OAO NOVATEK

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF AND FOR THE THREE MONTHS ENDED 31 MARCH 2016

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Report on Review of Interim Financial Statements

To the Shareholders and Board of Directors of OAO NOVATEK

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO NOVATEK and its subsidiaries (the "Group") as of 31 March 2016 and the related consolidated interim condensed statements of income, comprehensive income, cash flows and changes in equity for the three-month period then ended. Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

AO PricewaterhouseCoopers Audit

26 April 2016
Moscow, Russian Federation

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

	Notes	At 31 March 2016	At 31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	5	332,650	331,712
Investments in joint ventures	6	180,913	154,725
Long-term loans and receivables	7	227,200	230,799
Other non-current assets	8	30,919	34,316
Total non-current assets		**771,682**	**751,552**
Current assets			
Inventories		5,282	8,226
Current income tax prepayments		77	84
Trade and other receivables	9	48,952	37,564
Prepayments and other current assets	10	29,233	45,424
Cash and cash equivalents		85,531	29,187
Total current assets		**169,075**	**120,485**
Assets held for sale	4	**-**	**7,987**
Total assets		**940,757**	**880,024**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	11	214,849	252,050
Deferred income tax liabilities		24,359	23,706
Asset retirement obligations		4,903	4,149
Other non-current liabilities		2,441	2,273
Total non-current liabilities		**246,552**	**282,178**
Current liabilities			
Short-term debt and current portion of long-term debt	12	73,701	106,655
Trade payables and accrued liabilities	13	46,455	48,535
Current income tax payable		12,358	3,165
Other taxes payable		12,053	11,320
Total current liabilities		**144,567**	**169,675**
Total liabilities		**391,119**	**451,853**
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(6,100)	(5,997)
Additional paid-in capital		31,297	31,297
Currency translation differences		(3,840)	(5,092)
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		518,519	399,861
Total equity attributable to OAO NOVATEK shareholders	14	**545,886**	**426,079**
Non-controlling interest		**3,752**	**2,092**
Total equity		**549,638**	**428,171**
Total liabilities and equity		**940,757**	**880,024**

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

L. Mikhelson
Chairman of the Management Committee

M. Gyetvay
Chief Financial Officer

26 April 2016

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

	Notes	Three months ended 31 March: 2016	2015
Revenues			
Oil and gas sales	15	138,211	113,224
Other revenues		1,140	518
Total revenues		**139,351**	**113,742**
Operating expenses			
Transportation expenses	16	(36,573)	(30,823)
Purchases of natural gas and liquid hydrocarbons	17	(29,717)	(23,423)
Taxes other than income tax	18	(10,597)	(9,018)
Depreciation, depletion and amortization		(7,833)	(4,515)
Materials, services and other		(4,357)	(3,176)
General and administrative expenses		(4,229)	(3,113)
Impairment (expenses) reversals, net		(153)	(29)
Exploration expenses		(102)	(18)
Change in natural gas, liquid hydrocarbons and work-in-progress		(3,598)	219
Total operating expenses		**(97,159)**	**(73,896)**
Net gain on disposal of interests in joint ventures	4	73,072	-
Other operating income (loss)		971	(199)
Profit from operations		**116,235**	**39,647**
Finance income (expense)			
Interest expense	19	(3,654)	(2,201)
Interest income	19	5,055	3,186
Change in fair value of non-commodity financial instruments	21	731	2,391
Foreign exchange gain (loss), net	19	(1,216)	(10,622)
Total finance income (expense)		**916**	**(7,246)**
Share of profit (loss) of joint ventures, net of income tax	6	23,381	4,274
Profit before income tax		**140,532**	**36,675**
Income tax expense			
Current income tax expense		(18,755)	(5,314)
Deferred income tax benefit (expense), net		(4,200)	(616)
Total income tax expense	20	**(22,955)**	**(5,930)**
Profit		**117,577**	**30,745**
Profit (loss) attributable to:			
Non-controlling interest		1,660	(330)
Shareholders of OAO NOVATEK		**115,917**	**31,075**
Basic and diluted earnings per share (in Russian roubles)		38.40	10.29
Weighted average number of shares outstanding (in millions)		*3,018.9*	*3,020.4*

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

(in millions of Russian roubles)

	Three months ended 31 March:	
	2016	**2015**
Profit	**117,577**	**30,745**
Other comprehensive income (loss) that will not be reclassified subsequently to profit (loss):		
Remeasurement of pension obligations	(78)	(185)
Other comprehensive income (loss) that may be reclassified subsequently to profit (loss), net of income tax:		
Currency translation differences	1,252	490
Other comprehensive income (loss)	**1,174**	**305**
Total comprehensive income	**118,751**	**31,050**
Total comprehensive income (loss) attributable to:		
Non-controlling interest	1,660	(330)
Shareholders of OAO NOVATEK	**117,091**	**31,380**

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

(in millions of Russian roubles)

	Notes	Three months ended 31 March: 2016	2015
Profit before income tax		**140,532**	**36,675**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		7,833	4,515
Impairment expenses (reversals), net		153	29
Foreign exchange loss (gain), net		1,216	10,622
Loss (gain) on disposal of assets, net		(73,068)	38
Interest expense		3,654	2,201
Interest income		(5,055)	(3,186)
Share of loss (profit) in joint ventures, net of income tax	6	(23,381)	(4,274)
Change in fair value of non-commodity financial instruments		(731)	(2,391)
Revaluation of financial instruments through loss (profit)		(326)	513
Increase in long-term advances given		(2,620)	(5,328)
Other adjustments		21	(42)
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		6,649	(107)
Decrease (increase) in inventories		3,792	(934)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		1,338	1,845
Increase (decrease) in taxes payable, other than income tax		733	1,413
Total effect of working capital changes		**12,512**	**2,217**
Dividends received from joint ventures		-	1,850
Interest received		202	626
Income taxes paid		(6,518)	(4,348)
Net cash provided by operating activities		**54,424**	**39,717**
Cash flows from investing activities			
Purchases of property, plant and equipment		(7,228)	(8,144)
Purchases of materials for construction		(27)	(69)
Prepayments for participation in auction for mineral license	10	(294)	-
Payments for acquisition of subsidiaries net of cash acquired		(2,929)	-
Proceeds from disposal of stakes in joint ventures	4	84,978	-
Costs to sell stakes in joint ventures	4	(2,634)	-
Interest paid and capitalized		(1,721)	(1,106)
Loans provided to joint ventures	7	(6,645)	(19,623)
Repayments of loans provided to joint ventures	7	-	623
Net cash provided by (used for) investing activities		**63,500**	**(28,319)**
Cash flows from financing activities			
Repayments of long-term debt		(54,959)	-
Net increase (decrease) in short-term debt with original maturity three months or less		(436)	5,617
Interest paid		(3,209)	(2,526)
Purchase of treasury shares		(103)	-
Net cash provided by (used for) financing activities		**(58,707)**	**3,091**

(in millions of Russian roubles)

	Three months ended 31 March:	
	2016	**2015**
Net effect of exchange rate changes on cash and cash equivalents	(2,873)	(3,709)
Net increase (decrease) in cash and cash equivalents	**56,344**	**10,780**
Cash and cash equivalents at the beginning of the period	29,187	41,318
Cash and cash equivalents at the end of the period	**85,531**	**52,098**

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

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

For the three months ended 31 March 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	-	-	-	-	490	-	-	490	-	490
Remeasurement of pension obligations	-	-	-	-	-	-	(185)	(185)	-	(185)
Profit (loss)	-	-	-	-	-	-	31,075	31,075	(330)	30,745
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**490**	**-**	**30,890**	**31,380**	**(330)**	**31,050**
Effect from other changes in joint ventures' net assets (Note 6)	-	-	-	-	-	-	4,101	4,101	-	4,101
31 March 2015	***3,020.4***	**393**	**(5,222)**	**31,297**	**698**	**5,617**	**387,453**	**420,236**	**2,039**	**422,275**

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

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

For the three months ended 31 March 2016	*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 2016	***3,019.1***	**393**	**(5,997)**	**31,297**	**(5,092)**	**5,617**	**399,861**	**426,079**	**2,092**	**428,171**
Currency translation differences	-	-	-	-	1,252	-	-	1,252	-	1,252
Remeasurement of pension obligations	-	-	-	-	-	-	(78)	(78)	-	(78)
Profit (loss)	-	-	-	-	-	-	115,917	115,917	1,660	117,577
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**1,252**	**-**	**115,839**	**117,091**	**1,660**	**118,751**
Effect from other changes in joint ventures' net assets (Note 6)	-	-	-	-	-	-	2,819	2,819	-	2,819
Purchase of treasury shares (Note 14)	*(0.2)*	-	(103)	-	-	-	-	(103)	-	(103)
31 March 2016	***3,018.9***	**393**	**(6,100)**	**31,297**	**(3,840)**	**5,617**	**518,519**	**545,886**	**3,752**	**549,638**

The accompanying notes are an integral part of these consolidated interim condensed 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 March 2016, the Group closed the transaction on the disposal of a 9.9% percent equity stake in OAO Yamal LNG, the Group's joint venture, to China's investment fund Silk Road Fund Co. Ltd. (see Note 4).

2 BASIS OF PREPARATION

The consolidated interim condensed financial statements have been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2015 prepared in accordance with International Financial Reporting Standards ("IFRS").

Use of estimates and judgments. The critical accounting estimates and judgments followed by the Group in the preparation of consolidated interim condensed financial statements are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2015. Estimates have principally been made in respect to fair values of assets and liabilities, deferred income taxes, estimation of oil and gas reserves, impairment provisions, pension obligations, asset retirement obligations and investments.

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

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

2 BASIS OF PREPARATION (CONTINUED)

Functional and presentation currency. The consolidated interim condensed 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. Exchange rates for foreign currencies in which the Group conducted significant transactions or had significant monetary assets and/or liabilities in the reporting period were as follows:

			Average rate for the three months ended 31 March:	
Russian roubles to one currency unit	**At 31 March 2016**	**At 31 December 2015**	**2016**	**2015**
US dollar (USD)	67.61	72.88	74.63	62.19
Euro (EUR)	76.54	79.70	82.34	70.43
Polish zloty (PLN)	18.05	18.79	18.90	16.78

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies and methods of computation followed by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2015, except for income tax expense as described below and for the effects of the adoption of new accounting standards (see Note 25).

Income tax expense is recognized based on management's estimate of the expected annual income tax rate for the full financial year.

4 ACQUISITIONS AND DISPOSALS

Disposal of an ownership interest in OAO Yamal LNG

In December 2015, the Group 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, the Group's joint venture, to the fund. The transaction contained a set of conditions precedent and, in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations,* the Group's 9.9 percent share in Yamal LNG has been classified as an asset held for sale at 31 December 2015. 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 March 2016, the transaction was closed upon the completion of the conditions precedent, and the Group recognized the disposal of the 9.9 percent stake in Yamal LNG. The transaction included 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 11). Concurrently, the Group has committed to provide cash contributions to the capital of Yamal LNG.

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

	RR million
Cash payment received (EUR 1,087 million at exchange rate of 78.18 to EUR 1.00)	84,978
Adjustment to fair value at initial recognition of the loan from Silk Road Fund, previously recorded as deferred income (see Note 11)	9,173
Less: the Group's liability in relation to capital contributions to Yamal LNG, net of the Group's share in these contributions (USD 149 million at exchange rate of 70.15 to USD 1.00)	(10,458)
Less: carrying amount of the Group's disposed 9.9 percent interest in the equity investment previously classified as held for sale	(7,987)
Costs to sell	(2,634)
Gain on the sale of ownership interest before income tax	**73,072**

Consequently, the Group recognized a gain on the transaction of RR 57,677 million, net of associated income tax of RR 15,395 million.

As a result of this transaction, the Group's interest in Yamal LNG is 50.1 percent. The Group continues to exercise joint control over Yamal LNG and recognizes it as a joint venture, and, accordingly, accounts for this investment under the equity method.

5 PROPERTY, PLANT AND EQUIPMENT

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

For the three months ended 31 March 2015	**Oil and gas properties and equipment**	**Assets under construction and advances for construction**	**Other**	**Total**
Cost	291,212	63,162	14,422	368,796
Accumulated depreciation, depletion and amortization	(74,962)	-	(2,108)	(77,070)
Net book value at 1 January 2015	**216,250**	**63,162**	**12,314**	**291,726**
Additions	232	13,773	68	14,073
Transfers	5,158	(5,250)	92	-
Change in asset retirement costs	421	-	-	421
Depreciation, depletion and amortization	(4,241)	-	(139)	(4,380)
Disposals, net	(141)	(47)	(5)	(193)
Cost	296,811	71,638	14,564	383,013
Accumulated depreciation, depletion and amortization	(79,132)	-	(2,234)	(81,366)
Net book value at 31 March 2015	**217,679**	**71,638**	**12,330**	**301,647**

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

5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

For the three months ended 31 March 2016	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	348,268	64,778	15,195	428,241
Accumulated depreciation, depletion and amortization	(93,886)	-	(2,643)	(96,529)
Net book value at 1 January 2016	**254,382**	**64,778**	**12,552**	**331,712**
Additions	269	7,771	27	8,067
Transfers	13,029	(13,087)	58	-
Change in asset retirement costs	639	-	-	639
Depreciation, depletion and amortization	(7,559)	-	(151)	(7,710)
Disposals, net	(18)	(17)	(23)	(58)
Cost	362,179	59,445	15,248	436,872
Accumulated depreciation, depletion and amortization	(101,437)	-	(2,785)	(104,222)
Net book value at 31 March 2016	**260,742**	**59,445**	**12,463**	**332,650**

Included in additions to property, plant and equipment for the three months ended 31 March 2016 and 2015 are capitalized interest and foreign exchange differences of RR 1,721 million and RR 1,106 million, respectively.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 2,471 million and RR 2,719 million at 31 March 2016 and 31 December 2015, respectively.

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 March 2016	At 31 December 2015
Proved properties acquisition costs	46,539	46,343
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(15,860)	(15,540)
Unproved properties acquisition costs	7,978	7,874
Total acquisition costs	**38,657**	**38,677**

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

Capital commitments are disclosed in Note 22.

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

6 INVESTMENTS IN JOINT VENTURES

	At 31 March 2016	At 31 December 2015
Joint ventures:		
OAO Yamal LNG	64,129	38,798
ZAO Nortgas	49,679	50,298
OOO Yamal Development	44,680	43,551
Artic Russia B.V.	22,425	22,078
ZAO Terneftegas	-	-
Total investments in joint ventures	**180,913**	**154,725**

The Group considers that Yamal LNG, Nortgas, Yamal Development, 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 or by a group of shareholders. The Group accounts its shares in joint ventures under the equity method.

OAO Yamal LNG. The Group holds a 50.1 percent ownership in Yamal LNG, along with TOTAL S.A. (20 percent), China National Petroleum Corporation ("CNPC", 20 percent) and Silk Road Fund Co. Ltd. (9.9 percent). At 31 December 2015, the Group held a 60 percent ownership in the joint venture, including a 9.9 percent share classified as an asset held for sale, which was sold to Silk Road Fund Co. Ltd. in March 2016 (see Note 4). 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. Yamal LNG is the holder of the LNG export license.

ZAO Nortgas. The Group holds a 50 percent ownership in Nortgas, its joint venture with PAO Gazprom Neft. Nortgas 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. 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.

OOO SeverEnergia. The Group holds an effective 53.3 percent participation interest in SeverEnergia 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, located in the YNAO.

ZAO Terneftegas. The Group holds a 51 percent ownership in Terneftegas, its joint venture with TOTAL S.A. (49 percent). Terneftegas operates the Termokarstovoye field, located in the YNAO.

The Group's investment in Terneftegas at 31 March 2016 and 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 accumulated losses of Terneftegas at 31 March 2016 and 31 December 2015 was RR 359 million and RR 1,409 million, respectively.

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

6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

	Three months ended 31 March:	
	2016	**2015**
At 1 January	**154,725**	**166,231**
Share of profit from operations	5,660	6,234
Share of finance income (expense)	22,326	(1,278)
Share of total income tax expense	(4,605)	(682)
Share of profit (loss) of joint ventures, net of income tax	**23,381**	**4,274**
Effect from initial measurement of loans provided by the Group to joint ventures (see Note 21)	836	2,686
Effect from other changes in joint ventures' net assets	2,819	4,101
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	(848)	-
At 31 March	**180,913**	**177,292**

For the three months ended 31 March 2016 and 2015, the Group recorded an increase in equity in the amount of RR 2,819 million and RR 4,101 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.

7 LONG-TERM LOANS AND RECEIVABLES

	At 31 March 2016	**At 31 December 2015**
Long-term loans	208,379	214,051
Long-term interest receivable	18,308	16,190
Other long-term receivables	513	558
Total long-term loans and receivables	**227,200**	**230,799**

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

	At 31 March 2016	**At 31 December 2015**
OAO Yamal LNG	191,161	196,533
OOO Yamal Development	13,105	13,105
ZAO Terneftegas	4,113	4,413
Total long-term loans	**208,379**	**214,051**

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. The repayment schedule is linked to free cash flows of the joint venture.

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

7 LONG-TERM LOANS AND RECEIVABLES (CONTINUED)

During the three months ended 31 March 2016, the Group provided further funds to Yamal LNG totalling RR 6,645 million under these credit line facilities.

OOO Yamal Development. The Group provides Russian rouble denominated loans under agreed credit line facilities to Yamal Development, the Group's joint venture. The loans are repayable in 2020 and 2021 and bear interest rates ranging from 9.25 to 10.90 percent per annum.

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. The repayment schedule is linked to free cash flows of the joint venture.

No provisions for impairment of long-term loans and receivables were recognized at 31 March 2016 and 31 December 2015. The carrying values of long-term loans and receivables approximate their respective fair values.

8 OTHER NON-CURRENT ASSETS

	At 31 March 2016	At 31 December 2015
Financial assets		
Commodity derivatives	2,113	1,511
Other financial assets	12	10
Non-financial assets		
Long-term advances	20,171	17,551
Deferred income tax assets	4,619	11,183
Materials for construction	2,392	2,407
Intangible assets, net	1,524	1,567
Other non-financial assets	88	87
Total other non-current assets	**30,919**	**34,316**

At 31 March 2016 and 31 December 2015, 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.

9 TRADE AND OTHER RECEIVABLES

	At 31 March 2016	At 31 December 2015
Trade receivables (net of provision of RR 131 million and RR 95 million at 31 March 2016 and 31 December 2015, respectively)	46,331	35,221
Other receivables (net of provision of RR 130 million and RR 18 million at 31 March 2016 and 31 December 2015, respectively)	2,621	2,343
Total trade and other receivables	**48,952**	**37,564**

Trade receivables in the amount RR 11,446 million and RR 18,507 million at 31 March 2016 and 31 December 2015, 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 21 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 21.

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

10 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 March 2016	At 31 December 2015
Financial assets		
Commodity derivatives	5,252	5,039
Cash on special accounts	287	6,477
Non-financial assets		
Recoverable value-added tax	6,990	7,554
Value-added tax receivable	6,544	13,437
Prepayments and advances to suppliers	5,683	5,304
Prepaid customs duties	1,307	559
Deferred transportation expenses for liquid hydrocarbons	1,275	1,720
Deferred transportation expenses for natural gas	987	2,955
Deferred export duties for liquid hydrocarbons	856	2,251
Other non-financial assets	52	128
Total prepayments and other current assets	**29,233**	**45,424**

At 31 March 2016, prepayments and advances to suppliers included a RR 294 million payment made by the Group for participation in an auction for exploration and production license for the Nyakhartinsky license area, located in the YNAO. After the balance sheet date, in April 2016, the Group won the auction with the license payment set at RR 1,057 million.

11 LONG-TERM DEBT

	At 31 March 2016	At 31 December 2015
Corporate bonds		
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	67,411	72,662
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	43,799	47,207
Eurobonds – Four-Year Tenor (par value RR 14 billion, repayable in 2017)	13,982	13,977
Eurobonds – Five-Year Tenor (par value USD 600 million, repayable in 2016)	-	43,725
Bank loans		
Syndicated term credit line facility	70,018	83,861
Other borrowings		
Loan from Silk Road Fund	44,606	48,619
Other loans	20,134	19,268
Total	**259,950**	**329,319**
Less: current portion of long-term debt	(45,101)	(77,269)
Total long-term debt	**214,849**	**252,050**

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

11 LONG-TERM DEBT (CONTINUED)

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. 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.

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 4).

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 13). In March 2016, the deferred income was included in the financial result on disposal of the 9.9 percent equity stake in Yamal LNG upon completion of the transaction (see Note 4).

The loan is repayable until December 2030 by semi-annual installments starting from December 2019 and includes the maintenance of certain restrictive financial covenants.

Other loans. At 31 March 2016 and 31 December 2015, other loans represented Russian rouble denominated loans, which were provided to one of the Group's subsidiaries 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 256,504 million and RR 319,191 million at 31 March 2016 and 31 December 2015, 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 21). 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 21).

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

Maturity period:	**At 31 March 2016**
1 April 2017 to 31 March 2018	51,253
1 April 2018 to 31 March 2019	7,780
1 April 2019 to 31 March 2020	1,939
1 April 2020 to 31 March 2021	47,677
After 31 March 2021	106,200
Total long-term debt	**214,849**

Available credit line facilities. At 31 March 2016, 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 750 million, valid until September 2018 and December 2021, respectively, with interest rates determined by the parties at time of each withdrawal. The facilities include the maintenance of certain restrictive financial covenants.

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

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

	At 31 March 2016	At 31 December 2015
Loans with original maturity more than three months	21,358	21,300
Loans with original maturity three months or less	7,242	8,086
Total short-term debt	**28,600**	**29,386**
Add: current portion of long-term debt	45,101	77,269
Total short-term debt and current portion of long-term debt	**73,701**	**106,655**

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 end of 2015.

At 31 March 2016 and 31 December 2015, short-term debt included loans obtained by one of the Group's subsidiaries from its non-controlling shareholder in the amount of RR 1,358 million and RR 1,300 million, respectively.

Loans with original maturity three months or less. At 31 March 2016 and 31 December 2015, short-term debt with original maturity three months or less represented loans obtained by the Group to finance trade activities and secured by cash revenues from specifically determined liquid hydrocarbons export sales contracts.

Available credit line facilities. At 31 March 2016, the Group had available a revolving credit line facility from a Russian bank, valid until December 2016, with credit limit in the amount of RR 20 billion and with interest rate determined by the parties at the time of each withdrawal.

13 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 March 2016	At 31 December 2015
Financial liabilities		
Trade payables	25,452	23,989
Liability in relation to capital contributions to joint ventures, net of the Group's share in these contributions (see Note 4)	10,078	-
Commodity derivatives	2,467	2,355
Interest payable	2,262	3,100
Other payables	283	3,401
Non-financial liabilities		
Advances from customers	2,546	4,099
Other liabilities and accruals	2,803	1,924
Salary payables	564	494
Deferred income (see Note 11)	-	9,173
Total trade payables and accrued liabilities	**46,455**	**48,535**

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 21.

14 SHAREHOLDERS' EQUITY

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.

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

14 SHAREHOLDERS' EQUITY (CONTINUED)

During the three months ended 31 March 2016, the Group purchased 0.2 million ordinary shares (in the form of GDRs) at a total cost of RR 103 million. At 31 March 2016 and 31 December 2015, the Group held in total (both ordinary shares and GDRs) 17.4 million and 17.2 million ordinary shares at a total cost of RR 6,100 million and RR 5,997 million, respectively. The Group has decided that these shares do not vote.

Dividends. Subsequent to the balance sheet date, on 22 April 2016, the Annual General Meeting of Shareholders of OAO NOVATEK approved the final dividend of RR 6.90 per share or RR 69.0 per GDR based on the financial results for the year ended 31 December 2015. The final dividend payment totaling RR 20,951 million (including treasury shares) will be paid in cash to shareholders of record at the close of business day on 4 May 2016, not later than 10 working days after this date to professional securities market participants and not later than 25 working days to other shareholders.

15 OIL AND GAS SALES

	Three months ended 31 March:	
	2016	**2015**
Natural gas	61,163	53,621
Naphtha	28,210	27,437
Other gas and gas condensate refined products	14,995	18,475
Crude oil	13,959	3,911
Stable gas condensate	13,077	4,006
Liquefied petroleum gas	6,807	5,774
Total oil and gas sales	**138,211**	**113,224**

16 TRANSPORTATION EXPENSES

	Three months ended 31 March:	
	2016	**2015**
Natural gas transportation by trunk and low-pressure pipelines	21,394	20,378
Stable gas condensate and liquefied petroleum gas transportation by rail	9,104	6,900
Gas condensate refined products, stable gas condensate and crude oil transportation by tankers	4,330	3,128
Crude oil transportation by trunk pipelines	1,703	381
Other	42	36
Total transportation expenses	**36,573**	**30,823**

17 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Three months ended 31 March:	
	2016	**2015**
Unstable gas condensate	19,147	17,203
Natural gas	10,126	6,134
Other liquid hydrocarbons	444	86
Total purchases of natural gas and liquid hydrocarbons	**29,717**	**23,423**

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

17 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS (CONTINUED)

The Group purchases 50 percent of the natural gas volumes produced by its joint venture ZAO Nortgas, some volumes of natural gas produced by its joint venture OOO SeverEnergia (through its wholly owned subsidiary, OAO Arcticgas) and, commencing May 2015, all volumes of natural gas produced by its joint venture ZAO Terneftegas (see Note 23).

The Group purchases all volumes of unstable gas condensate produced by its joint ventures Nortgas, SeverEnergia (through its wholly owned subsidiary, 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 23).

18 TAXES OTHER THAN INCOME TAX

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

	Three months ended 31 March:	
	2016	**2015**
Unified natural resources production tax	9,876	8,354
Property tax	665	567
Other taxes	56	97
Total taxes other than income tax	**10,597**	**9,018**

19 FINANCE INCOME (EXPENSE)

	Three months ended 31 March:	
Interest expense (including transaction costs)	**2016**	**2015**
Interest expense on fixed rate debt	3,810	2,724
Interest expense on variable rate debt	1,443	530
Subtotal	**5,253**	**3,254**
Less: capitalized interest	(1,721)	(1,106)
Interest expense on debt	**3,532**	**2,148**
Provisions for asset retirement obligations: effect of the present value discount unwinding	122	53
Total interest expense	**3,654**	**2,201**

	Three months ended 31 March:	
Interest income	**2016**	**2015**
Interest income on loans receivable	4,805	2,529
Interest income on cash, cash equivalents and deposits	250	657
Total interest income	**5,055**	**3,186**

	Three months ended 31 March:	
Foreign exchange gain (loss), net	**2016**	**2015**
Gains	17,908	1,053
Losses	(19,124)	(11,675)
Total foreign exchange gain (loss), net	**(1,216)**	**(10,622)**

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

20 INCOME TAX

Effective income tax rate. The Group's Russian statutory income tax rate for 2016 and 2015 was 20 percent. For the three months ended 31 March 2016 and 2015, the consolidated Group's effective income tax rate was 16.3 percent and 16.2 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.

Without the effect of net profit (loss) and dividends from joint ventures, the effective income tax rate for the three months ended 31 March 2016 and 2015 was 19.8 percent and 18.3 percent, respectively.

21 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 March 2016		At 31 December 2015	
Financial assets	**Non-current**	**Current**	**Non-current**	**Current**
Loans and receivable				
Loans receivable	13,105	-	13,105	-
Trade and other receivables	18,821	48,952	16,748	37,564
Cash on special accounts	-	287	-	6,477
Cash and cash equivalents	-	85,531	-	29,187
Other	12	-	10	-
At fair value through profit or loss				
Loans receivable	195,274	-	200,946	-
Commodity derivatives	2,113	5,252	1,511	5,039
Total financial assets	**229,325**	**140,022**	**232,320**	**78,267**
Financial liabilities				
At amortized cost				
Long-term debt	214,849	45,101	252,050	77,269
Short-term debt	-	28,600	-	29,386
Trade and other payables	-	38,075	-	30,490
At fair value through profit or loss				
Commodity derivatives	409	2,467	368	2,355
Total financial liabilities	**215,258**	**114,243**	**252,418**	**139,500**

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).

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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 delivery optimization and to decrease exposure to the risk of negative changes in natural gas world prices.

These contracts include pricing terms that are based on a variety of commodities and indices, and/or volume flexibility options that collectively qualify them under the scope of IAS 39, *Financial instruments: recognition and measurement*, although the activity surrounding certain contracts involves the physical delivery of natural gas. All contracts mentioned above are recognized in the consolidated statement of financial position at fair value with movements in fair value recognized in the consolidated statement of income.

The 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 March 2016	At 31 December 2015
Within other non-current and current assets	7,365	6,550
Within other non-current and current liabilities	(2,876)	(2,723)

	Three months ended 31 March:	
Included in other operating income (loss)	2016	2015
Operating income from natural gas foreign trading	704	170
Change in fair value	326	(513)

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:

	Three months ended 31 March:	
Effect on the fair value (RR million)	2016	2015
Increase by ten percent	(1,286)	(1,653)
Decrease by ten percent	1,286	1,653

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)

21 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:

	Three months ended 31 March:	
	2016	**2015**
At 1 January	**216,136**	**88,726**
Loans provided	6,645	17,437
Repayment of the loans	-	(623)
Initial measurement at fair value allocated to increase the Group's investments in joint ventures (see Note 6)	(836)	(2,686)
Subsequent remeasurement at fair value recognized in profit (loss) as follows:		
– Interest income (using the effective interest rate method)	4,450	2,191
– Foreign exchange gain (loss), net	(14,885)	(17)
– Remaining effect from changes in fair value (attributable to free cash flows of the borrowers and interest rates)	731	2,391
At 31 March	**212,241**	**107,419**

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.

	Three months ended 31 March:	
Effect on the fair value (RR million)	**2016**	**2015**
Increase by one percent	(15,926)	(6,380)
Decrease by one percent	17,605	6,887

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)

21 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 March 2016	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
Long-term loans receivable	13,105	84,453	110,821	-	208,379
Trade and other receivables	2,633	11,864	4,298	26	18,821
Commodity derivatives	-	-	2,113	-	2,113
Other	-	-	-	12	12
Current					
Trade and other receivables	20,190	24,340	3,578	844	48,952
Commodity derivatives	-	-	5,252	-	5,252
Cash on special accounts	-	-	287	-	287
Cash and cash equivalents	33,726	3,068	48,535	202	85,531
Financial liabilities					
Non-current					
Long-term debt	(20,134)	(194,715)	-	-	(214,849)
Commodity derivatives	-	-	(409)	-	(409)
Current					
Current portion of long-term debt	(13,982)	(31,119)	-	-	(45,101)
Short-term debt	(21,358)	-	(7,242)	-	(28,600)
Trade and other payables	(20,518)	(14,893)	(2,469)	(195)	(38,075)
Commodity derivatives	-	-	(2,467)	-	(2,467)
Net exposure	**(6,338)**	**(117,002)**	**162,297**	**889**	**39,846**

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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)**

(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.

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.

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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.

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

	At 31 March 2016		At 31 December 2015	
	RR million	Percentage	RR million	Percentage
At fixed rate	197,040	*68%*	254,276	*71%*
At variable rate	91,510	*32%*	104,429	*29%*
Total debt	**288,550**	***100%***	**358,705**	***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 changes in interest rates over the short-term. This policy makes it possible to significantly limit the Group's sensitivity to interest rate volatility.

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

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

At 31 March 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
Principal	41,242	-	51,000	114,639	206,881
Interest	11,263	8,338	24,859	17,147	61,607
Debt at variable rate					
Principal	32,562	51,338	7,801	-	91,701
Interest	1,416	662	48	-	2,126
Trade and other payables	38,075	-	-	-	38,075
Total financial liabilities	**124,558**	**60,338**	**83,708**	**131,786**	**400,390**

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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**

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

At 31 March 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Cash inflow	30,391	21,441	48,866	24,323	125,021
Cash outflow	(27,609)	(19,743)	(48,799)	(24,386)	(120,537)
Net cash flows	**2,782**	**1,698**	**67**	**(63)**	**4,484**
At 31 December 2015					
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**

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.

Prior to 2015, the Group had investment grade credit ratings of Baa3 by Moody's Investors Service, BBB- by Fitch Ratings, and BBB- 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 noninvestment level BB+ and Ba1, respectively. The Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis to maintain and improve its credit ratings.

The Group manages its capital 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 the three months ended 31 March 2016. At 31 March 2016 and 31 December 2015, the Group's capital totalled RR 748,905 million and RR 755,597 million, respectively.

22 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 prolonged declines in world oil prices have 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 the 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.

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 March 2016, the Group had contractual capital expenditures commitments aggregating approximately RR 17 billion (at 31 December 2015: RR 23 billion) mainly for development at the Yarudeyskoye (through 2017), the Salmanovskoye (Utrenneye) (through 2018), the East-Tarkosalinskoye (through 2018), the Yurkharovskoye (through 2018), the North-Russkoye (through 2017) and the Khancheyskoye (through 2017) fields all in accordance with duly signed agreements.

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 both 31 March 2016 and 31 December 2015. 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 interim condensed financial statements.

Subsequent to the balance sheet date, in April 2016, Yamal LNG signed a syndicated credit line facility agreement with Russian banks in the amount of EUR 3.6 billion for the period of 15 years. As part of the transaction, the Group plans to sign in favor of the banks a pledge agreement in respect of its 50.1 percent ownership in Yamal LNG and a non-financial guarantee undertaking with regard to a 60 percent share in the obligations of Yamal LNG relating to the credit line facility. The guarantee will be valid until passing certain tests proving that the construction of the LNG plant and achieving full production capacity is successfully completed. The outflow of resources embodying economic benefits required to settle the obligation under this non-financial guarantee is not probable.

22 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 interim condensed 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.

The Group's oil and gas fields and license areas are 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.

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 interim condensed financial statements.

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

23 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 interim condensed 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.

	Three months ended 31 March:	
Related parties – joint ventures	**2016**	**2015**
Transactions		
OOO SeverEnergia and its subsidiary:		
Purchases of natural gas and liquid hydrocarbons	(17,735)	(14,810)
Other revenues	29	23
ZAO Terneftegas:		
Purchases of natural gas and liquid hydrocarbons	(2,611)	-
Interest income on loans issued	75	72
Other revenues	22	25
OAO Yamal LNG:		
Interest income on loans issued	4,375	2,118
Other revenues	69	61
ZAO Nortgas:		
Purchases of natural gas and liquid hydrocarbons	(4,077)	(5,040)
OOO Yamal Development:		
Interest income on loans issued	331	327

Related parties – joint ventures	**At 31 March 2016**	**At 31 December 2015**
Balances		
OOO SeverEnergia and its subsidiary:		
Trade payables and accrued liabilities	8,476	6,733
ZAO Terneftegas:		
Long-term loans receivable	4,113	4,413
Interest on long-term loans receivable	803	813
Trade payables and accrued liabilities	1,280	1,133
OAO Yamal LNG:		
Long-term loans receivable	191,161	196,533
Interest on long-term loans receivable	16,164	14,377
ZAO Nortgas:		
Trade payables and accrued liabilities	1,815	1,751
OOO Yamal Development:		
Long-term loans receivable	13,105	13,105
Interest on long-term loans receivable	2,144	1,813

The terms and conditions of the loans receivable from the joint ventures are disclosed in Note 7.

The Group issued non-financial guarantees in favor of its joint ventures as described in Note 22.

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

23 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – parties under control / joint control of key management personnel	Three months ended 31 March: 2016	2015
Transactions		
OOO Transoil:		
Liquid hydrocarbons transportation by rail	(2,717)	(1,952)
OOO Nova:		
Purchases of construction services (capitalized within property, plant and equipment)	(174)	(997)
Materials, services and other	(29)	(33)
PAO SIBUR Holding and its subsidiaries (under control until December 2015):		
Sales of natural gas and liquid hydrocarbons	-	2,663
Purchases of natural gas and liquid hydrocarbons	-	(3,129)
Liquid hydrocarbons transportation by rail	-	(1,013)
Materials, services and other	-	(433)
PAO Pervobank (under control until November 2015):		
Interest income	-	198

Related parties – parties under control / joint control of key management personnel	At 31 March 2016	At 31 December 2015
Balances		
OOO Transoil:		
Prepayments and other current assets	223	412
Trade payables and accrued liabilities	356	316
OOO Nova:		
Advances for construction	59	75
Trade payables and accrued liabilities	216	262

In December 2015, following the change in the ownership structure and corporate governance in PAO SIBUR Holding, the Chairman of the Management Committee of NOVATEK ceased to be its controlling shareholder, and as the result, SIBUR Holding ceased to be a related party of the Group.

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

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	Three months ended 31 March: 2016	2015
Board of Directors	20	19
Management Committee	733	609
Total compensation	**753**	**628**

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. Starting from March 2016, the Management Committee consists of twelve members (earlier – nine members).

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

24 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 OAO 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 interim condensed 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 three months ended 31 March 2016 is as follows:

For the three months ended 31 March 2016	References	Exploration, production and marketing	Segment information as reported to CODM	Reconciling items	Total per consolidated interim condensed financial statements
External revenues		139,240	139,240	111	139,351
Operating expenses	*a, g*	(96,089)	(96,089)	(1,070)	(97,159)
Other operating income (loss)	*b, c, g*	53,902	53,902	20,141	74,043
Interest expense	*d, g*	(4,236)	(4,236)	582	(3,654)
Interest income	*e*	3,604	3,604	1,451	5,055
Change in fair value of non-commodity financial instruments	*f*	-	-	731	731
Foreign exchange gain (loss), net	*b*	(2,115)	(2,115)	899	(1,216)
Segment result		**94,306**	**94,306**	**22,845**	**117,151**
Share of profit (loss) of joint ventures, net of income tax					23,381
Profit before income tax					**140,532**
Depreciation, depletion and amortization	*a*	7,274	7,274	559	7,833
Capital expenditures		8,907	8,907	(201)	8,706

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 additional recognition of operating expenses of RR 436 million under IFRS;

b. different methodology in calculating gain on disposal of a 9.9 percent equity stake in OAO Yamal LNG, the Group's joint venture, between IFRS and management accounting, which resulted in additional recognition of other operating income of RR 20,041 million and foreign exchange gain of RR 380 million under IFRS;

c. different methodology in valuation of commodity derivatives under IFRS and management accounting, which resulted in additional recognition of other operating income of RR 326 million under IFRS;

d. different methodology in borrowing costs capitalization policy between IFRS and management accounting, which resulted in reversal of RR 831 million in interest expense under IFRS;

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

24 SEGMENT INFORMATION (CONTINUED)

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 1,436 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 gain recognition of RR 731 million under IFRS; and

g. 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 three months ended 31 March 2015 is as follows:

For the three months ended 31 March 2015	**References**	**Exploration, production and marketing**	**Segment information as reported to CODM**	**Reconciling items**	**Total per consolidated interim condensed financial statements**
External revenues		113,705	113,705	37	113,742
Operating expenses	*a, f*	(74,663)	(74,663)	767	(73,896)
Other operating income (loss)	*b, f*	234	234	(433)	(199)
Interest expense	*c, f*	(2,229)	(2,229)	28	(2,201)
Interest income	*d*	2,510	2,510	676	3,186
Change in fair value of non-commodity financial instruments	*e*	-	-	2,391	2,391
Foreign exchange gain (loss), net		(10,834)	(10,834)	212	(10,622)
Segment result		**28,723**	**28,723**	**3,678**	**32,401**
Share of profit (loss) of joint ventures, net of income tax					4,274
Profit before income tax					**36,675**
Depreciation, depletion and amortization	*a*	5,470	5,470	(955)	4,515
Capital expenditures	*c*	12,891	12,891	1,603	14,494

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 984 million in operating expenses under IFRS;

b. different methodology in valuation of commodity derivatives under IFRS and management accounting, which requires additional recognition of other operating loss of RR 512 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 1,388 million under IFRS, including capitalized interest of RR 215 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 670 million under IFRS;

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24 SEGMENT INFORMATION (CONTINUED)

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 gain recognition of RR 2,391 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.

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, China, Taiwan, South Korea and Japan)* – sales of naphtha, stable gas condensate and crude oil;
- *Countries of the Middle East (primarily, Oman)* and *North America (primarily, the USA)* – sales of naphtha.

The Group's geographical information is presented below:

For the three months ended 31 March 2016	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	61,163	4,617	657	3,687	9,008	79,132
The European Union	-	17,918	15,025	3,120	3,549	39,612
The Asia-Pacific region	-	17,660	-	-	2,826	20,486
The Middle East	-	4,333	-	-	-	4,333
North America	-	1,843	-	-	-	1,843
Other	-	-	824	-	-	824
Less: export duties	-	(5,084)	(1,511)	-	(1,424)	(8,019)
Total outside Russia	-	36,670	14,338	3,120	4,951	59,079
Total	**61,163**	**41,287**	**14,995**	**6,807**	**13,959**	**138,211**
For the three months ended 31 March 2015						
Russia	53,621	3,174	540	2,790	2,454	62,579
The European Union	-	13,538	20,545	3,053	2,234	39,370
The Asia-Pacific region	-	19,710	-	-	-	19,710
North America	-	3,620	-	-	-	3,620
Other	-	-	484	223	-	707
Less: export duties	-	(8,599)	(3,094)	(292)	(777)	(12,762)
Total outside Russia	-	28,269	17,935	2,984	1,457	50,645
Total	**53,621**	**31,443**	**18,475**	**5,774**	**3,911**	**113,224**

24 SEGMENT INFORMATION (CONTINUED)

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

Major customers. For the three months ended 31 March 2016, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 14 percent (RR 19.7 billion) of total external revenues. For the three months ended 31 March 2015, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 11 percent (RR 12.6 billion) of total external revenues. All of the Group's major customers reside within the Russian Federation.

25 NEW ACCOUNTING PRONOUNCEMENTS

The following new and amended standards and interpretations became effective for the Group from 1 January 2016:

Amendments to IAS 1, *Presentation of Financial Statements* (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements. The adoption of the amendments had no material impact on the Group's consolidated interim condensed financial statements.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017, 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 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.

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.

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

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