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 June 2013 and 2012 together with our unaudited consolidated interim condensed financial information as of and for the three and six months ended 30 June 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.

In June 2013, we launched the first stage of the Gas Condensate Fractionation and Transshipment Complex ("the Ust-Luga Complex") located at the Port of Ust-Luga on the Baltic Sea, and started delivering most of our stable gas condensate produced at the Purovsky Gas Condensate Plant ("Purovsky Plant") as raw material feedstock for processing at the Ust-Luga Complex. The oil products we receive from the processing at the Ust-Luga Complex (light and heavy naphtha, jet fuel, gasoil and fuel oil) will be shipped to international markets via tankers. Prior to the launch of the Ust-Luga Complex, we shipped the majority of our stable gas condensate to the international markets via the Port of Vitino located on the White Sea. The formal commissioning will change both the logistical marketing as well as the slate of finished oil products we sell to the market.

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

RECENT DEVELOPMENTS

In July 2013, our joint venture OAO Yamal LNG entered into a Slot Reservation Agreement with Daewoo Shipbuilding & Marine Engineering for the construction of LNG carriers with an ice class notation of ARC7. The 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 increased its ownership interest in ZAO Nortgas to 50% by subscribing to the entity's additional share emission for a cash consideration of USD 52 million. In November 2012, the Group acquired a 49% ownership interest in Nortgas for total consideration of USD 1,375 million. Nortgas is a Russian oil and gas production company that holds the production license for the North-Urengoyskoye field (expires in 2018), 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 totalled 186 billion cubic meters of natural gas and 25 million tons of liquid hydrocarbons as of 31 December 2012, for combined total of 1.4 billion barrels of oil equivalent.

In June 2013, we concluded a framework agreement with the China National Petroleum Corporation (“CNPC”) on cooperation within the Yamal LNG project. The framework agreement stipulates that in accordance with the final transaction documents, expected to be formally signed by 1 October 2013, CNPC will acquire a 20% equity stake in OAO Yamal LNG, conclude a long-term contract for the supply of at least three million tons of LNG per annum, and provide their active assistance in organizing external financing for the Yamal LNG project from Chinese financial institutions.

In June 2013, the Group launched the first stage of the Ust-Luga Complex which includes a stable gas condensate fractionation unit with a nameplate capacity of three million tons per annum, 520 thousand cubic meters of storage facilities for feedstock and products, a deep-water berth capable of loading tankers up to 120 thousand deadweight tons, and other infrastructure facilities. The Ust-Luga Complex enables us to process stable gas condensate into oil products (light and heavy naphtha, jet fuel, gasoil and fuel oil) which will be subsequently shipped to international markets via tankers on the Baltic Sea. The commissioning of the first stage of the Ust-Luga Complex will allow us to increase the added value of our liquid hydrocarbons sales and to diversify our sales market. In June 2013, we shipped the first tanker carrying 80 thousand tons of naphtha produced at our Ust-Luga Complex to South America that was recognized as inventory in transit as at 30 June 2013.

In March 2013, the Group won the right to purchase an oil and gas exploration and production license for the East-Tazovskoye field, a 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 billion cubic meters (“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 June 2013, we increased our proportion of natural gas volumes sold to end-customers to 88.9% due to the conclusion during 2012 of a range of long-term contracts for the period of 10-15 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. Our share of natural gas volumes sold under the mentioned contracts in the three months ended 30 June 2013 was 45.9% of 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 Kostroma 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 allows 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 SeverEnergia (“SeverEnergia”) 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 with 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

millions of Russian roubles except as stated	Three months ended 30 June: 2013	2012	Change %
Financial results			
Total revenues (net of VAT, export duties, excise and fuel taxes)	58,030	44,924	29.2%
Operating expenses	(39,613)	(26,559)	49.2%
Profit attributable to shareholders of OAO NOVATEK	11,602	9,663	20.1%
EBITDA (1)	21,141	20,414	3.6%
EBITDAX (2)	21,380	20,565	4.0%
Earnings per share (in Russian roubles)	3.83	3.18	20.2%
Operating results			
Natural gas sales volumes (million cubic meters)	14,628	13,447	8.8%
Stable gas condensate sales volumes (thousand tons)	632	794	(20.4%)
Liquefied petroleum gas sales volumes (thousand tons)	261	224	16.5%
Crude oil sales volumes (thousand tons)	164	101	62.4%
Total hydrocarbons production (million barrels of oil equivalent) (3)	107.8	99.3	8.5%
Total daily production (thousand barrels of oil equivalent per day) (3)	1,184	1,091	8.5%
Cash flow results			
Net cash provided by operating activities	15,758	9,874	59.6%
Capital expenditures (4)	17,393	12,270	41.8%
Free cash flow (5)	(1,635)	(2,396)	(31.8%)

(1) 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.

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

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

(4) Capital expenditures represent additions to property, plant and equipment excluding prepayments for participation in tenders for mineral licenses.

(5) 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:

millions of Russian roubles	Three months ended 30 June: 2013	2012	Change %
Profit attributable to shareholders of OAO NOVATEK	**11,602**	**9,663**	**20.1%**
Depreciation, depletion and amortization	3,054	2,561	19.3%
Net impairment expenses	68	39	74.4%
Loss (income) from changes in fair value of derivative financial instruments	89	-	n/a
Total finance expense (income)	3,455	5,597	(38.3%)
Total income tax expense	2,873	2,554	12.5%
EBITDA	**21,141**	**20,414**	**3.6%**
Exploration expenses	239	151	58.3%
EBITDAX	**21,380**	**20,565**	**4.0%**

SELECTED MACRO-ECONOMIC DATA

Exchange rate, Russian roubles for one US dollar [1]	Three months ended 30 June: 2013	2012	Change %
At the beginning of the period	31.08	29.33	6.0%
At the end of the period	32.71	32.82	(0.3%)
Average for the period	31.61	31.01	1.9%
Depreciation (appreciation) of Russian rouble to US dollar	5.2%	11.9%	n/a

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

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Crude oil and oil products prices, USD per bbl or ton	Three months ended 30 June: 2013	2012	Change %
WTI [2]			
At the end of the period, USD per bbl	96.6	85.0	13.6%
Average for the period, USD per bbl	94.2	93.5	0.7%
Brent [3]			
At the end of the period, USD per bbl	102.5	94.5	8.5%
Average for the period, USD per bbl	102.4	108.3	(5.4%)
Dubai [3]			
At the end of the period, USD per bbl	100.4	92.9	8.1%
Average for the period, USD per bbl	100.8	106.2	(5.1%)
Urals [3]			
At the end of the period, USD per bbl	102.5	94.2	8.8%
Average for the period, USD per bbl	102.1	106.6	(4.2%)
Naphtha Japan [4]			
At the end of the period, USD per ton	856.4	749.5	14.3%
Average for the period, USD per ton	858.0	888.2	(3.4%)

[2] Based on New York Mercantile Exchange Light Sweet prices provided by Reuters to Platts.

[3] 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.

[4] Based on Naphtha C+F (cost plus freight) Japan prices provided by Platts.

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Propane-butane mix prices, USD per ton [5]	Three months ended 30 June: 2013	2012	Change %
At the end of the period	569.5	612.5	(7.0%)
Average for the period	604.5	786.4	(23.1%)

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

Export duties, USD per ton [6]	Three months ended 30 June: 2013	2012	Change %
Crude oil, stable gas condensate			
At the end of the period	359.3	419.8	(14.4%)
Average for the period	379.7	443.0	(14.3%)
LPG			
At the end of the period	72.2	237.1	(69.5%)
Average for the period	71.4	197.4	(63.8%)
Naphtha			
At the end of the period	323.3	377.8	(14.4%)
Average for the period	341.8	398.7	(14.3%)

[6] Export duties are determined by the Government of the Russian Federation 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 twelve months 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

Natural gas prices the Group can achieve on the domestic market are strongly influenced by the prices regulated by the Federal Tariffs Service (“FTS”), a governmental agency, and present market conditions.

As of 1 July 2012, the FTS increased the wholesale prices for natural gas on the domestic market by 15%.

According to the Russian 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 range of maximum and minimum wholesale prices. 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 on the European markets within a range of +/-3% from the average prices set previously.

The wholesale gas prices to end-customers on the domestic market (excluding residential customers) were decreased by 3% effective from 1 April 2013 due to the recalculations performed based on changes in oil products prices on the European markets.

Effective from 1 July 2013, the wholesale natural gas prices on the domestic market were increased by 15%.

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 (defined as more than 5%) of natural gas prices for the previous quarter calculated using price formula from the average annual natural gas prices calculated based on the average annual natural gas prices changes set by the Government of the Russian Federation.

In July 2013, the FTS made a decision to recalculate the minimum and maximum wholesale gas prices for sales to end-customers on the domestic market (excluding residential customers) effective from 1 August 2013. As a result, effective from 1 August 2013, the average wholesale natural gas prices were increased by 3%.

The Russian Federation government will continue to debate various policies relating to the natural gas industry, including but not limited to, the growth rate of natural gas pricing on the Russian domestic market amongst other related topics.

It is expected that 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, potential future natural gas prices and transportation tariffs deviations from the key parameters as defined in the current Forecasts of the Ministry of Economic Development will be considered in the UPT rates determination, 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 June 2013, our average natural gas price to end-customers and ex-field price increased by 17.5% and 13.0%, respectively, primarily due to an increase in the average regulated FTS price by 11.6% compared to the corresponding period in 2012 (cumulative effect of a 15% increase effective from 1 July 2012 and a 3% decrease effective from 1 April 2013). An additional increase in our average natural gas price to end-customers was due to a significant increase in the distance we transport our natural gas within our end-customers base. Our average transportation expense for the delivery of natural gas to end-customers increased by 24.2% largely due to a 7.0% average increase in the natural gas transportation tariff effective 1 July 2012 as well as a significant increase in our average transportation distance (see “Transportation tariffs” below). As a result, our average netback price on end-customers sales increased by 12.3%, while our total average natural gas price excluding transportation expense increased by 14.2% 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:

	Three months ended 30 June:		**Change**
Russian roubles per mcm	**2013**	**2012**	**%**
Average natural gas price to end-customers [(1)]	3,117	2,652	17.5%
Average natural gas transportation expense for sales to end-customers	(1,459)	(1,175)	24.2%
Average natural gas netback price on end-customer sales	1,659	1,477	12.3%
Average natural gas price ex-field (wholesale traders)	1,581	1,399	13.0%
Total average natural gas price excluding transportation expense	**1,650**	**1,445**	**14.2%**

[(1)] Includes cost of transportation.

Crude oil, stable gas condensate, liquefied petroleum gas and oil products 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 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. Volatile movements in benchmark crude oil 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, among many other factors.

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

In the three months ended 30 June 2013, our stable gas condensate export delivery terms were cost and freight (CFR), or delivery to the port of destination ex-ship (DES), or delivery at point of destination (DAP), while in the corresponding period in 2012 our delivery terms were either CFR, DES, DAP, 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 June 2013, was approximately USD 829 per ton compared to approximately USD 882 per ton in the corresponding period in 2012.

In the three months ended 30 June 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 728 per ton compared to USD 757 per ton in the corresponding period in 2012.

The following table shows our average realized stable gas condensate and 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):

Russian roubles or US dollars per ton	**Three months ended 30 June: 2013**	**2012**	**Change %**
Stable gas condensate			
Net export price, RR per ton	14,114	13,387	5.4%
Net export price, USD per ton	446.5	431.7	3.4%
Domestic price, RR per ton	11,661	12,335	(5.5%)
Crude oil			
Net export price, RR per ton	11,165	9,916	12.6%
Net export price, USD per ton	353.2	319.8	10.4%
Domestic price, RR per ton	10,654	10,313	3.3%

In the three months ended 30 June 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 June 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 711 per ton compared to USD 874 per ton in the corresponding period in 2012.

In the three months ended 30 June 2013, we sold 120 thousand tons of our LPG, including volumes sold through our wholly owned subsidiary OOO NOVATEK-AZK ("NOVATEK-AZK"), on the domestic market at an average price of RR 13,250 per ton compared to sales of 108 thousand tons, including volumes purchased for resale, at an average price of RR 13,698 per ton in the corresponding period in 2012.

In the three months ended 30 June 2013, we sold approximately 800 hundred tons of methanol produced by the Group at an average price of RR 18,644 per ton as compared to sales of approximately 4.0 thousand tons at an average price of RR 10,896 per ton in the corresponding period in 2012. In the 2012 reporting period, we sold the methanol processed at the Yurkharovskoye field to third parties, whereas in the current period the volumes of methanol processed (except those sold externally) are consumed internally.

The following table shows our average realized LPG and methanol sales prices, excluding LPG 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:

	Three months ended 30 June:		Change
Russian roubles or US dollars per ton	**2013**	**2012**	**%**
LPG			
Net export price, RR per ton	17,750	19,365	(8.3%)
Net export price, USD per ton	561.5	624.5	(10.1%)
Domestic price, RR per ton	13,250	13,704	(3.3%)
Methanol			
Domestic price, RR per ton	18,644	10,896	71.1%

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 Government controlled monopoly. Transportation tariffs for the use of the UGSS by independent producers are set by the FTS.

In accordance with the 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 July 2012, the FTS approved a 7.0% average increase of the transportation tariff for natural gas and the rate for utilization of the trunk pipeline averaged between RR 50.78 to RR 1,995.44 (excluding VAT) per mcm and the transportation rate was RR 12.02 (excluding VAT) per mcm per 100 km.

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 averaged 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 Forecast of Social and Economic Development of the Russian Federation for the 2013-2015 period announced in September 2012 by the Ministry of Economic Development of the Russian Federation, the transportation tariff for natural gas produced by independent producers will be increased in 2014 and 2015 effective from 1 July and will not exceed the forecasted inflation rate (excluding an increase in the transportation tariffs as a result of possible property tax benefit cancellation for OAO Gazprom). According to preliminary estimates of the Ministry of Economic Development, the transportation tariff will be increased by 5.0% effective from 1 July 2014 and by 4.8% effective from 1 July 2015 (excluding an increase in the transportation tariffs as a result of possible property tax benefit cancellation for OAO Gazprom).

As expected, the increases in the transportation tariffs for natural gas will be taken into account as one of complex parameters during the calculation of UPT rates for natural gas (see "Our tax burden" below).

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 were increased in November 2012 on average by approximately 5.5%.

Stable gas condensate and LPG

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 the 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 product and 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.

We deliver our stable gas condensate to international markets using the loading and storage facilities at the Port of Vitino on the White Sea and tankers for transportation to US, European, South American and countries of the APR. The cost of tanker transportation is determined by the distance to the final destination, tanker availability, seasonality of deliveries and standard shipping terms.

Oil products produced at the Ust-Luga Complex

We will deliver our oil products (light and heavy naphtha, jet fuel, gasoil and fuel oil) produced at the Ust-Luga Complex to international markets (US, Europe, South America and countries of the APR) via the Port of Ust-Luga on the Baltic Sea using chartered tankers. The cost of tanker transportation is determined by the distance to the final destination, tanker availability, seasonality of deliveries and standard shipping terms.

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 favours 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 have been given 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 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 provides for the UPT rate for natural gas produced by independent natural gas producers at RR 471 per mcm effective from 1 January 2014 and RR 552 per mcm effective from 1 January 2015.

In 2012, the UPT rate for gas condensate was set at RR 556 per ton and was subsequently increased in 2013 to RR 590 per ton. The UPT rate for gas condensate for 2014 and 2015 was set at RR 647 per ton and RR 679 per ton, respectively.

In June 2012, the Russian Federation government made a decision to create a new approach on taxation of the natural gas producers by linking the UPT rate for natural gas to regulated FTS natural gas prices and transportation tariffs growth. Currently, the Government debates the new tax regulation, which when formally adopted, will replace the existing UPT for natural gas and gas condensate with a formula-based approach using the base value of standard fuel equivalent multiplied by a co-efficient characterizing either the reserves' depletion, the field's geographical location, or the deposit's (or reservoir's) depth, as well as the factor considering the natural gas transportation expenses. The proposed change in the calculation of UPT rate is expected to be applied effective from 1 January 2014; however, the discussions are not completed as of the date of the issuance of our financial statements.

The UPT rate for crude oil is linked to the Urals benchmark crude oil price and changes every month. It is calculated in US dollar and translated and paid in Russian roubles using the monthly average exchange rate established by the Central Bank of Russia.

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 amendments to the Russian Tax Code, effective from 1 January 2012, 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, LPG, crude oil and oil products). 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 use by the Ministry of Economic Development in calculating the monthly export duties for exported liquids (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.

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 was 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 June 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.

During the current reporting period, we launched the first stage of the Ust-Luga Complex which required us to build-up an inventory balance of raw materials prior to the commencement of processing. As a result, our liquids sales volumes were affected due to a significant increase in liquids inventory balances in the three months ended 30 June 2013, as compared to a decrease in the corresponding period in 2012, which was partially offset by an increase in unstable gas condensate purchases from the Group's joint ventures.

We transferred 214 thousand tons of stable gas condensate produced at the Purovsky Plant to the Ust-Luga Complex as raw materials which, in prior periods, would have been sold to the domestic and international markets. Since the formal commissioning did not occur until the latter part of the second quarter the finished oil products received from the processing of the stable gas condensate at the Ust-Luga Complex were not sold in the reporting period and were classified as either "goods in transit" or inventory. In addition, during the three months ended 30 June 2013, our stable gas condensate inventory balance related to the tankers shipped from the Port of Vitino increased as compared to a decrease in the corresponding period in 2012. Our liquids inventory balances tend to fluctuate periodically due to loading schedules and final destinations of stable gas condensate and products received from its processing shipments.

Natural gas production volumes

In the three months ended 30 June 2013, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 1,100 mmcm, or 7.9%, to 14,949 mmcm from 13,849 mmcm in the corresponding period in 2012.

millions of cubic meters	**Three months ended 30 June: 2013**	**2012**	**Change %**
Production by subsidiaries from:			
Yurkharovskoye field	9,377	8,267	13.4%
East-Tarkosalinskoye field	2,523	3,241	(22.2%)
Khancheyskoye field	852	934	(8.8%)
Other fields	32	16	100.0%
Total natural gas production by subsidiaries	**12,784**	**12,458**	**2.6%**
Group's proportionate share in the production of joint ventures:			
Sibneftegas	1,364	1,268	7.6%
Nortgas	489	-	n/a
SeverEnergia (Arcticgas)	312	123	153.7%
Total Group's proportionate share in the natural gas production of joint ventures	**2,165**	**1,391**	**55.6%**
Total natural gas production including proportionate share in the production of joint ventures	**14,949**	**13,849**	**7.9%**

In the three months ended 30 June 2013, our volumes of natural gas produced by our subsidiaries increased by 326 mmcm, or 2.6%, to 12,784 mmcm from 12,458 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, namely unstable gas condensate production, from the Yurkharovskoye field (see "Liquids sales volumes" below). 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 June 2013, our proportionate share in the production of our joint ventures increased by 774 mmcm, or 55.6%, to 2,165 mmcm from 1,391 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 June 2013, our total natural gas sales volumes increased by 1,181 mmcm, or 8.8%, to 14,628 mmcm from 13,447 mmcm in the corresponding period in 2012.

millions of cubic meters	**Three months ended 30 June: 2013**	**2012**	**Change %**
Natural gas production by subsidiaries	12,784	12,458	2.6%
Purchases from the Group's joint ventures	1,870	1,268	47.5%
Other purchases	1,365	800	70.6%
Total production and purchases	**16,019**	**14,526**	**10.3%**
Purovsky Plant, own usage and methanol production	(32)	(29)	10.3%
Decrease (increase) in UGSF, UGSS and own pipeline infrastructure	(1,359)	(1,050)	29.4%
Total natural gas sales volumes	**14,628**	**13,447**	**8.8%**
Sold to end-customers	*13,008*	*8,361*	*55.6%*
Sold ex-field	*1,620*	*5,086*	*(68.1%)*

In the three months ended 30 June 2013, natural gas purchases from our joint ventures increased by 602 mmcm, or 47.5%, primarily due to the commencement of purchases from Nortgas in January 2013.

Other natural gas purchases increased by 565 mmcm, or 70.6%, primarily due to increased purchases from our related party OAO SIBUR Holding ("SIBUR"). We purchase natural gas from related and third parties as part of total 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 June 2013, we used 20 mmcm of natural gas as feedstock for the production of methanol compared to 19 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 June 2013, our total liquids production (including our proportionate share in the production of joint ventures) increased by 152 thousand tons, or 14.6%, to 1,194 thousand tons from 1,042 thousand tons in the corresponding period in 2012.

thousands of tons	**Three months ended 30 June: 2013**	**2012**	**Change %**
Production by subsidiaries from:			
Yurkharovskoye field	687	660	4.1%
East-Tarkosalinskoye field	280	232	20.7%
Khancheyskoye field	126	130	(3.1%)
Other fields	10	5	100.0%
Total liquids production by subsidiaries	**1,103**	**1,027**	**7.4%**
Group's proportionate share in the production of joint ventures:			
Nortgas	50	-	n/a
SeverEnergia (Arcticgas)	41	15	173.3%
Total Group's proportionate share in the liquids production of joint ventures	**91**	**15**	**n/m**
Total liquids production including proportionate share in the production of joint ventures	**1,194**	**1,042**	**14.6%**

In the three months ended 30 June 2013, volumes of liquids produced by our subsidiaries increased by 76 thousand tons, or 7.4%, primarily due to a significant increase in crude oil production at the East-Tarkosalinskoye field and, to a lesser extent, the Khancheyskoye field. 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 sales 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 June 2013, our proportionate share in liquids production increased by 76 thousand tons, or by fivefold, 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 by our joint venture SeverEnergia.

Liquids sales volumes

In the three months ended 30 June 2013, our total liquids sales decreased by 61 thousand tons, or 5.4%, to 1,060 thousand tons from 1,121 thousand tons in the corresponding period in 2012.

thousands of tons	**Three months ended 30 June: 2013**	**2012**	**Change %**
Liquids production by subsidiaries	1,103	1,027	7.4%
Purchases from the Group's joint ventures	265	58	356.9%
Other purchases	2	3	(33.3%)
Total production and purchases	**1,370**	**1,088**	**25.9%**
Losses and own usage [(1)]	(19)	(14)	35.7%
Filling the system of processing facilities and pipelines at the Ust-Luga Complex	(3)	-	n/a
Decreases (increases) in liquids inventory balances	(288)	47	n/a
Total liquids sales volumes	**1,060**	**1,121**	**(5.4%)**
Stable gas condensate export	*599*	*785*	*(23.7%)*
Stable gas condensate domestic	*33*	*9*	*266.7%*
Subtotal stable gas condensate	***632***	***794***	***(20.4%)***
LPG export	*141*	*116*	*21.6%*
LPG domestic	*92*	*80*	*15.0%*
LPG sold through domestic retail and small wholesale stations	*28*	*28*	*0.0%*
Subtotal LPG	***261***	***224***	***16.5%***
Crude oil export	*61*	*37*	*64.9%*
Crude oil domestic	*103*	*64*	*60.9%*
Subtotal crude oil	***164***	***101***	***62.4%***
Oil products domestic	*3*	*2*	*50.0%*
Subtotal oil products	***3***	***2***	***50.0%***

(1) 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 June 2013, we significantly increased our purchases of unstable gas condensate from SeverEnergia and its wholly owned subsidiary OAO Arctic Gas Company 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.

We transferred 214 thousand tons of stable gas condensate produced at the Purovsky Plant as raw material feedstock to the Ust-Luga Complex. As at 30 June 2013, the oil products we received from the additional processing of stable gas condensate were recorded as inventory in transit and/or storage (see "Change in natural gas, liquid hydrocarbons and work-in-progress" below).

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 30 JUNE 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 June 2013 and 2012. Each line item is also shown as a percentage of our total revenues.

	Three months ended 30 June:			
millions of Russian roubles	**2013**	**% of total revenues**	**2012**	**% of total revenues**
Total revenues **(net of VAT, export duties, excise and fuel taxes)**	**58,030**	***100.0%***	**44,924**	***100.0%***
including:				
natural gas sales	43,109	*74.3%*	29,272	*65.2%*
liquids' sales	14,809	*25.5%*	15,491	*34.5%*
Operating expenses	(39,613)	*(68.3%)*	(26,559)	*(59.1%)*
Other operating income (loss)	(34)	*(0.0%)*	(36)	*(0.1%)*
Profit from operations	**18,383**	***31.7%***	**18,329**	***40.8%***
Finance income (expense)	(3,455)	*(6.0%)*	(5,597)	*(12.4%)*
Share of profit (loss) of joint ventures, net of income tax	(472)	*(0.8%)*	(521)	*(1.2%)*
Profit before income tax	**14,456**	***24.9%***	**12,211**	***27.2%***
Total income tax expense	(2,873)	*(4.9%)*	(2,554)	*(5.7%)*
Profit (loss)	**11,583**	***20.0%***	**9,657**	***21.5%***
Non-controlling interest	19	*0.0%*	6	*0.0%*
Profit attributable to shareholders of OAO NOVATEK	**11,602**	***20.0%***	**9,663**	***21.5%***

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 June 2013 and 2012:

millions of Russian roubles	Three months ended 30 June: 2013	2012	Change %
Natural gas sales	**43,109**	**29,272**	**47.3%**
End-customers	*40,548*	*22,158*	*83.0%*
Ex-field sales	*2,561*	*7,114*	*(64.0%)*
Stable gas condensate sales	**8,843**	**10,623**	**(16.8%)**
Export	*8,462*	*10,509*	*(19.5%)*
Domestic	*381*	*114*	*234.2%*
Liquefied petroleum gas sales	**4,097**	**3,734**	**9.7%**
Export	*2,498*	*2,252*	*10.9%*
Domestic	*1,599*	*1,482*	*7.9%*
Crude oil sales	**1,776**	**1,027**	**72.9%**
Export	*682*	*366*	*86.3%*
Domestic	*1,094*	*661*	*65.5%*
Oil and gas products sales	**93**	**107**	**(13.1%)**
Domestic	*93*	*107*	*(13.1%)*
Total oil and gas sales	**57,918**	**44,763**	**29.4%**
Other revenues	112	161	(30.4%)
Total revenues	**58,030**	**44,924**	**29.2%**

Natural gas sales

In the three months ended 30 June 2013, our revenues from sales of natural gas increased by RR 13,837 million, or 47.3%, compared to the corresponding period in 2012 due primarily 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 price tariff for natural gas by 15% effective from 1 July 2012, which was partially offset by a 3% decrease in the regulated tariffs effective from 1 April 2013 (average cumulative increase accounted for 11.6% compared to the second quarter 2012, see “Natural gas prices” above). In addition, our proportion of end-customer sales to total natural gas sales volumes increased in the three months ended 30 June 2013 compared to the corresponding period in 2012.

Our proportion of natural gas sold to end-customers to total natural gas sales volumes increased to 88.9% in the three months ended 30 June 2013 as compared to 62.2% 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 our acquisition of the regional natural gas trader Gazprom mezhregiongas Kostroma in December 2012 (renamed NOVATEK-Kostroma in February 2013). In addition, the increase in our proportion of natural gas volumes sold to end-customers was due to the conclusion of gas sales contracts with OAO Severstal and OAO Fortum in 2012 (see “Recent developments” above).

In the three months ended 30 June 2013, our average netback price on end-customers sales, excluding volumes purchased for resale in the location of our end-customers in 2012, increased by 12.3% as compared to the corresponding period in 2012, while our average realized end-customers sales price increased by 17.5% combined with an increase in our average natural gas transportation tariff for sales to end-customers by 24.2%. The increase in our average realized sales price and average natural gas transportation tariff for sales to end-customers was primarily due to increase in our average transportation distance to transport natural gas to new “remote” customers (see “Recent developments” above).

Our average realized ex-field price increased by 13.0% as compared to the corresponding period in 2012 due to an increase in the regulated FTS price for natural gas by 11.6% compared to the second quarter 2012, as well as optimizing the traders mix with the increased proportion of our natural gas volumes sold to end-customers.

Stable gas condensate sales

In the three months ended 30 June 2013, our revenues from sales of stable gas condensate decreased by RR 1,780 million, or 16.8%, compared to the corresponding period in 2012 primarily due to a decrease in volumes sold, which was partially offset by an increase in our average realized prices in Russian roubles.

Our total stable gas condensate sales volumes decreased by 162 thousand tons, or 20.4%, due to the transfer of 214 thousand tons of stable gas condensate produced at the Purovsky Plant as raw material feedstock to be subsequently processed at the Ust-Luga Complex, which was launched in June 2013. In addition, in the three months ended 30 June 2013, our inventory balance of stable gas condensate in tankers shipped from the Port of Vitino increased by 60 thousand tons as compared to a decrease of 120 thousand tons in the corresponding period in 2012 (see "Change in natural gas, liquid hydrocarbons and work-in-progress" below).

In the three months ended 30 June 2013, we exported 599 thousand tons of stable gas condensate, or 94.8% of our total sales volumes, to the APR and Europe with the remaining 33 thousand tons sold domestically. In the corresponding period in 2012, we exported 785 thousand tons of stable gas condensate, or 98.9% of our total sales volumes, to the APR, Europe and the United States with the remaining nine thousand tons sold domestically.

In the three months ended 30 June 2013, our average realized net export price for stable gas condensate, excluding export duties and translated to US dollars from Russian roubles using the average exchange rate for the period, increased by USD 14.8 per ton, or 3.4%, to USD 446.5 per ton (CFR, DES and DAP) from USD 431.7 per ton (CFR, DES, CIF and DAP) in the corresponding period in 2012 primarily due to a 11.5% decrease in our average export duty per ton, that was partially offset by a 6.0% decrease in our average export contract price in US dollars and an increase in the average exchange rate of Russian rouble against the US dollar in the three months ended 30 June 2013 by approximately 1.9% compared to the corresponding period in 2012. The decrease in our average realized contract price was due to an overall decrease in the underlying benchmark crude oil and related commodity prices on international markets used in the price formulation.

Liquefied petroleum gas sales

In the three months ended 30 June 2013, our revenues from sales of LPG increased by RR 363 million, or 9.7%, compared to the corresponding period in 2012 due to an increase in our sales volumes that was partially offset by a decrease in our average realized prices.

In the three months ended 30 June 2013, we sold 141 thousand tons of LPG, or 54.0% of our total LPG sales volumes, to export markets as compared to sales of 116 thousand tons, or 51.8%, in the corresponding period in 2012. In the three months ended 30 June 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 from Russian roubles using the average exchange rate for the period, decreased by USD 63.0 per ton, or 10.1%, to USD 561.5 per ton in the three months ended 30 June 2013 (DAP and FCA) compared to USD 624.5 per ton in the corresponding period in 2012 (DAP, CPT and FCA) primarily due to a 18.6% decrease in our average contract price that was partially offset by a decrease in our average export duty per ton by 56.1%. 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 formulation.

In the three months ended 30 June 2013, we sold 120 thousand tons of LPG, or 46.0% of our total LPG sales volumes, on the domestic market compared to 108 thousand tons, or 48.2%, in the corresponding period in 2012. In the three months ended 30 June 2013, our average LPG domestic price was RR 13,250 per ton (excluding VAT) representing a decrease of RR 448 per ton, or 3.3%, compared to the corresponding period in 2012.

Crude oil sales

In the three months ended 30 June 2013, revenues from sales of crude oil increased by RR 749 million, or 72.9%, compared to the corresponding period in 2012 primarily due to an increase in sales volumes. Our crude oil sales volumes increased by 63 thousand tons, or 62.4%, to 164 thousand tons from 101 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 June 2013, we sold 62.8% of total crude oil volumes domestically at an average price of RR 10,654 per ton (excluding VAT) representing an increase of RR 341 per ton, or 3.3%, compared to the corresponding period in 2012.

The remaining 37.2% of our crude oil volumes were sold to export markets at an average price of USD 353.2 per ton (DAP, excluding export duties) representing an increase of USD 33.4 per ton, or 10.4%, compared to the corresponding period in 2012. The increase in our average realized crude oil net export price (excluding export duties and translated to US dollars from Russian roubles using the average exchange rate for the period) was the result of a 14.3% decrease in the average export duty per ton, while our average export contract price decreased by 3.8%. The decrease in our average realized contract price and export duty per ton was due to a decrease in the underlying benchmark crude oil prices used in the price and export duty rate formulation.

Oil and gas products sales

Oil and gas products sales include trading operations with oil products on the domestic market through our retail stations and methanol sales. In the three months ended 30 June 2013, our revenue from sales of oil and gas products decreased by RR 14 million, or 13.1%, to RR 93 million from RR 107 million in the corresponding period in 2012.

Our revenues from oil products trading operations through our retail stations on the domestic market increased by RR 14 million, or 21.9%, to RR 78 million in the three months ended 30 June 2013 compared to RR 64 million in the corresponding period in 2012 due to both an increase in volumes sold and prices. In the three months ended 30 June 2013, we sold approximately three thousand tons of oil products (diesel fuel and petrol) for an average price of RR 30,587 per ton compared to sales of approximately two thousand tons for an average price of RR 28,291 per ton in the corresponding period in 2012.

In the three months ended 30 June 2013, our revenue from methanol sales decreased by RR 29 million, or 65.9%, to RR 15 million from RR 44 million in the corresponding period in 2012 due primarily to a decrease in volumes sold that was partially offset by an increase in our average realized prices.

Other revenues

Other revenues include geological and geophysical research services, rent, sublease, transportation, handling, storage and other services. In the three months ended 30 June 2013, other revenues decreased by RR 49 million, or 30.4%, to RR 112 million from RR 161 million in the corresponding period in 2012 primarily due to a decrease by RR 56 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, that was partially offset by an increase by RR eight 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 June 2013, our total operating expenses increased by RR 13,054 million, or 49.2%, to RR 39,613 million compared to RR 26,559 million in the corresponding period in 2012 primarily due to an increase in transportation expenses and purchases of natural gas and liquid hydrocarbons, that was partially offset by increases in inventory balances of natural gas, stable gas condensate and oil products recognized as inventory in transit and/or storage. As a percentage of total operating expenses, our non-controllable expenses, such as transportation and taxes other than income tax, increased to 68.9% in the three months ended 30 June 2013 compared to 64.7% 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 June 2013, total operating expenses as a percentage of total revenues increased to 68.3% in the three months ended 30 June 2013 compared to 59.1% 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 from our related and third parties, as well as from our joint ventures. 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 increased the volumes of natural gas sold to end-customers which correspondingly increased our overall transportation expenses during the reporting period.

	Three months ended 30 June:			
millions of Russian roubles	**2013**	**% of total revenues**	**2012**	**% of total revenues**
Transportation expenses	22,859	*39.4%*	13,035	*29.0%*
Taxes other than income tax	4,436	*7.6%*	4,154	*9.3%*
Subtotal non-controllable expenses	**27,295**	***47.0%***	**17,189**	***38.3%***
Purchases of natural gas and liquid hydrocarbons	6,890	*11.9%*	3,423	*7.6%*
Depreciation, depletion and amortization	3,054	*5.3%*	2,561	*5.7%*
General and administrative expenses	2,258	*3.9%*	2,516	*5.6%*
Materials, services and other	1,866	*3.2%*	1,836	*4.1%*
Exploration expenses (reversals)	239	*0.4%*	(597)	*n/m*
Net impairment expenses	68	*n/m*	39	*n/m*
Change in natural gas, liquid hydrocarbons and work-in-progress	(2,057)	*n/m*	(408)	*n/m*
Total operating expenses	**39,613**	***68.3%***	**26,559**	***59.1%***

Non-controllable expenses

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

In the three months ended 30 June 2013, non-controllable expenses of transportation and taxes other than income tax increased by RR 10,106 million, or 58.8%, to RR 27,295 million from RR 17,189 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 a 5.6% increase in the natural gas production tax rate effective from 1 January 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 47.0% in the three months ended 30 June 2013 compared to 38.3% in the corresponding period in 2012.

Transportation expenses

In the three months ended 30 June 2013, our total transportation expenses increased by RR 9,824 million, or 75.4%, to RR 22,859 million compared to RR 13,035 million in the corresponding period in 2012.

million of Russian roubles	Three months ended 30 June: 2013	2012	Change %
Natural gas transportation to customers	18,969	8,883	113.5%
Liquid hydrocarbons transportation by rail	2,768	2,837	(2.4%)
Liquid hydrocarbons transportation by tankers	893	1,152	(22.5%)
Crude oil transportation to customers	205	122	68.0%
Other	24	41	(41.5%)
Total transportation expenses	**22,859**	**13,035**	**75.4%**

In the three months ended 30 June 2013, our transportation expenses for natural gas increased by RR 10,086 million, or 113.5%, to RR 18,969 million from RR 8,883 million in the corresponding period in 2012. The change was mainly due to a 72.0% increase in our natural gas sales volumes to end-customers, for which we incurred transportation expense, and excluding volumes of natural gas purchased for resale in the location of our end-customers in 2012, a 7.0% average increase in the natural gas transportation tariff set by the FTS effective 1 July 2012 (see "Transportation tariffs" above), as well as an increase in average transportation distance due to higher natural gas deliveries to Moscow, and the Moscow, Vologodskiy 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 June 2013, our total expenses for liquids transportation by rail decreased by RR 69 million, or 2.4%, to RR 2,768 million from RR 2,837 million in the corresponding period in 2012 due to a decrease in combined liquids volumes sold and transported via rail by 124 thousand tons, or 12.2%, to 893 thousand tons from 1,017 thousand tons. The decrease in combined liquids volumes sold and transported via rail was primarily due to the transfer of 214 thousand tons of stable gas condensate for further processing at the Ust-Luga Complex. The oil products received from the processing were not sold as at 30 June 2013 and were recognized as inventory in transit and storage (see "Change in natural gas, liquid hydrocarbons and work-in-progress" below). The transportation costs incurred in respect of liquids volumes recorded as part of our inventory balance or in transit are capitalized in current assets as future period expenses until such volumes are recognized as sold.

In the three months ended 30 June 2013, our weighted average transportation tariff for liquids delivered by rail increased by 11.1% to RR 3,097 per ton from RR 2,788 per ton in the corresponding period in 2012 primarily due to a decrease in the share of stable gas condensate as part of the total liquids volumes sold and transported via rail and a 7.0% indexation of railroad tariffs for the domestic market set by the FTS effective 1 January 2013. In the three months ended 30 June 2013, the share of stable gas condensate in total liquids volumes sold and transported via rail amounted to 70.8% compared to 78.1% in the corresponding period in 2012.

The change in the share of stable gas condensate volumes in our total liquids volumes delivered by rail affects the weighted average railroad tariff due to the relatively low transportation expense for stable gas condensate compared to LPG. Our weighted average transportation tariff for liquids delivered by rail fluctuates period-to-period and depends on products type and the geography of deliveries.

Total transportation expense for liquids delivered by tankers to international markets decreased by RR 259 million, or 22.5%, to RR 893 million in the three months ended 30 June 2013 from RR 1,152 million in the corresponding period in 2012 due to a 23.7% decrease in volumes sold. In the three months ended 30 June 2013, we sold 69.4% of our total stable gas condensate export volumes to APR and 30.6% to Europe, whereas in the corresponding period in 2012, we sold 53.7% to APR, 38.7% to Europe and 7.6% to the United States.

In the three months ended 30 June 2013, our expenses for crude oil transportation to customers through the pipeline network increased by RR 83 million, or 68.0%, to RR 205 million from RR 122 million in the corresponding period in 2012. The change was primarily due to a 62.1% increase in volumes transported.

Other transportation expenses include motor transportation expenses, insurance expenses related to our liquid hydrocarbons transportation and other expenses. In the three months ended 30 June 2013, other transportation expenses decreased by RR 17 million, or 41.5%, to RR 24 million from RR 41 million in the corresponding period in 2012.

Taxes other than income tax

In the three months ended 30 June 2013, taxes other than income tax increased by RR 282 million, or 6.8%, to RR 4,436 million from RR 4,154 million in the corresponding period in 2012 primarily due to an increase in the unified natural resources production tax expense.

millions of Russian roubles	Three months ended 30 June: 2013	2012	Change %
Unified natural resources production tax	3,955	3,656	8.2%
Property tax	418	436	(4.1%)
Other taxes	63	62	1.6%
Total taxes other than income tax	**4,436**	**4,154**	**6.8%**

In the three months ended 30 June 2013, our UPT expense for natural gas increased by RR 264 million, or 8.4%, primarily due to a 5.6% increase in the natural gas production tax rate effective from 1 January 2013 (from RR 251 per mcm to RR 265 per mcm) and, to a lesser extent, a 2.6% increase in our natural gas production volumes. The UPT expense for unstable gas condensate production increased by RR 35 million, or 6.9%, 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 June 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 June 2013, our property tax expense decreased by RR 18 million, or 4.1%, to RR 418 million from RR 436 million in the corresponding period in 2012 due to a refund in the 2013 reporting period of the excessive amount of the property tax accrued in 2012 and 2011 by one of our production subsidiaries.

Purchases of natural gas and liquid hydrocarbons

In the three months ended 30 June 2013, our purchases of natural gas and liquid hydrocarbons increased by RR 3,467 million, or 101.3%, to RR 6,890 million from RR 3,423 million in the corresponding period in 2012.

millions of Russian roubles	Three months ended 30 June: 2013	2012	Change %
Natural gas	4,851	2,954	64.2%
Unstable gas condensate	1,976	393	402.8%
Other liquid hydrocarbons	63	76	(17.1%)
Total purchases of natural gas and liquid hydrocarbons	**6,890**	**3,423**	**101.3%**

In the three months ended 30 June 2013, our purchases of natural gas increased by RR 1,897 million, or 64.2%, to RR 4,851 million from RR 2,954 million in the corresponding period in 2012 due to higher purchases from our joint ventures and, to a lesser extent, from our related and third parties. The increase in purchases from our joint ventures was due to the commencement of natural gas purchases from Nortgas effective from 1 January 2013, as well as the increase in purchases from Sibneftegas resulted from higher purchase prices and, to a lesser extent, volumes.

In the three months ended 30 June 2013, our purchases of unstable gas condensate from our joint ventures increased by RR 1,583 million, or fourfold, to RR 1,976 million from RR 393 million in the corresponding period in 2012 due to higher purchases from SeverEnergia and its wholly owned subsidiary OAO Arctic Gas Company, 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.

In the three months ended 30 June 2013, our purchases of other liquid hydrocarbons decreased by RR 13 million, or 17.1%, to RR 63 million from RR 76 million in the corresponding period in 2012 due to LPG purchases through our wholly owned subsidiary NOVATEK-AZK in the 2012 reporting period. In the three months ended 30 June 2013, we had no LPG purchases from third parties as a result of Group's ability to supply NOVATEK-AZK with our produced LPG. Other liquid hydrocarbons purchases represent our purchases of oil products (diesel fuel and petrol) and LPG.

Depreciation, depletion and amortization

In the three months ended 30 June 2013, our depreciation, depletion and amortization ("DDA") expense increased by RR 493 million, or 19.3%, to RR 3,054 million from RR 2,561 million in the corresponding period in 2012 as a result of an increase in our depletable cost base and, to a lesser extent, a 3.0% 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.

In the three months ended 30 June 2013, our DDA per barrel of oil equivalent was RR 27.3 compared to RR 23.3 in the corresponding period in 2012. The increase in our DDA charge calculated on a barrel of oil equivalent basis was due to the capitalization of costs related to ongoing crude oil development activities at the East-Tarkosalinskoye field and the launch of the fourth stage of the second phase development at our Yurkharovskoye field, as well as a decrease in our proved reserves estimates as of 31 December 2012 compared to 31 December 2011, used as the denominator in the calculation of the DDA under the "units of production" method, at our core producing fields.

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 June 2013, our general and administrative expenses decreased by RR 258 million, or 10.3%, to RR 2,258 million compared to RR 2,516 million in the corresponding period in 2012. The main components of these expenses were employee compensation, social expenses and compensatory payments and legal, audit, and consulting services, which, on aggregate, comprised 77.7% and 84.5% of total general and administrative expenses in the three months ended 30 June 2013 and 2012, respectively.

	Three months ended 30 June:		**Change**
millions of Russian roubles	**2013**	**2012**	**%**
Employee compensation	1,352	1,653	(18.2%)
Compensatory payments and social expenses	221	287	(23.0%)
Legal, audit, and consulting services	182	187	(2.7%)
Business trip expenses	89	70	27.1%
Fire safety and security expenses	58	50	16.0%
Insurance expense	51	19	168.4%
Repair and maintenance expenses	44	30	46.7%
Rent expense	30	27	11.1%
Bank charges	16	21	(23.8%)
Other	215	172	25.0%
Total general and administrative expenses	**2,258**	**2,516**	**(10.3%)**

Employee compensation related to administrative personnel decreased by RR 301 million, or 18.2%, to RR 1,352 million in the three months ended 30 June 2013 from RR 1,653 million in the corresponding period in 2012 due to a change in the method of bonus accruals to key management (lower share of bonus accruals for the first half of the year and higher share of bonus accruals for the second half of the year based on the results achieved by the Group for the whole year). The decrease was partially offset by an indexation of base salaries by 6.0% effective 1 July 2012 and an increase in the average number of employees resulted from the expansion of activities at our Ust-Luga project, as well as the acquisition of a regional gas trader Gazprom mezhregiongas Kostroma in December 2012.

In the three months ended 30 June 2013, our compensatory payments and social expenses decreased by RR 66 million, or 23.0%, to RR 221 million compared to RR 287 million in the corresponding period in 2012 and were primarily related to our donations to sport clubs and 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 marginally decreased by RR five million, or 2.7%, to RR 182 million compared to RR 187 million in the corresponding period in 2012.

Fire safety and security expenses increased by RR eight million, or 16.0%, to RR 58 million in the three months ended 30 June 2013 from RR 50 million in the corresponding period in 2012 primarily due to an increase in rates charged for security services, as well as the consolidation of fire safety and security services expenses related to our recently acquired subsidiary.

Insurance expense increased by RR 32 million, or 168.4%, to RR 51 million in the three months ended 30 June 2013 from RR 19 million in the corresponding period in 2012 due to the expansion of the Group's activities.

Repair and maintenance expenses increased by RR 14 million, or 46.7%, to RR 44 million in the three months ended 30 June 2013 from RR 30 million in the corresponding period in 2012 primarily due to repair works of administrative fixed assets rented by our subsidiary, OOO NOVATEK-Chelyabinsk, as well as the launch of Ust-Luga Complex in June 2013.

In the three months ended 30 June 2013, our rent expense marginally increased by RR three million, or 11.1%, to RR 30 million from RR 27 million in the corresponding period in 2012.

Bank charges decreased marginally by RR five million, or 23.8%, to RR 16 million in the three months ended 30 June 2013 from RR 21 million in the corresponding period in 2012 primarily due to a decrease in service charges applied to overdrafts, that was partially offset by an increase in services fees charged by banks for the acceptance of payments for natural gas at our recently acquired regional natural gas trader NOVATEK-Kostroma, supplying natural gas to residential and small-scale customers.

In the three months ended 30 June 2013, other general and administrative expenses increased by RR 43 million, or 25.0%, to RR 215 million from RR 172 million in the corresponding period in 2012 due to an RR 11 million increase in advertising expenses primarily related to our participation in international economic forums and conferences, as well as an RR 11 million increase in expenses related to the launch of Ust-Luga Complex. The remaining increase of RR 21 million was made up of other immaterial expense items of an administrative nature.

Materials, services and other

In the three months ended 30 June 2013, our materials, services and other expenses increased by RR 30 million, or 1.6%, to RR 1,866 million compared to RR 1,836 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 71.5% and 76.9% of total materials, services and other expenses in the three months ended 30 June 2013 and 2012, respectively.

	Three months ended 30 June:		**Change**
millions of Russian roubles	**2013**	**2012**	**%**
Employee compensation	1,005	1,010	(0.5%)
Repair and maintenance services	330	401	(17.7%)
Materials and supplies	130	89	46.1%
Electricity and fuel	129	115	12.2%
Security expenses	79	69	14.5%
Transportation expenses	59	44	34.1%
Processing fees	26	25	4.0%
Other	108	83	30.1%
Total materials, services and other	**1,866**	**1,836**	**1.6%**

Our operating employee compensation decreased marginally by RR five million, or 0.5%, to RR 1,005 million compared to RR 1,010 million in the corresponding period in 2012. The decrease was primarily due to the disposal in December 2012 of our wholly owned non-core subsidiary OOO Purovsky Terminal, that was partially offset by a 6.0% indexation of base salaries effective from 1 July 2012 and an increase in the average number of employees as a result of an expansion of our trading activities at NOVATEK-AZK, as well as the acquisition of a regional gas trader Gazprom mezhregiongas Kostroma in December 2012.

Repair and maintenance services decreased by RR 71 million, or 17.7%, to RR 330 million in the three months ended 30 June 2013 compared to RR 401 million in the corresponding period in 2012 primarily due to repair works of production fixed assets performed in the corresponding period in 2012 that are expected to be performed in the second half of 2013.

Materials and supplies expense increased by RR 41 million, or 46.1%, to RR 130 million in the three months ended 30 June 2013 from RR 89 million in the corresponding period in 2012 mainly due to an increase in materials (including methanol) used in the technological process at our East-Tarkosalinskoye and Yurkharovskoye fields, as well as due to spare parts consumption in repair of our own rail cars used for the transportation of LPG.

In the three months ended 30 June 2013, electricity and fuel expenses increased by RR 14 million, or 12.2%, to RR 129 million from RR 115 million in the corresponding period in 2012. The increase was due to an increase in electricity consumption at our Yurkharovskoye field and higher electricity rates, as well as an increase in fuel volumes used by our production subsidiaries.

Security expenses increased by RR 10 million, or 14.5%, to RR 79 million in the three months ended 30 June 2013 from RR 69 million in the corresponding period in 2012 largely due to an increase in security services rates effective from January 2013.

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 June 2013, transportation expenses increased by RR 15 million, or 34.1%, to RR 59 million from RR 44 million in the corresponding period in 2012.

In the three months ended 30 June 2013, other material, services and other expenses increased by RR 25 million, or 30.1%, to RR 108 million from RR 83 million in the corresponding period in 2012 primarily due to oil wells monitoring services performed at our Yurkharovskoye field as a result of the commencement of crude oil production.

Exploration expenses

In the three months ended 30 June 2013, our exploration expenses amounted to RR 239 million as compared to RR 151 million in the corresponding period in 2012.

million of Russian roubles	**Three months ended 30 June:** 2013	2012	**Change %**
Exploration expenses	239	151	58.3%
Less capitalized 3-D seismic surveys for the three months ended 31 March 2012	-	(748)	n/a
Total exploration expenses	**239**	**(597)**	**n/a**

The increase in exploration expenses in the three months ended 30 June 2013 was due to expenses related to seismic activities at our fields.

In the 2012 reporting period we recorded a reversal to our exploration expenses of RR 597 million due to the initiation of a new accounting policy to capitalize 3-D seismic surveys to the property, plant and equipment. We capitalized RR 1,479 million of 3-D seismic surveys for the six months ended 30 June 2012, of which RR 748 million related to the three months ended 31 March 2012.

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

In the three months ended 30 June 2013, we recorded a reversal of RR 2,057 million to change in inventory expense as compared to a reversal of RR 408 million in the corresponding period in 2012:

millions of Russian roubles	Three months ended 30 June: 2013	2012
Natural gas	(1,007)	(513)
Naphtha	(540)	-
Stable gas condensate	(335)	97
Other oil products from Ust-Luga Complex	(143)	-
Other	(32)	8
Increase (decrease) in operating expenses due to change in inventory balances and work-in-progress	**(2,057)**	**(408)**

In the three months ended 30 June 2013, we recorded a reversal to our operating expenses of RR 1,007 million due to a 1,359 mmcm increase in our natural gas inventory balance, as well as an 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 June 2013, we recorded a reversal to our operating expenses of RR 683 million due to a significant increase in our inventory balances of oil products received from the processing of stable gas condensate at our Ust-Luga Complex. In June 2013, we launched the first stage of the Ust-Luga Complex and received 146 thousand tons of naphtha and 39 thousand tons of other oil products (jet fuel, gasoil and fuel oil) from the processing. These volumes were not sold as at 30 June 2013 and thus recognized as inventory in transit and storage.

In addition, in the three months ended 30 June 2013, we recorded a reversal of RR 335 million to our operating expenses due to a 102 thousand tons increase in our inventory balance of stable gas condensate in transit and storage, as well as an increase in the cost of stable gas condensate per ton.

The following table highlights movements in our inventory balances:

Inventory balances in transit or in storage	2013 At 30 June	At 31 March	Increase / (decrease)	2012 At 30 June	At 31 March	Increase / (decrease)
Natural gas (millions of cubic meters)	**1,443**	**84**	**1,359**	**1,082**	**32**	**1,050**
including Gazprom's UGSF	*1,411*	*33*	*1,378*	*1,050*	-	*1,050*
Liquid hydrocarbons (thousand tons)	**559**	**268**	**291**	**402**	**449**	**(47)**
including stable gas condensate	*261*	*159*	*102*	*295*	*352*	*(57)*
including naphtha	*146*	-	*146*	-	-	-

Other operating income (loss)

In the three months ended 30 June 2013, we recognized other operating loss of RR 34 million. Within the natural gas trading activities on the European market in the three months ended 30 June 2013, we purchased and sold 3.4 terawatt-hours (or approximately 325 mmcm) of natural gas and recognized net operating income of RR 54 million. At the same time we recognized net loss from this activity in the amount of RR 89 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"*.

In addition, in the three months ended 30 June 2013, we recognized other operating income of RR 58 million related to penalties charges received from our suppliers due to non-compliance of their contractual obligations. Other operating loss of RR 57 million related to other different 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 loss of RR 36 million, which 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 54 million, or 0.3%, to RR 18,383 million in the three months ended 30 June 2013, compared to RR 18,329 million in the corresponding period in 2012. In the three months ended 30 June 2013, our profit from operations as a percentage of total revenues decreased to 31.7% compared to 40.8% 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 margins we receive usually from the production and sales of our own hydrocarbons.

In addition, our operating expenses exceeded the growth rate of our total revenues due to the UPT rate for natural gas was increased effective from 1 January 2013, while the regulated price for natural gas increased only effective from 1 July 2013.

Finance income (expense)

In the three months ended 30 June 2013, we recorded net finance expense of RR 3,455 million as compared to a net finance expense of RR 5,597 million in the corresponding period in 2012. We recorded net finance expense in both periods primarily due to recording net foreign exchange losses resulted from the depreciation of the Russian rouble relative to the US dollar.

In the three months ended 30 June 2013, interest expense increased by RR 577 million, or 87.0%, to RR 1,240 million from RR 663 million in the corresponding period in 2012 primarily due to an increase in accrued interest expense on loans received as a result of Russian rouble denominated bonds issue by the Group in October 2012, obtaining a loan from OAO Sberbank in June 2012, as well as Eurobonds issue in December 2012 and February 2013, respectively.

millions of Russian roubles	**Three months ended 30 June:** 2013	2012	**Change** %
Accrued interest expense on loans received	2,116	1,193	77.4%
Less: capitalized interest	(938)	(590)	59.0%
Other interest expenses	62	60	3.3%
Total interest expense per the Consolidated Statement of Income	**1,240**	**663**	**87.0%**

Interest income increased by RR 107 million, or 29.3%, to RR 472 million in the three months ended 30 June 2013 from RR 365 million in the corresponding period in 2012 primarily due to a significant increase in loans provided to our joint ventures.

In the three months ended 30 June 2013, we recorded a net foreign exchange loss of RR 2,687 million compared to a net foreign exchange loss of RR 5,299 million in the corresponding period in 2012 due primarily to the revaluation of our US dollar denominated borrowings. The Russian rouble depreciated by 5.2% and 11.9% against the US dollar during the three months ended 30 June 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 June 2013, the Group’s proportionate share in loss of joint ventures accounted for RR 472 million as compared to a loss of RR 521 million in the corresponding period in 2012. The change was due to a significant increase in natural gas sales prices at our joint venture Sibneftegas effective from 1 July 2012, higher natural gas and gas condensate volumes produced at the Samburgskoye field as a result of the launch of its second phase development in December 2012, that was offset by the recognition of a net foreign exchange loss due to the revaluation of foreign currency denominated borrowings at our joint ventures in the 2013 reporting period.

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 19.9% and 20.9% for the three months ended 30 June 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 1,926 million, or 19.9%, to RR 11,583 million in the three months ended 30 June 2013 from RR 9,657 million in the corresponding period in 2012. The profit attributable to shareholders of OAO NOVATEK increased by RR 1,939 million, or 20.1%, to RR 11,602 million in the three months ended 30 June 2013 from RR 9,663 million in the corresponding period in 2012.

Our EBITDA increased by RR 727 million, or 3.6%, to RR 21,141 million in the three months ended 30 June 2013, from RR 20,414 million in the corresponding period in 2012 primarily due to an increase in natural gas sales prices and volumes, 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 0.65 per share, or 20.2%, to RR 3.83 per share in the three months ended 30 June 2013 from RR 3.18 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 June 2013 and 2012:

millions of Russian roubles	Three months ended 30 June: 2013	2012	Change %
Net cash provided by operating activities	15,758	9,874	59.6%
Net cash provided by (used in) investing activities	(17,909)	(10,167)	76.1%
Net cash provided by (used in) financing activities	(9,537)	(17,684)	(46.1%)

Liquidity and credit ratios	30 June 2013	31 December 2012	Change, %
Current ratio	2.35	1.06	121.7%
Total debt to total equity	0.43	0.45	(4.4%)
Long-term debt to long-term debt and total equity	0.30	0.25	20.0%
Net debt to total capitalization (1)	0.27	0.26	3.8%
Net debt to EBITDA (2)	1.22	1.20	1.7%

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

(2) Net debt to 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 (where applicable)

Net cash provided by operating activities

In the three months ended 30 June 2013, our net cash provided by operating activities increased by RR 5,884 million, or 59.6%, to RR 15,758 million compared to RR 9,874 million in the corresponding period in 2012 mainly due to significant income tax payments made during the second quarter 2012. We paid RR 10,709 million in the second quarter 2012, which is higher by RR 9,143 million, or 85.4%, compared to RR 1,566 million paid in the current reporting period. In addition, in the three months ended 30 June 2013, our net cash provided by operating activities increased due to higher natural gas sales volumes and prices 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 June 2013, our net cash used for investing activities increased by RR 7,742 million, or 76.1%, to RR 17,909 million compared to RR 10,167 million in the corresponding period in 2012.

millions of Russian roubles	Three months ended 30 June: 2013	2012	Change %
Purchases of property, plant and equipment (financing of capital expenditures)	(16,712)	(9,573)	74.6%
Repayments of loans provided (loans provided), net	1,469	413	255.7%
Acquisition of additional stakes in joint ventures	(1,703)	-	n/a
Other	(963)	(1,007)	(4.4%)
Net cash provided by (used for) investing activities	**(17,909)**	**(10,167)**	**76.1%**

Our cash used for purchases of property, plant and equipment increased by RR 7,139 million, or 74.6%, primarily due 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 June 2013, our cash used for loans provided to our joint ventures increased by RR 6,253 million compared to the corresponding period in 2012. In addition, in the three months ended 30 June 2013, we received RR 7,717 million due to the repayment of loans provided to our joint ventures as compared to RR 408 million in the corresponding period in 2012.

In the three months ended 30 June 2013, we increased our participation interest in Nortgas to 50% as a result of entity’s additional shares emission acquisition for total cash consideration of RR 1,703 million.

Net cash provided by (used for) financing activities

In the three months ended 30 June 2013, our net cash used for financing activities decreased by RR 8,147 million, or 46.1%, to RR 9,537 million compared to RR 17,684 million in the corresponding period in 2012.

millions of Russian roubles	Three months ended 30 June: 2013	2012	Change %
Proceeds from long-term debt	15,323	9,889	54.9%
Repayments of long-term debt	(10,987)	(989)	n/a
Dividends paid	(11,704)	(10,620)	10.2%
Acquisition of non-controlling interest	-	(16,290)	n/a
Other	(2,169)	326	n/a
Net cash provided by (used for) financing activities	**(9,537)**	**(17,684)**	**(46.1%)**

In the three months ended 30 June 2013, our cash used for repayment of debts increased by RR 9,998 million to RR 10,987 million from RR 989 million in the corresponding period in 2012 due to the repayment of Russian rouble denominated bonds in the amount of RR 10 billion in June 2013 (see "Debt obligations" below). In addition, our cash proceeds from loans and borrowings increased by RR 5,434 million due to a withdrawal of USD 500 million under unsecured syndicated term credit line facility in June 2013 whereas in June 2012 we obtained RR 10 billion under the available credit line facility from OAO Sberbank. Furthermore, in the 2012 reporting period we used RR 16.3 billion for the repayment of the remaining debt for the 49 percent equity stake in Yamal LNG acquired in September 2011. The remaining change was 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 June 2013 was a positive RR 27,082 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 32,723 million, or 94.4%, as well as an increase in our trade and other receivables by RR 2,857 million, or 17.4%, that was partially offset by a RR 11,500 million, or 62.4%, 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

Total capital expenditures on property, plant and equipment for the three months ended 30 June 2013 and 2012 were as follows:

millions of Russian roubles	Three months ended 30 June: 2013	2012	Change %
Capital expenditures	17,393	12,270	41.8%
Payment for mineral licenses	3,196	-	n/a
Total additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements	**20,589**	**12,270**	**67.8%**

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

	Three months ended 30 June:	
millions of Russian roubles	**2013**	**2012**
Yurkharovskoye field	4,757	3,071
Purovsky Plant	2,613	251
East-Tarkosalinskoye field	2,526	1,967
Ust-Luga Complex	2,323	3,160
Olimpiyskiy license area	990	109
Khancheyskoye field	671	416
Yarudeyskiy license area	578	175
Salmanovskoye (Utrenneye) field	505	382
North-Russkiy license area	281	324
North-Khancheyskiy license area	203	274
West-Urengoiskiy license area	106	78
Geofizicheskoye field	37	241
Other	1,803	1,822
Capital expenditures	**17,393**	**12,270**

Total capital expenditures on property, plant and equipment in the three months ended 30 June 2013 increased by RR 5,123 million, or 41.8%, to RR 17,393 million from RR 12,270 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 areas, as well as further development of the East-Tarkosalinskoye field’s crude oil deposits.

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.

Subsequent events

In July 2013, the Group withdrew USD 250 million under the syndicated term credit line facility at an interest rate of LIBOR plus 1.75 percent per annum.

Overview

Our total debt increased from RR 132,487 million at 31 December 2012 to RR 134,578 million at 30 June 2013, or by RR 2,091 million. During the reporting period the Group issued Russian rouble denominated Eurobonds in the amount of RR 14 billion in February 2013 and withdrew USD 500 million under a USD 1.5 billion unsecured syndicated term credit line facility obtained in June 2013. 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 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 June 2013 and 31 December 2012 was as follows:

Facility	Amount	Maturity	Interest rate	At 30 June 2013	At 31 December 2012
Eurobonds Ten-Year	USD 1 billion	December 2022	4.422%	32,565	30,232
Eurobonds Ten-Year	USD 650 million	February 2021	6.604%	21,140	19,620
Russian bonds	RR 20 billion	October 2015	8.35%	19,975	19,969
Eurobonds Five-Year	USD 600 million	February 2016	5.326%	19,557	18,146
Syndicated term credit line facility	USD 500 million	June 2018	LIBOR+1.75%	15,629	-
Eurobonds Four-Year	RR 14 billion	February 2017	7.75%	13,890	-
Sberbank	RR 10 billion	December 2014	8.9%	9,863	9,837
Sumitomo Mitsui [(1)]	USD 300 million	December 2013	LIBOR+1.45%	1,959	3,633
Sberbank [(2)]	RR 15 billion	December 2013	7.5%	-	14,984
Russian bonds	RR 10 billion	June 2013	7.5%	-	9,991
Nordea Bank[(3)]	USD 200 million	November 2013	LIBOR+1.9%	-	6,075
Total				**134,578**	**132,487**

[(1)] Sumitomo Mitsui Banking Corporation Europe Limited.
[(2)] The RR 15 billion loan from OAO Sberbank was repaid ahead of its' maturity schedule in February 2013.
[(3)] 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 June 2013 were as follows:

Maturity schedule:	**RR million**
1 July 2014 to 30 June 2015	11,065
1 July 2015 to 30 June 2016	44,341
1 July 2016 to 30 June 2017	18,699
1 July 2017 to 30 June 2018	4,809
After 30 June 2018	53,705
Total long-term debt	**132,619**

Available credit facilities

At 30 June 2013, the Group had available funds under short-term credit lines in the form of bank overdrafts with various international banks in the aggregate amount of RR 8,341 million (USD 255 million) on variable interest rates subject to the specific type of credit facility.

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

		Expiring	
	Par value	**Within one year**	**Between 1 and 3 years**
Syndicated term loan facility	USD 1 billion	32,709	-
BNP PARIBAS Bank	USD 100 million	3,271	-
Credit Agricole Corporate and Investment Bank	USD 100 million	3,271	-
UniCredit Bank	USD 350 million	-	11,448
Total available credit facilities		**39,251**	**11,448**

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.

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 oil 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 June 2013, the total amount of our long-term debt denominated in US dollars was RR 88,891 million, or 66.1% 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 17.7% in the three months ended 30 June 2013, is denominated in US dollars. As of 30 June 2013, the Russian rouble depreciated by approximately 7.7% 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 June 2013 would have resulted in an estimated non-cash foreign exchange loss of approximately RR 9,085 million on foreign currency denominated borrowings held at that date.

Commodity risk

Substantially all of our crude oil, stable gas condensate and LPG export sales are sold under spot market contracts, and our export prices are primarily linked to international crude oil 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 oil 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 June 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.