive body, which he has received or is to receive from the company (legal entity from the group of companies, which includes company) broken down by each type of remuneration as for the performance of his duties as the sole executive body, and for other reasons. The annual report discloses information only about the direct ownership of the Board of directors or members of the executive bodies of the Company's shares.	Information on the remuneration of the Chairman of the Management Board is included into the information on the remuneration paid to the members of the Management Board Information on indirect ownership of the Board of directors or members of the executive bodies of the Company's shares is disclosed as a material fact on the basis of the notifications received from such persons.

	PRINCIPLE	OBSERVANCE	COMMENT
6.2.8.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
6.3.	**The company should provide information and documents requested by its shareholders in accordance with the principle of equal and unhindered accessibility.**		
6.3.1.	In accordance with the company's information policy, its shareholders with equal quantity of the company's voting shares are given equal access to the company's information and documents.	This principle is complied with.	-
6.3.2.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
VII. MATERIAL CORPORATE ACTIONS			
7.1.	**Actions which will or may materially affect the company's share capital structure and its financial position and accordingly the position of its shareholders ("material corporate actions") should be taken on fair terms ensuring that the rights and interests of the shareholders and other stakeholders are observed.**		
7.1.1.	The company's articles of association include a list (criteria) of transactions or other actions deemed to be material corporate actions the consideration of which is reserved to the jurisdiction of the Board of directors, including: • reorganization of the company, acquisition of at least 30% of its voting shares (takeover), increase or reduction of the company's authorized capital, listing and delisting of its shares; • sale of shares (interests) in legal entities controlled by and material to the company, as a result of which the company loses control over such legal entities; • transactions, including associated transactions, with the property of the company or legal entities controlled by the company, where the value of such assets exceeds the amount specified in the company's articles of association or is material to the business of the company; • creation of a legal entity controlled by and material to the business of the company; • disposal by the company of its treasury or quasi-treasury shares.	This principle is largely complied with. The Company's Articles of Association do not reserve matters related to disposal by the Company of its treasury or quasi-treasury shares to the authority of the Board of directors.	The remit of the Company's Board of directors as described in the Articles of Association is compliant with the Federal Law On Joint-Stock Companies No. 208-FZ dated 26 December 1995 and covers most of the matters stipulated in this recommendation of the Corporate Governance Code.
7.1.2.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
7.2.	**The company should provide a procedure for taking material corporate actions that would enable its shareholders to receive full information about such actions in due time and influence them, and also guarantee that the shareholder rights are observed and duly protected when such actions are taken.**		

	PRINCIPLE	OBSERVANCE	COMMENT
7.2.1.	The company's internal regulations provide for equitable treatment of all the shareholders of the company when taking material corporate actions affecting their rights and legitimate interests, and establish additional measures to protect rights and legitimate interests of the company's shareholders stipulated by the Corporate Governance Code, including: • engagement of an independent appraiser with an impeccable reputation and relevant experience, or justification if otherwise, to estimate the value of the property disposed of or acquired pursuant to a major transaction or a related-party transaction; • valuation of the company's shares at their repurchase or redemption by an independent appraiser with an impeccable reputation and relevant experience, taking into account the weighted average share price over a reasonable period of time, ignoring potential effect of the transaction (including potential changes in the share price resulting from the relevant information disclosure), and ignoring minority discount; • introduction of additional related party criteria for the company's directors and other persons as per the applicable law, to assess their actual relationships.	This principle is not fully complied with.	The Company engages an independent appraiser in cases required by the Russian law. All transactions (except for transactions within the framework of charitable activities) are made by the Company solely on market principles, based on the objective of maximizing profits and increasing shareholder value. The grounds on which the Board members and other persons stipulated by law are deemed interested in the transactions of the Company under the law, to fully allow for a balance of interests of all categories of shareholders and the Company.
7.2.2.	Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

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
mmboe	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.

CONTACT INFORMATION

LEGAL ADDRESS

22A Pobedy Street, Tarko-Sale, Yamal-Nenets
Autonomous Region, 629850, Russia

OFFICE IN MOSCOW

2, Udaltsova Street, 119415, Moscow, Russia

CENTRAL INFORMATION SERVICE

Tel: +7 495 730–6000
Fax: +7 495 721–2253
E-mail: novatek@novatek.ru

PRESS SERVICE

Tel: +7 495 721–2207
E-mail: press@novatek.ru

INVESTOR RELATIONS

Tel: +7 495 730–6013
Fax: +7 495 730–6000
E-mail: ir@novatek.ru

REGISTRAR

AO “Independent Registrar Company”
8 Ivana Franko Street, Moscow, Russia 121108
Tel: +7 495 926–8160
Fax: +7 495 926–8178
E-mail: info@nrcreg.ru

GDR PROGRAM ADMINISTRATOR

The Bank of New York Mellon
Depositary Receipts
101 Barclay Street, 22W, New York, NY 10286, USA
New York +1 212 815-4158
London +44 207 163-7512
Moscow +7 495 967-3110

INDEPENDENT AUDITOR

AO PricewaterhouseCoopers Audit
White Square Office Center, Butyrsky Val 10,
125047 Moscow, Russia
Tel: +7 495 967–6000
Fax: +7 495 967–6001

INDEPENDENT RESERVES AUDITOR

DeGolyer and MacNaughton
5001 Spring Valley Road, Suite 800, East Dallas
Texas 75244, USA
Tel: +1 214 368–6391
Fax: +1 214 369–4061
E-mail: degolyer@demac.com

WEBSITE:

www.novatek.ru (Russian version)
www.novatek.ru/eng (English version)

OAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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 2015 and the consolidated statements of income, comprehensive income, cash flows and changes in equity for 2015, 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 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

AO PricewaterhouseCoopers Audit

25 February 2016

Moscow, Russian Federation

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

Independent Auditor's Report (Continued)

A.G. Yashkov, Senior Manager (licence no. № 01-001391), AO 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: AO PricewaterhouseCoopers Audit

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

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

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

(in millions of Russian roubles)

	Notes	At 31 December 2015	At 31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	6	331,712	291,726
Investments in joint ventures	7	154,725	166,231
Long-term loans and receivables	8	230,799	94,142
Other non-current assets	9	34,316	20,449
Total non-current assets		**751,552**	**572,548**
Current assets			
Inventories	10	8,226	7,024
Current income tax prepayments		84	3,576
Trade and other receivables	11	37,564	34,592
Prepayments and other current assets	12	45,424	40,081
Cash and cash equivalents	13	29,187	41,318
Total current assets		**120,485**	**126,591**
Assets held for sale	7	**7,987**	**-**
Total assets		**880,024**	**699,139**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	14	252,050	204,699
Deferred income tax liabilities	26	23,706	21,063
Asset retirement obligations		4,149	1,493
Other non-current liabilities		2,273	3,552
Total non-current liabilities		**282,178**	**230,807**
Current liabilities			
Short-term debt and current portion of long-term debt	15	106,655	40,980
Trade payables and accrued liabilities	17	48,535	30,578
Current income tax payable		3,165	406
Other taxes payable		11,320	9,244
Total current liabilities		**169,675**	**81,208**
Total liabilities		**451,853**	**312,015**
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(5,997)	(5,222)
Additional paid-in capital		31,297	31,297
Currency translation differences		(5,092)	208
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		399,861	352,462
Total equity attributable to OAO NOVATEK shareholders	18	**426,079**	**384,755**
Non-controlling interest		**2,092**	**2,369**
Total equity		**428,171**	**387,124**
Total liabilities and equity		**880,024**	**699,139**

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

L. Mikhelson
Chairman of the Management Committee

M. Gyetvay
Chief Financial Officer

25 February 2016

Consolidated Statement of Income

(in millions of Russian roubles, except for share and per share amounts)

	Notes	Year ended 31 December: 2015	2014
Revenues			
Oil and gas sales	19	472,007	355,673
Other revenues		3,318	1,970
Total revenues		**475,325**	**357,643**
Operating expenses			
Transportation expenses	20	(130,229)	(114,511)
Purchases of natural gas and liquid hydrocarbons	21	(120,504)	(52,596)
Taxes other than income tax	22	(36,630)	(29,336)
Depreciation, depletion and amortization	6	(19,980)	(17,172)
General and administrative expenses	23	(15,163)	(11,831)
Materials, services and other	24	(14,086)	(11,442)
Exploration expenses		(767)	(112)
Impairment (expenses) reversals, net		204	229
Change in natural gas, liquid hydrocarbons and work-in-progress		2,113	259
Total operating expenses		**(335,042)**	**(236,512)**
Net gain on disposal of interests in joint ventures	5	989	2,623
Other operating income (loss)		(542)	4,009
Profit from operations		**140,730**	**127,763**
Finance income (expense)			
Interest expense	25	(8,792)	(5,722)
Interest income	25	12,622	5,063
Change in fair value of non-commodity financial instruments	27	(10,505)	(20,205)
Foreign exchange gain (loss), net	25	(9,507)	(25,881)
Total finance income (expense)		**(16,182)**	**(46,745)**
Share of profit (loss) of joint ventures, net of income tax	7	(31,607)	(28,175)
Profit before income tax		**92,941**	**52,843**
Income tax expense			
Current income tax expense		(22,780)	(16,251)
Deferred income tax benefit (expense), net		3,958	323
Total income tax expense	26	**(18,822)**	**(15,928)**
Profit		**74,119**	**36,915**
Profit (loss) attributable to:			
Non-controlling interest		(277)	(381)
Shareholders of OAO NOVATEK		**74,396**	**37,296**
Basic and diluted earnings per share (in Russian roubles)		24.63	12.34
Weighted average number of shares outstanding (in millions)		*3,020.3*	*3,022.2*

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

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2015	2014
Profit		**74,119**	**36,915**
Other comprehensive income (loss) that will not be reclassified subsequently to profit (loss):			
Remeasurement of pension obligations	16	(642)	644
Other comprehensive income (loss) that may be reclassified subsequently to profit (loss), net of income tax:			
Currency translation differences		(5,300)	(475)
Total other comprehensive income (loss)		**(5,942)**	**169**
Total comprehensive income		**68,177**	**37,084**
Total comprehensive income (loss) attributable to:			
Non-controlling interest		(277)	(381)
Shareholders of OAO NOVATEK		**68,454**	**37,465**

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: 2015	2014
Profit before income tax		**92,941**	**52,843**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		19,980	17,172
Impairment expenses (reversals), net		(204)	(229)
Foreign exchange loss (gain), net		9,507	25,881
Loss (gain) on disposal of assets, net		(941)	(3,170)
Interest expense		8,792	5,722
Interest income		(12,622)	(5,063)
Share of loss (profit) in joint ventures, net of income tax	7	31,607	28,175
Change in fair value of non-commodity financial instruments		10,505	20,205
Revaluation of financial instruments through loss (profit)		1,006	(2,093)
Increase in long-term advances given		(9,352)	(5,069)
Other adjustments		(10)	77
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(4,537)	(3,136)
Decrease (increase) in inventories		(2,280)	(1,101)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		(310)	4,780
Increase (decrease) in taxes payable, other than income tax		2,009	2,023
Total effect of working capital changes		**(5,118)**	**2,566**
Dividends received from joint ventures		1,850	-
Interest received		1,454	988
Income taxes paid		(16,531)	(26,764)
Net cash provided by operating activities		**132,864**	**111,241**
Cash flows from investing activities			
Purchases of property, plant and equipment		(42,224)	(56,233)
Purchases of materials for construction		(2,313)	(1,970)
Payments for acquisition of subsidiaries net of cash acquired	5	(3,630)	(1,476)
Additional capital contributions to joint ventures	7	-	(4,342)
Proceeds from disposal of stakes in joint ventures	5	-	53,534
Interest paid and capitalized		(6,047)	(3,837)
Loans provided to joint ventures	8	(108,570)	(45,906)
Repayments of loans provided to joint ventures	8	3,710	11,747
Net cash used for investing activities		**(159,074)**	**(48,483)**
Cash flows from financing activities			
Proceeds from long-term debt		71,345	15,551
Repayments of long-term debt		(42,240)	(10,000)
Proceeds from short-term debt with original maturity more than three months		21,300	1,619
Repayments of short-term debt with original maturity more than three months		-	(6,656)
Net increase in short-term debt with original maturity three months or less		5,880	-
Interest paid		(7,149)	(4,907)
Dividends paid	18	(35,640)	(28,967)
Purchase of treasury shares	18	(782)	(2,824)
Sale of treasury shares		-	35
Acquisition of non-controlling interest	5	-	(102)
Net cash provided by (used for) financing activities		**12,714**	**(36,251)**

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2015	2014
Net effect of exchange rate changes on cash and cash equivalents		1,365	14,491
Net increase (decrease) in cash and cash equivalents		**(12,131)**	**40,998**
Cash and cash equivalents at the beginning of the period		41,318	320
Cash and cash equivalents at the end of the period	13	**29,187**	**41,318**

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

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

For the year ended 31 December 2014	*Number of ordinary shares (in millions)*	Ordinary share capital	Treasury shares	Additional paid-in capital	Currency translation differences	Asset revaluation surplus on acquisitions	Retained earnings	Equity attributable to OAO NOVATEK shareholders	Non-controlling interest	Total equity
1 January 2014	***3,028.1***	**393**	**(2,406)**	**31,297**	**683**	**5,617**	**334,614**	**370,198**	**2,859**	**373,057**
Currency translation differences	-	-	-	-	(475)	-	-	(475)	-	(475)
Remeasurement of pension obligations (Note 16)	-	-	-	-	-	-	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.

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

For the year ended 31 December 2015	*Number of ordinary shares (in millions)*	**Ordinary share capital**	**Treasury shares**	**Additional paid-in capital**	**Currency translation differences**	**Asset revaluation surplus on acquisitions**	**Retained earnings**	**Equity attributable to OAO NOVATEK shareholders**	**Non-controlling interest**	**Total equity**
1 January 2015	***3,020.4***	**393**	**(5,222)**	**31,297**	**208**	**5,617**	**352,462**	**384,755**	**2,369**	**387,124**
Currency translation differences	-	-	-	-	(5,300)	-	-	(5,300)	-	(5,300)
Remeasurement of pension obligations (Note 16)	-	-	-	-	-	-	(642)	(642)	-	(642)
Profit (loss)	-	-	-	-	-	-	74,396	74,396	(277)	74,119
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(5,300)**	**-**	**73,754**	**68,454**	**(277)**	**68,177**
Dividends (Note 18)	-	-	-	-	-	-	(35,640)	(35,640)	-	(35,640)
Effect from other changes in joint ventures' net assets (Note 7)	-	-	-	-	-	-	9,285	9,285	-	9,285
Purchase of treasury shares (Note 18)	*(1.3)*	-	(775)	-	-	-	-	(775)	-	(775)
31 December 2015	***3,019.1***	**393**	**(5,997)**	**31,297**	**(5,092)**	**5,617**	**399,861**	**426,079**	**2,092**	**428,171**

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 Russian 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 governmental agency of the Russian Federation that carries out state regulation of prices and tariffs for goods and services of natural monopolies in energy, utilities and transportation. 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 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. The majority of 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 remaining stable gas condensate volumes are sold on domestic and international markets. 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.

In December 2015, NOVATEK and China’s investment fund Silk Road Fund Co. Ltd., signed the Share Purchase Agreement on the disposal of a 9.9 percent equity stake in OAO Yamal LNG to the fund. The transaction contains certain conditions precedent and was not finalized by 31 December 2015 (see Note 7).

As part of the agreement in principle with PAO Gazprom Neft to achieve parity shareholdings in OOO SeverEnergia, the Group’s joint venture, in March 2014 and August 2015, the Group’s effective participation interest in SeverEnergia decreased from 59.8 percent to 54.9 percent and to 53.3 percent, respectively (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.

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 provided by the Group to its joint ventures to fair value; and (f) valuation of unrecoverable assets, expense recognition and other provisions.

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

2 BASIS OF PREPARATION (CONTINUED)

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

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

			Average rate for the year ended 31 December:	
Russian roubles to one currency unit	**At 31 December 2015**	**At 31 December 2014**	**2015**	**2014**
US dollar (USD)	72.88	56.26	60.96	38.42
Polish zloty (PLN)	18.79	15.94	16.18	12.14

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of new and amended standards and interpretations. In 2015, the Group adopted all IFRS, amendments and interpretations which are effective 1 January 2015 and relevant to its operations. None of them had material impact on the Group's consolidated financial statements.

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.

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.

Business combinations. The acquisition method of accounting is used to account for acquisitions 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

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.

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 or loss is recognized in other comprehensive income or loss and presented separately; (c) dividends received or receivable from a joint venture are recognized as a reduction in the carrying amount of the investment; (d) 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 consolidated statement of changes in equity.

After application of the equity method, including recognizing the joint venture's losses, the entire carrying amount of the investment is tested for impairment as a single asset whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures. The interest in a joint venture is the carrying amount of the investment in the joint venture together with any long-term interests that, in substance, form part of the Group's net investment in the joint venture, including receivables and loans for which settlement is neither planned nor likely to occur in the foreseeable future.

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.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to consolidate or account for an investment using the equity method because of a loss of control, joint 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the ownership interest in a joint venture is reduced but joint control is retained or replaced with significant influence, the Group continues to apply the equity method and does not remeasure the retained interest; only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

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 remeasured to fair value, recoverable amount or realizable value, are translated at the exchange rate applicable to the date of remeasurement.

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 the Group's 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.

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation, impairments and disposals. 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. The Group's management believes that there is requisite legislation and past 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

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.

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.

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.

Borrowing costs. 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.

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.

Non-current assets held for sale. Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

The Group ceases to use the equity method of accounting in relation to the interest in a joint venture or an associate classified as an asset held for sale.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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. Financial assets include cash and cash equivalents, trade receivables, other financial receivables, loans issued, other investments, and derivative financial instruments. 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.

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.

The Group's financial assets held for trading comprise of 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. Derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

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 derivatives. 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.

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. Contracts are assessed for embedded derivatives when the Group becomes a party to them, including at the date of a business combination.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 27).

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.

(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.

Loans and receivables are analyzed for impairment on a debtor by debtor basis. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to their original terms. 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.

(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. There were no available-for-sale investments held by the Group at the reporting dates.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 recognized amounts, and there is an intention to either settle on a net basis, or to realize 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.

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Pension obligations. 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 operates a non-contributory post-employment defined benefit plan based on employees' years of service and average salary (see Note 16).

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.

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 guarantee 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.

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. The Group's management has chosen to adopt this option.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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

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

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 using the effective interest method and presented within finance income in the consolidated statement of income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Consolidated statement of cash flows. Cash and cash equivalents comprises cash on hand, cash deposits held with banks and short-term highly liquid 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 the purposes of presentation of the consolidated 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.

The Group reports cash receipts and the repayments of short-term borrowings which have a maturity of three months or less on a net basis in the consolidated statement of cash flows.

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.

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 active markets, 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 27.

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, 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.

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

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

Disposals of ownership interests in Artic Russia B.V.

In March 2014, NOVATEK and PAO Gazprom Neft agreed in principle to conduct a series of transactions to achieve parity shareholdings in OOO SeverEnergia joint venture, owned by the parties through their respective joint ventures OOO Yamal Development and Artic Russia B.V. As part of such agreement, in March 2014, the Group sold a 20 percent ownership interest in Artic Russia, which holds a 49 percent participation interest in SeverEnergia, to Yamal Development, for total cash consideration of RR 34,972 million (USD 980 million), which were received on 1 April 2014. As a result of the transaction, the Group's effective participation interest in SeverEnergia decreased from 59.8 percent to 54.9 percent.

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 a 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, in March 2014, NOVATEK recognized a gain in the amount of RR 5,246 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 2,623 million.

In July 2015, NOVATEK and Gazprom Neft approved the next stage of restructuring procedures to achieve parity shareholdings in SeverEnergia. In August 2015, NOVATEK contributed its 6.4 percent ownership interest in Artic Russia to the capital of Yamal Development. Simultaneously, the Group and Gazprom Neft made contributions to the capital of Yamal Development by converting their loans and accrued interest in the amount of RR 2,512 million and RR 14,922 million, respectively. As a result of these transactions the Group's effective participation interest in SeverEnergia decreased from 54.9 percent to 53.3 percent.

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

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

The gain on the disposal of the 6.4 percent ownership interest in Artic Russia is detailed below:

	RR million
The Group's share in the fair value of contributions to the capital of Yamal Development	14,922
Less: carrying amount of 6.4 percent ownership interest in Artic Russia contributed by the Group	(10,432)
Less: carrying amount of loan and accrued interest converted by the Group	(2,512)
Less: the Group's unrealized gain on the disposal	(989)
Gain on the disposal recognized in the consolidated statement of income before income tax	**989**

As a result of the aforementioned transactions, in August 2015, NOVATEK recognized a gain in the amount of RR 1,978 million. Due to the fact that NOVATEK contributed the equity stake in Artic Russia to the capital of 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 989 million.

The Group's management expects that further procedures towards achieving parity shareholdings in SeverEnergia will be completed by the end of 2016.

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 AO Office

In August 2014, the Group acquired 100 percent of the shares of AO Office for total consideration of RR 4,895 million (USD 135 million) and paid RR 3,630 million (USD 62 million) and RR 1,283 million (USD 34 million) for the years ended 31 December 2015 and 2014, respectively. The acquired company owns a land lot in close proximity to NOVATEK's corporate headquarters in Moscow, on which the Group plans the construction of a new office building due to the extension of its operations. AO 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 Combinations*. The cost of the acquisition has been allocated fully to the land lot cost.

Acquisition of an additional equity stake in OOO NOVATEK-Kostroma

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

(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	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**
Additions	1,640	61,701	273	63,614
Transfers	43,798	(44,869)	1,071	-
Acquisition of subsidiaries	117	-	4,906	5,023
Change in asset retirement cost	(2,107)	-	-	(2,107)
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**
Additions	1,558	55,695	306	57,559
Transfers	53,366	(53,882)	516	-
Change in asset retirement cost	2,410	-	-	2,410
Depreciation, depletion and amortization	(19,009)	-	(552)	(19,561)
Disposals, net	(193)	(197)	(32)	(422)
Cost	348,268	64,778	15,195	428,241
Accumulated depreciation, depletion and amortization	(93,886)	-	(2,643)	(96,529)
Net book value at 31 December 2015	**254,382**	**64,778**	**12,552**	**331,712**

Included in additions to property, plant and equipment for the years ended 31 December 2015 and 2014 are capitalized interest and foreign exchange differences of RR 8,515 million and RR 4,521 million, respectively.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 2,719 million and RR 4,697 million at 31 December 2015 and 2014, 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 2015, the major transfers to oil and gas properties and equipment in the amount of RR 26,408 million related to the launch of commercial production at the Yarudeyskoye oil field.

During 2014, the major transfers to oil and gas properties and equipment in the amount of RR 10,266 million related to the completion of the Purovsky Gas Condensate Plant expansion project, which increased the plant’s maximum processing capacity to 12 million tons per annum.

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

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During 2014, the Group acquired OOO NovaEnergo and AO 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 2015	At 31 December 2014
Proved properties acquisition costs	46,343	44,882
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(15,540)	(14,352)
Unproved properties acquisition costs	7,874	7,265
Total acquisition costs	**38,677**	**37,795**

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:	
	2015	2014
Depreciation, depletion and amortization of property, plant and equipment	19,561	16,758
Add: DDA of intangible assets	566	545
Less: DDA capitalized in the course of intra-group construction services	(147)	(131)
DDA as presented in the consolidated statement of income	**19,980**	**17,172**

At 31 December 2015 and 2014, no property, plant and equipment were pledged as security for the Group's borrowings. No impairment was recognized in respect of oil and gas properties and equipment for the years ended 31 December 2015 and 2014.

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:	
	2015	2014
Net book value of assets value at 1 January	**8,295**	**6,789**
Additions	1,004	1,649
Expensed	-	(130)
Reclassification to proved properties	(929)	(13)
Net book value of assets at 31 December	**8,370**	**8,295**
Liabilities	74	56
Cash flows used for operating activities	627	108
Cash flows used for investing activities	324	1,049

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

7 INVESTMENTS IN JOINT VENTURES

	At 31 December 2015	At 31 December 2014
Joint ventures:		
ZAO Nortgas	50,298	47,998
OOO Yamal Development	43,551	19,639
OAO Yamal LNG	38,798	63,783
Artic Russia B.V.	22,078	30,489
ZAO Terneftegas	-	4,322
Total investments in joint ventures	**154,725**	**166,231**

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

OAO Yamal LNG. The Group holds a 60 percent ownership in Yamal LNG, its joint venture with TOTAL S.A. (20 percent) and China National Petroleum Corporation ("CNPC", 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, Yamal LNG received a license for exporting LNG.

In December 2015, NOVATEK and China's investment fund Silk Road Fund Co. Ltd., signed the Share Purchase Agreement on the disposal of a 9.9 percent equity stake in Yamal LNG to the fund. The transaction includes a cash payment and the provision of a 15-year tenor loan to the Group for the purpose of financing the Yamal LNG project (see Note 14).

The transaction contains certain conditions precedent, completion of which is expected in early 2016. Therefore, at 31 December 2015, the Group's 9.9 percent share in Yamal LNG has been classified as an asset held for sale in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*. The asset's carrying amount of RR 7,987 million was determined based on the net assets of Yamal LNG on the date of the agreement. In accordance with IAS 12, *Income taxes,* the Group recorded a related deferred tax asset in the amount of RR 4,316 million based on the difference between that carrying amount and related tax base.

No impairment was recognized as a result of the decision to sell the equity stake in the joint venture.

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

Artic Russia B.V. The Group holds a direct 13.6 percent participation interest in Artic Russia, domiciled in the Netherlands (at 31 December 2014: 20 percent). In August 2015, the Group contributed a 6.4 percent participation interest in Artic Russia to the capital of Yamal Development (see Note 5). Artic Russia holds a 49 percent participation interest in OOO SeverEnergia.

OOO Yamal Development. The Group holds a 50 percent participation interest in Yamal Development, its joint venture with PAO Gazprom Neft (50 percent). Yamal Development holds a 51 percent participation interest in SeverEnergia and an 86.4 percent ownership interest in Artic Russia (at 31 December 2014: 80 percent).

OOO SeverEnergia. The Group holds an effective 53.3 percent participation interest in SeverEnergia (at 31 December 2014: 54.9 percent) through two of the Group's other joint ventures, Yamal Development and Artic Russia. SeverEnergia through its wholly owned subsidiary OAO Arcticgas operates the Samburgskoye, Urengoyskoye and Yaro-Yakhinskoye fields, and conducts exploration activities on the Evo-Yakhinskoye and North-Chaselskoye fields, located in the YNAO.

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

ZAO Terneftegas. The Group holds a 51 percent ownership in Terneftegas, its joint venture with TOTAL S.A. (49 percent). In May 2015, Terneftegas launched the Termokarstovoye field, located in the YNAO, and in June achieved full production capacity of 2.4 billion cubic meters of natural gas and 0.8 million tons of gas condensate per annum.

The Group's investment in Terneftegas at 31 December 2015 was valued at RR nil in the consolidated statement of financial position due to the Group's proportionate share of accumulated losses exceeding the Group's cost of investment. The unrecognized share of loss of Terneftegas for the year ended 31 December 2015 was RR 1,409 million and resulted from significant non-cash foreign exchange losses.

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

	Year ended 31 December:	
	2015	2014
At 1 January	**166,231**	**210,066**
Share of profit (loss) of joint ventures, net of income tax	(31,607)	(28,175)
Effect from initial remeasurement of loans provided by the Group to joint ventures (see Note 27)	14,185	5,318
Disposal of stakes in joint ventures	(11,421)	(32,349)
Contributions to equity	14,922	4,355
Dividend receivable from joint venture	-	(1,850)
Effect from other changes in joint ventures' net assets	9,285	8,866
Elimination of the Group's share in profits of joint ventures from hydrocarbons balances purchased by the Group from joint ventures and not sold at the reporting date	1,117	-
Reclassification to assets held for sale	(7,987)	-
At 31 December	**154,725**	**166,231**

In August 2015, the Group disposed of its 6.4 percent ownership interest in Artic Russia at cost of RR 11,421 million, including an unrealized gain on disposal. Simultaneously, the equity of Yamal Development was increased through proportional contributions by its participants totalling RR 29,844 million, of which RR 14,922 million was contributed by NOVATEK (see Note 5).

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

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

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

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

In December 2015, the capital of Yamal LNG was increased by RR 21,256 million through the conversions of loans obtained by the joint venture from Total S.A. and CNPC. These capital contributions were made by Total S.A. and CNPC as a settlement of the third tranche (USD 143 million each) representing a part of the consideration for the acquisition of the 20 percent interests in Yamal LNG by each of the companies in 2011 and 2013. The Group's share (50.1% ownership excluding the share classified as held for sale) in the increase of the capital of Yamal LNG amounted to RR 10,649 million. The excess of the Group's share in the contributions over the amount of the third tranche previously recognized within the investment in Yamal LNG amounted to RR 5,956 million and was recorded as an increase in the investment in Yamal LNG, with the corresponding effect recognized in the consolidated statement of changes in equity in accordance with the Group's accounting policy. The Group's shareholding in Yamal LNG did not change notably as a result of this transaction.

For the years ended 31 December 2015 and 2014, the Group recorded an increase in equity in the amount of RR 3,329 million and RR 8,866 million, respectively, from the initial measurement of the disproportional loans provided to Yamal LNG by other shareholders.

The Group eliminates its share in profits of joint ventures from natural gas and liquid hydrocarbons balances purchased by the Group from joint ventures and not sold at the reporting date.

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

At 31 December 2015	Yamal LNG	SeverEnergia	Nortgas
Property, plant and equipment	717,685	395,056	141,223
Other non-current assets	34,838	97,701	10,626
Total non-current assets	**752,523**	**492,757**	**151,849**
Cash and cash equivalents	64,813	13,801	2,160
Other current assets	29,201	14,441	3,142
Total current assets	**94,014**	**28,242**	**5,302**
Non-current financial liabilities	(753,099)	(152,051)	(24,841)
Other non-current liabilities	(3,488)	(54,853)	(23,540)
Total non-current liabilities	**(756,587)**	**(206,904)**	**(48,381)**
Trade payables and accrued liabilities	(11,994)	(23,234)	(241)
Other current financial liabilities	-	(28,976)	(5,908)
Other current non-financial liabilities	(514)	(9,110)	(2,025)
Total current liabilities	**(12,508)**	**(61,320)**	**(8,174)**
Net assets	**77,442**	**252,775**	**100,596**

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

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

For the year ended 31 December 2015	Yamal LNG	SeverEnergia	Nortgas
Revenue	2,606	126,129	28,893
Depreciation, depletion and amortization	(814)	(28,944)	(8,205)
Change in fair value of non-commodity financial instruments	19,036	-	-
Foreign exchange gain (loss), net	(102,084)	(15)	-
Profit (loss) before income tax	(84,962)	47,049	5,793
Income tax benefit (expense)	13,655	(8,697)	(1,192)
Profit (loss), net of income tax	**(71,307)**	**38,352**	**4,601**

For the year ended 31 December 2014			
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), net	(101,545)	(39)	4
Profit (loss) before income tax	(54,618)	10,611	10,607
Income tax benefit (expense)	8,356	(1,250)	(2,121)
Profit (loss), net of income tax	**(46,262)**	**9,361**	**8,486**

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

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

As at and for the year ended 31 December 2015	Yamal LNG	SeverEnergia	Nortgas
Net assets at 1 January 2015	**96,936**	**216,534**	**95,995**
Profit (loss), net of income tax	(71,307)	38,352	4,601
Other equity movements	51,813	-	-
Disposal of stakes in joint ventures	-	(2,111)	-
Net assets at 31 December 2015	**77,442**	**252,775**	**100,596**
Ownership excluding interests classified as held for sale	50.1%	53.3%	50%
Group's share in net assets	**38,798**	**134,729**	**50,298**

As at and for the year ended 31 December 2014	Yamal LNG	SeverEnergia	Nortgas
Net assets at 1 January 2014	**106,905**	**215,003**	**91,209**
Profit (loss), net of income tax	(46,262)	9,361	8,486
Other equity movements	36,293	-	-
Disposal of stakes in joint ventures	-	(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**

At 31 December 2014, the Group's investment in Yamal LNG totaled RR 63,783 million, which differed from its share in the net assets. This difference of RR 5,621 million related to the Group's share in the third tranche recognized as part of the consideration for the disposal of the 20 percent interests in Yamal LNG to Total S.A. and CNPC. In December 2015, the third tranche was contributed to the capital of Yamal LNG.

At 31 December 2015 and 2014, the Group's cumulative investments in Artic Russia and Yamal Development totaled RR 65,629 million and RR 50,128 million, respectively, which differed from the Group's share in the net assets of SeverEnergia. The differences of RR 69,100 million and RR 68,749 million, respectively, mainly relate to the Group's interest in debt and goodwill, disclosed in the financial statements of Artic Russia and Yamal Development, through which entities the Group holds the investments in SeverEnergia.

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

8 LONG-TERM LOANS AND RECEIVABLES

	At 31 December 2015	At 31 December 2014
Euro denominated loans	110,296	16,278
US dollar denominated loans	90,650	66,835
Russian rouble denominated loans	13,105	13,361
Total	**214,051**	**96,474**
Less: current portion of long-term loans	-	(8,107)
Total long-term loans	**214,051**	**88,367**
Long-term interest receivable	16,190	5,291
Other long-term receivables	558	484
Total long-term loans and receivables	**230,799**	**94,142**

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

	At 31 December 2015	At 31 December 2014
OAO Yamal LNG	196,533	78,825
OOO Yamal Development	13,105	13,361
ZAO Terneftegas	4,413	4,288
Total long-term loans	**214,051**	**96,474**

OAO Yamal LNG. In accordance with the Shareholders' agreement, the Group provided US dollar and Euro credit line facilities to Yamal LNG, the Group's joint venture. Under the terms of these credit line agreements 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 interest rate is set to 4.46 percent per annum and can be adjusted during subsequent periods 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). The repayment schedule is linked to free cash flows of the joint venture.

During 2015, the Group provided further funds to Yamal LNG totalling RR 104,076 million (EUR 1,423 million) under these credit line facilities. In January 2014, Yamal LNG repaid the Group part of the loan and accrued interest in the amount of RR 12,045 million (USD 364 million), which was refinanced by CNPC as part of its entrance agreement in the Yamal LNG Project.

OOO Yamal Development. The Group provides Russian rouble denominated loans under agreed credit line facilities to Yamal Development, the Group's joint venture. During 2015, the Group provided RR 4,494 million under these credit line facilities. The loans are repayable in 2020 and 2021 and bear interest rates ranging from 9.25 to 10.90 percent per annum. The repayment schedules can be extended during subsequent years subject to certain conditions.

In August 2015, the Group made a contribution to the capital of Yamal Development by converting a part of the loans in the amount of RR 2,200 million (see Note 5), and in December 2015, Yamal Development repaid a part of the loans to the Group in the amount of RR 2,550 million ahead of the maturity schedule.

At 31 December 2014, part of the loans in the amount of RR 8,107 million was included within current assets based on the initial maturity date scheduled on December 2015; subsequently, the maturity date was extended until December 2020.

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

8 LONG-TERM LOANS AND RECEIVABLES (CONTINUED)

ZAO Terneftegas. In accordance with the Shareholders' agreement, the Group provided US dollar credit line facilities to Terneftegas, the Group's joint venture. Under the terms of these credit line agreements the Group provides loans in tranches based on the annual budget of Terneftegas approved by the joint venture's Board of Directors. The loans interest rate was initially set to 4.52 percent per annum and, in October 2015, increased to 4.60 percent per annum. The interest rate can be adjusted during subsequent periods subject to certain conditions. The principal and interest are repayable after the commencement of commercial production by Terneftegas (see Note 30). The repayment schedule is linked to free cash flows of the joint venture.

During the year ended 31 December 2015, Terneftegas repaid a part of the loans to the Group in the amount of RR 1,160 million (USD 19 million).

No provisions for impairment of long-term loans and receivables were recognized at 31 December 2015 and 2014. The carrying values of long-term loans and receivables approximate their respective fair values.

9 OTHER NON-CURRENT ASSETS

	At 31 December 2015	At 31 December 2014
Financial assets		
Commodity derivatives	1,511	1,871
Other financial assets	10	7
Non-financial assets		
Long-term advances	17,551	8,199
Deferred income tax assets	11,183	4,651
Materials for construction	2,407	3,838
Intangible assets, net	1,567	1,796
Other non-financial assets	87	87
Total other non-current assets	**34,316**	**20,449**

At 31 December 2015 and 2014, the long-term advances represented advances to OAO Russian Railways. The advances were paid in accordance with the Strategic Partnership Agreement signed with Russian Railways in 2012.

10 INVENTORIES

	At 31 December 2015	At 31 December 2014
Natural gas and liquid hydrocarbons	6,462	5,279
Materials and supplies (net of provision of RR 4 million and RR 57 million at 31 December 2015 and 2014, respectively)	1,745	1,662
Other inventories	19	83
Total inventories	**8,226**	**7,024**

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

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

11 TRADE AND OTHER RECEIVABLES

	At 31 December 2015	At 31 December 2014
Trade receivables (net of provision of RR 95 million and RR 310 million at 31 December 2015 and 2014, respectively)	35,221	30,430
Other receivables (net of provision of RR 18 million and RR 7 million at 31 December 2015 and 2014, respectively)	2,343	4,162
Total trade and other receivables	**37,564**	**34,592**

Trade receivables in the amount of RR 18,507 million and RR 11,289 million at 31 December 2015 and 2014, 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).

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.

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 4,998 million and RR 5,472 million at 31 December 2015 and 2014, 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 2015	At 31 December 2014
Up to 90 days past-due	3,624	3,254
91 to 360 days past-due	1,225	2,048
Over 360 days past-due	149	170
Total past due but not impaired	**4,998**	**5,472**
Not past due and not impaired	32,566	29,120
Total trade and other receivables	**37,564**	**34,592**

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

	Year ended 31 December:	
	2015	2014
At 1 January	**317**	**721**
Additional provision recorded	79	311
Receivables written off as uncollectible	(58)	(173)
Provision reversed	(225)	(542)
At 31 December	**113**	**317**

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

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

12 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 December 2015	At 31 December 2014
Financial assets		
Cash on special accounts	6,477	1,098
Commodity derivatives	5,039	2,758
Russian rouble denominated loans (see Note 8)	-	8,107
Other financial assets	-	2
Non-financial assets		
Value-added tax receivable	13,437	10,870
Recoverable value-added tax	7,554	2,324
Prepayments and advances to suppliers	5,304	4,352
Deferred transportation expenses for natural gas	2,955	2,229
Deferred export duties for liquid hydrocarbons	2,251	5,951
Deferred transportation expenses for liquid hydrocarbons	1,720	1,447
Prepaid customs duties	559	691
Other non-financial assets	128	252
Total prepayments and other current assets	**45,424**	**40,081**

13 CASH AND CASH EQUIVALENTS

	At 31 December 2015	At 31 December 2014
Bank deposits with original maturity of three months or less	17,944	25,849
Cash at current bank accounts	11,243	15,469
Total cash and cash equivalents	**29,187**	**41,318**

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).

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

14 LONG-TERM DEBT

	At 31 December 2015	At 31 December 2014
Corporate bonds		
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	72,662	56,059
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	47,207	36,409
Eurobonds – Five-Year Tenor (par value USD 600 million, repayable in 2016)	43,725	33,707
Eurobonds – Four-Year Tenor (par value RR 14 billion, repayable in 2017)	13,977	13,956
Bonds – Three-Year Tenor (par value RR 20 billion, repayable in 2015)	-	19,991
Bank loans		
Syndicated term credit line facility	83,861	83,938
Other borrowings		
Loan from Silk Road Fund	48,619	-
Other loans	19,268	-
Total	**329,319**	**244,060**
Less: current portion of long-term debt	(77,269)	(39,361)
Total long-term debt	**252,050**	**204,699**

Eurobonds. 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 ten-year USD 650 million bond with an annual coupon rate of 6.604 percent and a five-year USD 600 million bond with an annual coupon rate of 5.326 percent. The coupons are payable semi-annually. The ten-year USD 650 million bond is repayable in February 2021. Subsequent to the balance sheet date, in February 2016, the five-year USD 600 million Eurobond was fully repaid at its maturity date.

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.

Bonds. In October 2012, the Group issued three-year tenor non-convertible Russian rouble denominated exchange-traded bonds in the amount of RR 20 billion with a coupon rate of 8.35 percent per annum, payable semi-annually. In October 2015, the bonds were fully repaid.

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 and withdrew the full amount under the facility by June 2014. The loan is repayable until July 2018 by quarterly installments starting from June 2015. The facility includes the maintenance of certain restrictive financial covenants.

Loan from Silk Road Fund. As part of the transaction for the sale of the Group's 9.9 percent equity stake in OAO Yamal LNG, in December 2015, the Group obtained a loan from Silk Road Fund for financing of the Yamal LNG project (see Note 7).

In accordance with IAS 39, *Financial instruments: recognition and measurement*, the loan was recorded at fair value at initial recognition with the difference of RR 9,173 million between the fair value of the loan and cash received recognized as deferred income (see Note 17). The deferred income will be included in the financial result on disposal of the 9.9 percent equity stake in Yamal LNG upon completion of the transaction.

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

14 LONG-TERM DEBT (CONTINUED)

The loan is repayable until December 2030 by semi-annual installments starting from December 2019 and includes the maintenance of certain restrictive financial covenants. The loan should be repaid ahead of schedule if the transaction for the sale of the 9.9 percent equity stake in Yamal LNG is not completed.

Other loans. At 31 December 2015, other loans represented Russian rouble denominated loans, which were provided to one of the Group's subsidiary by its non-controlling shareholder. The loans are repayable until the end of 2017.

The fair value of long-term debt including current portion was RR 319,191 million and RR 212,371 million at 31 December 2015 and 2014, respectively. The fair value of the corporate bonds was determined based on market quote prices (Level 1 in the fair value measurement hierarchy described in Note 27). The fair value of other long-term loans was determined based on future cash flows discounted at the estimated risk-adjusted discount rate (Level 3 in the fair value measurement hierarchy described in Note 27).

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

Maturity period:	**At 31 December 2015**
1 January 2017 to 31 December 2017	66,790
1 January 2018 to 31 December 2018	16,772
1 January 2019 to 31 December 2019	2,115
1 January 2020 to 31 December 2020	4,228
After 31 December 2020	162,145
Total long-term debt	**252,050**

Available credit line facilities. At 31 December 2015, the Group had available revolving credit line facilities from Russian banks with credit limits in the amount of RR 50 billion and the equivalent of USD 300 million (subsequently increased to the equivalent of USD 350 million in February 2016), valid until September 2018 and March 2019, respectively, with interest rates determined by the parties at time of each withdrawal. The facilities include the maintenance of certain restrictive financial covenants.

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

	At 31 December 2015	**At 31 December 2014**
Loans with original maturity more than three months	21,300	1,619
Loans with original maturity three months or less	8,086	-
Total	**29,386**	**1,619**
Add: current portion of long-term debt	77,269	39,361
Total short-term debt and current portion of long-term debt	**106,655**	**40,980**

Loans with original maturity more than three months. In October 2015, the Group obtained a RR 20 billion non-revolving credit line facility from a Russian bank and withdrew the full amount by the year end. The loan is repayable in November 2016. The facility includes the maintenance of certain restrictive financial covenants.

At 31 December 2015 and 2014, short-term debt included loans obtained by one of the Group's subsidiaries from its non-controlling shareholder in the amount of RR 1,300 million and RR 1,619 million, respectively.

Loans with original maturity three months or less. At 31 December 2015, short-term debt included a number of loans with original maturity less than 90 days obtained by the Group to finance trade activities and secured by cash revenues from specifically determined liquid hydrocarbons export sales contracts.

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

16 PENSION OBLIGATIONS

Defined contribution plan. For the years ended 31 December 2015 and 2014, 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 1,803 million and RR 1,435 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.

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

	Year ended 31 December:	
	2015	2014
At 1 January	**1,167**	**1,627**
Interest cost	152	104
Current service cost	83	164
Benefits paid	(88)	(84)
Pension plan revision	(51)	-
Actuarial remeasurement arising from:		
- changes in financial assumptions	595	(967)
- changes in demographic assumptions	37	190
- experience adjustment	10	133
At 31 December	**1,905**	**1,167**
Defined benefit plan (benefits) costs were recognized in:		
Materials, services and other (as employee compensation)	107	130
General and administrative expenses (as employee compensation)	128	138
Other comprehensive (income) loss	642	(644)

The principal actuarial assumptions used are as follows:

	At 31 December 2015	At 31 December 2014
Weighted average discount rate	10.0%	14.1%
Projected annual increase in employee compensation	5.6%	4.6%
Expected increases to pension benefits	5.6%	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 8.7 percent in 2016 to 5.2 percent in 2020 and subsequent years.

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

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

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

17 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 December 2015	At 31 December 2014
Financial liabilities		
Trade payables	23,989	16,347
Other payables	3,401	3,919
Interest payable	3,100	3,028
Commodity derivatives	2,355	1,831
Non-financial liabilities		
Deferred income	9,173	-
Advances from customers	4,099	3,315
Other liabilities and accruals	1,924	1,912
Salary payables	494	226
Total trade payables and accrued liabilities	**48,535**	**30,578**

At 31 December 2015, deferred income represented the adjustment to fair value at the initial recognition of the loan obtained from the Silk Road Fund (see Note 14).

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 2015 and 2014. The total authorized number of ordinary shares was 10,593,682,000 shares at both dates.

Treasury shares. In accordance with the *Share Buyback Programs* authorized by the Board of Directors, the Group's wholly owned subsidiary, Novatek Equity (Cyprus) Limited, purchases ordinary shares of OAO NOVATEK in the form of Global Depository Receipts (GDRs) on the London Stock Exchange (LSE) and ordinary shares on the Moscow Exchange MICEX-RTS through the use of independent brokers. At 31 December 2015 and 2014, the Group held in total (both shares and GDRs) 17.2 million and 15.9 million ordinary shares at a total cost of RR 5,997 million and RR 5,222 million, respectively. The Group has decided that these shares do not vote.

During the years ended 31 December 2015 and 2014, the Group purchased 1.3 million and 7.7 million ordinary shares (in the form of GDRs) at a total cost of RR 775 million and RR 2,816 million, respectively.

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

	Year ended 31 December:	
	2015	2014
Dividends payable at 1 January	1	2
Dividends declared [(*)]	35,640	28,966
Dividends paid [(*)]	(35,640)	(28,967)
Dividends payable at 31 December	**1**	**1**
Dividends per share declared during the year (in Russian roubles)	11.80	9.59
Dividends per GDR declared during the year (in Russian roubles)	118.0	95.9

[(*)] – excluding treasury shares.

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

18 SHAREHOLDERS' EQUITY (CONTINUED)

The Group declares and pays dividends in Russian roubles. Dividends declared in 2015 and 2014 were as follows:

Final for 2014: RR 5.20 per share or RR 52.0 per GDR declared in April 2015	15,789
Interim for 2015: RR 6.60 per share or RR 66.0 per GDR declared in September 2015	20,040
Total dividends declared in 2015	**35,829**
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**

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 2015 and 2014, the closing balances of the accumulated profit including the respective year's net statutory profit totaled RR 260,842 million and RR 212,567 million, respectively.

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:	
	2015	**2014**
Natural gas	222,180	230,447
Naphtha	95,588	62,280
Other gas and gas condensate refined products	61,902	23,522
Stable gas condensate	43,997	3,797
Liquefied petroleum gas	33,467	24,401
Crude oil	14,873	11,226
Total oil and gas sales	**472,007**	**355,673**

20 TRANSPORTATION EXPENSES

	Year ended 31 December:	
	2015	**2014**
Natural gas transportation by trunk and low-pressure pipelines	86,025	92,494
Stable gas condensate and liquefied petroleum gas transportation by rail	29,273	16,007
Gas condensate refined products and stable gas condensate transportation by tankers	13,378	4,749
Crude oil transportation by trunk pipelines	1,476	1,223
Other	77	38
Total transportation expenses	**130,229**	**114,511**

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

21 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Year ended 31 December:	
	2015	2014
Unstable gas condensate	91,078	26,669
Natural gas	27,715	24,801
Other liquid hydrocarbons	1,711	1,126
Total purchases of natural gas and liquid hydrocarbons	**120,504**	**52,596**

The Group purchases 50 percent of the natural gas volumes produced by its joint venture ZAO Nortgas and, commencing May 2015, all volumes of natural gas produced by its joint venture ZAO Terneftegas (see Note 30).

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

The Group purchases all volumes of unstable gas condensate produced by its joint ventures Nortgas, OOO SeverEnergia (through its wholly owned subsidiary, OAO Arcticgas) and Terneftegas (from May 2015) 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).

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:	
	2015	2014
Unified natural resources production tax	33,656	26,962
Property tax	2,603	2,095
Other taxes	371	279
Total taxes other than income tax	**36,630**	**29,336**

23 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:	
	2015	2014
Employee compensation	9,766	7,147
Social expenses and compensatory payments	1,347	1,009
Legal, audit, and consulting services	1,175	1,205
Business travel expense	634	423
Repair and maintenance expenses	458	215
Fire safety and security expenses	313	291
Insurance expense	306	280
Advertising expenses	253	461
Other	911	800
Total general and administrative expenses	**15,163**	**11,831**

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

23 GENERAL AND ADMINISTRATIVE EXPENSES (CONTINUED)

Auditor's fees. AO PricewaterhouseCoopers Audit has served as the independent external auditor of OAO NOVATEK 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 aggregate fees for audit and other services rendered by PricewaterhouseCoopers Audit to the parent company of the Group included within legal, audit, and consulting services are as follows:

	Year ended 31 December:	
	2015	**2014**
Audits of OAO NOVATEK (audit of the Group's consolidated financial statements and the statutory audit of the parent company)	31	31
Other services	10	12
Total auditor's fees and services	**41**	**43**

24 MATERIALS, SERVICES AND OTHER

	Year ended 31 December:	
	2015	**2014**
Employee compensation	5,866	4,862
Repair and maintenance	1,959	2,026
Complex of services for preparation, transportation and processing of hydrocarbons	1,756	807
Materials and supplies	1,305	879
Electricity and fuel	938	845
Liquefied petroleum gas volumes reservation expenses	768	95
Security services	470	392
Transportation services	452	422
Rent expenses	59	633
Other	513	481
Total materials, services and other	**14,086**	**11,442**

25 FINANCE INCOME (EXPENSE)

	Year ended 31 December:	
Interest expense (including transaction costs)	**2015**	**2014**
Interest expense on fixed rate debt	11,110	7,945
Interest expense on variable rate debt	3,439	1,366
Subtotal	**14,549**	**9,311**
Less: capitalized interest	(6,047)	(3,837)
Interest expense on debt	**8,502**	**5,474**
Provisions for asset retirement obligations: effect of the present value discount unwinding	290	248
Total interest expense	**8,792**	**5,722**

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

25 FINANCE INCOME (EXPENSE) (CONTINUED)

	Year ended 31 December:	
Interest income	**2015**	**2014**
Interest income on loans receivable	11,206	4,378
Interest income on cash, cash equivalents and deposits	1,416	685
Total interest income	**12,622**	**5,063**

	Year ended 31 December:	
Foreign exchange gain (loss), net	**2015**	**2014**
Gains	72,303	63,811
Losses	(81,810)	(89,692)
Total foreign exchange gain (loss), net	**(9,507)**	**(25,881)**

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:	
	2015	**2014**
Profit before income tax	92,941	52,843
Theoretical income tax expense at statutory rate of 20 percent	18,588	10,569
Increase (decrease) due to:		
Non-temporary differences in respect of the Group's share of losses of joint ventures	6,098	5,635
Non-deductible expenses	515	575
Russian entities' taxation at lower income tax rate	(25)	(32)
Foreign entities' taxation at lower income tax rate	(483)	858
Deferred taxes relating to assets held for sale (see Note 7)	(4,316)	-
Non-temporary differences in respect of net gain on disposal of interests in joint ventures	(396)	-
Tax benefits relating to priority investment projects	(1,183)	(1,264)
Dividend income from joint ventures at zero tax rate	-	(370)
Other non-temporary differences	24	(43)
Total income tax expense	**18,822**	**15,928**

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:	
	2015	**2014**
Russian Federation income tax	21,837	15,925
Foreign income tax	943	326
Total current income tax expense	**22,780**	**16,251**

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

26 INCOME TAX (CONTINUED)

Effective income tax rate. The Group's Russian statutory income tax rate for 2015 and 2014 was 20 percent. For the years ended 31 December 2015 and 2014, the consolidated Group's effective income tax rate was 20.3 percent and 30.1 percent, respectively.

The Group recognizes in profit before income tax its share of net profit (loss) from joint ventures, which influences the consolidated profit of the Group but does not result in additional income tax expense (benefit) at the Group's level. Net profit (loss) of joint ventures was recorded in their financial statements 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. In addition, during the year ended 31 December 2015, the Group recognized a deferred tax asset of RR 4,316 million related to expected disposal of 9.9 percent participation interest in OAO Yamal LNG (see Note 7).

Without the effect of net profit (loss) and dividends from joint ventures, and the deferred tax asset relating to the 9.9 percent interest in Yamal LNG classified as held for sale, the effective income tax rate for the years ended 31 December 2015 and 2014 was 18.7 percent and 19.7 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.

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

	At 31 December 2015	At 31 December 2014
Long-term deferred income tax asset (other non-current assets)	11,183	4,651
Long-term deferred income tax liability	(23,706)	(21,063)
Net deferred income tax liability	**(12,523)**	**(16,412)**

Deferred income tax assets expected to be realized within twelve months of 31 December 2015 and 2014 were RR 5,193 million and RR 522 million, respectively. Deferred tax liabilities expected to be reversed within twelve months of 31 December 2015 and 2014 were RR 212 million and RR 356 million, respectively.

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

26 INCOME TAX (CONTINUED)

Movements in deferred income tax assets and liabilities during the years ended 31 December 2015 and 2014 are as follows:

	At 31 December 2015	Statement of Income effect	Statement of Comprehensive Income effect	At 31 December 2014
Property, plant and equipment	(25,286)	(3,341)	(2)	(21,943)
Intangible assets	(379)	(126)	-	(253)
Other	(2,073)	(1,220)	(16)	(837)
Deferred income tax liabilities	**(27,738)**	**(4,687)**	**(18)**	**(23,033)**
Less:deferred tax assets offset	*4,032*	*2,062*	-	*1,970*
Total deferred income tax liabilities	**(23,706)**	**(2,625)**	**(18)**	**(21,063)**
Tax losses carried forward	3,160	1,346	4	1,810
Loans receivable	4,236	1,293	-	2,943
Inventories	545	(172)	(2)	719
Assets held for sale	4,316	4,316	-	-
Asset retirement obligations	830	532	-	298
Trade payables and accrued liabilities	1,944	1,347	(67)	664
Other	184	(17)	14	187
Deferred income tax assets	**15,215**	**8,645**	**(51)**	**6,621**
Less: deferred tax liabilities offset	*(4,032)*	*(2,062)*	-	*(1,970)*
Total deferred income tax assets	**11,183**	**6,583**	**(51)**	**4,651**
Net deferred income tax liabilities	**(12,523)**	**3,958**	**(69)**	**(16,412)**

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

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

26 INCOME TAX (CONTINUED)

At 31 December 2015, the Group had recognized deferred income tax assets of RR 3,160 million (31 December 2014: RR 1,810 million) in respect of unused tax loss carry forwards of RR 17,400 million (31 December 2014: RR 9,050 million). Tax losses can be carried forward for relief against taxable profits for ten years after they are incurred, subject to certain limitations. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

	At 31 December 2015		At 31 December 2014	
Financial assets	Non-current	Current	Non-current	Current
Loans and receivable				
Loans receivable	13,105	-	5,254	8,107
Trade and other receivables	16,748	37,564	5,775	34,592
Cash on special accounts	-	6,477	-	1,098
Cash and cash equivalents	-	29,187	-	41,318
Other	10	-	7	2
At fair value through profit or loss				
Loans receivable	200,946	-	83,113	-
Commodity derivatives	1,511	5,039	1,871	2,758
Total financial assets	**232,320**	**78,267**	**96,020**	**87,875**
Financial liabilities				
At amortized cost				
Long-term debt	252,050	77,269	204,699	39,361
Short-term debt	-	29,386	-	1,619
Trade and other payables	-	30,490	2,194	23,294
At fair value through profit or loss				
Commodity derivatives	368	2,355	192	1,831
Total financial liabilities	**252,418**	**139,500**	**207,085**	**66,105**

Fair value measurement. 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) (Level 3).

Commodity 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.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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 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.

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 of the natural gas derivative contracts measured in accordance with IAS 39, *Financial instruments: recognition and measurement,* are as follows:

Commodity derivatives	**At 31 December 2015**	**At 31 December 2014**
Within other non-current and current assets	6,550	4,629
Within other non-current and current liabilities	(2,723)	(2,023)

	Year ended 31 December:	
Included in other operating income (loss)	**2015**	**2014**
Operating income from natural gas foreign trading	206	927
Change in fair value	(1,006)	2,093

The table below represents the effect on the fair value estimation of natural gas derivative contracts that would occur from price changes by ten percent by one megawatt-hour in 12 months after the reporting date:

	Year ended 31 December:	
Effect on the fair value (RR million)	**2015**	**2014**
Increase by ten percent	(612)	(609)
Decrease by ten percent	612	609

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 OAO Yamal LNG and ZAO 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.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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:	
	2015	2014
At 1 January	**88,726**	**46,718**
Loans provided	104,076	34,746
Repayment of the loans	(1,160)	(12,045)
Initial measurement at fair value allocated to increase the Group's investments in joint ventures (see Note 7)	(14,185)	(5,318)
Subsequent remeasurement at fair value recognized in profit (loss) as follows:		
– Interest income (using the effective interest rate method)	9,596	3,720
– Foreign exchange gain (loss), net	39,588	41,110
– Remaining effect from changes in fair value (attributable to free cash flows of the borrowers and interest rates)	(10,505)	(20,205)
At 31 December	**216,136**	**88,726**

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 one percent changes in the benchmark interest rates.

	Year ended 31 December:	
Effect on the fair value (RR million)	2015	2014
Increase by one percent	(12,034)	(5,353)
Decrease by one percent	12,924	5,789

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 and Euro. Foreign exchange risk arises primarily from future commercial transactions, recognized assets and liabilities when assets and liabilities are denominated in a currency other than the functional currency.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

At 31 December 2015	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
Long-term loans receivable	13,105	90,650	110,296	-	214,051
Trade and other receivables	2,341	11,515	2,862	30	16,748
Commodity derivatives	-	-	1,511	-	1,511
Other	-	-	-	10	10
Current					
Trade and other receivables	19,160	14,665	3,058	681	37,564
Commodity derivatives	-	-	5,039	-	5,039
Cash on special accounts	-	-	6,477	-	6,477
Cash and cash equivalents	10,171	7,223	11,499	294	29,187
Financial liabilities					
Non-current					
Long-term debt	(33,246)	(218,804)	-	-	(252,050)
Commodity derivatives	-	-	(368)	-	(368)
Current					
Current portion of long-term debt	-	(77,269)	-	-	(77,269)
Short-term debt	(21,300)	-	(8,086)	-	(29,386)
Trade and other payables	(20,243)	(7,653)	(2,373)	(221)	(30,490)
Commodity derivatives	-	-	(2,355)	-	(2,355)
Net exposure	**(30,012)**	**(179,673)**	**127,560**	**794**	**(81,331)**

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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 2015 and 2014, respectively:

		Year ended 31 December:	
Effect on profit before income tax	Increase in exchange rate	2015	2014
RUB / USD	10%	(17,967)	(12,401)
RUB / EUR	10%	12,756	3,403

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

(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 governmental agency of the Russian Federation that carries out state regulation of prices and tariffs for goods and services of natural monopolies in energy, utilities and transportation.

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

There were no changes in regulated natural gas prices on the domestic market (excluding residential customers) since 1 January 2014 until 30 June 2015. From 1 July 2015 natural gas prices were increased on average by 7.5 percent.

In accordance with the Forecast of Socio-economic Development of the Russian Federation published the Ministry of Economic Development of the Russian Federation in October 2015, the wholesale natural gas prices on the domestic market (excluding residential customers) in July 2016, 2017 and 2018 will be increased on average by 2 percent, 3 percent and 3 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 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*.

(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 interest 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.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

	At 31 December 2015		At 31 December 2014	
	RR million	Percent	RR million	Percent
At fixed rate	254,276	*71%*	161,741	*66%*
At variable rate	104,429	*29%*	83,938	*34%*
Total debt	**358,705**	***100%***	**245,679**	***100%***

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

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

	Year ended 31 December:	
Effect on profit before income tax	**2015**	**2014**
Increase by 100 basis points	1,044	839

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 2015 and 2014, 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.

The Group's trade and other receivables consist of a large number of customers, spread across diverse industries and geographical areas. The Group has developed standard credit payment terms and constantly monitors the status of trade and other receivables and the creditworthiness of the customers.

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. Most of domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis.

As a result of the domestic regional natural gas trading activities, the Group is exposed to the risk of payment defaults of small and medium-sized industrial users and individuals. To minimize credit risk the Group monitors the recoverability of these debtors by analyzing ageing of receivables by type of customers and their respective prior payment history.

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

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

Moody's, Fitch and/or Standard & Poor's	At 31 December 2015	At 31 December 2014
Investment grade rating	13,143	10,661
Non-investment grade rating	8,880	10,377
No external rating	15,541	13,554
Total trade and other receivables	**37,564**	**34,592**

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

Moody's, Fitch and/or Standard & Poor's	At 31 December 2015	At 31 December 2014
Investment grade rating	24,542	31,909
Non-investment grade rating	4,627	9,394
No external rating	18	15
Total cash and cash equivalents	**29,187**	**41,318**

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

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

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

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

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

At 31 December 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
Principal	71,816	14,000	7,605	170,958	264,379
Interest	11,288	9,531	26,798	20,049	67,666
Debt at variable rate					
Principal	34,938	52,906	16,819	-	104,663
Interest	1,644	867	144	-	2,655
Trade and other payables	30,490	-	-	-	30,490
Total financial liabilities	**150,176**	**77,304**	**51,366**	**191,007**	**469,853**
At 31 December 2014					
Debt at fixed rate					
Principal	21,619	33,755	14,000	92,826	162,200
Interest	9,451	6,886	15,251	11,086	42,674
Debt at variable rate					
Principal	19,474	25,965	38,948	-	84,387
Interest	1,577	1,120	689	-	3,386
Trade and other payables	23,294	2,194	-	-	25,488
Total financial liabilities	**75,415**	**69,920**	**68,888**	**103,912**	**318,135**

At 31 December 2014, the amount of the financial guarantee issued by the Group to the bank in relation to the obligations of its joint venture OOO Yamal Development totaled USD 400 million. In October 2015, Yamal Development settled its obligations.

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

At 31 December 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Cash inflow	36,518	27,380	65,825	37,164	166,887
Cash outflow	(33,838)	(26,067)	(65,889)	(37,278)	(163,072)
Net cash flows	**2,680**	**1,313**	**(64)**	**(114)**	**3,815**
At 31 December 2014					
Cash inflow	41,577	30,184	80,972	72,787	225,520
Cash outflow	(40,611)	(29,120)	(80,628)	(72,388)	(222,747)
Net cash flows	**966**	**1,064**	**344**	**399**	**2,773**

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 31 December 2014, 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 outlook) by Standard & Poor's. In February 2015, following the decrease of the sovereign 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 outlook) and Ba1 (negative outlook), respectively. The Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis to maintain its credit ratings.

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 raised to finance NOVATEK's wholly owned subsidiaries are centralized at the parent level, and all financing to Group entities is facilitated through inter-company loan arrangements or additional contributions to share capital.

The Group has a stated dividend policy that distributes 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 of NOVATEK 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 2015. At 31 December 2015 and 2014, the Group's capital totaled RR 755,597 million and RR 589,116 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. In addition, the Russian economy is particularly sensitive to world oil and gas prices, therefore, significant decline in world oil prices during 2014 and 2015 made and is currently making a negative impact on the Russian economy. 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.

Developments in Ukraine during 2014 and 2015 and subsequent negative reaction of the world community 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.

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.

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 lenders.

Capital commitments. At 31 December 2015, the Group had contractual capital expenditures commitments aggregating approximately RR 23 billion (at 31 December 2014: RR 27.8 billion) mainly for development at the Yarudeyskoye (through 2017), the East-Tarkosalinskoye (through 2018), the Salmanovskoye (Utrenneye) (through 2016), the Yurkharovskoye (through 2018), the Khancheyskoye (through 2017) and the North-Russkoye (through 2017) fields.

Commitments to provide financing to joint ventures. At 31 December 2015, the Group has unrecognized in the consolidated statement of financial position commitments to provide funding to its joint ventures, if called, in the aggregated undiscounted amount of approximately EUR 77 million for 2016.

Non-financial guarantees. The aggregated amount of non-financial guarantees in respect of the Yamal LNG Project issued by the Group to a number of third parties (the Ministry of Finance of the Russian Federation, LNG-plant constructors, LNG-vessels owners, LNG-terminal owners and foreign banks) in favor of the Group's joint venture OAO Yamal LNG and the joint venture's subsidiary with various maturities depending on the commencement of external project financing, loading of certain number of LNG-vessels and other events related to commencement of commercial production, totaled USD 3.6 billion and EUR 103 million at 31 December 2015 and USD 1.7 billion at 31 December 2014. The outflow of resources embodying economic benefits required to settle the obligation under these non-financial guarantees is not probable, therefore, no provision for these liabilities 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.

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

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

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

Field	License holder	License expiry date
	Subsidiaries:	
Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2034
Salmanovskoye (Utrenneye)	OOO Arctic LNG 2	2031
Geofizicheskoye	OOO Arctic LNG 1	2034
East-Tarkosalinskoye	OOO NOVATEK-Tarkosaleneftegas	2043
North-Russkoye	OOO NOVATEK-Tarkosaleneftegas	2031
Khancheyskoye	OOO NOVATEK-Tarkosaleneftegas	2044
East-Tazovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
Urengoyskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
Dobrovolskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
Yarudeyskoye	OOO Yargeo	2029
Malo-Yamalskoye	OOO NOVATEK-Yarsaleneftegas	2034
	Joint ventures:	
South-Tambeyskoye	OAO Yamal LNG	2045
Urengoiskoye (within the Samburgskiy and Yevo-Yakhinskiy license areas)	OAO Arcticgas(*)	2034
Yaro-Yakhinskoye	OAO Arcticgas	2034
Samburgskoye	OAO Arcticgas	2034
	OAO Arcticgas	
North-Chaselskoye		Life of field
North-Urengoyskoye	ZAO Nortgas	2038
Termokarstovoye	ZAO Terneftegas	2097

(*) Subsidiary of OOO SeverEnergia.

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

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

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

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 2015 and 2014 are set out below:

	Ownership percent at 31 December: 2015	Ownership percent at 31 December: 2014	Country of incorporation	Principal activities
Subsidiaries:				
OOO NOVATEK-Yurkharovneftegas	100	100	Russia	Exploration and production
OOO NOVATEK-Tarkosaleneftegas	100	100	Russia	Exploration and production
OOO Yargeo	51	51	Russia	Exploration, development 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	Fractionation and Transshipment Complex
OOO NOVATEK-AZK	100	100	Russia	Wholesale and retail trading
OOO NOVATEK-Chelyabinsk	100	100	Russia	Trading and marketing
OOO NOVATEK-Kostroma	100	100	Russia	Trading and marketing
OOO NOVATEK-Perm	100	100	Russia	Trading and marketing
OOO NOVATEK Moscow Region	100	100	Russia	Trading and marketing
Novatek Gas & Power GmbH	100	100	Switzerland	Trading and marketing
Novatek Gas & Power Asia PTE. Ltd	100	100	Singapore	Trading and marketing
Novatek Polska Sp. z o.o.	100	100	Poland	Trading and marketing
Joint ventures:				
OAO Yamal LNG	60 (*)	60	Russia	Exploration and development
ZAO Terneftegas	51	51	Russia	Exploration and production
ZAO Nortgas	50	50	Russia	Exploration and production
OOO Yamal Development	50	50	Russia	Holding company
Artic Russia B.V.	56,8	60	Netherlands	Holding company
OOO SeverEnergia (includes a producing subsidiary, see Note 7)	53,3	54,9	Russia	Holding company

(*) Includes a 9.9 percent ownership classified as an asset held for sale (see Note 7).

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

30 RELATED PARTY TRANSACTIONS

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

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

	Year ended 31 December:	
Related parties – joint ventures	**2015**	**2014**
Transactions		
OOO SeverEnergia and its subsidiary:		
Purchases of natural gas and liquid hydrocarbons	(75,412)	(15,624)
Other revenues	182	110
ZAO Terneftegas:		
Purchases of natural gas and liquid hydrocarbons	(7,922)	-
Interest income on loans issued	262	205
Other revenues	86	47
OAO Yamal LNG:		
Interest income on loans issued	9,334	3,516
Other revenues	356	150
ZAO Nortgas:		
Purchases of natural gas and liquid hydrocarbons	(20,064)	(19,560)
Other revenues	84	103
OOO Yamal Development:		
Interest income on loans issued	1,517	601

Related parties – joint ventures	**At 31 December 2015**	**At 31 December 2014**
Balances		
OOO SeverEnergia and its subsidiary:		
Trade payables and accrued liabilities	6,733	1,819
ZAO Terneftegas:		
Long-term loans receivable	4,413	4,288
Interest on long-term loans receivable	813	441
Trade payables and accrued liabilities	1,133	-
OAO Yamal LNG:		
Long-term loans receivable	196,533	78,825
Interest on long-term loans receivable	14,377	5,171
ZAO Nortgas:		
Dividends receivable	-	1,850
Trade payables and accrued liabilities	1,751	2,165
OOO Yamal Development:		
Long-term loans receivable	13,105	5,254
Interest on long-term loans receivable	1,813	608
Current portion of long-term loans receivable	-	8,107

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

30 RELATED PARTY TRANSACTIONS (CONTINUED)

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.

Related parties – parties under control / joint control of key management personnel	Year ended 31 December: 2015	2014
Transactions		
PAO Pervobank (under control until November 2015):		
Interest income	431	285
PAO SIBUR Holding and its subsidiaries:		
Sales of natural gas and liquid hydrocarbons	19,052	9,739
Other revenues	6	759
Purchases of natural gas and liquid hydrocarbons	(15,501)	(15,193)
Liquid hydrocarbons transportation by rail	(3,747)	(2,273)
Materials, services and other	(1,868)	(841)
OOO Transoil:		
Liquid hydrocarbons transportation by rail	(8,907)	(4,192)
Gunvor Group (under joint control until March 2014):		
Liquid hydrocarbons sales	-	2,023
Liquid hydrocarbons transportation	-	(266)
OOO Nova:		
Purchases of construction services (capitalized within property, plant and equipment)	(2,626)	(4,339)
Materials, services and other	(75)	(24)

Related parties – parties under control / joint control of key management personnel	At 31 December 2015	At 31 December 2014
Balances		
PAO Pervobank (under control until November 2015):		
Cash and cash equivalents	-	9,365
PAO SIBUR Holding and its subsidiaries:		
Trade and other receivables	2,204	940
Prepayments and other current assets	193	184
Trade payables and accrued liabilities	352	201
OOO Transoil:		
Prepayments and other current assets	412	397
Trade payables and accrued liabilities	316	67
OOO Nova:		
Advances for construction	75	341
Trade payables and accrued liabilities	262	360

In November 2015, the Chairman of the Management Committee of NOVATEK sold controlling stake in PAO Pervobank to a third party, and as the result, Pervobank ceased to be a related party of the Group.

In 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.

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

30 RELATED PARTY TRANSACTIONS (CONTINUED)

Key management personnel 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:

Related parties – members of the key management personnel	Year ended 31 December: 2015	2014
Board of Directors	147	106
Management Committee	2,042	1,640
Total compensation	**2,189**	**1,746**

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 (during the period from 24 April to 25 September 2015 – eight members). Starting from March 2015, the Management Committee consists of nine members (earlier – 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 ("RAR") 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 profit before income tax, since income tax is not allocated. No business segment assets or liabilities (except for capital expenditures for the period) are provided to the CODM for decision-making.

Segment information for the year ended 31 December 2015 is as follows:

For the year ended 31 December 2015	References	Exploration, production and marketing	Segment information as reported to CODM	Reconciling items	Total per consolidated financial statements
External revenues		475,356	475,356	(31)	475,325
Operating expenses	*a, f*	(338,518)	(338,518)	3,476	(335,042)
Other operating income (loss)	*b, f*	1,091	1,091	(644)	447
Interest expense	*c, f*	(9,670)	(9,670)	878	(8,792)
Interest income	*d*	9,612	9,612	3,010	12,622
Change in fair value of non-commodity financial instruments	*e*	-	-	(10,505)	(10,505)
Foreign exchange gain (loss), net	*c*	(12,065)	(12,065)	2,558	(9,507)
Segment result		**125,806**	**125,806**	**(1,258)**	**124,548**
Share of profit (loss) of joint ventures, net of income tax					(31,607)
Profit before income tax					**92,941**
Depreciation, depletion and amortization	*a*	24,124	24,124	(4,144)	19,980
Capital expenditures	*c*	54,904	54,904	5,065	59,969

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

31 SEGMENT INFORMATION (CONTINUED)

Reconciling items mainly related to:

a. different methodology in calculating depreciation, depletion and amortization for intangible assets and for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method), which resulted in reversal of RR 4,442 million in operating expenses under IFRS;

b. different methodology in valuation of commodity derivatives under IFRS and management accounting, which resulted in additional recognition of other operating loss of RR 1,006 million under IFRS;

c. different methodology in borrowing costs capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting, which resulted in additional recognition of capital expenditures of RR 5,065 million under IFRS, including capitalized interest of RR 856 million;

d. different methodology in recognizing effect of the present value discount unwinding of long-term financial assets under IFRS and management accounting, which requires additional recognition of interest income of RR 2,934 million under IFRS;

e. 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 10,505 million under IFRS; and

f. other differences relating to recognition of natural gas storage expenses, employee compensation, bad debt provisions, exploration expenses, valuation of inventory balances, effect of the present value discount unwinding of asset retirement obligations.

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

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

Reconciling items mainly related to:

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

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

31 SEGMENT INFORMATION (CONTINUED)

b. 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;

c. different methodology in valuation of commodity derivatives under IFRS and management accounting, which requires additional recognition of other operating income of RR 2,092 million under IFRS;

d. different methodology in borrowing costs capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting, which resulted in additional recognition of capital expenditures of RR 6,870 million under IFRS, including capitalized interest of RR 1,486 million;

e. different methodology in recognizing effect of the present value discount unwinding of long-term financial assets under IFRS and management accounting, which requires additional recognition of interest income of RR 1,034 million under IFRS;

f. 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

g. other differences relating to recognition of natural gas storage expenses, employee compensation, bad debt provisions, valuation of inventory balances, effect of the present value discount unwinding of asset retirement obligations.

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;
- *Countries of the European Union (primarily, Denmark, Belgium, the Netherlands and Finland)* – sales of naphtha, liquefied petroleum gas, stable gas condensate, gas condensate refined products and crude oil;
- *Countries of the Asia-Pacific region (primarily, Singapore, China, South Korea and Taiwan)* – sales of naphtha and stable gas condensate;
- *Countries of North America (primarily, the USA)* – sales of naphtha and stable gas condensate.

The Group's geographical information is presented below:

For the year ended 31 December 2015	**Natural gas**	**Stable gas condensate and naphtha**	**Other gas and gas condensate refined products**	**Liquefied petroleum gas**	**Crude oil**	**Total oil and gas sales**
Russia	222,180	19,110	2,235	20,543	9,244	273,312
The European Union	-	50,571	68,150	12,891	7,913	139,525
The Asia-Pacific region	-	90,616	-	-	-	90,616
North America	-	14,662	-	-	-	14,662
Other	-	2,721	2,362	322	423	5,828
Less: export duties	-	(38,095)	(10,845)	(289)	(2,707)	(51,936)
Total outside Russia	-	120,475	59,667	12,924	5,629	198,695
Total	**222,180**	**139,585**	**61,902**	**33,467**	**14,873**	**472,007**

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

31 SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2014	Natural gas	Stable gas condensate and naphtha	Other gas and gas condensate refined products	Liquefied petroleum gas	Crude oil	Total oil and gas sales
Russia	230,447	3,797	854	12,224	7,413	254,735
The European Union	-	22,284	32,556	15,723	8,136	78,699
The Asia-Pacific region	-	65,521	-	-	-	65,521
North America	-	16,563	-	-	-	16,563
Other	-	1,933	1,069	-	-	3,002
Less: export duties	-	(44,021)	(10,957)	(3,546)	(4,323)	(62,847)
Total outside Russia	-	62,280	22,668	12,177	3,813	100,938
Total	**230,447**	**66,077**	**23,522**	**24,401**	**11,226**	**355,673**

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 2015, the Group had two major customers to whom individual revenue exceeded 10 percent of total external revenues, which represented 13 percent and 10 percent (RR 61.2 billion and RR 47.2 billion) of total external revenues, respectively. For the year ended 31 December 2014, the Group had two major customers to whom individual revenue exceeded 10 percent of total external revenues, which represented 15 percent and 10 percent (RR 57.7 billion and RR 41.0 billion) 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 2016, and which the Group has not early adopted:

Amendments to IAS 7, *Statement of Cash Flows* (issued in January 2016 and effective for annual periods on or after 1 January 2017, early adoption is permitted). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

IFRS 16, *Leases* (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The standard requires lessees to recognize assets and liabilities for most leases. For lessors, there is a minor change to the existing accounting treatment in IAS 17, *Leases*. Early application is permitted, provided the new revenue standard, IFRS 15, *Revenue from Contracts with Customers*, has been applied, or is applied at the same date as IFRS 16.

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.

Amendments to IFRS 10, *Consolidated financial statements,* and IAS 28, *Investments in associates and joint ventures* (issued in September 2014, in November 2015 the effective date was postponed indefinitely). 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.

IFRS 9, *Financial Instruments: Classification and Measurement* (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018, early adoption is permitted). The standard introduces new requirements for classification and measurement of financial instruments, impairment, and hedge accounting.

32 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

IFRS 15, *Revenue from Contracts with Customers* (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018, early adoption is permitted). 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 of contracts with customers. 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 new standards, as well as amendments to the existing ones, the impact on the Group and the timing of their adoption by the Group.

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:	
	2015	2014
Costs incurred in exploration and development activities		
Acquisition of unproved properties	-	435
Exploration costs	1,160	825
Development costs	56,624	57,837
Total costs incurred in exploration and development activities	**57,784**	**59,097**
The Group's share in joint ventures' cost incurred in exploration and development activities	39,899	63,032

	At 31 December 2015	At 31 December 2014
Capitalized costs relating to oil and gas producing activities		
Wells, related equipment and facilities	252,716	210,371
Support equipment and facilities	68,895	54,957
Uncompleted wells, related equipment and facilities	61,745	61,647
Total capitalized costs relating to oil and gas producing activities	**383,356**	**326,975**
Less: accumulated depreciation, depletion and amortization	(88,103)	(71,407)
Net capitalized costs relating to oil and gas producing activities	**295,253**	**255,568**
The Group's share in joint ventures' capitalized costs relating to oil and gas producing activities	285,445	302,514

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 hydrocarbons produced by the Group's subsidiaries and include processing costs, related to processing facilities of the Group's subsidiaries as well as transportation expenses to the customer (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2015	**2014**
Revenues from oil and gas sales	248,673	257,328
Lifting costs	(10,102)	(8,814)
Transportation expenses	(83,574)	(89,747)
Taxes other than income tax	(36,296)	(29,081)
Depreciation, depletion and amortization	(17,522)	(15,127)
Exploration expenses	(767)	(112)
Total production costs	**(148,261)**	**(142,881)**
Results of operations for oil and gas producing activities before income tax	100,412	114,447
Less: related income tax expenses	(20,082)	(22,889)
Results of operations for oil and gas producing activities of the Group's subsidiaries	**80,330**	**91,558**
Share of profit (loss) of joint ventures	28,957	10,195
Total results of operations for oil and gas producing activities	**109,287**	**101,753**

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 2015 and 2014.

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 principal licenses of the Group for exploration and production expire between 2029 and 2059, 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 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 (1)	-	-	(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**
Changes attributable to:						
Revisions of previous estimates	1,035	30	1,210	34	2,245	64
Extension and discoveries	1,247	35	68	2	1,315	37
Disposals (2)	-	-	(325)	(9)	(325)	(9)
Production	(1,735)	(49)	(662)	(19)	(2,397)	(68)
Reserves at 31 December 2015 (3)	**36,503**	**1,034**	**26,170**	**741**	**62,673**	**1,775**
Net proved developed reserves (included above)						
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
At 31 December 2015	16,598	470	7,785	220	24,383	690
Net proved undeveloped reserves (included above)						
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
At 31 December 2015	19,905	564	18,385	521	38,290	1,085

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

(2) In August 2015, the Group contributed a 6.4 percent interest in Artic Russia to Yamal Development. As a result, the Group's effective participation interest in SeverEnergia decreased from 54.9 percent to 53.3 percent.

(3) At 31 December 2015, the Group's share in proved reserves of natural gas of joint ventures included reserves attributable to 9.9 percent interest in OAO Yamal LNG classified as asset held for sale of 1,823 billion of cubic feet or 52 billion of cubic meters.

The net proved reserves reported in the table above included reserves of natural gas attributable to non-controlling interest of 112 billion of cubic feet (three billion of cubic meters) and 149 billion of cubic feet (four billion of cubic meters) at 31 December 2015 and 2014, 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 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 (1)	-	-	(40)	(4)	(40)	(4)
Production	(36)	(4)	(15)	(2)	(51)	(6)
Reserves at 31 December 2014	**512**	**62**	**680**	**78**	**1,192**	**140**
Changes attributable to:						
Revisions of previous estimates	14	2	34	3	48	5
Extension and discoveries	59	8	3	1	62	9
Disposals (2) (3)	-	-	(14)	(2)	(14)	(2)
Production	(34)	(4)	(43)	(5)	(77)	(9)
Reserves at 31 December 2015 (3)	**551**	**68**	**660**	**75**	**1,211**	**143**
Net proved developed reserves (included above)						
At 31 December 2013	244	29	78	9	322	38
At 31 December 2014	216	26	271	31	487	57
At 31 December 2015	305	38	302	34	607	72
Net proved undeveloped reserves (included above)						
At 31 December 2013	258	31	593	67	851	98
At 31 December 2014	296	36	409	47	705	83
At 31 December 2015	246	30	358	41	604	71

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

(2) In August 2015, the Group contributed a 6.4 percent interest in Artic Russia to Yamal Development. As a result, the Group's effective participation interest in SeverEnergia decreased from 54.9 percent to 53.3 percent.

(3) At 31 December 2015, the Group's share in proved reserves of crude oil, gas condensate and natural gas liquids of joint ventures included reserves attributable to 9.9 percent interest in OAO Yamal LNG classified as asset held for sale of 13 million of barrels or two million of metric tons.

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 49 million of barrels (six million of metric tons) and 38 million of barrels (five million of metric tons) at 31 December 2015 and 2014, respectively.

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

The Group's registered office is:

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

The Group's office in Moscow is:

Ulitsa Udaltsova 2
119415 Moscow
Russian Federation

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

www.novatek.ru

OAO NOVATEK

**MANAGEMENT’S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

**FOR THE YEARS ENDED
31 DECEMBER 2015 AND 2014**

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GENERAL PROVISIONS

You should read the following discussion and analysis of our financial condition and results of operations as of 31 December 2015 and for the year then ended in conjunction with our audited consolidated financial statements as of and for the years ended 31 December 2015 and 2014. 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 (commonly referred to as "CDU-TEK") for both reporting periods. In terms of proved natural gas reserves, we are the second largest holder of natural gas resources in Russia after PAO Gazprom, under the Petroleum Resources Management System ("PRMS") reserve reporting methodology.

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

In accordance with Russian law, we currently 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 (the "Purovsky Plant") for processing into stable gas condensate and liquefied petroleum gas ("LPG"). Effective May 2015, we reached the Purovsky Plant's nameplate processing capacity and are able to process up to 12 million tons of unstable gas condensate per annum.

Most of our stable gas condensate is sent for further processing to our Gas Condensate Fractionation and Transshipment Complex located at the Port of Ust-Luga on the Baltic Sea (the "Ust-Luga Complex"). The Ust-Luga 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 allowing us to increase the added value of our liquid hydrocarbons sales. The Ust-Luga Complex allows us to process more than six million tons of stable gas condensate annually, and we reached the complex's nameplate refining capacity in January 2015.

The excess volumes of stable gas condensate received from the processing at the Purovsky Plant over volumes sent for further processing to the Ust-Luga Complex are sold on both the domestic and international markets (from the Port of Ust-Luga on the Baltic Sea by tankers and/or to European markets by rail).

Effective June 2014, the majority of our LPG produced at the Purovsky Plant is dispatched via pipeline to the refining capacities of OOO Tobolsk-Neftekhim. The remaining volumes are sold directly from the Purovsky Plant without incurring additional transportation expenses. After processing at Tobolsk-Neftekhim we receive LPG with higher added value, the majority of which are transported by rail to end-customers in the domestic and international markets with the remaining portion sold directly from Tobolsk-Neftekhim without incurring additional transportation expenses.

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

The Group, jointly with TOTAL S.A. and China National Petroleum Corporation, through our joint venture OAO Yamal LNG, 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 "Yamal LNG project"). The Yamal LNG project also requires the construction of transportation infrastructure, including the seaport and the international airport. Commercial launch of the LNG plant and start of liquefied natural gas shipments is planned in 2017. In September 2014, Yamal LNG received a license from the Ministry of Energy of the Russian Federation for the export of LNG. It is expected that the produced LNG will be sold mainly to the Asian-Pacific Region ("APR") and to the European market.

RECENT DEVELOPMENTS

Increase of production and utilization of refining capacity

In September 2014, OOO SeverEnergia, the Group's joint venture with PAO Gazprom Neft, launched the third phase of the Samburgskoye field. In December 2014, SeverEnergia reached the nameplate production capacity of the first phase and launched the second phase of the Urengoyskoye field (the nameplate production capacity was reached in February 2015). Overall capacity of the two stages of the Urengoyskoye field is approximately 13 billion cubic meters (bcm) of natural gas and 4.7 million tons of gas condensate per annum. As a result, the Group's gas condensate production has increased significantly enabling us to fully utilize the processing facilities of our Ust-Luga Complex effective January 2015.

In April 2015, SeverEnergia launched the Yaro-Yakhinskoye field and in June 2015, the field reached the nameplate production capacity of 7.7 bcm of natural gas and 1.3 million tons of gas condensate per annum.

In May 2015, ZAO Terneftegas, the Group's joint venture with TOTAL S.A., commenced commercial production at the Termokarstovoye gas and gas condensate field located in the Yamal-Nenets Autonomous region ("YNAO"). The nameplate production capacity of 2.4 bcm of natural gas and 0.8 million tons of gas condensate per annum was reached in June 2015.

The launch of additional production facilities at the end of 2014 and in the first half of 2015, allowed us to fully utilize the gas condensate processing facilities at our Purovsky Plant commencing from May 2015.

In December 2015, we commenced commercial production at the Yarudeyskoye oil field and at the end of the month we reached the nameplate production capacity of approximately 3.5 million tons of crude oil per annum. The successful launch and production ramp-up of the Yarudeyskoye field allows us to significantly increase our production of crude oil and will represent the majority of liquids production growth in in 2016.

Implementation of the Yamal LNG project

In December 2015, NOVATEK and China's Silk Road Fund Co. Ltd. ("SRF") signed an agreement on the acquisition of a 9.9% equity stake in Yamal LNG by SRF. The transaction is subject to a number of conditions precedent, which is expected by the Group's management to be fulfilled in the beginning of 2016. The entrance of SRF to the Yamal LNG project is an important step in the execution of our long-term development strategy for this project.

In 2015 and 2014, we continued to form our customers portfolio for the supply of LNG produced within the Yamal LNG project and concluded a number of long-term supply agreements.

In 2015, the Group concluded long-term contracts for the supply of LNG to companies of the ENGIE Group, the Royal Dutch Shell Group and Gunvor Group with an average supply period of not less than 20 years. The supply of LNG under these contracts will be performed by the Groups' wholly owned subsidiary Novatek Gas & Power GmbH, which will purchase LNG from Yamal LNG under previously signed long-term contract.

In addition, in 2015 and 2014, Yamal LNG concluded long-term contracts for the supply of LNG to PAO Gazprom, CNPC and the companies of the TOTAL S.A. Group with different supply periods but not less than 15 years.

The Yamal LNG project has now concluded the sale of more than 95% of LNG volumes produced under long-term contractual agreements. The remaining portion of LNG will be sold on the spot market. Management believes that the conclusion of long-term LNG supply agreements by the Group and Yamal LNG is a vital step in implementing the Yamal LNG project.

In December 2014, the Russian Federation government approved the allocation of RR 150 billion from the National Wealth Fund for financing the Yamal LNG project through the purchase of interest bearing bonds from OAO Yamal LNG. In February and November 2015, the Ministry of Finance subscribed for and purchased the first and second tranches of Yamal LNG’s bonds in the amount of RR 75 billion each (nominal amount of USD 1.21 billion and USD 1.16 billion, respectively). The bonds will be repaid in equal installments from 2022 to 2030 in Russian roubles at the US dollar exchange rate at the date of payment. Interest is paid semi-annually starting from September 2015. The funds received by Yamal LNG from the bonds placement were fully invested in the Yamal LNG project.

In December 2014, a Boeing 737 airplane landed at the Sabetta airport for the first time. In February 2015, the airport in Sabetta (part of the transportation infrastructure of the Yamal LNG project) was officially launched. The launch of the Sabetta airport is an important step in the realization of the Yamal LNG project providing reliable delivery of specialists and equipment to the South-Tambeyskoye field.

Group’s acquisitions and disposals

In March 2014, NOVATEK and Gazprom Neft agreed in principle to achieve parity shareholdings in the SeverEnergia joint venture, owned by the parties through their respective joint ventures OOO Yamal Development and Artic Russia B.V. As part of such agreement, as of 31 March 2014, the Group sold its 20% equity stake in Artic Russia B.V. to Yamal Development. As a result, the Group’s effective participation interest in SeverEnergia decreased from 59.8% to 54.9%.

In August 2015, as part of the next stage of restructuring procedures, NOVATEK contributed a 6.4% ownership interest in Artic Russia B.V. to the capital of Yamal Development. Simultaneously, the Group and Gazprom Neft made contributions to the capital of Yamal Development by converting loans (including accrued interest) in the amount of RR 2.5 billion and RR 14.9 billion, respectively. As a result of these transactions the Group’s effective participation interest in SeverEnergia decreased from 54.9% to 53.3%. It is expected that further procedures towards achieving parity shareholdings in SeverEnergia will be completed by the end of 2016.

In December 2014, the Group acquired a 100% equity stake in OOO NovaEnergo (renamed to OOO NOVATEK-Energo in September 2015) that provides repair and maintenance services of energy generating equipment for servicing the Group’s production facilities located in the YNAO.

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 previously acquired Salmanovskoye (Utrenneye) and Geofizicheskoye fields as well as the North-Obskiy license area located on the Gydan peninsula and the Gulf of Ob. Later in 2014, the Group also acquired a license for geological and geophysical research works, exploration and production of hydrocarbons at the Trekhbugorniy license area located on the Gydan peninsula for RR 435 million.

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.

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 2015, we conducted a set of exploration activities, processing and interpretation of new and existing seismic data, as well as a set of preparation works for exploratory drilling for the purpose of delineating the resource base and defining a plan to develop these fields.

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 2015 totaled 1.3 trillion cubic meters of natural gas and 49.1 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 2015 totaled 1.1 trillion cubic meters of natural gas and 71 million tons of liquid hydrocarbons. The resources of the Trekhbugorniy license area according to the Russian reserve classification C3+D as of 31 December 2015 amounted to approximately 1.0 trillion of cubic meters of natural gas and 92 million tons of liquid hydrocarbons.

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

Extension and conclusion of new natural gas supply contracts

In 2015, the Group concluded and extended a number of large natural gas supply contracts:

- concluded a contract with PAO Enel Russia for the supply of approximately 2.0 bcm of natural gas per annum for a period of three years starting from January 2016;

- concluded a number of contracts with the companies of the Novolipetsk Steel Group for the supply of 2.8 bcm of natural gas per annum for a period of five years starting from January 2016; and

- extended the natural gas supply contract with OAO Mosenergo for an additional four years until the end of 2019, with annual supply volumes of approximately 9.1 bcm.

Contract extensions and the conclusion of new major agreements are important steps for maintaining and increasing our client base.

SELECTED DATA

millions of Russian roubles except as stated	Year ended 31 December: 2015	2014	Change %
Financial results			
Total revenues (1)	475,325	357,643	32.9%
Operating expenses	(335,042)	(236,512)	41.7%
Normalized EBITDA (2),(3)	214,466	159,631	34.4%
Normalized profit attributable to shareholders of OAO NOVATEK (3)	73,407	35,197	108.6%
Normalized earnings per share (3) (in Russian roubles)	24.30	11.65	108.7%
Net debt (4)	329,518	204,361	61.2%
Production volumes (5)			
Hydrocarbons production (million barrels of oil equivalent)	521.6	456.7	14.2%
Daily production (million barrels of oil equivalent per day)	1.43	1.25	14.2%
Sales volumes			
Natural gas sales volumes (million cubic meters)	62,465	67,231	(7.1%)
Naphtha sales volumes (thousand tons)	4,120	3,319	24.1%
Stable gas condensate sales volumes (thousand tons)	2,786	303	n/a
Other gas condensate refined products (thousand tons) (6)	2,573	1,119	129.9%
Liquefied petroleum gas sales volumes (thousand tons)	2,306	1,434	60.8%
Crude oil sales volumes (thousand tons)	1,090	903	20.7%
Oil and gas reserves (7)			
Total proved reserves SEC (billion barrels of oil equivalent)	12.8	12.6	1.4%
Total natural gas proved reserves SEC (trillion cubic meters)	1.77	1.75	1.4%
Total liquids proved reserves SEC (million tons)	143	140	2.0%
Cash flow results			
Net cash provided by operating activities	132,864	111,241	19.4%
Cash used for capital expenditures (8)	50,584	62,040	(18.5%)
Free cash flow (9)	82,280	49,201	67.2%

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

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

(3) Excluding the effect from the disposal of interests in joint ventures.

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

(5) Hydrocarbons production and daily production are calculated based on 100% of net production of our subsidiaries and our proportionate share in the production of our joint ventures.

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

(7) Oil and gas reserves include 100% of reserves attributable to all consolidated subsidiaries and our proportionate share in the reserves of our joint ventures.

(8) Cash used for capital expenditures represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries.

(9) Free cash flow represents the difference between Net cash provided by operating activities and Cash used for capital expenditures.

Reconciliation of EBITDA and normalized EBITDA to profit attributable to shareholders of OAO NOVATEK is as follows:

millions of Russian roubles	**Year ended 31 December:** 2015	2014	**Change** %
Profit attributable to shareholders of OAO NOVATEK	**74,396**	**37,296**	**99.5%**
Depreciation, depletion and amortization	19,980	17,172	16.4%
Impairment expenses (reversals), net	(204)	(229)	(10.9%)
Loss (income) from changes in fair value of derivative financial instruments	1,006	(2,093)	n/a
Total finance expense (income)	16,182	46,745	(65.4%)
Total income tax expense	18,822	15,928	18.2%
Share of loss (profit) of joint ventures, net of income tax	31,607	28,175	12.2%
EBITDA from subsidiaries	**161,789**	**142,994**	**13.1%**
Share in EBITDA of joint ventures	53,666	19,260	178.6%
EBITDA	**215,455**	**162,254**	**32.8%**
Net gain on disposal of interests in joint ventures	(989)	(2,623)	(62.3%)
Normalized EBITDA	**214,466**	**159,631**	**34.4%**
Normalized EBITDA from subsidiaries	**160,800**	**140,371**	**14.6%**

SELECTED MACRO-ECONOMIC DATA

Exchange rate, RR for one foreign currency unit [1]	1Q 2015	1Q 2014	2Q 2015	2Q 2014	3Q 2015	3Q 2014	4Q 2015	4Q 2014	Year 2015	Year 2014	Change Y-o-Y, %
US dollar (USD)											
Average for the period	62.19	34.96	52.65	35.00	62.98	36.19	65.94	47.42	60.96	38.42	58.7%
At the beginning of the period	56.26	32.73	58.46	35.69	55.52	33.63	66.24	39.39	56.26	32.73	71.9%
At the end of the period	58.46	35.69	55.52	33.63	66.24	39.39	72.88	56.26	72.88	56.26	29.5%
Depreciation (appreciation) of RR to US dollar	3.9%	9.0%	(5.0%)	(5.8%)	19.3%	17.1%	10.0%	42.8%	29.5%	71.9%	n/a
Euro											
Average for the period	70.43	47.95	58.24	48.03	70.11	47.99	72.27	59.20	67.78	50.82	33.4%
At the beginning of the period	68.34	44.97	63.37	49.05	61.52	45.83	74.58	49.95	68.34	44.97	52.0%
At the end of the period	63.37	49.05	61.52	45.83	74.58	49.95	79.70	68.34	79.70	68.34	16.6%
Depreciation (appreciation) of RR to euro	(7.3%)	9.1%	(2.9%)	(6.6%)	21.2%	9.0%	6.9%	36.8%	16.6%	52.0%	n/a

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

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Average for the period	1Q 2015	1Q 2014	2Q 2015	2Q 2014	3Q 2015	3Q 2014	4Q 2015	4Q 2014	Year 2015	Year 2014	Change Y-o-Y, %
Benchmark crude oil prices [2]											
Brent, USD per barrel	53.9	108.2	61.9	109.7	50.5	101.9	43.8	76.6	52.4	98.9	(47.0%)
Urals, USD per barrel	52.9	106.5	61.7	107.7	49.6	101.1	42.0	75.6	51.4	97.6	(47.3%)
Urals, RR per barrel	3,290	3,723	3,249	3,770	3,124	3,659	2,769	3,585	3,133	3,750	(16.5%)
Benchmark crude oil prices excluding export duties [3]											
Urals, USD per barrel	35.1	53.3	43.8	55.3	32.0	49.0	29.4	32.7	34.9	47.4	(26.4%)
Urals, RR per barrel	2,183	1,863	2,306	1,936	2,015	1,773	1,939	1,551	2,128	1,821	16.9%
World market prices for oil products [4] **and liquefied petroleum gas** [5]**, USD per ton**											
Naphtha Japan	493	935	563	951	462	913	444	646	490	862	(43.2%)
Naphtha CIF NWE	468	915	538	939	431	882	413	614	461	836	(44.9%)
Jet fuel	565	975	603	970	503	938	439	753	526	908	(42.1%)
Gasoil	519	917	574	911	480	869	405	686	493	845	(41.7%)
Fuel oil	292	625	338	637	253	584	202	418	270	565	(52.2%)
Liquefied petroleum gas	316	758	364	668	352	794	367	623	350	711	(50.8%)
Export duties, USD per ton [6]											
Crude oil, stable gas condensate	129.6	388.5	130.6	382.7	128.5	380.4	92.3	313.0	120.3	366.1	(67.1%)
Liquefied petroleum gas	16.1	189.3	0.0	101.1	0.0	152.7	0.0	131.9	4.0	143.8	(97.2%)
Naphtha	110.1	349.6	110.9	344.4	109.2	342.3	78.4	281.6	102.2	329.5	(69.0%)
Jet fuel	62.1	256.4	62.6	252.6	61.6	251.0	44.3	206.5	57.7	241.6	(76.1%)
Gasoil	62.1	252.5	62.6	248.7	61.6	247.2	44.3	203.4	57.7	237.9	(75.7%)
Fuel oil	98.5	256.4	99.2	252.6	97.6	251.0	70.1	206.5	91.3	241.6	(62.2%)

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

(3) Export duties per barrel were calculated based on export duties per ton divided by the coefficient 7.3.

(4) 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.

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

(6) Export duties are determined by the Russian Federation government in US dollars and are paid in Russian roubles (see “Our tax burden and obligatory payments” below).

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Current economic conditions

Political events in Ukraine in the beginning of 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. In 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 in this country. 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.

Simultaneously, during 2014, the Russian economy began experiencing signs of weakness which became especially apparent during the fourth quarter of 2014: the severe devaluation of the Russian rouble, contraction of the Country's gross domestic product, a significant increase in the Central Bank's lending rates, increased inflation and other factors. The domestic economic situation was further exasperated by the rapid commodity price decline in global oil markets. As a result, in January and February 2015, both Standard & Poor's (S&P) and Moody's downgraded the Russian sovereign rating to below investment rating status as well as made the corresponding downward adjustments to Russian issuers, including OAO 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.

In 2015, the Russian rouble exchange rates relative to world currencies and benchmark commodity prices in international markets remained volatile, while the Central Bank's lending rates gradually decreased. The global oil and gas industry continues to experience negative financial and operations results from the significant downturn in benchmark commodity prices subsequent to the year ending 31 December, and this present macro situation is expected to remain volatile throughout 2016 as present crude oil supplies exceed world demand. Our financial results are obviously impacted by these global developments as our export sales are linked to the specific underlying benchmark commodity prices but we believe our business model representing one of the lowest cost producers in the world insulates us from severe financial and operational stress. We do not expect any asset impairments or write-offs resulting from a lower commodity price environment.

Management continues to closely monitor the economic and political environment in Russia and abroad, including the domestic and international capital markets to determine if any further corrective and/or preventive measures are required to sustain and grow our business. We are also closely monitoring the present commodity price environment and its impact on our business operations.

We conduct regular reviews of our capital expenditure program and existing debt obligations. In our opinion, the Group's financial position is stable and expected operating cash flows are sufficient to service and repay our debt, as well as to execute our planned capital expenditure programs.

We together with our international partners, TOTAL S.A. and China National Petroleum Corporation, are undertaking all necessary actions to implement the joint investment projects on time as planned, including, but not limited to, attraction of financing from domestic and non-US capital markets.

Natural gas prices

The Group's natural gas prices on the domestic market are strongly influenced by the prices set by a federal executive agency of the Russian Federation that carries out governmental regulation of prices and tariffs for products and services of natural monopolies in energy, utilities and transportation (the "Regulator"), as well as present market conditions. During 2014 and the first half of 2015, the Federal Tariffs Service ("FTS") fulfilled the Regulator's role. In July 2015, a Decree of the President of the Russian Federation became effective abolishing the FTS and transferring its functions to the Federal Anti-Monopoly Service.

During 2014 and the first half of 2015, regulated natural gas prices for sales to all customer categories on the domestic market (excluding residential customers) did not change and were calculated using a price formula based on parameters set in December 2013.

Effective 1 July 2015, the Regulator adjusted the parameters used in the formula for wholesale natural gas prices calculation and, as a result, wholesale natural gas prices for sales to all customer categories (excluding residential customers) on the domestic market were increased by 7.5%.

In October 2015, the Ministry of Economic Development of the Russian Federation published the "Forecast of Socio-economic Development of the Russian Federation for 2016 and planned period 2017 and 2018" based on which wholesale natural gas prices for sales to all customer categories (excluding residential customers) in July 2016, 2017 and 2018 will be increased by an average of 2.0%, 3.0% and 3.0%, respectively. The Russian Federation government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth rates on the domestic market.

Based on changes to the Tax Code of the Russian Federation, 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 natural 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 regions 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" 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 in 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 addition, from time to time, based on market situation we sell natural gas at the Saint-Petersburg International Mercantile Commodities Exchange. We disclose such sales within our sales to end-customers category.

In 2015, our average natural gas price on end-customers sales increased by 4.3% mainly due to an increase in the average regulated price by 7.5% effective 1 July 2015. At the same time, our average transportation expense per mcm increased by 1.4% due to a 2.0% increase in the natural gas transportation tariff set by the Regulator effective 1 July 2015 (see "Transportation tariffs" delow). As a result, the average natural gas price on end-customers sales excluding transportation expenses increased by 6.3%.

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

Russian roubles per mcm	**Year ended 31 December: 2015**	**2014**	**Change %**
Average natural gas price to end-customers [1]	3,678	3,527	4.3%
Average natural gas transportation expense for sales to end-customers	(1,483)	(1,463)	1.4%
Average natural gas price on end-customer sales excluding transportation expense	2,196	2,066	6.3%
Average natural gas price ex-field (wholesale traders)	1,965	1,833	7.2%
Total average natural gas price excluding transportation expense	**2,180**	**2,052**	**6.2%**

[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. Among many other factors volatile movements in benchmark crude oil and oil products prices can have a positive and/or negative impact on the contract prices we receive for our liquids sales volumes.

In addition, our actual realized net export prices for crude oil, stable gas condensate and its refined products are affected by the so-called "export duty lag effect". This effect is due to the differences between actual crude oil prices for a certain period and crude oil prices based on which export duty rate is calculated for the same period (see "Our tax burden and obligatory payments" below). In periods when crude oil prices are rising, the duty lag effect normally has a positive impact on the Group's financial results, as the export duty rates are set on the basis of lower crude oil prices compared to the actual prices. Conversely, in periods of crude oil prices decline, the export duty rate is calculated based on higher prices compared to the actual prices which results in a negative financial impact.

Our crude oil is transported through the pipeline system where it is blended with other producers' crude oil of varying qualities. Depending on the route of transportation we export different grades of crude oil ("Urals" until the end of 2014, and from the third quarter of 2014 – low-sulfur "Siberian Light Crude Oil" (SILCO)), which are commonly traded with a discount to the international benchmark Brent crude oil. Our crude oil domestic prices are set on an individual transaction basis.

Most of our liquid hydrocarbons sales prices on both the international and domestic markets include transportation expenses in accordance with the specific terms of delivery. The remaining small part of our liquids volumes is sold without additional transportation expenses (ex-works sales of liquefied petroleum gas from Purovsky Plant and Tobolsk-Neftekhim refining facilities, as well as certain other types of sales).

Stable gas condensate and refined products

In 2014, nearly all our stable gas condensate volumes produced at the Purovsky Plant were transferred to the Ust-Luga Complex for the processing into higher value added gas condensate refined products. The remaining minor volumes of stable gas condensate were sold domestically. As a result, there were no sales of stable gas condensate to export markets in 2014.

As a result of the launch of new fields and full capacity utilization of our Ust-Luga Complex effective in the first quarter of 2015, we commenced export sales of stable gas condensate. In 2015, we sold 1,477 thousand tons of stable gas condensate at an average realized export contract price, including export duties, of USD 394 per ton and our average realized net export price, excluding export duties, amounted to USD 282.1 per ton. We will continue to export stable gas condensate to the extent that the volumes received from the processing at the Purovsky Plant exceed the processing ability at the Ust-Luga Complex and domestic sales volumes.

In 2015, our average realized export contract prices for naphtha and other gas condensate refined products produced at the Ust-Luga Complex, including export duties, decreased by USD 361 and USD 310 per ton, or 42.2% and 39.6%, to approximately USD 494 and USD 473 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).

At the same time our average realized net export prices, excluding export duties, for naphtha and other gas condensate refined products produced at the Ust-Luga Complex in 2015, decreased to a lesser extent, by USD 137.1 and USD 149.2 per ton, or 26.0% and 27.1%, and amounted to USD 389.9 and USD 401.5 per ton, respectively, due to a significant decrease in average export duties (see "Selected macro-economic data" above). Our average realized net export prices for naphtha and other gas condensate refined products in Russian roubles increased by 23.6% and 16.3%, respectively, due to a 58.7% increase in the average exchange rate of the US dollar to the Russian rouble in 2015 compared to 2014.

Our sales to international markets were conducted at different delivery terms: cost and freight (CFR), priced at cost, insurance and freight (CIF), delivery to the port of destination ex-ship (DES), delivery at point of destination (DAP), or free on board (FOB) (only in 2015).

In 2015 and 2014, we sold small volumes of other gas condensate refined products produced at the Ust-Luga Complex domestically. Prices are set on an individual transaction basis and in 2015, our average realized price amounted to RR 19,320 per ton (excluding VAT), representing a decrease of RR 782 per ton, or 3.9%, as compared to 2014. We expect that we will continue to sell some volumes of other gas condensate refined products domestically.

The following table shows our average realized stable gas condensate and refined products sales prices. Prices are shown net of VAT and export duties, where applicable:

Russian roubles or US dollars per ton	**Year ended 31 December: 2015**	**2014**	**Change %**
Stable gas condensate			
Net export price, RR per ton	16,842	-	n/a
Net export price, USD per ton	282.1	-	n/a
Domestic price, RR per ton	14,601	12,547	16.4%
Naphtha			
Net export price, RR per ton	23,203	18,767	23.6%
Net export price, USD per ton	389.9	527.0	(26.0%)
Other gas condensate refined products			
Net export price, RR per ton	24,064	20,692	16.3%
Net export price, USD per ton	401.5	550.7	(27.1%)
Domestic price, RR per ton	19,320	20,102	(3.9%)

Liquefied petroleum gas

In 2015, our average realized LPG export contract price, including export duties, excise and fuel taxes expense, and excluding trading activities, significantly decreased by USD 329 per ton, or 39.4%, and was approximately USD 506 per ton compared to USD 835 per ton in 2014. The decrease in our average realized contract price was due to a significant decrease in the underlying benchmark prices for LPG on international markets used in price calculation (see "Selected macro-economic data" above).

At the same time our average realized LPG net export price, excluding export duties, excise and fuel taxes expense, decreased to a lesser extent, by USD 170.9 per ton, or 30.8%, to USD 384.8 per ton from USD 555.7 per ton due to setting a zero export duty rate by the Russian Federation government from February 2015 (see "Selected macro-economic data" above). Despite a decrease in the average realized net export price in US dollars, our average realized LPG net export price in Russian roubles increased by 9.9% due to a 58.7% increase in average exchange rate of US dollar to Russian rouble in 2015 compared to 2014.

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 2015, we also sold our LPG under carriage paid to (CPT) the Port of Temryuk (southern Russia) delivery terms.

In 2015, our average realized LPG domestic price decreased by RR 2,562 per ton, or 18.5%, to RR 11,307 per ton from RR 13,869 per ton in 2014 mainly due to the reallocation of our LPG sales volumes in favor of ex-works Purovsky Plant and Tobolsk-Neftekhim refining facilities sales with no additional associated transportation expenses.

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:

Russian roubles or US dollars per ton	Year ended 31 December: 2015	2014	Change %
LPG			
Net export price, RR per ton	23,457	21,349	9.9%
Net export price, USD per ton	384.8	555.7	(30.8%)
Domestic price, RR per ton	11,307	13,869	(18.5%)

Crude oil

Our average realized crude oil export contract price, including export duties, decreased by USD 317 per ton, or 46.1%, and was approximately USD 371 per ton compared to USD 688 per ton in 2014. The decrease in our average crude oil contract price was a result of a decrease in the Brent benchmark crude oil price on the international markets used as the base for price setting (see "Selected macro-economic data" above).

At the same time our average realized crude oil net export price, excluding export duties, decreased to a lesser extent, by USD 67.2 per ton, or 21.1%, to USD 250.9 per ton from USD 318.1 per ton in 2014 due to a significant decrease of 67.1% in the average export duty per ton set by the Russian Federation government (see "Selected macro-economic data" above). Our average realized crude oil net export price in Russian roubles increased by 22.5% due to a 58.7% increase in average exchange rate of US dollar to Russian rouble in 2015 compared to 2014.

In 2015 and in the second half of 2014, we exported our crude oil via the port of Novorossiysk under FOB delivery terms. In addition, in 2014, we sold our crude oil under DAP (Budkovtse, Slovakia) delivery terms.

In 2015, our average realized crude oil domestic price was RR 12,967 per ton (excluding VAT) representing an increase of RR 406 per ton, or 3.2%, from RR 12,561 per ton (excluding VAT) in 2014.

The following table shows our average realized crude oil sales prices. Prices are shown net of VAT and export duties, where applicable:

Russian roubles or US dollars per ton	Year ended 31 December: 2015	2014	Change %
Crude oil			
Net export price, RR per ton	14,922	12,183	22.5%
Net export price, USD per ton	250.9	318.1	(21.1%)
Domestic price, RR per ton	12,967	12,561	3.2%

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 PAO 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 Regulator (see "Terms and abbreviations" below).

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.

In 2014 and in the first half of 2015, the transportation rate was set at RR 12.79 per mcm per 100 km (excluding VAT), and the rate for utilization of the trunk pipeline was set between RR 57.18 to RR 2,048.11 per mcm (excluding VAT).

Effective 1 July 2015, the average tariff for natural gas transportation through the trunk pipeline was increased by 2.0%. As a result, the transportation rate was increased to RR 13.04 per mcm per 100 km (excluding VAT), and the rate for utilization of the trunk pipeline was set between RR 62.57 to RR 2,014.16 per mcm (excluding VAT).

According to the Forecast of the Ministry of Economic Development of the Russian Federation published in October 2015, the increase in transportation tariffs for natural gas produced by independent producers in 2016, 2017 and 2018 will be in line with the increase in wholesale natural gas prices (see "Natural gas prices" above). The Russian Federation government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth on the domestic market.

Stable gas condensate and LPG by rail

We transport stable gas condensate produced at the Purovsky Plant and LPG received from the processing at the Tobolsk-Neftekhim by rail owned by Russia's state-owned monopoly railway operator – OAO Russian Railways ("RZD").

The railroad transportation tariffs are set by the Regulator and vary depending on the type of a product, direction and the length of the transport route. In addition, the Regulator sets the range of railroad tariffs as a percentage of the regulated tariff within which RZD may vary railroad transportation tariffs within the Russian Federation territory based on the type of product, direction and length of the transportation route taking into account current railroad transportation and market conditions.

In 2014, the Regulator did not change railroad transportation tariffs. However, effective 9 August 2014, RZD, within the range of railroad tariffs set by the Regulator, increased railroad transportation tariffs within the Russian Federation territory for LPG deliveries to the export markets by 13.4%. Tariffs for transportation of our other liquid hydrocarbons remained the same.

Effective 1 January 2015, the Regulator increased railroad freight transportation tariffs for all types of hydrocarbons by 10% and effective 3 January 2016 – by additional 9% which corresponded to the Ministry of Economic Development Forecast published in October 2015.

In 2014 and 2015, we applied the discount coefficient of 0.94 to the existing railroad transportation tariffs for stable gas condensate deliveries from the Limbey rail station to the Port of Ust-Luga and to end-customers on the domestic market. The discount coefficient is set by the decision of the Management Board of RZD as part of the Strategic Partnership Agreement between the Group and RZD. In December 2015, RZD expanded the list of transportation routes for which the discount coefficient is applied, as well as extended the validity of the coefficient of 0.94 till the end of 2016 that will allow us to apply the discount coefficient for deliveries of all stable gas condensate volumes produced.

In 2014, for our stable gas condensate and LPG transportation we used our own rail cars and rail cars provided by independent Russian transportation companies. At the end of 2014, as a result of the optimization of our LPG transportation and sales, we sold all our own rail cars.

Stable gas condensate and refined products by tankers

We deliver part of stable gas condensate and substantially all stable gas condensate refined products to international markets by chartered tankers via the Port of Ust-Luga on the Baltic Sea. The tanker transportation cost is determined by standard shipping terms, the distance to the final port of destination, tanker availability and seasonality of deliveries.

Crude oil

We transport nearly all of our crude oil through the pipeline network owned by OAO AK Transneft, Russia's state-owned monopoly crude oil pipeline operator. The Regulator 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 Regulator sets tariffs for each separate route of the pipeline network, so the overall expense for the transport of crude oil depends on the length of the transport route from the producing fields to the ultimate destination, transportation direction and other factors.

During 2014, crude oil transportation tariffs within the Russian Federation territory did not change. Effective 1 January 2015, crude oil transportation tariffs within the Russian Federation territory through the pipeline network were increased by an average of 6.75%. Effective 1 January 2016, crude oil transportation tariffs were increased by an average of 5.76% relative to 2015 tariffs.

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 and obligatory payments to which we are subject include VAT, unified natural resources production tax ("UPT", commonly referred as "MET" – mineral extraction tax), export duties, property tax and social contributions to non-budget funds.

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 – natural gas and gas condensate

According to the Tax Code of the Russian Federation, from 1 January to 1 July 2014 the UPT rates for natural gas and gas condensate were set at a fixed rate and amounted to RR 471 per mcm of natural gas extracted by independent producers (determined by a stated base rate and a reducing coefficient for independent natural gas producers) and to RR 647 per ton of extracted gas condensate.

Effective 1 July 2014, as a result of changes in the Tax Code of the Russian Federation, the UPT rates for natural gas and gas condensate are calculated monthly according to a formula based on which the base UPT rate is multiplied by the base value of a standard fuel equivalent and a coefficient characterizing the difficulty of extracting natural gas and gas condensate from each particular field. 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 primarily on natural gas prices, Urals crude oil prices and crude oil export duty rate. A coefficient characterizing the difficulty of extracting natural gas and gas condensate defined as a minimum value from the coefficients 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.

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.

In November 2014, as part of the tax maneuver in the oil industry, 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" was adopted which envisages the increase in national budgetary income as a result of the phased (during three years) increases in UPT rates with a simultaneous decrease in excise taxes and export duties. As a result, the formula for gas condensate UPT rate calculation was adjusted by a coefficient that increased the tax rate by 4.4, 5.5 and 6.5 times from 1 January 2015, 2016 and 2017, respectively, in relation to the UPT rate set from 1 July 2014.

UPT – crude oil

The UPT rate for crude oil is calculated monthly in US dollars and translated into Russian roubles using the monthly average exchange rate. The average exchange rate is calculated based on rates daily established by the Central Bank of Russian Federation.

During 2014, the UPT rate for crude oil was calculated by multiplying the base UPT rate and coefficients characterizing crude oil world price dynamics and production peculiarities for a particular field and particular hydrocarbon deposit (reserves volumes and reserves depletion for a particular field, extracting complexity and reserve depletion of a particular hydrocarbon deposit). From 1 January 2014, the base crude oil UPT rate was set at RR 493 per ton.

As part of the tax maneuver in the oil industry (see above) effective from 1 January 2015, the formula for the crude oil UPT rate calculation was adjusted. The UPT rate is calculated as the base UPT rate multiplied by a coefficient characterizing the dynamics of world crude oil prices, and the resulting product is further decreased by a parameter characterizing crude oil production peculiarities. The base crude oil UPT rate in 2015 was set at RR 766 per ton (increased by 55.4% compared to 2014). Effective 1 January 2016, the base UPT rate was increased to RR 857 per ton and will be set at RR 919 per ton effective from 1 January 2017.

In 2014, in accordance with the Tax Code of the Russian Federation, we applied a zero UPT rate for crude oil produced at our Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye fields since these fields are located fully or partially to the north of the 65th degree of the northern latitude fully or partially in the YNAO. From 1 January 2015, as a result of the changes in the Tax Code of the Russian Federation, the UPT rate for crude oil produced at the aforementioned fields was calculated using an effective rate of RR 236 per ton (the rate was increased to RR 298 per ton from 1 January 2016 and will be set at RR 360 per ton from 1 January 2017) multiplied by a coefficient 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 (see “Selected macro-economic data” above).

The export duty rate for stable gas condensate and crude oil for the next calendar month 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. In 2014, the 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 59% of the difference between the average Urals crude oil price and USD 182.5 per ton. As part of the tax maneuver in oil industry (see above) effective 1 January 2015, the set percentage was decreased from 59% to 42%, and effective 1 January 2016 and 2017 the set percentage should have been further decreased to 36% and 30%, respectively. However, in order to increase state budget income in 2016 in the anticipation of a lower crude oil price environment, in November 2015, the Russian Federation government made a decision not to adjust the formula for crude oil export duty rate calculation in 2016 and to keep a set percentage at the 2015 level of 42%.

The export duty rates for oil products is calculated based on the export duty rate for crude oil which is adjusted by a coefficient 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:

% from the crude oil export duty rate	**2014**	**2015**	**2016**	**2017 and further**
Naphtha	90%	85%	71%	55%
Jet fuel	66%	48%	40%	30%
Gasoil	65%	48%	40%	30%
Fuel oil	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).

The export duty rate for LPG for the next calendar month 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. The rate is calculated as the difference between the average LPG price and USD 490, USD 640 or USD 740 (the one the LPG price is exceeding) multiplied by a coefficient 0.5, 0.6 or 0.7 and then increased by USD 0, USD 75 or USD 135, respectively. If the average LPG price is less than USD 490 per ton the export duty rate is set to zero.

Social contributions

In 2014 and 2015, the rates for social 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 aforementioned rates are applied by the employer until the annual income of an employee exceeds the maximum taxable base set by the Russian Federation government. For the portion of the annual income exceeding the maximum base the reduced rates are applied.

In 2014, the rate for the excess annual income above the maximum base was set at 10.0% for the Pension Fund and nil for the other funds.

Effective 1 January 2015, the rate for social contributions to the Federal Compulsory Medical Insurance Fund was set at 5.1% regardless of the employee’s annual income. The rates for social contributions to other funds did not change.

The table below provides for the rates and maximum taxable bases set by the Russian Federation government for social contributions in 2014, 2015 and 2016:

	2014		2015		2016	
	Base, RR thousand	**Rate, %**	**Base, RR thousand**	**Rate, %**	**Base, RR thousand**	**Rate, %**
Pension Fund of the Russian Federation	less 624	22.0%	less 711	22.0%	less 796	22.0%
	above 624	10.0%	above 711	10.0%	above 796	10.0%
Federal Compulsory Medical Insurance Fund	less 624	5.1%				
	above 624	5.1%	No limit	5.1%	No limit	5.1%
Social Insurance Fund of the Russian Federation	less 624	2.9%	less 670	2.9%	less 718	2.9%
	above 624	0.0%	above 670	0.0%	above 718	0.0%

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 2015 and 2014, 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.

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

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 internal technical appraisals of reserves are performed by the Group's qualified technical staff working directly with the oil and gas properties and are periodically updated during the year based on evaluations of new wells, performance reviews, new technical information and other studies.

The annual independent external appraisal of our reserves is performed by independent petroleum 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 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, long-term financing planning 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.

The information below provides for our oil and gas reserves under SEC and PRMS reserve classifications including 100% of 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.

The table below provides proved oil and gas reserves under SEC reserve classification in Metric units and on a total barrel of oil equivalent basis:

	As of and for the years ended 31 December:		Change
	2015	**2014**	**%**
Natural gas, billions of cubic meters	**1,775**	**1,751**	**1.4%**
Subsidiaries	1,034	1,018	1.6%
Share in joint ventures (1)	741	733	1.1%
Liquids, millions of metric tons	**143**	**140**	**2.0%**
Subsidiaries	68	62	9.7%
Share in joint ventures (1)	75	78	(3.8%)
Combined reserves, millions of boe	**12,817**	**12,643**	**1.4%**
Production, millions of boe	522	457	14.2%
Reserves replacement ratio (2), %	133%	114%	n/a

(1) At 31 December 2015, the Group's share in proved reserves of joint ventures under SEC classification includes reserves attributable to the 9.9% interest in Yamal LNG classified as held for sale of 51.6 bcm of natural gas and 1.5 million metric tons of liquids.

(2) The reserves replacement ratio is calculated as the difference between the reserves at the end of the year and the reserves at the beginning of the year plus production for the year and dividing the sum by production for the year.

In 2015, even though we increased overall production of natural gas and liquid hydrocarbons in our joint ventures and subsidiaries by 65 million boe, or 14.2%, primarily as a result of the launch of additional production capacities (see "Recent developments" above), we replaced our hydrocarbon reserves under SEC reserve classification by 133% mainly due to an increase in our natural gas proved reserves. The increase in natural gas proved reserves mainly related to revisions of previous estimates at our Salmanovskoye (Utrenneye) field and at the fields of SeverEnergia and Yamal LNG joint ventures, as well as to extensions and discoveries at the North-Russkiy field. The increase was partially offset by a disposal of a 1.6% effective ownership interest in our joint venture SeverEnergia. Excluding the effect from the disposal of interest in SeverEnergia the reserves replacement ratio for 2015 amounted to 148%.

As a result, as of 31 December 2015, the Group's combined proved reserves under SEC classification on a total barrel of oil equivalent basis increased by 1.4% to 12.8 billion of boe.

The following table provides for the Group's PRMS proved, probable and possible reserves in Metric units and on a total barrel of oil equivalent basis:

	Natural gas, billions of cubic meters		Liquid hydrocarbons, millions of metric tons		Combined reserves, millions of boe	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**	**31 December 2015**	**31 December 2014**
Proved reserves	2,118	2,140	177	182	15,344	15,522
Probable reserves	1,034	991	121	128	7,773	7,547
Proved and probable	**3,152**	**3,131**	**298**	**310**	**23,117**	**23,069**
Possible reserves	662	668	110	173	5,230	5,756
Proved, probable and possible	**3,814**	**3,799**	**408**	**483**	**28,347**	**28,825**

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 below table contains information about reserve to production ratios as of 31 December 2015 and 2014 under both reserves reporting methodologies:

	SEC		**PRMS**	
	At 31 December:		**At 31 December:**	
Number of years	**2015**	**2014**	**2015**	**2014**
Total proved reserves to production	25	28	29	34
Total proved and probable reserves to production	-	-	44	50
Total proved, probable and possible reserves to production	-	-	54	63

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:

	Year ended 31 December:		Change
millions of Russian roubles	2015	2014	%
Production costs:			
Lifting costs	10,705	9,472	13.0%
Taxes other than income tax	36,296	29,081	24.8%
Transportation expenses	83,574	89,747	(6.9%)
Total production costs before DDA	**130,575**	**128,300**	**1.8%**
Depreciation, depletion and amortization ("DDA")	17,522	15,127	15.8%
Total production costs	**148,097**	**143,427**	**3.3%**

	Year ended 31 December:		Change
RR per boe	2015	2014	%
Production costs:			
Lifting costs	30.1	24.9	20.9%
Taxes other than income tax	102.1	76.6	33.3%
Transportation expenses	235.1	236.3	(0.5%)
Total production costs before DDA	**367.3**	**337.8**	**8.7%**
Depreciation, depletion and amortization	49.3	39.8	23.9%
Total production costs	**416.6**	**377.6**	**10.3%**

	Year ended 31 December:		Change
USD per boe (1)	2015	2014	%
Production costs:			
Lifting costs	0.49	0.65	(24.6%)
Taxes other than income tax	1.67	1.99	(16.1%)
Transportation expenses	3.87	6.15	(37.1%)
Total production costs before DDA	**6.03**	**8.79**	**(31.4%)**
Depreciation, depletion and amortization	0.80	1.04	(23.1%)
Total production costs	**6.83**	**9.83**	**(30.5%)**

(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 lifting costs, 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 at 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 that the lifting costs as presented in the Group's IFRS consolidated financial statements include changes in balances of natural gas and liquid hydrocarbons 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" is set forth below:

millions of Russian roubles	**Year ended 31 December:** 2015	2014	**Change %**
Lifting costs presented in "Oil and Gas Production Costs" above	10,705	9,472	13.0%
Change in balances of natural gas and hydrocarbon liquids stated at cost in the Group's Consolidated Statement of Financial Position	(603)	(658)	(8.4%)
Lifting costs per "Unaudited Supplemental Oil and Gas Disclosures"	**10,102**	**8,814**	**14.6%**

Hydrocarbon production and sales volumes

Our natural gas sales volumes in 2015, decreased by 4,766 mmcm, or 7.1%, as a result of one of our major customers temporarily not taking its full contracted volumes due to technical reasons and warmer weather in the Russian Federation in 2015 compared to 2014. Natural gas production volumes at our main fields marginally decreased, but were completely offset by an increase in the production of our joint ventures.

Our liquids sales volumes increased significantly by 5,799 thousand tons, or 81.8%, primarily due to an increase in production of gas condensate in our joint ventures and, to a lesser extent, crude oil production in our subsidiaries.

Natural gas production volumes

As a result of increased production of our joint ventures, in 2015, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 5,776 mmcm, or 9.3%, to 67,905 mmcm from 62,129 mmcm in 2014.

millions of cubic meters	**Year ended 31 December:** 2015	2014	**Change %**
Production by subsidiaries from:			
Yurkharovskoye field	35,979	38,154	(5.7%)
East-Tarkosalinskoye field	9,075	10,348	(12.3%)
Khancheyskoye field	2,510	2,933	(14.4%)
Other fields	1,608	1,163	38.3%
Total natural gas production by subsidiaries	**49,172**	**52,598**	**(6.5%)**
Group's proportionate share in the production of joint ventures:			
SeverEnergia (Arcticgas)	12,624	4,129	205.7%
Nortgas	5,395	5,402	(0.1%)
Terneftegas	714	-	n/a
Total Group's proportionate share in the natural gas production of joint ventures	**18,733**	**9,531**	**96.5%**
Total natural gas production including proportionate share in the production of joint ventures	**67,905**	**62,129**	**9.3%**

In 2015, the combined total volumes of natural gas produced by our subsidiaries decreased by 3,426 mmcm, or 6.5%, to 49,172 mmcm from 52,598 mmcm in 2014 due to natural decline in the reservoir pressure at the current gas producing horizons at our mature fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye). The decrease in production was partially offset by the launch of the North-Khancheyskoye field at the end of 2014, as well as an increase in production at the Dobrovolskoye field due to new wells drilled at the end of 2014, production of which is included in the line "Other fields" in the table above.

In 2015, our proportionate share in the production of our joint ventures increased by 9,202 mmcm, or 96.5%, to 18,733 mmcm from 9,531 mmcm in 2014 primarily as a result of the production growth in SeverEnergia. The production of SeverEnergia significantly increased due to reaching the nameplate production capacity of the first and second phases of the Urengoyskoye field in December 2014 and February 2015, respectively, the launch of the third phase of the Samburgskoye field in September 2014, as well as the launch of the Yaro-Yakhinskoye field in April 2015, the nameplate production capacity of which was reached in June 2015. In addition, effective May 2015, our joint venture Terneftegas commenced production at the Termokarstovoye field (see "Recent Developments" above).

Natural gas sales volumes

In 2015, our total natural gas sales volumes decreased by 4,766 mmcm, or 7.1%, to 62,465 mmcm from 67,231 mmcm in 2014 as a result of one of our major customers temporarily not taking its full contracted volumes due to technical reasons and warmer weather in the Russian Federation in 2015 as compared to 2014.

millions of cubic meters	**Year ended 31 December: 2015**	**2014**	**Change %**
Production by subsidiaries	49,172	52,598	(6.5%)
Purchases from the Group's joint ventures	7,152	5,402	32.4%
Other purchases	6,626	7,165	(7.5%)
Total production and purchases	**62,950**	**65,165**	**(3.4%)**
Purovsky Plant, own usage and methanol production	(207)	(181)	14.4%
Decrease (increase) in GTS, UGSF and own pipeline infrastructure	(278)	2,247	n/a
Total natural gas sales volumes	**62,465**	**67,231**	**(7.1%)**
Sold to end-customers	*58,054*	*63,281*	*(8.3%)*
Sold ex-field	*4,411*	*3,950*	*11.7%*

In 2015, natural gas purchases from our joint ventures increased by 1,750 mmcm, or 32.4%, to 7,152 mmcm from 5,402 mmcm in 2014 primarily due to the commencement of purchases from Terneftegas as a result of the launch of the Termokarstovoye field in May 2015.

Other natural gas purchases decreased by 539 mmcm, or 7.5%, due to decreased purchases from third parties and PAO SIBUR. 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 end-customers' portfolios.

In 2015, we used 80 mmcm of natural gas as feedstock for the production of methanol compared to 78 mmcm in 2014. 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 2015, our natural gas inventory balance in the GTS, the UGSF and our own pipeline infrastructure aggregated 1,327 mmcm and increased by 278 mmcm during the year as compared to a decrease by 2,247 mmcm in 2014, whereby the volumes injected into the UGSF remained relatively flat.

Liquids production volumes

In 2015, our total liquids production (including our proportionate share in the production of joint ventures) increased by 3,058 thousand tons, or 50.7%, to 9,094 thousand tons from 6,036 thousand tons in 2014 primarily due to a significant increase in the production of our joint ventures and, to a lesser extent, crude oil production in our subsidiaries.

thousands of tons	Year ended 31 December: 2015	2014	Change %
Production by subsidiaries from:			
Yurkharovskoye field	2,126	2,496	(14.8%)
East-Tarkosalinskoye field	1,365	1,293	5.6%
Khancheyskoye field	392	445	(11.9%)
Yarudeyskoye field	184	-	n/a
Other fields	131	106	23.6%
Total liquids production by subsidiaries	**4,198**	**4,340**	**(3.3%)**
including gas condensate	*2,764*	*3,272*	*(15.5%)*
including crude oil	*1,434*	*1,068*	*34.3%*
Group's proportionate share in the production of joint ventures:			
SeverEnergia (Arcticgas)	4,016	1,063	277.8%
Nortgas	622	633	(1.7%)
Terneftegas	258	-	n/a
Total Group's proportionate share in the liquids production of joint ventures	**4,896**	**1,696**	**188.7%**
Total liquids production including proportionate share in the production of joint ventures	**9,094**	**6,036**	**50.7%**

In 2015, the volumes of liquids produced by our subsidiaries slightly decreased by 142 thousand tons, or 3.3%, whereby the decrease in gas condensate production was largely offset by an increase in crude oil production. In 2015, we ramped up crude oil production due to new wells drilled and technological works performed to increase the crude oil production flow rates at the East-Tarkosalinskoye field. In addition, in December 2015, we commenced crude oil commercial production at the Yarudeyskoye field, the nameplate production capacity of which was reached at the end of December (see "Recent developments" above). Gas condensate production at our mature fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye) 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.

In 2015, our proportionate share in liquids production of joint ventures increased by 3,200 thousand tons, or 188.7%, to 4,896 thousand tons from 1,696 thousand tons in 2014 mainly as a result of the production growth in SeverEnergia. The production of SeverEnergia increased significantly due to reaching the nameplate production capacity of the first and second phases of the Urengoyskoye field in December 2014 and February 2015, respectively, the launch of the third phase of the Samburgskoye field in September 2014, as well as the launch of the Yaro-Yakhinskoye field in April 2015, the nameplate production capacity of which was reached in June 2015. In addition, our joint venture Terneftegas commenced production at the Termokarstovoye field in May 2015.

Liquids sales volumes

In 2015, our total liquids sales volumes increased significantly by 5,799 thousand tons, or 81.8%, to 12,888 thousand tons from 7,089 thousand tons in 2014 primarily due to an increase in the production of gas condensate in our joint ventures and, to a lesser extent, crude oil production in our subsidiaries.

thousands of tons	Year ended 31 December: 2015	2014	Change %
Production by subsidiaries	4,198	4,340	(3.3%)
Purchases from the Group's joint ventures	9,045	3,180	184.4%
Other purchases	94	49	91.8%
Total production and purchases	**13,337**	**7,569**	**76.2%**
Losses [1] and own usage [2]	(278)	(276)	0.7%
Filling the system of processing facilities and pipelines at the Yarudeyskoye field	(36)	-	n/a
Decreases (increases) in liquids inventory balances	(135)	(204)	(33.8%)
Total liquids sales volumes	**12,888**	**7,089**	**81.8%**
Naphtha export	*4,120*	*3,319*	*24.1%*
Other gas condensate refined products export	*2,479*	*1,096*	*126.2%*
Other gas condensate refined products domestic	*94*	*23*	*308.7%*
Subtotal gas condensate refined products	***6,693***	***4,438***	***50.8%***
Stable gas condensate export	*1,477*	*-*	*n/a*
Stable gas condensate domestic	*1,309*	*303*	*332.0%*
Subtotal stable gas condensate	***2,786***	***303***	***n/a***
LPG export	*551*	*559*	*(1.4%)*
LPG domestic	*1,755*	*875*	*100.6%*
Subtotal LPG	***2,306***	***1,434***	***60.8%***
Crude oil export	*377*	*313*	*20.4%*
Crude oil domestic	*713*	*590*	*20.8%*
Subtotal crude oil	***1,090***	***903***	***20.7%***
Other oil products domestic	*13*	*11*	*18.2%*
Subtotal other oil products	***13***	***11***	***18.2%***

(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.

(2) Own usage associated primarily with the maintaining of refining process at the Ust-Luga Complex, as well as bunkering of charted tankers.

In 2015, our purchases of liquid hydrocarbons from joint ventures increased significantly by 5,865 thousand tons, or 184.4%, due to a significant increase in our purchases of gas condensate from SeverEnergia resulting from the launch of additional production facilities at the end of 2014 and in the first half of 2015 (see "Liquids production volumes" above). In addition, effective May 2015, we commenced purchases of gas condensate from our joint venture Terneftegas as a result of the launch of the Termokarstovoye field.

In 2014, 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. As a result of the launch of new fields and full refining capacity utilization of our Ust-Luga Complex, we commenced stable gas condensate deliveries to export markets from the first quarter of 2015.

Sales volumes of jet fuel, gasoil and fuel oil received from the processing of stable gas condensate are disclosed in lines "Other gas condensate refined products export" and "Other gas condensate refined products domestic".

In 2015, our liquids inventory balances increased by 171 thousand tons to 910 thousand tons as of 31 December 2015 as compared to an increase in inventory balances by 204 thousand tons to 739 thousand tons in 2014. Our liquids inventory balances may vary period-to-period depending on shipping 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 2015 COMPARED TO THE YEAR ENDED 31 DECEMBER 2014

The following table and discussion is a summary of our consolidated results of operations for the years ended 31 December 2015 and 2014. Each line item is also shown as a percentage of our total revenues.

	Year ended 31 December:			
millions of Russian roubles	**2015**	**% of total revenues**	**2014**	**% of total revenues**
Total revenues [1]	**475,325**	***100.0%***	**357,643**	***100.0%***
including:				
natural gas sales	222,180	*46.7%*	230,447	*64.4%*
liquids' sales	249,827	*52.6%*	125,226	*35.0%*
Operating expenses	(335,042)	*(70.5%)*	(236,512)	*(66.1%)*
Other operating income (loss)	(542)	*(0.1%)*	4,009	*1.1%*
Profit from operations before disposals of interests in joint ventures	**139,741**	***29.4%***	**125,140**	***35.0%***
Net gain (loss) on disposal of interests in joint ventures	989	*0.2%*	2,623	*0.7%*
Profit from operations	**140,730**	***29.6%***	**127,763**	***35.7%***
Finance income (expense)	(16,182)	*(3.4%)*	(46,745)	*(13.0%)*
Share of profit (loss) of joint ventures, net of income tax	(31,607)	*(6.6%)*	(28,175)	*(7.9%)*
Profit before income tax	**92,941**	***19.6%***	**52,843**	***14.8%***
Total income tax expense	(18,822)	*(4.0%)*	(15,928)	*(4.5%)*
Profit (loss)	**74,119**	***15.6%***	**36,915**	***10.3%***
Less: profit (loss) attributable to non-controlling interest	277	*0.1%*	381	*0.1%*
Profit attributable to shareholders of OAO NOVATEK	**74,396**	***15.7%***	**37,296**	***10.4%***

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

The launch of additional production facilities at the end of 2014 and in the first half of 2015 allowed us to fully utilize our vertically integrated chain of gas condensate production, processing, refining and marketing. We sold considerably more volumes of liquid hydrocarbons with a higher added value compared to 2014, which significantly increased the Group's cash flow generation and positively impacted the Group's financial results, as most of our revenues from liquids sales is denominated in foreign currency. As a result, in 2015, our revenues from liquid hydrocarbons sales amounted to RR 250 billion and exceeded the revenues from natural gas sales.

Total revenues

The following table sets forth our sales (excluding VAT, export duties, excise and fuel taxes expense, where applicable) for the years ended 31 December 2015 and 2014:

millions of Russian roubles	Year ended 31 December: 2015	2014	Change %
Natural gas sales	**222,180**	**230,447**	**(3.6%)**
End-customers	*213,513*	*223,209*	*(4.3%)*
Ex-field sales	*8,667*	*7,238*	*19.7%*
Gas condensate refined products sales	**157,066**	**85,420**	**83.9%**
Export – naphtha	*95,588*	*62,280*	*53.5%*
Export – other refined products	*59,667*	*22,668*	*163.2%*
Domestic – other refined products	*1,811*	*472*	*n/a*
Stable gas condensate sales	**43,997**	**3,797**	**n/a**
Export	*24,887*	*-*	*n/a*
Domestic	*19,110*	*3,797*	*n/a*
Liquefied petroleum gas sales	**33,467**	**24,401**	**37.2%**
Export	*12,924*	*12,177*	*6.1%*
Domestic	*20,543*	*12,224*	*68.1%*
Crude oil sales	**14,873**	**11,226**	**32.5%**
Export	*5,629*	*3,813*	*47.6%*
Domestic	*9,244*	*7,413*	*24.7%*
Other products sales	**424**	**382**	**11.0%**
Domestic	*424*	*382*	*11.0%*
Total oil and gas sales	**472,007**	**355,673**	**32.7%**
Other revenues	3,318	1,970	68.4%
Total revenues	**475,325**	**357,643**	**32.9%**

Natural gas sales

In 2015, our revenues from sales of natural gas decreased by RR 8,267 million, or 3.6%, compared to 2014 due to a decrease in sales volumes which was largely offset by an increase in average sales prices. The increase in our natural gas average sales prices was mainly due to an increase in the average regulated price by 7.5% effective 1 July 2015 (see “Natural gas prices” above). The decrease in our total sales volumes was as a result of one of our major customers temporarily not taking its full contracted volumes due to technical reasons and warmer weather in the Russian Federation in 2015 as compared to 2014.

Our proportion of natural gas sold to end-customers to total natural gas sales volumes changed insignificantly and amounted to 92.9% and 94.1% in 2015 and 2014, respectively.

Gas condensate refined products sales

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

In 2015, our revenues from sales of gas condensate refined products significantly increased by RR 71,646 million, or 83.9%, as compared to 2014 due to an increase in sales volumes and average realized net export prices in Russian roubles.

In 2015, our revenues from sales of naphtha increased by RR 33,308 million, or 53.5%, as compared to 2014 due to an increase in average realized net export prices in Russian roubles by 23.6% and sales volumes by 24.1%.

In 2015 and 2014, we exported 4,120 thousand and 3,319 thousand tons of naphtha, respectively. Our average realized net export price, excluding export duties, increased by RR 4,436 per ton, or 23.6%, to RR 23,203 per ton (CIF, CFR, DES, DAP and FOB) from RR 18,767 per ton (CIF, CFR, DES and DAP) in 2014 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

In 2015, our revenues from sales of jet fuel, gasoil and fuel oil on the domestic and export markets increased by RR 38,338 million, or 165.7%, as compared to 2014 due primarily to an increase in sales volumes and, to a lesser extent, average realized net export prices in Russian roubles. In the years ended 31 December 2015 and 2014, we exported in aggregate 2,479 thousand and 1,096 thousand tons of these products to the European markets, or 96.3% and 97.9% of total sales volumes on the domestic and export markets, respectively. Our average realized net export price, excluding export duties, increased by RR 3,372 per ton, or 16.3%, to RR 24,064 per ton (CIF, DES, FOB and DAP) from RR 20,692 per ton (CIF) in 2014 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Stable gas condensate sales

In 2015, our revenues from sales of stable gas condensate significantly increased by RR 40,200 million, or 11.6 times, compared to 2014 due to the significant increase in volumes sold (see "Hydrocarbon production and sales volumes" above).

In 2015, we sold 1,477 thousand tons of stable gas condensate, or 53.0% of our total sales volumes, to the APR and European markets at an average realized net export price, excluding export duties, of RR 16,842 per ton (CFR, DAP, DES and CIF).

In 2015, we sold 1,309 thousand tons of stable gas condensate on the domestic market compared to 303 thousand tons in 2014. Our average realized price for stable gas condensate sales on the domestic market in 2015 amounted to RR 14,601 per ton (excluding VAT), representing an increase of RR 2,054 per ton, or 16.4%, as compared to 2014 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Liquefied petroleum gas sales

In 2015, our revenues from sales of LPG increased by RR 9,066 million, or 37.2%, compared to 2014 due to an increase in total sales volumes. The impact of this factor was partially offset by the reallocation of sales volumes in favor of the domestic market with lower average realized prices compared to net export sales prices (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

In 2015, we sold 551 thousand tons of LPG, or 23.9% of our total LPG sales volumes, to export markets as compared to sales of 559 thousand tons, or 39.0%, in 2014. Our average realized LPG net export price, excluding export duties, excise and fuel taxes expense and including trading activities, increased by RR 1,672 per ton, or 7.7%.

In both reporting periods we sold nearly all export volumes of LPG to the markets of Poland and Finland.

In 2015, we sold 1,755 thousand tons of LPG on the domestic market compared to sales of 875 thousand tons in 2014. Our average realized LPG domestic price, including trading activities, in 2015, was RR 11,707 per ton representing a decrease of RR 2,266 per ton, or 16.2%, compared to 2014 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Crude oil sales

In 2015, revenues from crude oil sales increased by RR 3,647 million, or 32.5%, compared to 2014 due to an increase in sales volumes and, to a lesser extent, average realized prices in Russian roubles. Our crude oil sales volumes increased by 187 thousand tons, or 20.7%, to 1,090 thousand tons from 903 thousand tons in 2014 mainly due to an increase in crude oil production at our East-Tarkosalinskoye field, as well as the commencement of crude oil commercial production at the Yarudeyskoye field in December 2015.

In 2015, we sold 65.4% of our total crude oil volumes domestically at an average price of RR 12,967 per ton (excluding VAT) representing an increase of RR 406 per ton, or 3.2%, as compared to 2014.

The remaining 34.6% of our crude oil volumes were sold to export markets at an average net export price of RR 14,922 per ton (FOB, excluding export duties) representing an increase of RR 2,739 per ton, or 22.5%, as compared to 2014 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Other products sales

Other products sales represent our revenues from the domestic sales of methanol, oil products (diesel fuel and petrol) purchased for resale and sold through our retail stations and other liquid hydrocarbons. In 2015, our revenues from other products sales increased by RR 42 million, or 11.0%, to RR 424 million from RR 382 million in 2014.

Other revenues

Other revenues include revenue from geological and geophysical research services, rent, sublease, repair and maintenance of energy equipment services, as well as other services. In 2015, other revenues increased by RR 1,348 million, or 68.4%, to RR 3,318 million from RR 1,970 million in 2014 primarily due to an increase in revenues from the sublease of tankers by RR 1,360 million. The related sublease of tankers expenses are included in our transportation expenses in line "Gas condensate refined products and stable gas condensate transportation by tankers".

In addition, in 2015, other revenues increased by RR 387 million due to revenues from repair and maintenance of energy equipment services provided by our subsidiary NOVATEK-Energo.

Operating expenses

In 2015, our total operating expenses increased by RR 98,530 million, or 41.7%, to RR 335,042 million compared to RR 236,512 million in 2014, and our total operating expenses as a percentage of total revenues increased to 70.5% from 66.1% primarily due to increased purchases of natural gas and liquid hydrocarbons from our joint ventures that in turn allowed us to sell increased volumes of hydrocarbons to both domestic and international markets (see "Purchases of natural gas and liquid hydrocarbons" below), and, to a lesser extent, an increase in transportation expenses.

	Year ended 31 December:			
millions of Russian roubles	**2015**	**% of total revenues**	**2014**	**% of total revenues**
Transportation expenses	130,229	*27.4%*	114,511	*32.0%*
Purchases of natural gas and liquid hydrocarbons	120,504	*25.4%*	52,596	*14.7%*
Taxes other than income tax	36,630	*7.7%*	29,336	*8.2%*
Depreciation, depletion and amortization	19,980	*4.2%*	17,172	*4.8%*
General and administrative expenses	15,163	*3.2%*	11,831	*3.3%*
Materials, services and other	14,086	*3.0%*	11,442	*3.2%*
Exploration expenses	767	*0.2%*	112	*n/a*
Impairment expenses (reversals), net	(204)	*n/a*	(229)	*n/a*
Change in natural gas, liquid hydrocarbons and work-in-progress	(2,113)	*n/a*	(259)	*n/a*
Total operating expenses	**335,042**	***70.5%***	**236,512**	***66.1%***

Transportation expenses

In 2015, our total transportation expenses increased by RR 15,718 million, or 13.7%, to RR 130,229 million as compared to RR 114,511 million in 2014.

	Year ended 31 December:		Change
millions of Russian roubles	**2015**	**2014**	**%**
Natural gas transportation by trunk and low-pressure pipelines	86,025	92,494	(7.0%)
Stable gas condensate and liquefied petroleum gas transportation by rail	29,273	16,007	82.9%
Gas condensate refined products and stable gas condensate transportation by tankers	13,378	4,749	181.7%
Crude oil transportation by trunk pipelines	1,476	1,223	20.7%
Other	77	38	102.6%
Total transportation expenses	**130,229**	**114,511**	**13.7%**

In 2015, despite an average 2.0% increase in the natural gas regulated transportation tariff effective 1 July 2015 (see "Transportation tariffs" above), our expenses for natural gas transportation decreased by RR 6,469 million, or 7.0%, to RR 86,025 million from RR 92,494 million in 2014 due to a 8.3% decrease in our natural gas sales volumes to end-customers, for which we incurred transportation expenses.

In 2015, our total expenses for stable gas condensate and LPG transportation by rail increased by RR 13,266 million, or 82.9%, to RR 29,273 million from RR 16,007 million in 2014 due to an increase in volumes of liquids sold and transported via rail by 81.8%.

Despite an increase in the railroad transportation tariffs (see "Transportation tariffs" above) our weighted average transportation cost per unit for stable gas condensate and LPG delivered by rail increased marginally, by 0.6%, due to a decrease in the share of LPG volumes transported in total volumes (as a result of an increase in LPG volumes sold ex-works Purovsky Plant and Tobolsk-Neftekhim without transportation expenses) and a decrease in the length of the transportation route. The regulated railroad transportation tariffs for LPG are higher than for our other liquid hydrocarbons.

In 2015, our total transportation expenses for liquids delivered by tankers to international markets increased by RR 8,629 million, or 181.7%, to RR 13,378 million from RR 4,749 million in 2014 due to an increase in volumes of liquids sold and transported via tankers by 74.6%, as well as an increase in the average exchange rate of US dollar to Russian rouble by 58.7% in 2015 compared to 2014 since all our tankers transportation expenses are US dollar denominated.

The effect of increased sales volumes and increased US dollar exchange rate on the tankers transportation expenses was partially mitigated by the change in the geography of stable gas condensate and refined products shipments. Our tanker transportation expenses per ton for transportation to the markets of the APR, as well as to North and South America are significantly higher compared to the transportation costs to European markets. In 2015, we increased the share of volumes shipped to Europe from 40.6% to 51.7%, while the share of volumes shipped to the APR decreased from 46.8% to 41.8% and the share of volumes shipped to the North America decreased from 11.3% to 6.5% of total stable gas condensate and refined products export sales volumes.

In 2015, our expenses for crude oil transportation to customers by trunk pipeline increased by RR 253 million, or 20.7%, to RR 1,476 million from RR 1,223 million in 2014 primarily due to a 21.0% increase in volumes transported.

Purchases of natural gas and liquid hydrocarbons

In 2015, our purchases of natural gas and liquid hydrocarbons significantly increased by RR 67,908 million, or 129.1%, to RR 120,504 million from RR 52,596 million in 2014.

millions of Russian roubles	**Year ended 31 December: 2015**	**2014**	**Change %**
Unstable gas condensate	91,078	26,669	241.5%
Natural gas	27,715	24,801	11.7%
Other liquid hydrocarbons	1,711	1,126	52.0%
Total purchases of natural gas and liquid hydrocarbons	**120,504**	**52,596**	**129.1%**

In 2015, our purchases of unstable gas condensate from our joint ventures significantly increased by RR 64,409 million, or 241.5%, as compared to 2014 and were mainly due to an increase in purchases from SeverEnergia (through its wholly owned subsidiary, OAO Arcticgas) as a result of the launch of additional production capacities at the end of 2014 and in the first half of 2015 (see “Recent Developments” above).

In 2015, our purchases of natural gas increased by RR 2,914 million, or 11.7%, as compared to 2014 primarily as a result of the commencement of purchases from our joint venture Terneftegas effective May 2015.

In 2015, our purchases of other liquid hydrocarbons increased by RR 585 million, or 52.0%, as compared to 2014 mainly due to an increase in LPG purchases for the subsequent resale through small wholesale and our retail stations.

Taxes other than income tax

In 2015, taxes other than income tax increased by RR 7,294 million, or 24.9%, to RR 36,630 million from RR 29,336 million in 2014 primarily due to an increase in the unified natural resources production tax expense.

millions of Russian roubles	**Year ended 31 December: 2015**	**2014**	**Change %**
Unified natural resources production tax (UPT)	33,656	26,962	24.8%
Property tax	2,603	2,095	24.2%
Other taxes	371	279	33.0%
Total taxes other than income tax	**36,630**	**29,336**	**24.9%**

In 2015, our unified natural resources production tax expense increased by RR 6,694 million, or 24.8%, to RR 33,656 million from RR 26,962 million in 2014 primarily due to a significant increase in the UPT rate for gas condensate. From 1 January 2015, as a part of the tax maneuver in the oil industry, the formula used for gas condensate UPT rate calculation applied from 1 July 2014 was adjusted by a coefficient that increased the rate by 4.4 times (see “Our tax burden and obligatory payments” above).

At the same time, from 1 January 2015, as a result of changes in the Tax code of the Russian Federation, production tax was levied on crude oil produced at our Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye fields at an effective rate of RR 236 per ton multiplied by a coefficient characterizing the dynamics of world crude oil price. In 2014, we applied a zero UPT rate for crude oil produced at these fields (see "Our tax burden and obligatory payments" above). In addition, in December 2015, we commenced commercial crude oil production at the Yarudeyskoye field which also slightly increased the crude oil UPT expense.

In 2015, our property tax expense increased by RR 508 million, or 24.2%, to RR 2,603 million from RR 2,095 million in 2014 due to additions to property, plant and equipment at our production subsidiaries, as well as an insignificant additional tax charge for prior periods.

Depreciation, depletion and amortization

In 2015, our depreciation, depletion and amortization ("DDA") expense increased by RR 2,808 million, or 16.4%, to RR 19,980 million from RR 17,172 million in 2014 mainly due to additions of property, plant and equipment at our production subsidiaries (production maintenance at our Yurkharovskoye field, ongoing crude oil development activities at the East-Tarkosalinskoye field, as well as the launch of the Yarudeyskoye field in December 2015).

The Group accrues depreciation and depletion on oil and gas assets using the "units-of-production" method and straight-line method for other facilities. 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 2015, our general and administrative expenses increased by RR 3,332 million, or 28.2%, to RR 15,163 million compared to RR 11,831 million in 2014. 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 81.0% and 79.1% of total general and administrative expenses in the years ended 31 December 2015 and 2014, respectively.

	Year ended 31 December:		**Change**
millions of Russian roubles	**2015**	**2014**	**%**
Employee compensation	9,766	7,147	36.6%
Social expenses and compensatory payments	1,347	1,009	33.5%
Legal, audit and consulting services	1,175	1,205	(2.5%)
Business travel expense	634	423	49.9%
Repair and maintenance expenses	458	215	113.0%
Fire safety and security expenses	313	291	7.6%
Insurance expense	306	280	9.3%
Advertising expenses	253	461	(45.1%)
Rent expense	196	130	50.8%
Other	715	670	6.7%
Total general and administrative expenses	**15,163**	**11,831**	**28.2%**

Employee compensation related to administrative personnel increased by RR 2,619 million, or 36.6%, to RR 9,766 million in 2015 from RR 7,147 million in 2014. The increase was due to higher average number of employees (the expansion of activities at our research and development center and an acquisition of a 100% equity stake in NovaEnergo at the end of 2014), an increase in the effective rate for compulsory social contributions effective from 1 January 2015, an indexation of base personnel salaries effective 1 July 2015, as well as additional bonuses paid in the second quarter of 2015 based on prior year performance and the related increase in social contributions for medical and social insurance and to the Pension Fund.

In 2015, our social expenses and compensatory payments increased by RR 338 million, or 33.5%, to RR 1,347 million compared to RR 1,009 million in 2014. The increase was mainly due to an increase in compensatory payments which related to the development of Yarudeyskoye (only in 2015), Salmanovskoye and Geofizicheskoye fields and were RR 362 million compared to RR 176 million in 2014, as well as the continued support of charities and social programs in the regions where we operate. Social expenses and compensatory payments fluctuate period-on-period depending on the implementation schedules of specific programs we support.

Business travel expenses increased by RR 211 million, or 49.9%, to RR 634 million in 2015 from RR 423 million in 2014 mainly due to the expansion of the Group's business activities on international markets, as well as a significant depreciation of Russian rouble relative to world currencies.

Repair and maintenance expenses significantly increased by RR 243 million, or 113.0%, to RR 458 million in 2015 from RR 215 million in 2014 mainly due to current repair works performed at the Group's Moscow head office building and other administrative buildings of subsidiaries.

Advertising expenses decreased by RR 208 million, or 45.1%, to RR 253 million in 2015 from RR 461 million in 2014 mainly due to a decrease in the Groups' advertising during public sporting events.

Other items of our general and administrative expenses changed marginally.

Materials, services and other

In 2015, our materials, services and other expenses increased by RR 2,644 million, or 23.1%, to RR 14,086 million compared to RR 11,442 million in 2014. The main components of this expense category were repair and maintenance services, as well as employee compensation, which on aggregate comprised 55.6% and 60.2% of total materials, services and other expenses in 2015 and 2014, respectively.

millions of Russian roubles	**Year ended 31 December: 2015**	**2014**	**Change %**
Employee compensation	5,866	4,862	20.6%
Repair and maintenance	1,959	2,026	(3.3%)
Complex of services for preparation, transportation and processing of hydrocarbons	1,756	807	117.6%
Materials and supplies	1,305	879	48.5%
Electricity and fuel	938	845	11.0%
Liquefied petroleum gas volumes reservation expenses	768	95	n/a
Security services	470	392	19.9%
Transportation services	452	422	7.1%
Rent expenses	59	633	(90.7%)
Other	513	481	6.7%
Total materials, services and other	**14,086**	**11,442**	**23.1%**

Operating employee compensation increased by RR 1,004 million, or 20.6%, to RR 5,866 million compared to RR 4,862 million in 2014. The increase was due to an increase in the average number of employees primarily as a result of the acquisition of a 100% equity stake in NovaEnergo at the end of 2014, an increase in the effective rate for compulsory social contributions effective from 1 January 2015, as well as an indexation of base salaries effective from 1 July 2015.

Repair and maintenance services expenses decreased by RR 67 million, or 3.3%, to RR 1,959 million in 2015 compared to RR 2,026 million in 2014 primarily as a result of costs savings in repair and maintenance services of energy generating equipment at our core production and processing subsidiaries due to the acquisition of NovaEnergo in December 2014, as well as significant planned repair works at our production subsidiary NOVATEK-Yurkharovneftegas in 2014 and absence in 2015 of expenses for repair of our own rail cars due to their disposal at the end of 2014.

Complex of services for preparation, transportation and processing of hydrocarbons expenses mainly relate to transportation of our LPG produced at the Purovsky Plant for further processing at Tobolsk-Neftekhim. These expenses increased by RR 949 million, or 117.6%, to RR 1,756 million in 2015 compared to RR 807 million in 2014 primarily due to the respective increase in our LPG volumes dispatched for processing at Tobolsk-Neftekhim.

Materials and supplies expense increased by RR 426 million, or 48.5%, to RR 1,305 million in 2015 compared to RR 879 million in 2014 primarily as a result of an increase in chemicals used for the improvement of our gas condensate pipeline capacity due to significant increase in volumes transported. In addition, in 2015, materials expense increased as a result of the acquisition of our subsidiary NovaEnergo in December 2014, as well as the commencement of commercial crude oil production at the Yarudeyskoye field.

In 2015, electricity and fuel expenses increased by RR 93 million, or 11.0%, to RR 938 million from RR 845 million in 2014 as a result of an increase in electricity consumption at processing subsidiaries due to additions of new energy-consuming facilities and an increase in hydrocarbon volumes being processed at these facilities.

In 2015, liquefied petroleum gas volumes reservation costs increased by RR 673 million to RR 768 million from RR 95 million in 2014 due to an increase in LPG volumes required to be reserved in Poland as a result of changes in the methodology of compulsory reservation volumes calculation effective 1 January 2015. The reservation of LPG is required in order to maintain the necessary strategic reserve in Poland in accordance with local regulation.

Security expenses increased by RR 78 million, or 19.9%, to RR 470 million in 2015 from RR 392 million in 2014 due to additional security services and increased security services rates effective from January 2015 in our production subsidiary NOVATEK-Tarkosaleneftegas.

Rent expenses decreased by RR 574 million, or 90.7%, to RR 59 million from RR 633 million in 2014. In the second quarter of 2014, we rented rail cars from a third party for transportation of our LPG to end-customers. We subleased the leased rail cars to the transportation services provider and include the corresponding revenues in “Other revenues”. At the end of 2014, the rental and sublease contracts were terminated.

Other items of our materials, services and other expenses changed marginally.

Exploration expenses

In 2015, our exploration expenses increased by RR 655 million, or 6.8 times, to RR 767 million from RR 112 million in 2014 primarily due to exploration works performed at the North-Obskiy license area. The exploration expenses fluctuate period-to-period in accordance with the approved working schedule of exploration works at our production subsidiaries.

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

In 2015, we recorded a reversal of RR 2,113 million to change in inventory expense due to an increase in our hydrocarbons inventory balances as of 31 December compared to 1 January. In 2014, an increase in our liquid hydrocarbons inventory balances was nearly completely offset by a significant decrease in natural gas inventory balances, as a result, we recorded a reversal of RR 259 million to change in inventory expense.

In 2015, our cumulative natural gas inventory balance in the Underground Gas Storage Facilities (“UGSF”), the GTS and own pipeline infrastructure increased by 278 mmcm compared to a 2,247 mmcm decrease in the inventory balance in 2014. At the same time, volumes injected into the UGSF remained relatively flat in both reporting periods. The decrease in natural gas inventory balances in 2014 was due to a greater build-up in natural gas inventory balance in the beginning of the period which was necessary to fulfill our contractual obligations. 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 2015, our cumulative liquid hydrocarbons inventory balance, recognized as inventory in transit or in storage, increased by 171 thousand tons mainly due to an increase in inventory balance of stable gas condensate in rail cars and tankers in transit and not realized at the reporting date, as well as an increase in inventory balance of crude oil due to the launch of the Yarudeyskoye field in December 2015. In 2014, our cumulative liquid hydrocarbons inventory balance increased by 204 thousand tons mainly as a result of an increase in inventory balance of naphtha in storage capacities of our Ust-Luga Complex. 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:

Inventory balances in transit or in storage	**2015** At 31 December	**2015** At 1 January	**2015** Increase / (decrease)	**2014** At 31 December	**2014** At 1 January	**2014** Increase / (decrease)
Natural gas (millions of cubic meters)	**1,327**	**1,049**	**278**	**1,049**	**3,296**	**(2,247)**
including Gazprom's UGSF	*1,245*	*1,016*	*229*	*1,016*	*2,334*	*(1,318)*
Liquid hydrocarbons (thousand tons)	**910**	**739**	**171**	**739**	**535**	**204**
including naphtha	*184*	*305*	*(121)*	*305*	*193*	*112*
stable gas condensate	*369*	*219*	*150*	*219*	*180*	*39*
crude oil	*157*	*29*	*128*	*29*	*25*	*4*

Impairment expenses (reversals), net

In 2015, we recognized a net impairment reversal of RR 204 million compared to RR 229 million in 2014 mainly due to management's revision of the probability of trade accounts receivable repayment by our customers resulted in the recovering of a portion of previously accrued provisions.

Other operating income (loss)

Other operating income (loss) includes realized income (loss) from natural gas foreign trading on the European market under long-term and short-term purchase and sales contracts, 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 2015, we recognized other operating loss of RR 542 million compared to other operating loss of RR 4,009 million in 2014.

In 2015, within our trading activities on the European market we purchased and sold 31.7 terawatt-hours (or approximately 3 bcm) of natural gas, as well as various derivative commodity instruments, and recognized the aggregate realized income from trading activities of RR 206 million as compared to RR 927 million of income in 2014. At the same time, in 2015, we recognized a non-cash loss of RR 1,006 million as a result of a decrease in the fair value of the hydrocarbons purchase and sales contracts as compared to RR 2,093 million of non-cash income in 2014. All trading contracts are classified as derivative instruments in accordance with IAS 39 *"Financial instruments: recognition and measurement"*.

In addition, we recorded other operating income of RR 258 and RR 989 million in 2015 and 2014, 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 on disposal of interests in joint ventures

In March 2014, NOVATEK and Gazprom Neft agreed in principle to achieve parity shareholdings in SeverEnergia joint venture, owned by the parties through their respective joint ventures OOO Yamal Development and Artic Russia B.V. (see "Recent Developments" above). As part of such agreement, as of 31 March 2014, the Group sold its 20% equity stake in Artic Russia B.V. to Yamal Development and realized a gain on the disposal of RR 2,623 million. As a result, the Group's effective participation interest in SeverEnergia decreased from 59.8% to 54.9%.

In August 2015, within the next stage of restructuring procedures intended to achieve parity shareholdings in SeverEnergia we contributed a 6.4% ownership interest in Artic Russia B.V. to the capital of Yamal Development. As a result, we recognized a gain on the disposal in the amount of RR 989 million and the Group's effective participation interest in SeverEnergia decreased from 54.9% to 53.3%.

Profit from operations and EBITDA

As a result of the factors discussed above, our profit from operations increased by RR 12,967 million, or 10.1%, to RR 140,730 million in 2015, as compared to RR 127,763 million in 2014. Our profit from operations before disposals of interests in joint ventures increased by RR 14,601 million, or 11.7%, to RR 139,741 million in 2015, as compared to RR 125,140 million in 2014. At the same time, our share in the profit from operations of our joint ventures also increased significantly by RR 21,947 million to RR 32,052 million in 2015, as compared to RR 10,105 million in 2014 (see "Share of profit (loss) of joint ventures, net of income tax" below).

Our EBITDA, normalized for the effect of the disposal of interests in joint ventures, increased by RR 54,835 million, or 34.4%, to RR 214,466 million in 2015 from RR 159,631 million in 2014 mainly due to a significant increase in liquid hydrocarbons sales volumes by 81.8%.

Finance income (expense)

In 2015, we recorded net finance expense of RR 16,182 million compared to net finance expense of RR 46,745 million in 2014, which were due to the recognition of a non-cash foreign exchange loss as a result of the Russian rouble depreciation relative to the US dollar and Euro in both reporting periods, as well as due to the recognition of non-cash loss from the remeasurement of the shareholders' loans issued by the Group to our joint ventures.

millions of Russian roubles	Year ended 31 December: 2015	2014	Change %
Accrued interest expense on loans received	(14,549)	(9,311)	56.3%
Less: capitalized interest	6,047	3,837	57.6%
Provisions for asset retirement obligations: effect of the present value discount unwinding	(290)	(248)	16.9%
Interest expense	**(8,792)**	**(5,722)**	**53.7%**
Interest income	12,622	5,063	149.3%
Change in fair value of non-commodity financial instruments	(10,505)	(20,205)	(48.0%)
Foreign exchange gain (loss), net	(9,507)	(25,881)	(63.3%)
Total finance income (expense)	**(16,182)**	**(46,745)**	**(65.4%)**

In 2015, our interest expense increased by RR 3,070 million, or 53.7%, to RR 8,792 million primarily due to the increase in our borrowings obligations as a result of the depreciation of the average Russian rouble exchange rate relative to the US dollar and Euro (see "Selected macro-economic data" above). The effect of the depreciation of the average Russian rouble exchange rate on interest expense was reduced by the partial repayment of the Groups' borrowings.

Interest income increased significantly by RR 7,559 million, or 149.3%, to RR 12,622 million in 2015 from RR 5,063 million in 2014 due to an increase in loans provided to our joint ventures for the development and expansion of their activities, as well as a result of the average Russian rouble depreciation relative to the US dollar and Euro in 2015 compared to the average exchange rate in 2014.

In 2015 and 2014, we recognized non-cash losses of RR 10,505 million and RR 20,205 million, respectively, which primarily related to the remeasurement of the new tranches of the shareholders' loans issued by the Group to our joint ventures in accordance with IAS 39 *"Financial instruments: recognition and measurement"*. The effect of the fair value remeasurement of shareholders' loans may change period-to-period due to the change in market interest rates and other macroeconomic parameters and does not affect real future cash flows of loans repayments.

The Group continues to record non-cash foreign exchange gains and losses each period due to movements between currency exchange rates. In 2015, we recorded a net non-cash foreign exchange loss of RR 9,507 million compared to a net non-cash foreign exchange loss of RR 25,881 million in 2014 primarily due to the revaluation of our foreign currency denominated borrowings and loans provided, as well as cash balances in foreign currency.

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

In 2015, the Group's proportionate share of loss of joint ventures increased by RR 3,432 million, or 12.2%, to RR 31,607 million compared to RR 28,175 million in 2014.

millions of Russian roubles	Year ended 31 December: 2015	2014	Change %
Profit from operations	32,052	10,105	217.2%
Finance income (expense)	(68,821)	(43,306)	58.9%
Total income tax benefit	5,162	5,026	2.7%
Total share of profit (loss) of joint ventures, net of income tax	**(31,607)**	**(28,175)**	**12.2%**

Our proportionate share in the profit from operations of our joint ventures increased significantly by RR 21,947 million based on higher operating results of SeverEnergia due to the launch of the third phase of the Samburgskoye field in September 2014, reaching the nameplate production capacity of the first and second phases of the Urengoyskoye field in December 2014 and February 2015, respectively, as well as the launch of the Yaro-Yakhinskoye field in April 2015 (the nameplate production capacity was reached in June 2015).

Our proportionate share in the finance expense of our joint ventures increased by RR 25,515 million, or 58.9%, mainly due to a decrease in non-cash profit from the remeasurement of the fair value of shareholders' loans recorded by Yamal LNG and Terneftegas (our share amounted to RR 21.3 billion), and an increase of interest expense at Yamal Development, SeverEnergia and Nortgas (our share amounted to RR 11.2 billion) as a result of new debt obtained and discontinued capitalization of borrowing costs upon completion of assets construction in 2015. The increase of our share in the finance expense of our joint ventures was partially offset by a decrease in foreign exchange losses on foreign currency denominated loans recorded by Yamal LNG and Terneftegas (our share amounted by RR 4.6 billion).

Income tax expense

The Russian statutory income tax rate for both reporting periods was 20%. For the years ended 31 December 2015 and 2014, the consolidated Group's effective income tax rate was 20.3% and 30.1%, respectively.

The effective income tax rate was impacted primarily by the effects of profit (loss) and dividends from joint ventures, as well as the classification of the 9.9% interest in Yamal LNG as held for sale in 2015.

The Group recognizes in profit before income tax its share of net profit (loss) from joint ventures, which influences the consolidated profit of the Group but does not result in additional income tax expense (benefit) at the Group's level. Net profit (loss) of joint ventures was recorded in their financial statements on an after-tax basis. The Group's dividend income from its joint ventures is subject to a zero withholding tax rate according to the Russian tax legislation as the Group holds at least a 50% interest in each of its joint ventures, and also does not result in a tax charge.

At 31 December 2015, in accordance with IAS 12, *Income taxes*, the Group recognized a deferred tax asset of RR 4,316 million related to the expected disposal of 9.9% participation interest in Yamal LNG based on the difference between its carrying amount and tax base. The gain on disposal will be recognized upon the completion of the transaction.

Without the effect of net profit (loss) and dividends from joint ventures, and the deferred tax asset relating to the 9.9% interest in Yamal LNG classified as held for sale, the effective income tax rate for the years ended 31 December 2015 and 2014 was 18.7% and 19.7%, respectively.

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.

Our profit for the period increased by RR 37,204 million, or 100.8%, to RR 74,119 million in 2015 from RR 36,915 million in 2014. The profit attributable to shareholders of OAO NOVATEK increased by RR 37,100 million, or 99.5%, to RR 74,396 million in 2015 as compared to RR 37,296 million in 2014. The profit attributable to shareholders of OAO NOVATEK, excluding the effect of the disposal of interests in joint ventures, increased by RR 38,210 million, or 108.6%, to RR 73,407 million in 2015 as compared to RR 35,197 million in 2014.

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of OAO NOVATEK, increased by RR 12.29 per share, or 99.6%, to RR 24.63 per share in 2015 from RR 12.34 per share in 2014. 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, increased by RR 12.65 per share, or 108.7%, to RR 24.30 per share in 2015 from RR 11.65 per share in 2014.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

The following table shows our net cash flows from operating, investing and financing activities for the years ended 31 December 2015 and 2014:

millions of Russian roubles	Year ended 31 December: 2015	2014	Change %
Net cash provided by **operating** activities	132,864	111,241	19.4%
Net cash used in **investing** activities	(159,074)	(48,483)	228.1%
Net cash provided by (used in) **financing** activities	12,714	(36,251)	n/a

Liquidity and credit ratios	31 December 2015	31 December 2014	Change, %
Current ratio	0.76	1.56	(51.3%)
Total debt to total equity	0.84	0.63	33.3%
Long-term debt to long-term debt and total equity	0.37	0.35	5.7%
Net debt to total capitalization (1)	0.41	0.31	32.3%
Net debt to normalized EBITDA from subsidiaries (2)	2.05	1.46	40.4%
Interest coverage ratio (3)	11	15	(26.7%)

(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 normalized EBITDA from subsidiaries ratio is calculated as Net debt divided by normalized EBITDA from subsidiaries for the last twelve months.

(3) Interest coverage ratio is calculated as normalized EBITDA from subsidiaries divided by accrued interest on debt, including capitalized interest.

Our credit ratios presented in the table above are significantly affected by changes in foreign currency exchange rates. In 2015, our net debt in Russian roubles terms increased primarily as a result of the Russian rouble depreciation relative to the US dollar and Euro. Nonetheless, as a result of a significant increase in liquids production in our joint ventures, the share of our export revenues increased to approximately 42% in 2015 from 28% in 2014. A significant portion of foreign currency denominated revenues decreases the Group’s exposure to foreign currency risk and enables the Group to generate sufficient cash flows to meet its foreign currency obligations.

Net cash provided by operating activities

Our net cash provided by operating activities increased by RR 21,623 million, or 19.4%, to RR 132,864 million compared to RR 111,241 million in 2014 mainly due to higher operating results (increased liquid hydrocarbons sales volumes, as well as an increase in average realized prices of natural gas and liquid hydrocarbons in Russian roubles).

millions of Russian roubles	Year ended 31 December: 2015	2014	Change %
Profit from operations before disposals of interests in joint ventures	139,741	125,140	11.7%
Non-cash adjustments (1)	20,820	14,380	44.8%
Changes in working capital and long-term advances given	(14,470)	(2,503)	n/a
Dividends received from joint ventures	1,850	-	n/a
Interest received	1,454	988	47.2%
Income taxes paid	(16,531)	(26,764)	(38.2%)
Total net cash provided by operating activities	**132,864**	**111,241**	**19.4%**

(1) Include adjustments for depreciation, depletion and amortization, net impairment expenses (reversals), change in fair value of non-commodity financial instruments and some other adjustments.

The changes in working capital and long-term advances given were mainly due to an increase in long-term advances payments to RZD, which were provided in accordance with the Strategic Partnership Agreement’s installment schedule (see “Transportation tariffs” above) and were almost completely offset by a decrease in income taxes paid. Working capital balances and income tax payments fluctuate from period to period depending on various factors.

In addition, in 2015, we received RR 1,850 million of dividends from our joint venture Nortgas.

Net cash used for investing activities

In 2015, our net cash used for investing activities increased by RR 110,591 million, or 228.1%, to RR 159,074 million compared to RR 48,483 million in 2014.

millions of Russian roubles	Year ended 31 December: 2015	2014	Change %
Cash used for capital expenditures	(50,584)	(62,040)	(18.5%)
Loans provided to joint ventures	(108,570)	(45,906)	136.5%
Repayments of loans provided to joint ventures	3,710	11,747	(68.4%)
Payments for acquisition of subsidiaries net of cash acquired	(3,630)	(1,476)	145.9%
Proceeds from disposal of participation interest in joint ventures	-	53,534	n/a
Additional capital contributions to joint ventures	-	(4,342)	n/a
Net cash used for investing activities	**(159,074)**	**(48,483)**	**228.1%**

Cash used for capital expenditures decreased by RR 11,456 million, or 18.5%, as compared to 2014. In 2015, the cash was mainly used for the development of the Yarudeyskoye and East-Tarkosalinskoye field's crude oil deposits, maintenance of production at our Yurkharovskoye field, as well as development of the Salmanovskoye (Utrenneye) field.

In 2015, we provided loans to our joint venture Yamal LNG and Yamal Development in the amount of RR 108,570 million as compared to RR 45,906 million provided to these companies in 2014. At the same time, in 2015, we received RR 3,710 million due to a partial repayment of loans provided to Terneftegas and Yamal Development, while in 2014 we received RR 11,747 million due to partial repayment of the loan provided to Yamal LNG.

In August 2014, we acquired 100% of the outstanding shares of ZAO Office for total consideration of RR 4,895 million (USD 135 million) and paid RR 1,283 million (USD 34 million) and RR 3,630 million (USD 62 million) in 2014 and 2015, respectively. 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, 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 made additional capital contributions to our joint venture Terneftegas in the amount of RR 4,342 million.

Net cash provided by (used for) financing activities

In 2015, our net cash provided by financing activities amounted to RR 12,714 million as compared to RR 36,251 million used for financing activities in 2014.

millions of Russian roubles	Year ended 31 December: 2015	2014	Change %
Proceeds from (repayments of) long-term debt, net	29,105	5,551	n/a
Proceeds from (repayments of) short-term debt, net	27,180	(5,037)	n/a
Dividends paid	(35,640)	(28,967)	23.0%
Other	(7,931)	(7,798)	1.7%
Net cash provided by (used for) financing activities	**12,714**	**(36,251)**	**n/a**

In 2015, we received funds under the loan agreement with China's Silk Road Fund in the amount of RR 55,215 million (EUR 0.73 billion) for financing of the Yamal LNG project as part of the transaction for the sale of the Group's 9.9% equity stake in Yamal LNG. In addition, one of the Group's subsidiaries obtained long-term loans from its non-controlling shareholder in the amount of RR 16,130 million. In 2015, the Group partially repaid a loan obtained under our syndicated credit line facility in the amount of RR 22,240 million (USD 346 million), and fully repaid three-year tenor non-convertible Russian rouble denominated exchange-traded bonds in the amount of RR 20 billion.

In addition, in 2015, we obtained net proceeds from short-term loans in the amount of RR 27,180 million.

In 2014, we received RR 15,551 million due to a withdrawal of USD 430 million under the syndicated credit line facility and repaid a long-term loan from Sberbank in the amount of RR 10 billion. In addition, we obtained a short-term loan from a non-controlling shareholder of one of our subsidiaries in the amount of RR 1,619 million and repaid loans in the total amount of RR 6,656 million (USD 200 million) from BNP PARIBAS Bank and Credit Agricole Corporate and Investment Bank and.

The remaining change related to dividends paid, the repayment of interest on borrowings and loans, shares sales and buy-back and other items.

Working capital

Our net working capital position (current assets plus assets held for sale less current liabilities) as of 31 December 2015 was a negative RR 41,203 million compared to a positive RR 45,383 million as of 31 December 2014. The change in our net working capital was primarily due to an increase in the short-term debt and current portion of our long-term debt by RR 65,675 million as a result of the classification of a portion of our syndicated term credit-facility and Eurobonds in the amount of USD 600 million as part of current liabilities based on the repayment schedule and obtaining a number of short-term loans in the total amount of RR 29.4 billion.

In each reporting year, as well as in each reporting quarter of 2014 and 2015, the Group's free cash flow remained positive. Sustainability of the free cash flow was the result of the successful launches of new fields and the completion of expansion project at the Purovsky Plant and the construction of the Ust-Luga Complex. In addition, we anticipate a further decrease in expenditures relating to our core capital programs as a result of achieving nameplate production levels at our main fields, which will allow us to further increase the Groups' future estimated free cash flows. 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 its current liabilities and to finance the capital construction programs.

Capital expenditures

In both reporting periods, our capital expenditures represent our investments primarily relating to developing our oil and gas properties. The following table shows capital expenditures at our main fields and processing facilities:

	Year ended 31 December:	
millions of Russian roubles	**2015**	**2014**
Yarudeyskoye field	25,826	18,485
East-Tarkosalinskoye field	8,745	12,543
Yurkharovskoye field	7,562	10,612
Salmanovskoye (Utrennee) field	6,165	5,741
Khancheyskoye field	1,480	3,696
North-Khancheyskoye + Khadyryakhinskoye field	1,422	3,396
North-Russkoye field	1,124	706
Purovsky Plant	556	600
Ust-Luga Complex	555	830
Olimpiyskiy license area	503	2,026
Other	3,621	4,544
Capital expenditures	**57,559**	**63,179**

Total capital expenditures on property, plant and equipment in 2015 slightly decreased by RR 5,620 million, or 8.9%, to RR 57,559 million from RR 63,179 million in 2014.

In both reporting periods, our main capital expenditures related to the development of the Yarudeyskoye and East-Tarkosalinskoye field's crude oil deposits, Yurkharovskoye field's production maintenance, as well as the development of the Salmanovskoye (Utrenneye) field.

The "Other" line in the table above represents our capital expenditures related to other fields of the Group, as well as unallocated capital expenditures as of the reporting date. The allocation of capital expenditures by fields takes place upon the completion of the fixed assets construction stages and depends on the approved fixed assets launch schedule.

The following table presents the reconciliation of our capital expenditures and additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements, as well as cash used in capital investments:

millions of Russian roubles	**Year ended 31 December: 2015**	**2014**	**Change %**
Total additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements	**57,559**	**63,614**	**(9.5%)**
Less: payment for mineral licenses	-	(435)	n/a
Capital expenditures	**57,559**	**63,179**	**(8.9%)**
Less: capitalized foreign exchange differences, increase in accounts payables and other non-cash adjustments	(6,975)	(1,139)	n/a
Cash used in capital expenditures	**50,584**	**62,040**	**(18.5%)**

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 2015, the total amount of our long-term debt denominated in US dollars was RR 218,805 million, or 61.0% of our total borrowings at that date. Changes in the value of the Russian rouble relative to foreign currencies will impact our foreign currency-denominated costs and expenses, our debt service obligations for foreign currency-denominated borrowings, as well as receivables at our foreign subsidiaries in Russian rouble terms. 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 40.0% in 2015, was denominated in US dollars.

In addition, our share of profit (loss) of joint ventures is also exposed to foreign currency exchange rate movements 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 in relation to foreign currency-denominated debt portfolio of Yamal LNG will be mitigated by the fact that all of its products will be delivered to international markets and revenues will be denominated in foreign currencies.

As of 31 December 2015, the Russian rouble depreciated by 29.5% and 16.6% against the US dollar and the Euro, respectively, compared to 31 December 2014.

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 recognized 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 foreign 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 PAO 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 2015, 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.

TERMS AND ABBREVIATIONS

APR	Asian-Pacific Region
bbl	barrel
bcm	billion cubic meters
boe	barrels of oil equivalent
CBR	Central Bank of Russian Federation
CFR	"Cost and freight"
CIF	"Cost, insurance and freight"
DAP	"Delivery at point of destination"
DDA	depreciation, depletion and amortization
DES	"Delivery to the port of destination ex-ship"
FCA	"Free carrier"
FOB	"Free on board"
Forecast of the Ministry of Economic Development	The document *"Forecast of Socio-economic Development of the Russian Federation for 2015 and planned period 2016 and 2017"* prepared by the Ministry of Economic Development of the Russian Federation or the similar document prepared for another period
FTS	Federal Tariffs Service
GTS	Gas Transmission System part of the UGSS
IFRS	International Financial Reporting Standards
List	the OFAC's Sectoral Sanctions Identification List
LNG	liquefied natural gas
LPG	liquefied petroleum gas
mcm	thousand cubic meters
MET	mineral extraction tax
OFAC	Office of Foreign Assets Control
PRMS	Petroleum Resources Management System
Purovsky Plant	Purovsky Gas Condensate Plant
Regulator	A federal executive agency of the Russian Federation that carries out governmental regulation of prices and tariffs for products and services of natural monopolies in energy, utilities and transportation. During 2014 and the first half of 2015, the Federal Tariffs Service fulfilled the Regulator's role. In July 2015, a Decree of the President of the Russian Federation became effective abolishing the FTS and transferring its functions to the Federal Anti-Monopoly Service
RR	Russian rouble(s)
RZD	OAO Russian Railways, Russia's state-owned monopoly railway operator
S&P	Standard & Poor's
SEC	Securities and Exchange Commission
UGSF	Underground Gas Storage Facilities
UGSS	Unified Gas Supply System owned and operated by PAO Gazprom
UPT	unified natural resources production tax
USD, US dollar	United States Dollar
Ust-Luga Complex	Gas Condensate Fractionation and Transshipment Complex located at the Port of Ust-Luga on the Baltic Sea
VAT	Value added tax
Yamal LNG project	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 that Group undertakes jointly with TOTAL S.A. and China National Petroleum Corporation, through its joint venture OAO Yamal LNG
YNAO	Yamal-Nenets Autonomous Region

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.

Mark Gyetvay,
Deputy Chairman of the Management Board