

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

You should read the following discussion and analysis of our financial condition and results of operations for the three months ended 30 September 2013 and 2012 together with our unaudited consolidated interim condensed financial information as of and for the three and nine months ended 30 September 2013. The unaudited consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". This consolidated interim condensed financial information should be read together with the audited consolidated financial statements for the year ended 31 December 2012 prepared in accordance with International Financial Reporting Standards (IFRS).

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

### **OVERVIEW**

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

Our exploration, development, production and processing of natural gas, gas condensate and crude oil have been conducted within the Russian Federation, and, in accordance with Russian law, we sell our produced natural gas volumes exclusively in the Russian domestic market.

Prior to July 2013, the majority of our stable gas condensate was shipped to international markets via the Port of Vitino located on the White Sea. From the third quarter of 2013, most of our stable gas condensate is sent as a raw material feedstock for processing to the Gas Condensate Fractionation and Transshipment Complex launched in June 2013 (see "Recent Developments" below). Refined products (namely, naphtha, jet fuel, gasoil, fuel oil) from the fractionation of our stable gas condensate are sold directly to the international markets. The remaining stable gas condensate volumes are sold to both international and domestic markets.

Our crude oil and liquefied petroleum gas ("LPG") are generally delivered to both international and domestic markets.

### **RECENT DEVELOPMENTS**

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

In October 2013, our joint venture ZAO Nortgas launched the Eastern dome of the North-Urengoykoye field, which allows Nortgas to achieve peak production capacity of more than 10 bcm of natural gas and 1.4 million tons of gas condensate in 2014.

In October 2013, we increased the capacity of our Purovsky Gas Condensate Plant ("Purovsky Plant") by launching two (out of four) gas condensate stabilization trains with an aggregate capacity of three million tons per annum. The launching of the two stabilization trains increased our Purovsky Plant's annual capacity from five to eight million tons. Commissioning of the remaining two stabilization trains planned for November 2013 will allow us to increase Purovsky Plant's capacity up to 11 million tons per annum.

In July 2013, our joint venture OAO Yamal LNG entered into a Slot Reservation Agreement with Daewoo Shipbuilding & Marine Engineering for the construction of liquefied natural gas (“LNG”) carriers with an ice classification of ARC7. The Slot Reservation Agreement provides for the option to build, launch and equip up to sixteen vessels and sets the preliminary contract price of vessels, the schedule of their production and expected delivery dates. The Slot Reservation Agreement also provides for the cession of rights to finance and purchase of ice class vessels to third party carriers approved by Yamal LNG.

In June 2013, the Group launched the first stage of a stable gas condensate fractionation unit located at the Port of Ust-Luga on the Baltic Sea (“the Ust-Luga Complex”). The first stage of the Ust-Luga Complex includes a nameplate capacity of three million tons per annum, 520 thousand cubic meters of storage facilities for feedstock and products, a deep-water berth and other infrastructure facilities. In October 2013, the Group completed the construction and started commissioning tests at the second stage of the Ust-Luga Complex which includes a second gas condensate fractionation unit with a nameplate capacity of three million tons per annum and an additional berth facility. Following the launch of the second stage facilities, overall gas condensate processing capacity at the Complex will increase to six million tons per year.

The Ust-Luga Complex enables us to process stable gas condensate into light and heavy naphtha, jet fuel, gasoil and fuel oil (“gas condensate refined products”), which are then subsequently shipped to the international markets via tankers on the Baltic Sea. The commissioning of the Ust-Luga Complex allows us to increase the added value of our liquid hydrocarbons sales and to diversify our sales market. The Ust-Luga Complex refines almost all of the stable gas condensate produced at the Purovsky Plant into gas condensate refined products, with the remaining volumes of stable gas condensate sold directly to the international or domestic markets.

In June 2013, NOVATEK concluded a framework agreement with China National Petroleum Corporation (“CNPC”) on purchasing an equity stake in the Yamal LNG project. The Yamal LNG project envisages the construction of a LNG plant with an annual capacity of 16.5 million tons based on the feedstock resources of the South-Tambeyskoye field. The project also requires the construction of transportation infrastructure including a seaport and an airport located at Sabetta (north-east of the Yamal Peninsula).

In September 2013, following the execution of a framework agreement, CNPC and the Group signed a share-purchase agreement whereby CNPC acquires a 20% equity stake in OAO Yamal LNG. The transaction is expected to be completed by 1 December 2013 after necessary regulatory approvals from the Russian Federation, the People’s Republic of China and the European Union are received. Furthermore, in September 2013, CNPC, the Group and a consortium of Chinese financial institutions signed a memorandum on project financing whereby leading Chinese banks will consider the possibility of financing the project. In addition, in October 2013, Heads of Agreement for the supply of at least three million tons of LNG to CNPC for a period of 15 years with possible extension were concluded.

In November 2012, the Group acquired a 49% ownership interest in ZAO Nortgas for total consideration of USD 1,375 million. In June 2013, the Group increased its ownership interest in Nortgas to 50% by subscribing to the entity’s additional share emission for a cash consideration of USD 52 million. Nortgas is a Russian oil and gas production company that holds the production license for the North-Urengoykoye field located in the Yamal Nenets Autonomous Region (“YNAO”), which is located in a close proximity to our transport and processing infrastructure. The estimated proved reserves appraised under the PRMS reserve methodology totaled 186 bcm of natural gas and 25 million tons of liquid hydrocarbons as of 31 December 2012, for a combined total of 1.4 billion barrels of oil equivalent.

In March 2013, the Group won the right to purchase an oil and gas exploration and production license for the East-Tazovskoye field located in the YNAO, based on auction results held by the Federal Agency for the Use of Natural Resources of the Russian Federation. As of 1 January 2013, the estimated reserves of the field according to the Russian reserve classification C1+C2 amounted to 65.3 bcm of natural gas and 13.4 million tons of liquid hydrocarbons. We paid RR 3.2 billion for the mineral license.

In February 2013, the Group issued four-year Russian rouble denominated Eurobonds in the amount of RR 14 billion with the annual coupon rate of 7.75%.

In the three months ended 30 September 2013, we increased our proportion of natural gas volumes sold to end-customers to 89.8% due to the conclusion during 2012 of a range of long-term contracts for the period of 10 to 15 years. The contracts were concluded with OAO MMK (10.5 years), E.ON's and Fortum's Russian subsidiaries (15 years), as well as with Mechel Group (10 years and more). In addition, we concluded a five-year contract with OAO Severstal and a three-year contract with OAO Mosenergo. The share of natural gas volumes sold under the aforementioned contracts in the three months ended 30 September 2013 aggregated 43.9% of our total natural gas sales volumes.

In December 2012, the Group acquired an 82% equity interest in OOO Gazprom mezhregiongas Kostroma, a regional natural gas trader in the Kostroma region of the Russian Federation, to support and expand the Groups' natural gas sales opportunities in the region. In February 2013, OOO Gazprom mezhregiongas Kostroma was renamed to OOO NOVATEK-Kostroma ("NOVATEK-Kostroma").

In December 2012, the Group established OOO NOVATEK Moscow region ("NOVATEK Moscow region"), a wholly owned subsidiary, to support the Group's current natural gas deliveries to the Moscow region, as well as to expand potential sales opportunities in the region.

In December 2012, the Group issued ten-year USD denominated Eurobonds in the amount of USD one billion with a coupon rate of 4.422% per annum.

In October 2012, we launched the fourth stage of the second phase development at our Yurkharovskoye field, which allowed us to achieve the design production capacity of the field. The fourth stage complex includes two gas treatment trains with total annual capacity of seven billion cubic meters. The fourth stage launch increases natural gas production at the field to a plateau level of 37.2 bcm per annum.

In April and December 2012, our joint venture OOO SeverEnergiya ("SeverEnergiya") launched the first and the second phases of the Samburgskoye field, respectively, with combined annual natural gas production capacity of approximately 4.6 bcm and 650 thousand tons of gas condensate.

In 2012, the Group signed long-term natural gas purchase and sales contracts with third parties on the European market. The gas purchase and sales contracts have been signed for a delivery period of ten years starting from 1 October 2012. The total volume of natural gas supplied over this period is estimated to be approximately 210 terawatt-hours (or approximately 20 bcm). In addition, the Group periodically concludes short-term natural gas purchase and sales agreements on the European market to optimize its trading activities. The financial result from natural gas trading activities, including the effect from changes in fair value of gas contracts, was recorded in the consolidated statement of income within other operating profit (loss).

## SELECTED DATA

<i>millions of Russian roubles except as stated</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
<b>Financial results</b>			
Total revenues (net of VAT, export duties, excise and fuel taxes)	75,648	52,514	44.1%
Operating expenses	(47,080)	(29,628)	58.9%
Profit attributable to shareholders of OAO NOVATEK	23,458	20,003	17.3%
EBITDA <sup>(1)</sup>	32,893	25,252	30.3%
EBITDAX <sup>(2)</sup>	32,919	25,582	28.7%
Earnings per share (in Russian roubles)	7.75	6.59	17.5%
<b>Operating results</b>			
Natural gas sales volumes (million cubic meters)	14,403	13,507	6.6%
Naphtha sales volumes (thousand tons)	562	-	n/a
Liquefied petroleum gas sales volumes (thousand tons)	257	202	27.2%
Stable gas condensate sales volumes (thousand tons)	241	737	(67.3%)
Crude oil sales volumes (thousand tons)	162	123	31.7%
Other gas condensate refined products (thousand tons) <sup>(3)</sup>	128	-	n/a
Total hydrocarbons production (million barrels of oil equivalent) <sup>(4)</sup>	102.7	93.8	9.5%
Total daily production (thousand barrels of oil equivalent per day) <sup>(4)</sup>	1,116	1,020	9.4%
<b>Cash flow results</b>			
Net cash provided by operating activities	25,992	23,821	9.1%
Capital expenditures <sup>(5)</sup>	16,276	11,480	41.8%
Free cash flow <sup>(6)</sup>	9,716	12,341	(21.3%)

<sup>(1)</sup> EBITDA represents profit (loss) attributable to shareholders of OAO NOVATEK adjusted for the add-back of net impairment expenses (reversals), depreciation, depletion and amortization, income tax expense and finance income (expense) from the Consolidated Statement of Income, income (loss) from changes in fair value of derivative financial instruments from the "Financial instruments and financial risk factors" in the notes to the IFRS consolidated financial statements.

<sup>(2)</sup> EBITDAX represents EBITDA as adjusted for the add-back of exploration expenses.

<sup>(3)</sup> Other gas condensate refined products include jet fuel, gasoil and fuel oil.

<sup>(4)</sup> Total hydrocarbons production and total daily production are calculated based on net production, including our proportionate share in the production of our joint ventures.

<sup>(5)</sup> Capital expenditures represent additions to property, plant and equipment excluding prepayments for participation in tenders for mineral licenses.

<sup>(6)</sup> Free cash flow represents the excess of Net cash provided by operating activities over Capital expenditures.

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

<i>millions of Russian roubles</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
<b>Profit attributable to shareholders of OAO NOVATEK</b>	<b>23,458</b>	<b>20,003</b>	<b>17.3%</b>
Depreciation, depletion and amortization	3,589	2,658	35.0%
Net impairment expenses (reversals)	14	(15)	n/a
Loss (income) from changes in fair value of derivative financial instruments	13	(322)	n/a
Total finance expense (income)	27	(2,345)	n/a
Total income tax expense	5,792	5,273	9.8%
<b>EBITDA</b>	<b>32,893</b>	<b>25,252</b>	<b>30.3%</b>
Exploration expenses	26	330	(92.1%)
<b>EBITDAX</b>	<b>32,919</b>	<b>25,582</b>	<b>28.7%</b>

## SELECTED MACRO-ECONOMIC DATA

<i>Exchange rate, Russian roubles for one US dollar <sup>(1)</sup></i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
At the beginning of the period	32.71	32.82	(0.3%)
At the end of the period	32.35	30.92	4.6%
Average for the period	32.80	32.01	2.5%
Depreciation (appreciation) of Russian rouble to US dollar	(1.1%)	(5.8%)	n/a

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

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<i>Crude oil prices, USD per bbl</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
<b>WTI <sup>(2)</sup></b>			
At the end of the period	102.3	92.1	11.1%
Average for the period	105.8	92.2	14.8%
<b>Brent <sup>(3)</sup></b>			
At the end of the period	108.1	111.0	(2.6%)
Average for the period	110.3	109.5	0.7%
<b>Dubai <sup>(3)</sup></b>			
At the end of the period	104.8	110.6	(5.2%)
Average for the period	106.2	106.1	0.1%
<b>Urals <sup>(3)</sup></b>			
At the end of the period	106.4	109.9	(3.2%)
Average for the period	109.7	108.9	0.7%

<sup>(2)</sup> Based on New York Mercantile Exchange Light Sweet prices provided by Reuters to Platts.

<sup>(3)</sup> Based on Brent (Dtd) prices, Dubai prices and Russian Urals/ESPO spot assessments prices as provided by Reuters to Platts. ESPO stands for East Siberian Pipeline Ocean crude oil.

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<i>Oil products prices, USD per ton</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
<b>Naphtha Japan <sup>(4)</sup></b>			
At the end of the period	900.3	966.6	(6.9%)
Average for the period	919.4	912.6	0.7%
<b>Jet fuel <sup>(4)</sup></b>			
At the end of the period	977.3	1,055.3	(7.4%)
Average for the period	992.9	1,024.8	(3.1%)
<b>Gasoil <sup>(4)</sup></b>			
At the end of the period	917.8	981.5	(6.5%)
Average for the period	931.7	946.4	(1.6%)
<b>Fuel oil <sup>(4)</sup></b>			
At the end of the period	608.0	699.8	(13.1%)
Average for the period	615.3	683.6	(10.0%)

<sup>(4)</sup> Based on Naphtha C+F (cost plus freight) Japan, Jet CIF NWE, Gasoil 0.1% CIF NWE, Fuel Oil 1.0% CIF NWE prices provided by Platts.

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<i>Liquefied petroleum gas prices, USD per ton</i> <sup>(5)</sup>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
At the end of the period	761.5	812.5	(6.3%)
Average for the period	673.7	720.7	(6.5%)

<sup>(5)</sup> Based on spot prices for propane-butane mix at the Belarusian-Polish border (DAF, Brest) as provided by Argus.

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<i>Export duties, USD per ton</i> <sup>(6)</sup>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
<b>Crude oil, stable gas condensate</b>			
At the end of the period	400.7	393.8	1.8%
Average for the period	383.2	366.6	4.5%
<b>Liquefied petroleum gas</b>			
At the end of the period	75.5	76.2	(0.9%)
Average for the period	53.7	92.7	(42.1%)
<b>Naphtha</b>			
At the end of the period	360.6	354.4	1.7%
Average for the period	344.9	329.9	4.5%
<b>Jet fuel, gasoil, fuel oil</b>			
At the end of the period	264.4	259.9	1.7%
Average for the period	252.9	241.9	4.5%

<sup>(6)</sup> Export duties are determined by the Russian Federation government in US dollars and are paid in Russian roubles.

## **CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS**

### **Current financial market conditions**

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

We have reviewed our capital expenditure program for the remainder of 2013 and have concluded that we have sufficient liquidity, through current internal cash flows and short-term borrowing facilities, to adequately fund our core natural gas business operations and planned capital expenditure program.

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

### **Natural gas prices**

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

According to the Russian Federation government Directive No.1205 on "Improvement of State Gas Price Regulation" as of 31 December 2010, starting from 2013 natural gas prices for sales to end-customers on the domestic market (excluding residential customers) are set for each region of the Russian Federation on a quarterly basis using a price formula within the maximum and minimum price range. The maximum and minimum wholesale gas prices may be revised semiannually – as of 1 January and 1 July. In addition, the wholesale gas prices may be recalculated twice a year – as of 1 April and 1 October, based on changes in oil products prices in the European markets within a range of +/-3% from the prices set previously.

In May 2013, the FTS made changes to the Statement of Gas Price Formula Definition that provides for the possibility of adjusting the minimum and maximum wholesale gas prices for the next quarter of the calendar year in case there was a significant deviation (more than 5%) of natural gas prices calculated using a price formula in the previous quarter from the annual wholesale price changes set by the Russian Federation government.

As of 1 July 2012, the FTS increased the wholesale prices for natural gas sold to end-customers on the domestic market by 15.0%.

In 2013, average natural gas prices for sales to end-customers on the domestic market (excluding residential customers), as a result of the above pricing regulations becoming effective, were decreased by 3.0% from 1 April and increased by 15.0% from 1 July, by 3.1% from 1 August, and by 1.9% from 1 October. From 1 January 2014 the FTS decided to bring wholesale natural gas prices to the August-September levels of 2013.

Based on the Ministry of Economic Development Forecast published in September 2013, wholesale natural gas prices for sales to all customers' categories on the domestic market (excluding residential customers) will remain at the same price level as the August-September 2013 prices, and, accordingly, in July 2015 and 2016, will be increased by 4.8% and 4.9%, respectively. The Russian Federation government continues to debate various policies relating to the natural gas industry and natural gas pricing on the Russian domestic market.

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

The specific terms for delivery of natural gas affect our average realized prices. Natural gas sold “ex-field” is sold primarily to wholesale gas traders, in which case the buyer is responsible for the payment of gas transportation tariffs. Sales to wholesale gas traders allow us to diversify our natural gas sales without incurring additional commercial expenses. Historically, we have realized higher prices and net margins for natural gas volumes sold directly to end-customers, as the gas transportation tariff is included in the contract price and no retail margin is lost to wholesale gas traders. However, the historical norm may or may not prevail in the present or future market situations.

We deliver natural gas to residential customers of the Chelyabinsk and Kostroma regions of the Russian Federation at regulated prices as a result of recent acquisitions of regional gas traders Gazprom mezhregiongas Chelyabinsk and Gazprom mezhregiongas Kostroma. We disclose such residential sales within our end-customers category.

In the three months ended 30 September 2013, our average natural gas price to end-customers increased by 20.0%, respectively, primarily due to an increase in the average regulated FTS price by 13.9% compared to the corresponding period in 2012 (cumulative effect of a 3% decrease effective from 1 April 2013, and 15.0% and 3.1% increases effective from 1 July and 1 August 2013), as well as due to the conclusion of new contracts with end-customers located at more distant regions (see “Recent Developments” above). Our average transportation expense for the delivery of natural gas to end-customers increased by 18.0% largely due to the same reason, namely a significant increase in our average transportation distance (see “Transportation tariffs” below), as well as a 6.4% average increase in the natural gas transportation tariff effective 1 August 2013 set by the FTS.

As a result, our average netback price on end-customers sales increased by 21.6%, while our total average natural gas price excluding transportation expense increased by 23.5% compared to respective prices in the corresponding period in 2012.

The following table shows our average realized natural gas sales prices (net of VAT), excluding volumes purchased for resale in the location of our end-customers in 2012:

<i>Russian roubles per mcm</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
Average natural gas price to end-customers <sup>(1)</sup>	3,659	3,050	20.0%
Average natural gas transportation expense for sales to end-customers	(1,574)	(1,334)	18.0%
Average natural gas netback price on end-customer sales	2,086	1,716	21.6%
Average natural gas price ex-field (wholesale traders)	1,973	1,619	21.9%
<b>Total average natural gas price excluding transportation expense</b>	<b>2,074</b>	<b>1,679</b>	<b>23.5%</b>

<sup>(1)</sup> Includes cost of transportation.

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

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

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

Our stable gas condensate and refined products, LPG and crude oil prices on both the international and domestic markets include transportation expenses in accordance with the specific terms of delivery.

### *Stable gas condensate and refined products*

In the three months ended 30 September 2013, our stable gas condensate export delivery terms were delivery at point of destination (DAP), or cost and freight (CFR), while in the corresponding period in 2012 our delivery terms were either DAP, CFR or delivery to the port of destination ex-ship (DES), or priced at cost, insurance and freight (CIF). Our average stable gas condensate export contract price, including export duties, in the three months ended 30 September 2013, was approximately USD 917 per ton compared to approximately USD 914 per ton in the corresponding period in 2012.

In the three months ended 30 September 2013, our naphtha and other gas condensate refined products (jet fuel, gasoil and fuel oil) were sold to export markets on delivery terms either CFR, CIF, DAP, free on board (FOB), or DES. Our average naphtha and other gas condensate refined products export contract prices, including export duties, in the three months ended 30 September 2013, were approximately USD 954 per ton and USD 935 per ton, respectively. There were no sales of gas condensate refined products in 2012 as the Ust-Luga Complex was formally commissioned in June 2013.

The following table shows our average realized stable gas condensate and refined products (net of VAT and export duties, where applicable; prices in US dollars were translated from Russian roubles using the average exchange rate for the period):

<i>Russian roubles or US dollars per ton</i>	<b>Three months ended 30 September:</b>		<b>Change</b>
	<b>2013</b>	<b>2012</b>	<b>%</b>
<b>Stable gas condensate</b>			
Net export price, RR per ton	18,119	17,629	2.8%
Net export price, USD per ton	552.4	550.7	0.3%
Domestic price, RR per ton	13,720	12,278	11.7%
<b>Naphtha</b>			
Net export price, RR per ton	19,859	-	n/a
Net export price, USD per ton	605.5	-	n/a
<b>Other gas condensate refined products</b>			
Net export price, RR per ton	22,386	-	n/a
Net export price, USD per ton	682.5	-	n/a

### *Liquefied petroleum gas*

In the three months ended 30 September 2013, LPG export delivery terms were DAP at the border of the customer's country and free carrier (FCA) at terminal points in Poland, compared to DAP at the border of the customer's country, carriage paid to (CPT) the Port of Temryuk (southern Russia) and FCA (at terminal points in Poland) in the corresponding period in 2012. In the three months ended 30 September 2013, our average export contract price for LPG produced at the Purovsky Plant, including export duties and excise and fuel taxes expense, was approximately USD 772 per ton compared to USD 807 per ton in the corresponding period in 2012.

In the three months ended 30 September 2013, we sold 103 thousand tons of our LPG on the domestic market at an average price of RR 15,410 per ton compared to sales of 90 thousand tons, including volumes purchased for resale, at an average price of RR 14,200 per ton in the corresponding period in 2012.

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

<i>Russian roubles or US dollars per ton</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
<b>LPG</b>			
Net export price, RR per ton	21,316	20,191	5.6%
Net export price, USD per ton	649.9	630.8	3.0%
Domestic price, RR per ton	15,410	14,199	8.5%

### *Crude oil*

In the three months ended 30 September 2013, our crude oil export delivery terms were DAP (Budkovtse, Slovakia) compared to DAP (Feneshlitke, Hungary) in the corresponding period in 2012. Our average crude oil export contract price, including export duties, was approximately USD 784 per ton compared to USD 780 per ton in the corresponding period in 2012.

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

<i>Russian roubles or US dollars per ton</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
<b>Crude oil</b>			
Net export price, RR per ton	13,023	13,133	(0.8%)
Net export price, USD per ton	397.0	410.3	(3.2%)
Domestic price, RR per ton	13,052	11,144	17.1%

## **Transportation tariffs**

### *Natural gas*

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

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

Effective from 1 August 2013, the FTS approved a 6.4% average increase of the transportation tariff for natural gas, and the rate for utilization of the trunk pipeline was set on an average between RR 57.18 to RR 2,048.11 (excluding VAT) per mcm and the transportation rate was set at RR 12.79 (excluding VAT) per mcm per 100 km.

According to the Ministry of Economic Development of the Russian Federation Forecast published in September 2013, transportation tariffs for natural gas produced by independent producers in 2014-2016 will not exceed the increase in wholesale natural gas prices and will be increased by 0% in 2014, by 4.8% in 2015 and by 4.9% in 2016.

#### *Stable gas condensate and LPG by rail*

We transport our stable gas condensate (from the Purovsky Plant to the Port of Vitino on the White Sea and to the Port of Ust-Luga on the Baltic Sea or to customers on the domestic markets) and LPG (from the Purovsky Plant to customers on the domestic market) by rail which is owned and operated by Russia's state-owned monopoly railway operator – OAO Russian Railways ("RZD"). Our transportation tariffs for transport by rail are set by the FTS and vary depending on the type of a product and the length of the transport route. For our stable gas condensate and LPG transportation purposes we use our own rail cars and rail cars rented from independent Russian transportation companies.

According to orders issued by the FTS, we applied the discount co-efficients to the railroad transportation tariffs related to export deliveries from the Limbey rail station of stable gas condensate during 2012 and LPG during 2012 and January 2013. The discount co-efficients for stable gas condensate and LPG were set at 0.89 and 0.71, respectively.

In December 2012, the FTS announced changes to the railroad transportation tariffs effective from January 2013, which provided the FTS ability to apply discounts and multiply co-efficients to the existing railroad transportation tariffs based on the type of product, direction and length of the transport route. In addition, in December 2012, the FTS proposed amendments to the regulations governing the minimum and maximum railroad transportation tariffs within the territory of the Russian Federation, and approved the terms and conditions of applying the railroad tariffs within the predetermined limits. According to the amendments, the FTS sets the minimum and maximum range of railroad tariffs for the transportation of all types of goods transported by the railroad system, and for certain segments of railroad transportation services. Russia's state-owned monopoly railway operator RZD may vary railroad transportation tariffs within the minimum and maximum range. In March 2013, the Management Board of RZD took a decision to apply the discount co-efficient of 0.917 to the existing railroad transportation tariffs related to stable gas condensate deliveries from the Limbey rail station (located in close proximity to our Purovsky Plant). We applied the discount co-efficient from 18 April 2013 and expect to apply this co-efficient throughout the remainder of 2013.

#### *Stable gas condensate and refined products by tankers*

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

#### *Crude oil*

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

Crude oil transportation tariffs within the Russian Federation territory were increased on average by 5.5% in November 2012 and did not change during 2013.

## **Our tax burden and obligatory payments**

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

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

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

### *UPT*

In 2012, the UPT rate for natural gas produced by independent natural gas producers was set at RR 251 per mcm (consisting of a base rate of RR 509 per mcm and a reducing co-efficient for independent natural gas producers of 0.493) and was increased to RR 265 per mcm and subsequently to RR 402 per mcm effective from 1 January and 1 July 2013, respectively. In addition, the Russian Tax Code sets the UPT rate for natural gas produced by independent natural gas producers at RR 471 per mcm from 1 January 2014 until 1 July 2014 when the amendments to the Russian Tax Code on the new methodology of UPT rate calculation become effective (see below).

In 2012, the UPT rate for gas condensate was set at RR 556 per ton and was subsequently increased to RR 590 per ton in 2013. Effective from 1 January 2014, the UPT rate for gas condensate for 2014 is set at RR 647 per ton. This rate will also be in effect until 1 July 2014 when the amendments to the Russian Tax Code on the new methodology of UPT rate calculation become effective (see below).

In June 2012, the Russian Federation government made a decision to develop a new approach on taxation of the natural gas producers by linking the UPT rate for natural gas to regulated natural gas prices and transportation tariffs growth. In September 2013, the amendments to the Russian Federation Tax Code were made which changed the current approach to natural gas and gas condensate UPT rate calculation to a formula-based approach that takes into account the base UPT rate, the base value of a standard fuel equivalent and a co-efficient characterizing the difficulty of extracting natural gas and gas condensate from each particular field. The new approach to the calculation of UPT rates becomes effective 1 July 2014. Furthermore, from 1 January 2015, the UPT rate will also depend on the excess of the set average transportation tariff for the prior year over 2013 adjusted to the change in consumer prices. The base UPT rate is set at RR 42 per one ton of extracted gas condensate and RR 35 per one thousand meter of extracted natural gas. A co-efficient characterizing the difficulty of extracting natural gas and gas condensate is defined as a minimum value from the co-efficients characterizing either the reserves’ depletion, the field’s geographical location, the deposit’s (or reservoir’s) depth, assignment of the field to the regional gas supply chain or particular features of certain field deposits development.

The UPT rate for crude oil is calculated in US dollar and translated into Russian roubles using the monthly average exchange rate established by the Central Bank of Russian Federation.

The UPT rate for crude oil changes every month, and it is calculated based on a formula that links the base UPT rate and coefficients characterizing crude oil price dynamics, reserve depletion and the size of a particular field, as well as the difficulty of extracting and reserve depletion of a particular hydrocarbon deposit. The base crude oil UPT rate in 2012 was set at RR 446 per ton and increased to RR 470 per ton in 2013.

In September 2013, the Government of the Russian Federation approved changes to the regulations based on which the base UPT rate is increased to RR 493 per ton effective 1 January 2014 (in 2015 and 2016 the base value is set at RR 530 per ton and RR 559 per ton, respectively). Also, the formula for crude oil export duty rate calculation was changed (see “Export duties” below).

The Russian Tax Code provides for reduced or zero UPT rate for crude oil produced in certain geographical areas. We did not use the reduced or zero UPT rates from the production of crude oil prior to 1 January 2012. According to the Russian Tax Code a zero UPT rate is set for crude oil produced at fields located in the YNAO to the north of the 65th degree of the northern latitude. Our Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye fields are located in the mentioned geographical area; therefore, we applied the allowed zero UPT rate for crude oil produced at these fields effective from 1 January 2012.

#### *Export duties*

We are subject to export duties on our exports of liquid hydrocarbons (stable gas condensate and refined products, LPG, and crude oil). According to the amendments to the Law of the Russian Federation “Concerning the Customs Tariff”, effective from 1 April 2013, the Russian Federation government established formulas for the Ministry of Economic Development for calculating the monthly export duties for exported liquid hydrocarbons (see “Selected macro-economic data” above).

The export duty rate for stable gas condensate and crude oil is calculated based on the average Urals crude oil price for the period from the 15th calendar day in the previous month to the 14th calendar day of the current month and is set for the following month after the current calendar month. Calculation of the export duty rate when the average Urals crude oil price is more than USD 182.5 per ton is set as follows: USD 29.2 plus 60% of the difference between the average Urals crude oil price and USD 182.5. Changes in the regulations which become effective 1 January 2014 decrease the set percentage of the difference used in the formula from 60% to 59%. In 2015 and 2016 set percentages will amount to 57% and 55%, respectively.

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

The export duty rate for oil products is calculated based on the export duty rate for crude oil and is adjusted by a co-efficient set for each category of oil products. Effective from 1 October 2011, the export duty rate for naphtha was set at 90% of the crude oil export duty rate. The export duty rate for jet fuel and gasoil is set at 66% of the crude oil export duty rate. The export duty rate for fuel oil is currently set at 66% of the crude oil export duty rate until 1 January 2015 and will be equal to the crude oil export duty rate thereafter.

#### *Social insurance tax*

Effective from 2012, the social insurance tax rates for contributions to the Pension Fund of the Russian Federation, the Federal Compulsory Medical Insurance Fund and the Social Insurance Fund of the Russian Federation paid by the employer on behalf of employees were set at 22.0%, 5.1% and 2.9%, respectively, for a cumulative social burden of 30.0%. The maximum taxable base for these rates per each employee was set at RR 512 thousand and RR 568 thousand of annual income in 2012 and 2013, respectively. For annual income above the maximum taxable base, the tax rate is set to 10.0% to the Pension Fund and nil for other funds.

## OPERATIONAL HIGHLIGHTS

### Hydrocarbon sales volumes

Our natural gas sales volumes in the three months ended 30 September 2013, increased due to a combination of increased purchases from our related parties and joint ventures, as well as increased production at our Yurkharovskoye field, that was partially offset by an increase in natural gas volumes injected into Underground Gas Storage Facilities (“UGSF”) as compared to the corresponding period in 2012.

Our liquids sales volumes increased mainly due to an increase in unstable gas condensate purchases from the Group’s joint ventures, and, to a lesser extent, due to the increased liquids production.

#### *Natural gas production volumes*

In the three months ended 30 September 2013, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 1,173 mmcm, or 9.0%, to 14,251 mmcm from 13,078 mmcm in the corresponding period in 2012.

<i>millions of cubic meters</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
<b>Production by subsidiaries from:</b>			
Yurkharovskoye field	9,030	7,679	17.6%
East-Tarkosalinskoye field	2,428	3,059	(20.6%)
Khancheyskoye field	708	855	(17.2%)
Other fields	33	16	106.3%
<b>Total natural gas production by subsidiaries</b>	<b>12,199</b>	<b>11,609</b>	<b>5.1%</b>
<b>Group’s proportionate share in the production of joint ventures:</b>			
Sibneftegas	1,308	1,339	(2.3%)
Nortgas	430	-	n/a
SeverEnergia	314	130	141.5%
<b>Total Group’s proportionate share in the natural gas production of joint ventures</b>	<b>2,052</b>	<b>1,469</b>	<b>39.7%</b>
<b>Total natural gas production including proportionate share in the production of joint ventures</b>	<b>14,251</b>	<b>13,078</b>	<b>9.0%</b>

In the three months ended 30 September 2013, our volumes of natural gas produced by our subsidiaries increased by 590 mmcm, or 5.1%, to 12,199 mmcm from 11,609 mmcm in the corresponding period in 2012 primarily due to an increase in production at our Yurkharovskoye field resulting from the field’s ongoing development activities and the launch of the fourth stage of the second phase development in October 2012 (see “Recent developments” above). The main reason for the reduction in natural gas production at the East-Tarkosalinskoye field was the Groups’ decision to optimize the production of liquid hydrocarbons. We reduced our natural gas production at the East-Tarkosalinskoye field that allowed us to grow natural gas production at the Yurkharovskoye field, thus increasing unstable gas condensate production. In addition, our natural gas production marginally decreased at the East-Tarkosalinskoye and Khancheyskoye fields due to the natural declines in the reservoir pressure at the current gas producing horizons.

In the three months ended 30 September 2013, our proportionate share in the production of our joint ventures increased by 583 mmcm, or 39.7%, to 2,052 mmcm from 1,469 mmcm in the corresponding period in 2012 as a result of the acquisition of a 49% ownership interest in Nortgas in November 2012, as well as the launch of the Samburgskoye field’s second phase development effective from December 2012 in our joint venture SeverEnergia.

*Natural gas sales volumes*

In the three months ended 30 September 2013, our total natural gas sales volumes increased by 896 mmcm, or 6.6%, to 14,403 mmcm from 13,507 mmcm in the corresponding period in 2012.

<i>millions of cubic meters</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
Natural gas production by subsidiaries	12,199	11,609	5.1%
Purchases from the Group's joint ventures	1,744	1,339	30.2%
Other purchases	1,441	840	71.5%
<b>Total production and purchases</b>	<b>15,384</b>	<b>13,788</b>	<b>11.6%</b>
Purovsky Plant, own usage and methanol production	(30)	(22)	36.4%
Decrease (increase) in UGSF, UGSS and own pipeline infrastructure	(951)	(259)	267.2%
<b>Total natural gas sales volumes</b>	<b>14,403</b>	<b>13,507</b>	<b>6.6%</b>
<i>Sold to end-customers</i>	<i>12,928</i>	<i>8,719</i>	<i>48.3%</i>
<i>Sold ex-field</i>	<i>1,475</i>	<i>4,788</i>	<i>(69.2%)</i>

In the three months ended 30 September 2013, natural gas purchases from our joint ventures increased by 405 mmcm, or 30.2%, due to the commencement of purchases from Nortgas in January 2013.

Other natural gas purchases increased by 601 mmcm, or 71.5%, primarily due to increased purchases from our related party OAO SIBUR Holding ("SIBUR"). Other natural gas purchases are included in our natural gas volumes for sale, which allows us to coordinate sales across geographic regions as well as optimizing customers' portfolios.

In the three months ended 30 September 2013, we used 16 mmcm of natural gas as feedstock for the production of methanol compared to 13 mmcm in the corresponding period in 2012. A significant portion of the methanol we produce is used for our own internal purposes to prevent hydrate formation during the production, preparation and transportation of hydrocarbons.

### *Liquids production volumes*

In the three months ended 30 September 2013, our total liquids production (including our proportionate share in the production of joint ventures) increased by 145 thousand tons, or 14.6%, to 1,136 thousand tons from 991 thousand tons in the corresponding period in 2012.

<i>thousands of tons</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
<b>Production by subsidiaries from:</b>			
Yurkharovskoye field	649	599	8.3%
East-Tarkosalinskoye field	273	249	9.6%
Khancheyskoye field	114	119	(4.2%)
Other fields	9	5	80.0%
<b>Total liquids production by subsidiaries</b>	<b>1,045</b>	<b>972</b>	<b>7.5%</b>
<b>Group's proportionate share in the production of joint ventures:</b>			
SeverEnergia	48	19	152.6%
Nortgas	43	-	n/a
<b>Total Group's proportionate share in the liquids production of joint ventures</b>	<b>91</b>	<b>19</b>	<b>378.9%</b>
<b>Total liquids production including proportionate share in the production of joint ventures</b>	<b>1,136</b>	<b>991</b>	<b>14.6%</b>

In the three months ended 30 September 2013, volumes of liquids produced by our subsidiaries increased by 73 thousand tons, or 7.5%, primarily due to a significant increase in crude oil production at the East-Tarkosalinskoye field and, to a lesser extent, the Khancheyskoye field as a result of technological works performed at these fields to increase our crude oil production flow rates. The decrease in gas condensate production at our Khancheyskoye field was partially offset by an increase in the field's crude oil production. The increase in our liquids production at the Yurkharovskoye field was primarily due to the optimization of our hydrocarbons production in the reporting period (see "Natural gas production volumes" above). Natural declines in the concentration of gas condensate at our mature fields are expected due to decreasing reservoir pressure at the current gas condensate producing horizons.

In the three months ended 30 September 2013, our proportionate share in liquids production increased by 72 thousand tons, or 378.9%, to 91 thousand tons from 19 thousand tons in the corresponding period in 2012 as a result of the acquisition of a 49% ownership interest in Nortgas in November 2012 (subsequently increased to 50%), as well as the launch of the Samburgskoye field's second phase development in December 2012 by our joint venture SeverEnergia.

### Liquids sales volumes

In the three months ended 30 September 2013, our total liquids sales volumes increased by 288 thousand tons, or 27.0%, to 1,353 thousand tons from 1,065 thousand tons in the corresponding period in 2012.

<i>thousands of tons</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
Liquids production by subsidiaries	1,045	972	7.5%
Purchases from the Group's joint ventures	272	73	272.6%
Other purchases	3	4	(25.0%)
<b>Total production and purchases</b>	<b>1,320</b>	<b>1,049</b>	<b>25.8%</b>
Losses and own usage <sup>(1)</sup>	(32)	(12)	166.7%
Decreases (increases) in liquids inventory balances	65	28	132.1%
<b>Total liquids sales volumes</b>	<b>1,353</b>	<b>1,065</b>	<b>27.0%</b>
<i>Naphtha export</i>	<i>562</i>	<i>-</i>	<i>n/a</i>
<i>Other gas condensate refined products export</i>	<i>128</i>	<i>-</i>	<i>n/a</i>
<b><i>Subtotal gas condensate refined products</i></b>	<b><i>690</i></b>	<b><i>-</i></b>	<b><i>n/a</i></b>
<i>LPG export</i>	<i>154</i>	<i>112</i>	<i>37.5%</i>
<i>LPG domestic</i>	<i>72</i>	<i>62</i>	<i>16.1%</i>
<i>LPG sold through domestic retail and small wholesale stations</i>	<i>31</i>	<i>28</i>	<i>10.7%</i>
<b><i>Subtotal LPG</i></b>	<b><i>257</i></b>	<b><i>202</i></b>	<b><i>27.2%</i></b>
<i>Stable gas condensate export</i>	<i>207</i>	<i>723</i>	<i>(71.4%)</i>
<i>Stable gas condensate domestic</i>	<i>34</i>	<i>14</i>	<i>142.9%</i>
<b><i>Subtotal stable gas condensate</i></b>	<b><i>241</i></b>	<b><i>737</i></b>	<b><i>(67.3%)</i></b>
<i>Crude oil export</i>	<i>46</i>	<i>43</i>	<i>7.0%</i>
<i>Crude oil domestic</i>	<i>116</i>	<i>80</i>	<i>45.0%</i>
<b><i>Subtotal crude oil</i></b>	<b><i>162</i></b>	<b><i>123</i></b>	<b><i>31.7%</i></b>
<i>Other oil products domestic</i>	<i>3</i>	<i>3</i>	<i>0.0%</i>
<b><i>Subtotal other oil products</i></b>	<b><i>3</i></b>	<b><i>3</i></b>	<b><i>0.0%</i></b>

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

In the three months ended 30 September 2013, we significantly increased our purchases of unstable gas condensate from SeverEnergia and its wholly owned subsidiary OAO Arcticgas due to the launch of the Samburgskoye field's second phase development effective from December 2012, as well as the commencement of purchases of unstable gas condensate from Nortgas after the acquisition of a 49% ownership interest in November 2012 (subsequently increased to 50%).

From July 2013, most of our stable gas condensate produced at the Purovsky Plant was sent as raw material feedstock to the Ust-Luga Complex for additional processing into refined products. In the three months ended 30 September 2013, we transferred 714 thousand tons of stable gas condensate (81.3% from the total stable gas condensate produced) to the Ust-Luga Complex.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2013 COMPARED TO THE CORRESPONDING PERIOD IN 2012**

The following table and discussion is a summary of our consolidated results of operations for the three months ended 30 September 2013 and 2012. Each line item is also shown as a percentage of our total revenues.

<i>millions of Russian roubles</i>	<b>Three months ended 30 September:</b>			
	<b>2013</b>	<b>% of total revenues</b>	<b>2012</b>	<b>% of total revenues</b>
<b>Total revenues (net of VAT, export duties, excise and fuel taxes)</b>	<b>75,648</b>	<b>100.0%</b>	<b>52,514</b>	<b>100.0%</b>
<i>including:</i>				
natural gas sales	50,214	66.4%	34,322	65.4%
liquids' sales	25,327	33.5%	18,023	34.3%
Operating expenses	(47,080)	(62.2%)	(29,628)	(56.4%)
Other operating income (loss)	36	0.0%	339	0.6%
<b>Profit from operations</b>	<b>28,604</b>	<b>37.8%</b>	<b>23,225</b>	<b>44.2%</b>
Finance income (expense)	(27)	(0.0%)	2,345	4.5%
Share of profit (loss) of joint ventures, net of income tax	647	0.9%	(301)	(0.6%)
<b>Profit before income tax</b>	<b>29,224</b>	<b>38.6%</b>	<b>25,269</b>	<b>48.1%</b>
Total income tax expense	(5,792)	(7.7%)	(5,273)	(10.0%)
<b>Profit (loss)</b>	<b>23,432</b>	<b>31.0%</b>	<b>19,996</b>	<b>38.1%</b>
Non-controlling interest	26	0.0%	7	0.0%
<b>Profit attributable to shareholders of OAO NOVATEK</b>	<b>23,458</b>	<b>31.0%</b>	<b>20,003</b>	<b>38.1%</b>

## Total revenues

The following table sets forth our sales (net of VAT, export duties, excise and fuel taxes expense, where applicable) for the three months ended 30 September 2013 and 2012:

<i>millions of Russian roubles</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
<b>Natural gas sales</b>	<b>50,214</b>	<b>34,322</b>	<b>46.3%</b>
<i>End-customers</i>	47,304	26,571	78.0%
<i>Ex-field sales</i>	2,910	7,751	(62.5%)
<b>Naphtha sales</b>	<b>11,155</b>	<b>-</b>	<b>n/a</b>
<i>Export</i>	11,155	-	n/a
<b>Liquefied petroleum gas sales</b>	<b>4,880</b>	<b>3,545</b>	<b>37.7%</b>
<i>Export</i>	3,288	2,264	45.2%
<i>Domestic</i>	1,592	1,281	24.3%
<b>Stable gas condensate sales</b>	<b>4,213</b>	<b>12,925</b>	<b>(67.4%)</b>
<i>Export</i>	3,743	12,753	(70.7%)
<i>Domestic</i>	470	172	173.3%
<b>Other gas and gas condensate refined products sales</b>	<b>2,968</b>	<b>96</b>	<b>n/a</b>
<i>Export</i>	2,867	-	n/a
<i>Domestic</i>	101	96	5.2%
<b>Crude oil sales</b>	<b>2,111</b>	<b>1,457</b>	<b>44.9%</b>
<i>Export</i>	599	562	6.6%
<i>Domestic</i>	1,512	895	68.9%
<b>Total oil and gas sales</b>	<b>75,541</b>	<b>52,345</b>	<b>44.3%</b>
Other revenues	107	169	(36.7%)
<b>Total revenues</b>	<b>75,648</b>	<b>52,514</b>	<b>44.1%</b>

### *Natural gas sales*

In the three months ended 30 September 2013, our revenues from sales of natural gas increased by RR 15,892 million, or 46.3%, compared to the corresponding period in 2012 primarily due to an increase in our average realized natural gas prices, as well as an increase in our total sales volumes. The increase in our average realized natural gas prices was due to an increase in the regulated FTS prices for natural gas (see “Natural gas prices” above) by 13.9% as compared to the corresponding period in 2012 (cumulative effect of a 3.0% decrease effective from 1 April 2013, and 15.0% and 3.1% increase effective from 1 July and 1 August 2013), as well as in increased proportion of end-customer sales to total natural gas sales volumes.

Our proportion of natural gas sold to end-customers to total natural gas sales volumes increased to 89.8% in the three months ended 30 September 2013 as compared to 64.6% in the corresponding period in 2012. The increase was due to higher natural gas deliveries to Moscow and the Moscow region through our wholly owned subsidiary NOVATEK Moscow region established in December 2012, as well as to the Kostroma region as a result of acquisition of the regional natural gas trader Gazprom mezhregiongas Kostroma in December 2012 (renamed NOVATEK-Kostroma since February 2013). In addition, the increase in our proportion of natural gas volumes sold to end-customers was due to the conclusion of new gas sales contracts in 2012 (see “Recent developments” above).

In the three months ended 30 September 2013, our average realized natural gas price on end-customers sales increased by 20.0% due to an increase in the regulated FTS price as well as an increase in the average transportation distance to our customers (see “Natural gas prices” above).

### *Naphtha sales*

In the three months ended 30 September 2013, our revenues from sales of naphtha produced at the Ust-Luga Complex amounted to RR 11,155 million.

In the three months ended 30 September 2013, we exported 562 thousand tons of naphtha, or 100% of our total sales volumes, to the Asia Pacific Region (“APR”) and to South America. Our average realized naphtha net export price, excluding export duties and translated to US dollars using the average exchange rate for the period, amounted to USD 605.5 per ton (CFR, DAP, CIF, FOB and DES). There were no naphtha sales in the corresponding reporting period.

### *Liquefied petroleum gas sales*

In the three months ended 30 September 2013, our revenues from sales of LPG increased by RR 1,335 million, or 37.7%, compared to the corresponding period in 2012 primarily due to an increase in our sales volumes, as well as an increase in average realized prices.

In the three months ended 30 September 2013, we sold 154 thousand tons of LPG, or 59.9% of our total LPG sales volumes, to export markets as compared to sales of 112 thousand tons, or 55.4%, in the corresponding period in 2012. In the three months ended 30 September 2013, as well as in the corresponding period in 2012, our export sales volumes of LPG representing greater than 10% of total LPG export volumes were to customers located in Poland and Finland.

Our average realized LPG net export price, excluding export duties, excise and fuel taxes expense and translated to US dollars using the average exchange rate for the period, increased by USD 19.7 per ton, or 3.1%, to USD 650.5 per ton in the three months ended 30 September 2013 (DAP and FCA) compared to USD 630.8 per ton in the corresponding period in 2012 (DAP, CPT and FCA). The increase in average realized LPG net export price was due to a decrease in our average export duty per ton by 48.3%, which was partially offset by a 4.3% decrease in our average contract price. The reduction in our average contract price and export duty per ton was due to a decrease in the LPG prices on international markets used in the price and export duty rate calculation.

In the three months ended 30 September 2013, we sold 103 thousand tons of LPG, or 40.1% of our total LPG sales volumes, on the domestic market compared to 90 thousand tons, or 44.6%, in the corresponding period in 2012. In the three months ended 30 September 2013, our average LPG domestic price was RR 15,410 per ton (excluding VAT) representing an increase of RR 1,210 per ton, or 8.5%, compared to the corresponding period in 2012.

### *Stable gas condensate sales*

In the three months ended 30 September 2013, our revenues from sales of stable gas condensate decreased by RR 8,712 million, or 67.4%, compared to the corresponding period in 2012 primarily due to a decrease in volumes sold.

Our total stable gas condensate sales volumes decreased by 496 thousand tons, or 67.3%, due to the transfer of most of our stable gas condensate produced at the Purovsky Plant as raw material feedstock to be subsequently processed at the Ust-Luga Complex into refined products.

In the three months ended 30 September 2013, we sold 207 thousand tons of stable gas condensate, or 85.9% of our total sales volumes, to the APR and 34 thousand tons were sold domestically. In the corresponding period in 2012, we sold 723 thousand tons of stable gas condensate, or 98.1% of our total sales volumes, to the APR, Europe, the United States and South America and 14 thousand tons were sold domestically.

In the three months ended 30 September 2013, our average realized net export price for stable gas condensate, excluding export duties and translated to US dollars using the average exchange rate for the period, marginally increased by USD 1.7 per ton, or 0.3%, to USD 552.4 per ton (DAP and CFR) from USD 550.7 per ton (DES, CFR, CIF and DAP) in the corresponding period in 2012 due to a marginal increase in our average export contract price in US dollars.

#### *Other gas and gas condensate refined products sales*

Our revenues from other gas and gas condensate refined products sales represent our revenues from sales of other gas condensate Ust-Luga Complex refined products (jet fuel, gasoil and fuel oil) to export markets, as well as revenues from sales of methanol on the domestic market and from trading operations with oil products (diesel fuel and petrol) through our retail stations.

In the three months ended 30 September 2013, our revenues from sales of other gas condensate refined products to export markets amounted to RR 2,867 million. In the three months ended 30 September 2013, we exported in aggregate 128 thousand tons of other gas condensate refined products, or 100% of our total sales volumes, to the European markets. Our average realized other gas condensate refined products net export price, excluding export duties and translated to US dollars using the average exchange rate for the period, was USD 682.5 per ton (CIF).

Our revenues from oil products trading operations through our retail stations on the domestic market increased by RR 14 million, or 18.9%, to RR 88 million in the three months ended 30 September 2013 from RR 74 million in the corresponding period in 2012 due to both an increase in volumes sold and prices. In the three months ended 30 September 2013, we sold approximately 2.8 thousand tons of oil products for an average price of RR 31,448 per ton compared to sales of approximately 2.5 thousand tons for an average price of RR 29,288 per ton in the corresponding period in 2012.

Our revenues from methanol sales on the domestic market decreased by RR eight million, or 36.4%, to RR 14 million in the three months ended 30 September 2013 from RR 22 million in the corresponding period in 2012 due to a decrease in volumes sold.

#### *Crude oil sales*

In the three months ended 30 September 2013, revenues from sales of crude oil increased by RR 654 million, or 44.9%, compared to the corresponding period in 2012 primarily due to an increase in sales volumes and, to a lesser extent, an increase in domestic prices. Our crude oil sales volumes increased by 39 thousand tons, or 31.7%, to 162 thousand tons from 123 thousand tons in the corresponding period in 2012 mainly due to an increase in crude oil production at our East-Tarkosalinskoye field.

In the three months ended 30 September 2013, we sold 71.6% of total crude oil volumes domestically at an average price of RR 13,052 per ton (excluding VAT) representing an increase of RR 1,908 per ton, or 17.1%, compared to the corresponding period in 2012.

The remaining 28.4% of our crude oil volumes were sold to export markets at an average price of USD 397.0 per ton (DAP, excluding export duties) representing a decrease of USD 13.3 per ton, or 3.2%, compared to the corresponding period in 2012. The decrease in our average realized crude oil net export price (excluding export duties and translated to US dollars using the average exchange rate for the period) was the result of a 5.1% increase in the average export duty per ton, while our average export contract price increased marginally by 0.5%.

#### *Other revenues*

Other revenues include geological and geophysical research services, rent, sublease, transportation, handling, storage and other services. In the three months ended 30 September 2013, other revenues decreased by RR 62 million, or 36.7%, to RR 107 million from RR 169 million in the corresponding period in 2012 primarily due to a decrease by RR 59 million of revenues from transportation, handling and storage services resulting from the disposal in December 2012 of our wholly owned non-core subsidiary, OOO Purovsky Terminal, which was partially offset by an increase by RR five million of revenues from geological and geophysical research services provided primarily to our joint ventures. The remaining other revenues comprise various immaterial items.

## Operating expenses

In the three months ended 30 September 2013, our total operating expenses increased by RR 17,452 million, or 58.9%, to RR 47,080 million compared to RR 29,628 million in the corresponding period in 2012 primarily due to an increase in transportation expenses and purchases of natural gas and liquid hydrocarbons. As a percentage of total operating expenses, our non-controllable expenses, such as transportation and taxes other than income tax, increased to 65.9% in the three months ended 30 September 2013 compared to 61.2% in the corresponding period in 2012 primarily due to a significant increase in our natural gas transportation expenses (see “Transportation expenses” below).

In the three months ended 30 September 2013, total operating expenses as a percentage of total revenues increased to 62.2% in the three months ended 30 September 2013 compared to 56.4% in the corresponding period in 2012, as shown in the table below. The increase in our total operating expenses as a percentage of total revenues was mainly due to the significant increase in our purchases of natural gas and liquid hydrocarbons. The margins we receive from such trading operations are slightly lower than the margin we obtain from the sales of our produced hydrocarbons. In addition, we significantly increased the volumes of natural gas sold to end-customers which correspondingly increased our transportation expenses during the reporting period.

<i>millions of Russian roubles</i>	Three months ended 30 September:			
	2013	% of total revenues	2012	% of total revenues
Transportation expenses	25,064	33.1%	14,235	27.1%
Taxes other than income tax	5,958	7.9%	3,903	7.4%
<b>Subtotal non-controllable expenses</b>	<b>31,022</b>	<b>41.0%</b>	<b>18,138</b>	<b>34.5%</b>
Purchases of natural gas and liquid hydrocarbons	8,518	11.3%	4,832	9.2%
Depreciation, depletion and amortization	3,589	4.7%	2,658	5.1%
General and administrative expenses	2,610	3.5%	2,147	4.1%
Materials, services and other	2,248	3.0%	1,716	3.3%
Exploration expenses	26	<i>n/m</i>	330	0.6%
Net impairment expenses (reversals)	14	<i>n/m</i>	(15)	<i>n/m</i>
Change in natural gas, liquid hydrocarbons and work-in-progress	(947)	<i>n/m</i>	(178)	<i>n/m</i>
<b>Total operating expenses</b>	<b>47,080</b>	<b>62.2%</b>	<b>29,628</b>	<b>56.4%</b>

### *Non-controllable expenses*

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

In the three months ended 30 September 2013, non-controllable expenses of transportation and taxes other than income tax increased by RR 12,884 million, or 71.0%, to RR 31,022 million from RR 18,138 million in the corresponding period in 2012. The change in transportation expenses was due to both an increase in the natural gas volumes sold to end-customers in which we incurred transportation expenses, and excluded volumes of natural gas purchased for resale in the location of our end-customers in 2012 (see “Transportation expenses” below), as well as an increase in the natural gas transportation tariff combined with a significant increase in the average transportation distance. Taxes other than income tax increased primarily due to an increase in the natural gas production tax rate by 5.6% from 1 January 2013 and 51.7% from 1 July 2013 (see “Our tax burden” above) and an increase in natural gas production volumes. As a percentage of total revenues, our non-controllable expenses increased to 41.0% in the three months ended 30 September 2013 compared to 34.5% in the corresponding period in 2012.

### Transportation expenses

In the three months ended 30 September 2013, our total transportation expenses increased by RR 10,829 million, or 76.1%, to RR 25,064 million compared to RR 14,235 million in the corresponding period in 2012.

<i>million of Russian roubles</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
Natural gas transportation to customers	20,337	10,505	93.6%
Liquid hydrocarbons transportation by rail	3,559	2,617	36.0%
Liquid hydrocarbons transportation by tankers	915	940	(2.7%)
Crude oil transportation by pipeline	232	147	57.8%
Other	21	26	(19.2%)
<b>Total transportation expenses</b>	<b>25,064</b>	<b>14,235</b>	<b>76.1%</b>

In the three months ended 30 September 2013, our transportation expenses for natural gas increased by RR 9,832 million, or 93.6%, to RR 20,337 million from RR 10,505 million in the corresponding period in 2012. The increase was mainly due to a 64.1% increase in our natural gas sales volumes to end-customers, for which we incurred transportation expenses (excluding volumes of natural gas purchased for resale in the location of our end-customers in 2012) and a 6.4% average increase in the natural gas transportation tariff set by the FTS effective 1 August 2013 (see “Transportation tariffs” above), as well as an increase in average transportation distance due to higher natural gas deliveries to Moscow, and the Moscow, Vologda and Kostroma regions. In 2012, we did not incur transportation expenses in respect of natural gas volumes purchased for resale in the location of our end-customers, as the purchase price included the cost of transportation. Our average transportation distance for natural gas sold to end-customers fluctuates period-to-period and depends on the location of end-customers and the specific routes of transportation.

In the three months ended 30 September 2013, our total expenses for liquids transportation by rail increased by RR 942 million, or 36.0%, to RR 3,559 million from RR 2,617 million in the corresponding period in 2012 due to an increase in combined liquids volumes sold and transported via rail. The increase in combined liquids volumes by 250 thousand tons, or 26.7%, to 1,188 thousand tons from 938 thousand tons was primarily due to an increase in purchases of unstable gas condensate from our joint ventures.

In the three months ended 30 September 2013, our weighted average transportation tariff for liquids delivered by rail increased by 7.5% to RR 2,997 per ton from RR 2,787 per ton in the corresponding period in 2012 primarily due to a 7.0% indexation of railroad tariffs for the domestic market set by the FTS effective 1 January 2013. In addition, our weighted average transportation tariff for liquids delivered by rail fluctuates period-to-period and depends on product’s type and the geography of deliveries.

Total transportation expenses for liquids delivered by tankers to international markets decreased by RR 25 million, or 2.7%, to RR 915 million in the three months ended 30 September 2013 from RR 940 million in the corresponding period in 2012 due to a change in geography of deliveries of liquids transported by tankers as a result of the launch of the Ust-Luga Complex and the commencement of sales of gas condensate refined products, of which a significant portion is delivered to the European markets. In the three months ended 30 September 2013, we sold 76.8% of our total stable gas condensate and gas condensate refined products export volumes to the APR, 14.3% to Europe and 8.9% to South America, whereas in the corresponding period in 2012, we sold 75.0% to the APR, 8.4% to Europe, 8.3% to the United States and 8.3% to South America.

In the three months ended 30 September 2013, our expenses for crude oil transportation to customers through the pipeline network increased by RR 85 million, or 57.8%, to RR 232 million from RR 147 million in the corresponding period in 2012. The change was primarily due to a 31.1% increase in volumes transported and, to a lesser extent, due to an increase in transportation tariffs.

Other transportation expenses include motor transportation expenses, insurance expenses related to our liquid hydrocarbons transportation and other expenses. In the three months ended 30 September 2013, other transportation expenses decreased by RR 5 million, or 19.2%, to RR 21 million from RR 26 million in the corresponding period in 2012.

### *Taxes other than income tax*

In the three months ended 30 September 2013, taxes other than income tax increased by RR 2,055 million, or 52.7%, to RR 5,958 million from RR 3,903 million in the corresponding period in 2012 primarily due to an increase in the unified natural resources production tax expense.

<i>millions of Russian roubles</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
Unified natural resources production tax	5,445	3,402	60.1%
Property tax	455	429	6.1%
Other taxes	58	72	(19.4%)
<b>Total taxes other than income tax</b>	<b>5,958</b>	<b>3,903</b>	<b>52.7%</b>

In the three months ended 30 September 2013, our UPT expense for natural gas increased by RR 2,005 million, or 68.2%, primarily due to an increase in natural gas production tax rate per mcm by 5.6% from 1 January 2013 and 51.7% from 1 July 2013 (from RR 251 to RR 265 and subsequently to RR 402 per mcm), and, to a lesser extent, a 5.1% increase in our natural gas production volumes. The UPT expense for unstable gas condensate production increased by RR 38 million, or 8.2%, primarily due to an increase in the UPT rate (from RR 556 per ton to RR 590 per ton) and, to a lesser extent, a marginal increase in our unstable gas condensate production volumes.

In the three months ended 30 September 2013, as well as in the corresponding period in 2012, we applied a zero UPT rate for crude oil produced at our Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye fields due to changes in the Russian Tax Code effective from 1 January 2012 (see “Our tax burden” above).

In the three months ended 30 September 2013, our property tax expense increased by RR 26 million, or 6.1%, to RR 455 million from RR 429 million in the corresponding period in 2012 primarily due to the launch of the first stage of the Ust-Luga Complex in June 2013.

### *Purchases of natural gas and liquid hydrocarbons*

In the three months ended 30 September 2013, our purchases of natural gas and liquid hydrocarbons increased by RR 3,686 million, or 76.3%, to RR 8,518 million from RR 4,832 million in the corresponding period in 2012.

<i>millions of Russian roubles</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
Natural gas	5,759	4,017	43.4%
Unstable gas condensate	2,670	736	262.8%
Other liquid hydrocarbons	89	79	12.7%
<b>Total purchases of natural gas and liquid hydrocarbons</b>	<b>8,518</b>	<b>4,832</b>	<b>76.3%</b>

In the three months ended 30 September 2013, our purchases of natural gas increased by RR 1,742 million, or 43.4%, to RR 5,759 million from RR 4,017 million in the corresponding period in 2012 due to higher purchases from our related party SIBUR as well as the commencement of natural gas purchases from our joint venture Nortgas effective from 1 January 2013.

In the three months ended 30 September 2013, our purchases of unstable gas condensate from our joint ventures increased by RR 1,934 million, or 3.6 times, to RR 2,670 million from RR 736 million in the corresponding period in 2012 due to higher purchases from SeverEnergiya and its wholly owned subsidiary OAO Arcticgas, as well as due to the commencement of purchases from Nortgas effective from November 2012 after the acquisition of a 49% equity stake in the company (subsequently increased to 50%).

In the three months ended 30 September 2013, our purchases of other liquid hydrocarbons increased by RR 10 million, or 12.7%, to RR 89 million from RR 79 million in the corresponding period in 2012 due to the expansion of trading activities at our wholly owned subsidiary NOVATEK-AZK. Other liquid hydrocarbons purchases represent our purchases of oil products (diesel fuel and petrol) and LPG for resale.

### *Depreciation, depletion and amortization*

In the three months ended 30 September 2013, our depreciation, depletion and amortization (“DDA”) expense increased by RR 931 million, or 35.0%, to RR 3,589 million from RR 2,658 million in the corresponding period in 2012 mainly as a result of the Ust-Luga Complex launch in June 2013. In addition, the increase in DDA was due to the launch of additional property, plant and equipment at our production subsidiaries, as well as a 5.3% increase in our total hydrocarbon production (excluding our proportionate share in the production of joint ventures) in barrels of oil equivalent basis. The Group accrues depreciation and depletion using the “units of production” method for producing assets and straight-line method for other facilities.

Our reserve base, used as the denominator in the calculation of the DDA charge under the “units of production” method, is only appraised on an annual basis as of 31 December and does not fluctuate during the year, whereas our depletable cost base does change each quarter due to the ongoing capitalization of our costs throughout the year.

### *General and administrative expenses*

In the three months ended 30 September 2013, our general and administrative expenses increased by RR 463 million, or 21.6%, to RR 2,610 million compared to RR 2,147 million in the corresponding period in 2012. The main components of these expenses were employee compensation, social expenses and compensatory payments as well as legal, audit, and consulting services, which, on aggregate, comprised 82.3% of total general and administrative expenses in the three months ended 30 September 2013 and 2012, respectively.

<i>millions of Russian roubles</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
Employee compensation	1,746	1,378	26.7%
Compensatory payments and social expenses	249	225	10.7%
Legal, audit, and consulting services	152	164	(7.3%)
Business trip expenses	95	87	9.2%
Insurance expense	59	22	168.2%
Fire safety and security expenses	56	49	14.3%
Repair and maintenance expenses	53	44	20.5%
Rent expense	28	29	(3.4%)
Bank charges	19	18	5.6%
Other	153	131	16.8%
<b>Total general and administrative expenses</b>	<b>2,610</b>	<b>2,147</b>	<b>21.6%</b>

Employee compensation related to administrative personnel increased by RR 368 million, or 26.7%, to RR 1,746 million in the three months ended 30 September 2013 from RR 1,378 million in the corresponding period in 2012. The increase was due to bonuses accrued to key management for the results achieved for the third quarter 2013 as compared to the corresponding period in 2012, the increase in average number of employees from the expansion of activities at our Ust-Luga Complex, as well as the acquisition of a regional gas trader Gazprom mezhregiongas Kostroma in December 2012 and an indexation of base salaries effective 1 July 2013.

In the three months ended 30 September 2013, our compensatory payments and social expenses increased by RR 24 million, or 10.7%, to RR 249 million compared to RR 225 million in the corresponding period in 2012 and were primarily related to our donations to sport clubs and sports activities, educational schools, as well as continued support for charities and social programs in the regions where we operate. Social expenses and compensatory payments fluctuate period-on-period depending on the funding needs and the implementation schedules of specific programs we support.

Legal, audit, and consulting services expenses decreased by RR 12 million, or 7.3%, to RR 152 million compared to RR 164 million in the corresponding period in 2012 primarily due to a decrease in consulting services provided to our production entities.

Insurance expenses increased by RR 37 million, or 168.2%, to RR 59 million in the three months ended 30 September 2013 from RR 22 million in the corresponding period in 2012 due to the expansion of the Group’s activities.

Fire safety and security expenses increased by RR seven million, or 14.3%, to RR 56 million in the three months ended 30 September 2013 from RR 49 million in the corresponding period in 2012 primarily due to an increase in rates charged for security services, as well as the launch of Ust-Luga Complex in June 2013.

Repair and maintenance expenses increased by RR nine million, or 20.5%, to RR 53 million in the three months ended 30 September 2013 from RR 44 million in the corresponding period in 2012 also primarily due to maintenance expenses related to the launch of Ust-Luga Complex.

In the three months ended 30 September 2013, our rent expenses marginally decreased by 3.4% to RR 28 million from RR 29 million in the corresponding period in 2012.

Bank charges marginally increased to RR 19 million in the three months ended 30 September 2013 from RR 18 million in the corresponding period in 2012 primarily due to an increase in services fees charged by banks for the acceptance of payments for natural gas at our regional natural gas traders, supplying natural gas to residential and small-scale customers.

In the three months ended 30 September 2013, other general and administrative expenses increased by RR 22 million, or 16.8%, to RR 153 million from RR 131 million in the corresponding period in 2012 due to an RR 11 million increase in expenses related to transportation of Group personnel to distant production facilities. The remaining increase of RR 11 million was made up of other immaterial expense items of an administrative nature.

#### *Materials, services and other*

In the three months ended 30 September 2013, our materials, services and other expenses increased by RR 532 million, or 31.0%, to RR 2,248 million compared to RR 1,716 million in the corresponding period in 2012. The main components of this expense category were employee compensation and repair and maintenance services, which on aggregate comprised 67.7% and 69.4% of total materials, services and other expenses in the three months ended 30 September 2013 and 2012, respectively.

<i>millions of Russian roubles</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
Employee compensation	927	813	14.0%
Repair and maintenance services	596	378	57.7%
Materials and supplies	222	144	54.2%
Electricity and fuel	131	108	21.3%
Transportation expenses	90	49	83.7%
Security expenses	86	66	30.3%
Processing fees	25	24	4.2%
Other	171	134	27.6%
<b>Total materials, services and other</b>	<b>2,248</b>	<b>1,716</b>	<b>31.0%</b>

Our operating employee compensation increased by RR 114 million, or 14.0%, to RR 927 million compared to RR 813 million in the corresponding period in 2012. The increase was due to an indexation of base salaries effective from 1 July 2013 and an increase in the average number of employees. The increase in the average number of employees was a result of the launch of the Ust-Luga Complex, an expansion of our trading activities at NOVATEK-AZK and the acquisition of a regional gas trader Gazprom mezhregiongas Kostroma in December 2012.

Repair and maintenance services increased by RR 218 million, or 57.7%, to RR 596 million in the three months ended 30 September 2013 compared to RR 378 million in the corresponding period in 2012 due to repair works at our production subsidiaries and repair and maintenance works at our roads to the Group's fields.

Materials and supplies expense increased by RR 78 million, or 54.2%, to RR 222 million in the three months ended 30 September 2013 from RR 144 million in the corresponding period in 2012 mainly due to an increase in materials used for the maintenance of the crude oil production technological process at our East-Tarkosalinskoye and Yurkharovskoye fields as well as materials used for repair of our roads to the Group's fields.

In the three months ended 30 September 2013, electricity and fuel expenses increased by RR 23 million, or 21.3%, to RR 131 million from RR 108 million in the corresponding period in 2012. The increase was due to an increase in electricity consumption by our production subsidiaries related to new energy-consuming projects, as well as a higher electricity rates.

Transportation expenses represent expenses related to the delivery of materials and equipment to our fields, as well as the transportation of our operating personnel. In the three months ended 30 September 2013, transportation expenses increased by RR 41 million, or 83.7%, to RR 90 million from RR 49 million in the corresponding period in 2012.

Security expenses increased by RR 20 million, or 30.3%, to RR 86 million in the three months ended 30 September 2013 from RR 66 million in the corresponding period in 2012 mostly due to additional security services related to Ust-Luga Complex, as well as an increase in security services rates effective from January 2013.

In the three months ended 30 September 2013, other material, services and other expenses increased by RR 37 million, or 27.6%, to RR 171 million from RR 134 million in the corresponding period in 2012 primarily due to crude oil wells monitoring services performed at our Yurkharovskoye field as a result of the commencement of crude oil production in November 2012.

#### *Exploration expenses*

In the three months ended 30 September 2013, our exploration expenses decreased by RR 304 million, or 92.1%, to RR 26 million from RR 330 million in the corresponding period in 2012 due to a large extent of seismic works performed in the 2012 reporting period. Exploration expenses vary period-to-period based on planned exploration works at our production subsidiaries.

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

In the three months ended 30 September 2013, we recorded a reversal of RR 947 million to change in inventory expense as compared to a reversal of RR 178 million in the corresponding period in 2012:

<i>millions of Russian roubles</i>	<b>Three months ended 30 September:</b>	
	<b>2013</b>	<b>2012</b>
Natural gas	(841)	(155)
Naphtha	(300)	-
Stable gas condensate	279	6
Other refined products	41	-
Other	(126)	(29)
<b>Increase (decrease) in operating expenses due to change in inventory balances and work-in-progress</b>	<b>(947)</b>	<b>(178)</b>

In the three months ended 30 September 2013, we recorded a reversal to our operating expenses of RR 841 million due to a 951 million cubic meter increase in our natural gas inventory balance, as well as a slight increase in the cost of natural gas per mcm. Our volumes of natural gas injected into Gazprom's underground gas storage facilities fluctuate period-to-period depending on market conditions, storage capacity constraints and our development plans to sustain and/or grow production during periods of seasonality.

In the three months ended 30 September 2013, we recorded a reversal to our operating expenses of RR 300 million due to a 26 thousand tons increase in our naphtha inventory balance, which was not sold as at 30 September 2013 and thus recognized as inventory in transit and storage.

In the three months ended 30 September 2013, we recorded a charge to our operating expenses of RR 279 million due to a 76 thousand tons decrease in our inventory balance of stable gas condensate in transit and storage, which was partially offset by an increase in the cost of stable gas condensate per ton.

In addition, in the three months ended 30 September 2013, we recorded a reversal to our operating expenses of RR 126 million due to an increase in work-in-progress related to the operator's services provided to our joint ventures as at 30 September 2013, as well as an increase in materials inventory balance, which were not realized at the reporting date.

The following table highlights movements in our hydrocarbons inventory balances:

<i>Inventory balances in transit or in storage</i>	2013			2012		
	At 30 September	At 30 June	Increase / (decrease)	At 30 September	At 30 June	Increase / (decrease)
<b>Natural gas (millions of cubic meters)</b>	<b>2,394</b>	<b>1,443</b>	<b>951</b>	<b>1,341</b>	<b>1,082</b>	<b>259</b>
<i>including Gazprom's UGSF</i>	<i>2,362</i>	<i>1,411</i>	<i>951</i>	<i>1,309</i>	<i>1,050</i>	<i>259</i>
<b>Liquid hydrocarbons (thousand tons)</b>	<b>494</b>	<b>559</b>	<b>(65)</b>	<b>374</b>	<b>402</b>	<b>(28)</b>
<i>including stable gas condensate</i>	<i>185</i>	<i>261</i>	<i>(76)</i>	<i>268</i>	<i>295</i>	<i>(27)</i>
<i>naphtha</i>	<i>172</i>	<i>146</i>	<i>26</i>	<i>-</i>	<i>-</i>	<i>-</i>

### Other operating income (loss)

In the three months ended 30 September 2013, we recognized other operating income of RR 36 million. As part of our natural gas trading activities on the European market in the three months ended 30 September 2013, we purchased and sold 3.5 terawatt-hours (or approximately 330 mmcm) of natural gas and recognized net operating income of RR 81 million. Correspondingly, we recognized a net loss from this trading activity in the amount of RR 13 million related to the non-cash movements in fair values of natural gas purchase and sales contracts, which were classified as derivative instruments in accordance with IAS 39 "Financial instruments: recognition and measurement". Other operating loss of 32 million related to other immaterial items, including profit (loss) on disposal of materials, fixed assets, equipment and other similar transactions.

In the corresponding period in 2012, we recognized other operating income of RR 339 million, of which RR 322 million of net income related to a change in a fair value of our long-term natural gas purchase and sales contracts on the European market. The remaining amount of RR 17 million in other operating income was primarily related to different immaterial items, including profit (loss) on disposal of materials, fixed assets, equipment and other similar transactions.

### Profit from operations

As a result of the factors discussed above, our profit from operations increased by RR 5,379 million, or 23.2%, to RR 28,604 million in the three months ended 30 September 2013, compared to RR 23,225 million in the corresponding period in 2012. In the three months ended 30 September 2013, our profit from operations as a percentage of total revenues decreased to 37.8% compared to 44.2% in the comparative period in 2012 primarily due to a significant increase in natural gas and liquid hydrocarbons purchases during the 2013 reporting period and the correspondingly lower trading margins we received for these volumes compared to the margins we receive usually from the production and sales of our own hydrocarbons.

### Finance income (expense)

In the three months ended 30 September 2013, we recorded net finance expense of RR 27 million that was caused by the excess of interest expense over interest income and net foreign exchange gain. In the corresponding period in 2012 finance income accounted for RR 2,345 million primarily due to the appreciation of the Russian rouble relative to the US dollar.

In the three months ended 30 September 2013, interest expense increased by RR 661 million, or 94.8%, to RR 1,358 million from RR 697 million in the corresponding period in 2012 primarily due to an increase in the aggregate amount of loans received by the Group in 2013 (see "Debt obligations" below).

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2013	2012	
Accrued interest expense on loans received	2,140	1,424	50.3%
Less: capitalized interest	(845)	(783)	7.9%
Provisions for asset retirement obligations: effect of the present value discount unwinding	63	56	12.5%
<b>Total interest expense per the Consolidated Statement of Income</b>	<b>1,358</b>	<b>697</b>	<b>94.8%</b>

Interest income increased by RR 242 million, or 71.6%, to RR 580 million in the three months ended 30 September 2013 from RR 338 million in the corresponding period in 2012 primarily due to a significant increase in loans provided to our joint ventures related to the development and expansion of their activities.

In the three months ended 30 September 2013, we recorded a net foreign exchange gain of RR 751 million compared to a net foreign exchange gain of RR 2,704 million in the corresponding period in 2012 due primarily to the revaluation of our US dollar denominated borrowings. The Russian rouble appreciated by 1.1% and 5.8% against the US dollar during the three months ended 30 September 2013 and 2012, respectively. We will continue to record foreign exchange gains and losses each period based on the movements between exchange rates and the currency denomination of our debt portfolio.

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

In the three months ended 30 September 2013, the Group's proportionate share in profit of joint ventures accounted for RR 647 million as compared to a loss of RR 301 million in the corresponding period in 2012. The change was due to an acquisition of a 49% ownership interest in Nortgas in November 2012 (subsequently increased to 50%), higher operating results (increased hydrocarbon production and sales prices), as well as the recognition of a net foreign exchange gain due to the revaluation of foreign currency denominated borrowings.

#### **Income tax expense**

Our overall consolidated effective income tax rates (total income tax expense calculated as a percentage of our reported IFRS profit before income tax) were 19.8% and 20.9% for the three months ended 30 September 2013 and 2012, respectively.

The Russian statutory income tax rate for both periods was 20%. The difference between our effective and statutory income tax rates is primarily due to certain non-deductible expenses or non-taxable income.

#### **Profit attributable to shareholders and earnings per share**

As a result of the factors discussed above, our profit for the period increased by RR 3,436 million, or 17.2%, to RR 23,432 million in the three months ended 30 September 2013 from RR 19,996 million in the corresponding period in 2012. The profit attributable to shareholders of OAO NOVATEK increased by RR 3,455 million, or 17.3%, to RR 23,458 million in the three months ended 30 September 2013 from RR 20,003 million in the corresponding period in 2012.

Our EBITDA increased by RR 7,641 million, or 30.3%, to RR 32,893 million in the three months ended 30 September 2013, from RR 25,252 million in the corresponding period in 2012 primarily due to an increase in natural gas sales prices and volumes, as well as the commencement of the Ust-Luga Complex products sales in third quarter 2013, that was partially offset by an increase in our transportation expenses and purchases of hydrocarbons.

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of OAO NOVATEK, increased by approximately RR 1.16 per share, or 17.5%, to RR 7.75 per share in the three months ended 30 September 2013 from RR 6.59 per share in the corresponding period in 2012.

## LIQUIDITY AND CAPITAL RESOURCES

The following table shows our net cash flows from operating, investing and financing activities for the three months ended 30 September 2013 and 2012:

<i>millions of Russian roubles</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
Net cash provided by operating activities	25,992	23,821	9.1%
Net cash provided by (used in) investing activities	(29,202)	(14,558)	100.6%
Net cash provided by (used in) financing activities	6,658	(3,781)	n/a

<i>Liquidity and credit ratios</i>	<b>30 September 2013</b>	<b>31 December 2012</b>	<b>Change, %</b>
Current ratio	1.97	1.06	85.8%
Total debt to total equity	0.42	0.45	(6.7%)
Long-term debt to long-term debt and total equity	0.29	0.25	16.0%
Net debt to total capitalization <sup>(1)</sup>	0.26	0.26	0.0%
Net debt to EBITDA <sup>(2)</sup>	1.16	1.20	(3.3%)

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

<sup>(2)</sup> Net debt to EBITDA ratio is calculated as Net debt divided by EBITDA for the last twelve months adjusted for the net gain on disposal of interest in subsidiaries

### *Net cash provided by operating activities*

In the three months ended 30 September 2013, our net cash provided by operating activities increased by RR 2,171 million, or 9.1%, to RR 25,992 million compared to RR 23,821 million in the corresponding period in 2012 mainly due to higher natural gas sales volumes and prices, as well as the commencement of Ust-Luga gas condensate refined products sales in the third quarter 2013 and decreased due to changes in our net working capital position (see "Working capital" below).

### *Net cash provided by (used for) investing activities*

In the three months ended 30 September 2013, our net cash used for investing activities increased by RR 14,644 million, or 100.6%, to RR 29,202 million compared to RR 14,558 million in the corresponding period in 2012.

<i>millions of Russian roubles</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
Purchases of property, plant and equipment (financing of capital expenditures)	(11,884)	(11,272)	5.4%
Repayments of loans provided (loans provided), net	(15,821)	339	n/a
Additional capital contributions to joint ventures	(811)	(2,706)	(70.0%)
Other	(686)	(919)	(25.4%)
<b>Net cash provided by (used for) investing activities</b>	<b>(29,202)</b>	<b>(14,558)</b>	<b>100.6%</b>

Our cash used for purchases of property, plant and equipment increased by RR 612 million, or 5.4% and mainly related to ongoing development activities at our Yurkharovskoye field, construction of the third stage development at the Purovsky Plant and construction activities at the Ust-Luga Complex, as well as further development of the East-Tarkosalinskoye field's crude oil deposits.

In the three months ended 30 September 2013, we provided loans to our joint ventures Yamal LNG and Terneftegas in the aggregate amount of RR 15,821 million, whereas in the corresponding period in 2012 we received RR 339 million due to the repayment of loans provided to our joint ventures.

In addition, in the three months ended 30 September 2013, we made an additional capital contribution to our joint venture Terneftegas in the amount of RR 811 million as compared to RR 2,706 million of additional capital contribution to our joint venture Yamal LNG in the the corresponding period in 2012.

### *Net cash provided by (used for) financing activities*

In the three months ended 30 September 2013, our net cash provided by financing activities amounted to RR 6,658 million as compared to RR 3,781 million used for financing activities in the corresponding period in 2012.

<i>millions of Russian roubles</i>	<b>Three months ended 30 September:</b>		<b>Change %</b>
	<b>2013</b>	<b>2012</b>	
Net proceeds from long-term debt	8,172	-	n/a
Repayments of long-term debt	(970)	(2,874)	(66.2%)
Other	(544)	(907)	(40.0%)
<b>Net cash provided by (used for) financing activities</b>	<b>6,658</b>	<b>(3,781)</b>	<b>n/a</b>

In the three months ended 30 September 2013, our cash proceeds from loans and borrowings amounted to RR 8,172 million due to a withdrawal of USD 250 million under our unsecured syndicated term credit line facility in July 2013. In addition, in the three months ended 30 September 2013, our cash used for repayment of debts decreased by RR 1,904 million to RR 970 million from RR 2,874 million in the corresponding period in 2012 due to the repayment of a loan from Sumitomo Mitsui Banking Corporation Europe Limited (“Sumitomo Mitsui”) in the amount of USD 30 million in the 2013 reporting period whereas in the corresponding period in 2012 we used USD 90 million for the repayment of loans from Sumitomo Mitsui and UniCredit Bank (see “Debt obligations” below). The remaining change related to repayment of interest on debts and other miscellaneous categories.

### **Working capital**

Our net working capital position (current assets less current liabilities) at 30 September 2013 was a positive RR 26,373 million compared to RR 3,113 million at 31 December 2012. The change of our net working capital position was primarily due to a decrease in the current portion of long-term debt (see “Debt obligations” below) by RR 33,713 million, or 97.2%, as well as an increase in our trade and other receivables by RR 5,241 million, or 31.9%, that was partially offset by a RR 8,081 million, or 43.9%, decrease in our cash and cash equivalents.

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

### **Capital expenditures**

Our total capital expenditures in the 2013 reporting period represent our investments in developing our oil and gas properties. The following table shows the expenditures at our main fields and processing facilities:

<i>millions of Russian roubles</i>	<b>Three months ended 30 September:</b>	
	<b>2013</b>	<b>2012</b>
Yurkharovskoye field	5,512	4,263
East-Tarkosalinskoye field	2,938	1,207
Purovsky Plant	2,680	231
Ust-Luga Complex	1,414	3,640
Khancheyskoye field	867	169
Olimpiyskiy license area	796	113
Yarudeyskiy license area	377	106
Salmanovskoye (Utrenneye) field	375	184
Other	1,317	1,567
<b>Capital expenditures</b>	<b>16,276</b>	<b>11,480</b>

Total capital expenditures on property, plant and equipment in the three months ended 30 September 2013 increased by RR 4,796 million, or 41.8%, to RR 16,276 million from RR 11,480 million in the corresponding period in 2012. The increase was primarily related to construction of the third stage development at the Purovsky Plant and ongoing development activities at our Yurkharovskoye field and Olimpiyskiy license area, further development of the East-Tarkosalinskoye field’s crude oil deposits, as well as production sustainability at the Khancheyskoye field.

## Debt obligations

We utilize a variety of financial instruments to ensure the flexibility of our financing strategy. This includes maintaining a debt portfolio with a balance of short-term and long-term financing, a mix of fixed and floating interest rate instruments and a debt portfolio denominated in either Russian roubles or US dollars.

### Overview

Our total debt increased from RR 132,487 million at 31 December 2012 to RR 140,747 million at 30 September 2013, or by RR 8,260 million. During the nine months ended 30 September 2013, the Group issued Russian rouble denominated Eurobonds in the amount of RR 14 billion in February and withdrew USD 750 million under a USD 1.5 billion unsecured syndicated term credit line facility obtained in June. The increase in our total debt was partially offset by a repayment of a RR 15 billion loan from Sberbank in February 2013 and a repayment of a USD 200 million loan from Nordea Bank in March 2013 ahead of their maturity schedules, as well as the repayment of a RR 10 billion Russian rouble denominated bonds in June 2013 according to the maturity date. We utilize credit facilities to supplement our internally generated cash flows for the financing of capital expenditures related to the development of our fields and to construct and/or expand processing assets such as the Purovsky Plant and the Ust-Luga Complex, as well as acquisitions of new oil and gas assets.

Our total debt position (net of unamortized transaction costs) at 30 September 2013 and 31 December 2012 was as follows:

Facility	Amount	Maturity	Interest rate	At 30 September 2013	At 31 December 2012
Eurobonds Ten-Year	USD 1 billion	December 2022	4.422%	32,208	30,232
Syndicated term credit line facility	USD 750 million	June 2018	LIBOR+1.75%	23,542	-
Eurobonds Ten-Year	USD 650 million	February 2021	6.604%	20,910	19,620
Russian bonds	RR 20 billion	October 2015	8.35%	19,978	19,969
Eurobonds Five-Year	USD 600 million	February 2016	5.326%	19,346	18,146
Eurobonds Four-Year	RR 14 billion	February 2017	7.75%	13,907	-
Sberbank <sup>(1)</sup>	RR 10 billion	December 2014	7.9%-8.9%	9,887	9,837
Sumitomo Mitsui <sup>(2)</sup>	USD 300 million	December 2013	LIBOR+1.45%	969	3,633
Sberbank <sup>(3)</sup>	RR 15 billion	December 2013	7.5%	-	14,984
Russian bonds	RR 10 billion	June 2013	7.5%	-	9,991
Nordea Bank <sup>(3)</sup>	USD 200 million	November 2013	LIBOR+1.9%	-	6,075
<b>Total</b>				<b>140,747</b>	<b>132,487</b>

<sup>(1)</sup> In August 2013, the stated interest rate was reduced from 8.9 percent to 7.9 percent per annum.

<sup>(2)</sup> Sumitomo Mitsui Banking Corporation Europe Limited.

<sup>(3)</sup> The RR 15 billion loan from OAO Sberbank was repaid ahead of its' maturity schedule in February 2013.

<sup>(4)</sup> The loan from OAO Nordea Bank was repaid ahead of its' maturity schedule in March 2013.

### Maturities of long-term loans

Scheduled maturities of our long-term debt at 30 September 2013 were as follows:

Maturity schedule:	RR million
1 October 2014 to 30 September 2015	13,509
1 October 2015 to 30 September 2016	46,567
1 October 2016 to 30 September 2017	21,151
1 October 2017 to 30 September 2018	5,433
After 30 September 2018	53,118
<b>Total long-term debt</b>	<b>139,778</b>

### *Available credit facilities*

At 30 September 2013, the Group had available funds in the form of bank overdrafts with various international banks in the aggregate amount of RR 8,248 million (USD 255 million) on variable interest rates subject to the specific type of credit facility.

At 30 September 2013, the Group also had funds available under credit facilities with interest rates predetermined or negotiated at time of each withdrawal:

	Par value	Expiring	
		Within one year	Between 1 and 3 years
Syndicated term loan facility	USD 750 million	24,259	-
BNP PARIBAS Bank	USD 100 million	3,235	-
Credit Agricole Corporate and Investment Bank	USD 100 million	3,235	-
UniCredit Bank	USD 350 million	-	11,321
<b>Total available credit facilities</b>		<b>30,729</b>	<b>11,321</b>

Management believes it has sufficient internally generated cash flows, as well as access to available external borrowings (both short- and long-term) to fund its capital expenditure program, service its existing debt and meet its current obligations as they become due.

### *Subsequent events*

In October 2013, the Group withdrew an additional USD 150 million under the syndicated term credit line facility at an interest rate of LIBOR + 1.75 percent per annum.

## **QUALITATIVE AND QUANTITATIVE DISCLOSURES AND MARKET RISKS**

We are exposed to market risk from changes in commodity prices, foreign currency exchange rates and interest rates. We are exposed to commodity price risk as our prices for crude oil, stable gas condensate and refined products destined for export sales are linked to international crude oil prices and other benchmark price references. We are exposed to foreign exchange risk to the extent that a portion of our sales, costs, receivables, loans and debt are denominated in currencies other than Russian roubles. We are subject to market risk from changes in interest rates that may affect the cost of our financing. From time to time we may use derivative instruments, such as commodity forward contracts, commodity price swaps, commodity options, foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks, and we may hold or issue derivative or other financial instruments for trading purposes.

### **Foreign currency risk**

Our principal exchange rate risk involves changes in the value of the Russian rouble relative to the US dollar. As of 30 September 2013, the total amount of our long-term debt denominated in US dollars was RR 96,006 million, or 68.2% of our total borrowings at that date. Changes in the value of the Russian rouble relative to the US dollar will impact our foreign currency-denominated costs and expenses and our debt service obligations for foreign currency-denominated borrowings in Russian rouble terms, as well as receivables at our foreign subsidiaries. We believe that the risks associated with our foreign currency exposure are partially mitigated by the fact that a portion of our total revenues, approximately 26.2% in the three months ended 30 September 2013, is denominated in US dollars. As of 30 September 2013, the Russian rouble depreciated by approximately 6.5% against the US dollar since 31 December 2012.

A hypothetical and instantaneous 10% depreciation in the Russian rouble in relation to the US dollar as of 30 September 2013 would have resulted in an estimated non-cash foreign exchange loss of approximately RR 9,698 million on foreign currency denominated borrowings held at that date.

### **Commodity risk**

Substantially all of our stable gas condensate and refined products, LPG and crude oil export sales are sold under spot market contracts. Our export prices are primarily linked to international crude oil and oil products prices. External factors such as geopolitical developments, natural disasters and the actions of the Organization of Petroleum Exporting Countries affect crude oil prices and thus our export prices.

The weather is another factor affecting demand for natural gas. Changes in weather conditions from year to year can influence demand for natural gas and to some extent gas condensate and refined products.

From time to time we may employ derivative instruments to mitigate the price risk of our sales activities. In our consolidated financial statements all derivative instruments are recorded at their fair values. Unrealized gains or losses on derivative instruments are recognized within other operating income (loss), unless the underlying arrangement qualifies as a hedge.

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

### **Pipeline access**

We transport substantially all of our natural gas through the Unified Gas Supply System ("UGSS") owned and operated by OAO Gazprom, which is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia. Under existing legislation, Gazprom must provide access to the UGSS to all independent suppliers on a non-discriminatory basis provided there is capacity available that is not being used by Gazprom. In practice, Gazprom exercises considerable discretion over access to the UGSS because it is the sole owner of information relating to capacity. There can be no assurance that Gazprom will continue to provide us with access to the UGSS; however, we have not been denied access in prior periods.

**Ability to reinvest**

Our business requires significant ongoing capital expenditures in order to grow our production and meet our strategic plans. An extended period of reduced demand for our hydrocarbons available for sale and the corresponding revenues generated from these sales would limit our ability to maintain an adequate level of capital expenditures, which in turn could limit our ability to increase or maintain current levels of production and deliveries of natural gas, gas condensate, crude oil and other associated products; thereby, adversely affecting our financial and operating results.

**Off balance sheet activities**

As of 30 September 2013, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.