# OAO NOVATEK

## IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

## AS OF AND FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2006

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## REVIEW REPORT OF AUDITORS

To the shareholders and directors of OAO NOVATEK

1. We have reviewed the accompanying consolidated interim condensed balance sheet of OAO NOVATEK and its subsidiaries (the "Group") as of 30 September 2006, the related consolidated interim condensed statements of income for the three and nine months then ended, and the related consolidated interim condensed statements of cash flows and of changes in equity for the nine months then ended. This consolidated interim condensed financial information as set out on pages 4 to 20 is the responsibility of the Group's management. Our responsibility is to issue a report on this consolidated interim condensed financial information based on our review.

2. We conducted our review in accordance with the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the consolidated interim condensed financial information is free of material misstatement. A review is limited primarily to inquiries of Group personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial information has not been properly prepared, in all material respects, in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
15 November 2006

**OAO NOVATEK**
**Consolidated Condensed Interim Balance Sheets (unaudited)**
(in millions of Russian roubles)

| | Notes | 30 September 2006 | 31 December 2005 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 66,092 | 65,675 |
| Long-term loan receivables and other non-current assets | | 1,804 | 1,165 |
| **Total non-current assets** | | **67,896** | **66,840** |
| **Current assets** | | | |
| Short-term loan receivables, prepayments and other current assets | | 4,343 | 1,967 |
| Prepaid income tax | | 161 | 732 |
| Inventories | | 1,859 | 1,418 |
| Trade and other receivables | | 3,274 | 4,849 |
| Cash and cash equivalents | | 5,121 | 2,956 |
| **Total current assets** | | **14,758** | **11,922** |
| **Total assets** | | **82,654** | **78,762** |
| **LIABILITIES AND EQUITY** | | | |
| **Non-current liabilities** | | | |
| Long-term debt | 6 | 1,116 | 892 |
| Deferred income tax liability | | 8,049 | 8,396 |
| Other non-current liabilities | | 1,526 | 1,493 |
| **Total non-current liabilities** | | **10,691** | **10,781** |
| **Current liabilities** | | | |
| Short-term debt and current portion of long-term debt | 7 | 3,163 | 8,202 |
| Other taxes payable | | 591 | 923 |
| Income taxes payable | | 196 | 46 |
| Trade payables and accrued liabilities | | 2,235 | 1,261 |
| **Total current liabilities** | | **6,185** | **10,432** |
| **Total liabilities** | | **16,876** | **21,213** |
| **Equity attributable to OAO NOVATEK shareholders** | | | |
| Ordinary share capital | 8 | 393 | 393 |
| Additional paid-in capital | | 30,037 | 29,905 |
| Asset revaluation surplus | 4 | 5,617 | 5,481 |
| Retained earnings | | 29,452 | 21,489 |
| **Total equity attributable to OAO NOVATEK shareholders** | | **65,499** | **57,268** |
| **Minority interest** | | **279** | **281** |
| **Total equity** | | **65,778** | **57,549** |
| **Total liabilities and equity** | | **82,654** | **78,762** |

The accompanying notes are an integral part of this consolidated interim condensed financial information.

Approved and authorized for issue on 15 November 2006:

L. Mikhelson
General Director

M. Gyetvay
Financial Director

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

| | Notes | Three months ended 30 September: 2006 | 2005 | Nine months ended 30 September: 2006 | 2005 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Oil and gas sales | 9 | 12,569 | 9,735 | 36,094 | 27,092 |
| Sales of polymer and insulation tape | | 276 | 278 | 824 | 714 |
| Other revenues | | 73 | 113 | 170 | 282 |
| **Total revenues** | | **12,918** | **10,126** | **37,088** | **28,088** |
| Net gain on disposal of investments in oil and gas producing associates | 4 | - | - | - | 3,611 |
| Net gain on disposal of subsidiaries | 4 | - | - | - | 20 |
| Other income (loss) | | 42 | (18) | (243) | (25) |
| **Total revenues and other income** | | **12,960** | **10,108** | **36,845** | **31,694** |
| **Operating expenses** | | | | | |
| Transportation expenses | 10 | (2,685) | (1,696) | (7,875) | (4,551) |
| Taxes other than income tax | 11 | (1,529) | (1,216) | (4,648) | (3,264) |
| Depreciation, depletion and amortization | 5 | (1,048) | (943) | (3,040) | (2,607) |
| Materials, services and other | | (987) | (975) | (2,894) | (2,622) |
| General and administrative expenses | | (792) | (728) | (2,317) | (1,749) |
| Purchases of oil, gas condensate and natural gas | | (296) | (417) | (1,166) | (1,748) |
| Exploration expenses | | (180) | (19) | (407) | (301) |
| Net impairment reversal (expense) | | 21 | (65) | (73) | (110) |
| Changes in inventories | | (36) | (21) | 493 | 74 |
| **Total operating expenses** | | **(7,532)** | **(6,080)** | **(21,927)** | **(16,878)** |
| **Profit from operations** | | **5,428** | **4,028** | **14,918** | **14,816** |
| **Finance income (expense)** | | | | | |
| Interest expense | | (120) | (283) | (391) | (914) |
| Interest income | | 46 | 148 | 196 | 612 |
| Foreign exchange gain (loss), net | | 61 | 57 | 197 | (206) |
| **Total finance income (expense)** | | **(13)** | **(78)** | **2** | **(508)** |
| Share of profit of associates, net of income tax | | - | - | - | 143 |
| **Profit before income tax** | | **5,415** | **3,950** | **14,920** | **14,451** |
| **Income tax expense** | | | | | |
| Current income tax expense | | (1,709) | (1,398) | (4,613) | (4,334) |
| Net deferred income tax benefit | | 379 | 303 | 923 | 646 |
| **Total income tax expense** | 12 | **(1,330)** | **(1,095)** | **(3,690)** | **(3,688)** |
| **Profit for the period** | | **4,085** | **2,855** | **11,230** | **10,763** |
| Profit (loss) attributable to: | | | | | |
| Minority interest | | (1) | (20) | (72) | (35) |
| **Shareholders of OAO NOVATEK** | | **4,086** | **2,875** | **11,302** | **10,798** |
| Basic and diluted earnings per share (in Russian roubles) | | 1.35 | 0.95 | 3.72 | 3.56 |
| *Weighted average shares outstanding (in thousands)* | | *3,036,306* | *3,036,306* | *3,036,306* | *3,036,306* |

The accompanying notes are an integral part of this consolidated interim condensed financial information.

**OAO NOVATEK**
**Consolidated Interim Condensed Statements of Cash Flows (unaudited)**
(in millions of Russian roubles)

| | Notes | Nine months ended 30 September: 2006 | 2005 |
|---|---|---|---|
| **Profit before income tax** | | **14,920** | **14,451** |
| **Adjustments to profit before income tax:** | | | |
| Depreciation, depletion and amortization | | 3,107 | 2,631 |
| Net impairment expense | | 73 | 110 |
| Net foreign exchange loss (gain) | | (197) | 206 |
| Net loss (gain) on disposal of assets | | 183 | (3,606) |
| Share-based compensation | | 132 | 64 |
| Interest expense | | 391 | 914 |
| Interest income | | (196) | (612) |
| Share of profit of associates, net of income tax | | - | (143) |
| Net change in other non-current assets | | (197) | 489 |
| Other adjustments | | (96) | 22 |
| **Working capital changes** | | | |
| Decrease (increase) in trade and other receivables, prepayments and other current assets | | (1,102) | (1,457) |
| Decrease (increase) in inventories | | (460) | (361) |
| Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends | | 504 | 314 |
| Increase (decrease) in other taxes payable | | (309) | (483) |
| **Total effect of working capital changes** | | **(1,367)** | **(1,987)** |
| Income taxes paid | | (3,915) | (5,276) |
| **Net cash provided by operating activities** | | **12,838** | **7,263** |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | (2,760) | (3,394) |
| Acquisition of subsidiaries and minority interests, net of cash acquired | 4 | (224) | (53) |
| Proceeds from disposal of subsidiaries and associates, net of cash disposed | 4 | - | 5,565 |
| Interest paid and capitalized | | (260) | (538) |
| Loans provided | | (142) | (250) |
| Repayments of loans provided | | 39 | 8,085 |
| Dividends and non-banking interest received | | 194 | 596 |
| **Net cash (used for) provided by investing activities** | | **(3,153)** | **10,011** |
| **Cash flows from financing activities** | | | |
| Proceeds from long-term borrowings | | 2,689 | 2,057 |
| Proceeds from short-term borrowings | | 2,351 | 2,753 |
| Repayments of long-term borrowings | | (5,931) | (11,186) |
| Repayments of short-term borrowings | | (3,508) | (6,810) |
| Non-banking interest paid | | (205) | (618) |
| Dividends paid | | (2,790) | (777) |
| **Net cash used for financing activities** | | **(7,394)** | **(14,581)** |
| Net effect of exchange rate changes on cash and cash equivalents | | (126) | (17) |
| Net movements in banking mandatory cash balance in the Central Bank of Russia | | - | 16 |
| **Net increase (decrease) in cash and cash equivalents** | | **2,165** | **2,692** |
| Cash and cash equivalents at the beginning of the reporting period | | 2,956 | 3,003 |
| **Cash and cash equivalents at the end of the reporting period** | | **5,121** | **5,695** |

The accompanying notes are an integral part of this consolidated interim condensed financial information.

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

| | *Number of ordinary shares (in thousands)* | **Ordinary share capital** | **Additional paid-in capital** | **Asset revaluation surplus** | **Retained earnings** | **Equity attributable to OAO NOVATEK shareholders** | **Minority interest** | **Total equity** |
|---|---|---|---|---|---|---|---|---|
| **For the nine months ended 30 September 2005** | | | | | | | | |
| **31 December 2004** | ***3,036,306*** | **393** | **29,797** | **5,481** | **8,952** | **44,623** | **449** | **45,072** |
| Cumulative effect of adoption of IFRS 3, *Business Combinations* | - | - | - | - | 762 | 762 | - | 762 |
| **31 December 2004, as restated for adoption of IFRS 3, *Business Combinations*** | ***3,036,306*** | **393** | **29,797** | **5,481** | **9,714** | **45,385** | **449** | **45,834** |
| Dividends | - | - | - | - | (777) | (777) | - | (777) |
| Impact of disposals and acquisitions on minority interest | - | - | - | - | - | - | (133) | (133) |
| Share-based compensation funded by shareholders | - | - | 64 | - | - | 64 | - | 64 |
| Profit (loss) for the period | - | - | - | - | 10,798 | 10,798 | (35) | 10,763 |
| **30 September 2005** | ***3,036,306*** | **393** | **29,861** | **5,481** | **19,735** | **55,470** | **281** | **55,751** |
| **For the nine months ended 30 September 2006** | | | | | | | | |
| **31 December 2005** | ***3,036,306*** | **393** | **29,905** | **5,481** | **21,489** | **57,268** | **281** | **57,549** |
| Dividends | - | - | - | - | (3,258) | (3,258) | - | (3,258) |
| Acquisition of subsidiaries (Note 4) | - | - | - | 136 | - | 136 | 162 | 298 |
| Impact of acquisitions on minority interest (Note 4) | - | - | - | - | (81) | (81) | (233) | (314) |
| Impact on minority interest of additional shares subscription in subsidiaries | - | - | - | - | - | - | 141 | 141 |
| Share-based compensation funded by shareholders | - | - | 132 | - | - | 132 | - | 132 |
| Profit (loss) for the period | - | - | - | - | 11,302 | 11,302 | (72) | 11,230 |
| **30 September 2006** | ***3,036,306*** | **393** | **30,037** | **5,617** | **29,452** | **65,499** | **279** | **65,778** |

The accompanying notes are an integral part of this consolidated interim condensed financial information.

## 1 ORGANISATION AND PRINCIPAL ACTIVITIES

OAO NOVATEK (hereinafter referred to as "NOVATEK") and its subsidiaries (hereinafter jointly referred to as the "Group") is an independent oil and gas company engaged in the acquisition, exploration, development, production and processing of hydrocarbons with its core operations of oil and gas properties located and incorporated in the Yamal-Nenets Autonomous Region ("YNAO") in the Russian Federation.

The Group's natural gas sales fluctuate on a seasonal basis due mostly to Russian weather conditions, with sales peaking in the winter months of December and January and decreasing in the summer months of July and August. The Group's liquids sales comprising gas condensate, crude oil and oil products remain relatively stable from period to period.

In November and December 2005, the Group established Novatek Overseas AG and Runitek GmbH (both registered in Switzerland) to manage the administration, marketing and trading of crude oil, stable gas condensate, liquefied petroleum gas, and other oil products to international markets. Beginning January 2006, the Group commenced export sales through these subsidiaries.

In September 2006, the Group established OAO Northern Energy Company, a 60 percent owned subsidiary for the purpose of evaluating potential investment opportunities in the power generation sector.

## 2 BASIS OF PRESENTATION

The consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*. This consolidated interim condensed financial information should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2005 prepared in accordance with International Financial Reporting Standards ("IFRS"). The 31 December 2005 consolidated balance sheet data has been derived from the audited financial statements.

***Use of estimates.*** The preparation of consolidated interim condensed financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. Estimates have principally been made in respect of fair values of assets and liabilities, impairment provisions and deferred income taxes. Actual results may differ from such estimates.

***Exchange rates.*** The official rate of exchange of the Russian rouble to the US dollar ("USD") at 30 September 2006 and 31 December 2005 was 26.78 and 28.78 Russian roubles to USD 1.00, respectively. Any translation of Russian rouble amounts to US dollars or any other hard currency should not be construed as a representation that such Russian rouble amounts have been, could be, or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

Through early 2006, the Russian rouble was not a convertible currency in most countries outside of the former Soviet Union and, further, the Group was required to convert 10 percent of its hard currency proceeds into Russian roubles. During the first half of 2006, substantially all restrictions for hard currency transactions were lifted and the rights of the government of the Russian Federation and those of the Central Bank of the Russian Federation to impose such restrictions were waived.

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

## 2 BASIS OF PRESENTATION (CONTINUED)

***Reclassifications.*** The Group previously disclosed transportation expenses rechargeable to customers with no margin and associated revenue within transportation expenses and oil and gas sales, respectively. Management believes that their presentation on a net basis more appropriately reflects the substance of the transactions. Additionally, certain expenses incurred by the Group's headquarters and administrative functions of the production subsidiaries previously reported within materials, services and other have been reclassified to general and administrative expenses to more appropriately reflect their nature.

Comparative amounts for the nine months ended 30 September 2005 have been adjusted as follows.

| | As originally reported | Net-off of transportation expenses | Reclassification of administrative expenses and other | After reclassifications |
|---|---|---|---|---|
| Oil and gas sales | 27,638 | (546) | - | 27,092 |
| Materials, services and other | (2,714) | - | 92 | (2,622) |
| Purchases of oil, gas condensate and natural gas | (1,772) | - | 24 | (1,748) |
| Changes in inventories | - | - | 74 | 74 |
| Transportation expenses | (5,191) | 546 | 94 | (4,551) |
| General and administrative expenses | (1,465) | - | (284) | (1,749) |

Comparative amounts for the three months ended 30 September 2005 have been adjusted as follows.

| | As originally reported | Net-off of transportation expenses | Reclassification of administrative expenses and other | After reclassifications |
|---|---|---|---|---|
| Oil and gas sales | 9,869 | (134) | - | 9,735 |
| Materials, services and other | (1,064) | - | 89 | (975) |
| Purchases of oil, gas condensate and natural gas | (406) | - | (11) | (417) |
| Changes in inventories | - | - | (21) | (21) |
| Transportation expenses | (1,876) | 134 | 46 | (1,696) |
| General and administrative expenses | (625) | - | (103) | (728) |

At 31 December 2005, RR 106 million of transportation expenses included in inventories was reclassified to short-term loan receivables, prepayments and other current assets to conform to the current year presentation. Management believes that the current year presentation more accurately represents the Group's activities.

## 3 ACCOUNTING POLICIES

***Derivative instruments.*** The Group accounts for derivative instruments in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). All derivative instruments are recorded in the balance sheet at their fair values. Under IAS 39, in order to consider these derivative instruments as hedges for accounting purposes, management must formally designate the derivative instrument as a hedge of variability in future cash flows or fair values, normally arising from the Group's exposure to foreign currency exchange rates and oil price fluctuations. Changes in the market values of the derivative instruments treated as cash flow hedges, to the extent that they are effective hedges, are not recognized in income until the hedged item affects income. If the above designation and effectiveness criteria are not met, any unrealized gains and losses on derivative instruments are recorded in the consolidated interim condensed statements of income immediately.

## 3 ACCOUNTING POLICIES (CONTINUED)

***Commodity instruments.*** The Group entered into commodity derivative instruments with the primary objective of reducing the Group's exposure to the possibility of declining oil and gas prices. The Group has not entered into commodity derivative instruments for trading purposes.

During the nine months ended 30 September 2006, the Group entered into commodity price swap contracts for total notional volume of 900 thousand barrels. The notional volumes of the contracts were not exchanged. None of the contracts qualified for hedge treatment under IAS 39. During the nine months ended 30 September 2006, the Group settled all outstanding contracts realizing net losses of RR 83 million, of which RR 18 million was recognized during the three months ended 30 September 2006. The results of the commodity price swap contracts were recorded within other income (loss) in the consolidated interim condensed statement of income.

***Foreign currency instruments.*** Foreign currency derivative instruments are utilized to manage the risk exposures associated with fluctuations on certain firm commitments for sales and purchases, debt instruments and other transactions that are denominated in currencies other than the Russian rouble, and certain non-Russian rouble assets and liabilities.

During the nine months ended 30 September 2006, the Group entered into short-term foreign currency forward contracts to manage its exposure to foreign currency fluctuations on debt repayment in US dollars. Neither of these contracts qualified for hedge treatment under IAS 39. Under the foreign currency forward contracts, the Group entered into a firm commitment to purchase USD 50 million in exchange to sell Russian roubles in the aggregate amount of RR 1,402 million at expiry. Upon the settlement of the contracts, the Group recognized an aggregate loss of RR 52 million recorded within foreign exchange gain (loss) in the consolidated interim condensed statement of income. During the three months ended 30 September 2006, the Group did not use foreign currency instruments, nor did the Group have any open positions at 30 September 2006.

***Acquisition of minority interests.*** For accounting of acquisitions of non-controlling minority stakes, the difference between the purchase consideration and the carrying amount of minority interests acquired is recognized within retained earnings.

Except as discussed in Note 17, the principal accounting policies followed by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2005.

## 4 ACQUISITIONS AND DISPOSALS

In May 2006, the Group acquired a controlling interest in OOO NOVASIB ("NOVASIB"), which holds the exploration license for the Raduzhniy license area located in YNAO for RR 54 million. After the acquisition, NOVASIB became a wholly-owned subsidiary of the Group. A member of the Group's Board of Directors also serves as general director of the seller.

In May 2006, the Group acquired a further 10 percent participation interest in OOO YARGEO ("YARGEO"), which holds the exploration license for the Yarudeyskiy license area located in YNAO for RR 33 million. The acquisition of this stake raised the Group's interest in YARGEO to 51 percent. A member of the Group's Board of Directors also serves as general director of the seller.

The revaluation of the 41 percent participation interest in YARGEO held by the Group prior to acquisition was recorded as an increase in asset revaluation surplus of RR 136 million in the consolidated interim condensed statement of changes in equity.

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

## 4 ACQUISITIONS AND DISPOSALS (CONTINUED)

Below is a summary of management's preliminary assessments of the fair values of the assets, liabilities and contingent liabilities of the acquired companies. Management believes that the purchase prices for NOVASIB and YARGEO approximate the fair value of unproved oil and gas properties acquired. Such unproved oil and gas properties are included within property, plant and equipment in the consolidated interim condensed balance sheet. No goodwill was recognized in the acquisitions. Carrying values prior to acquisition are not available as the acquirees did not prepare financial information in accordance with IFRS prior to the acquisition. The financial and operational activities of the acquirees were not material to the Group's results of operations for either the three or the nine months ended 30 September 2006.

| | Fair values at the acquisition date |
|---|---|
| Current assets | 22 |
| Oil and gas properties | 741 |
| Other non-current assets | 70 |
| Current liabilities | (269) |
| Non-current liabilities | (179) |

During the nine months ended 30 September 2006, the Group increased its interest in the total share capital of OAO Purneftegasgeologia, a Group subsidiary, by 14.6 percent to 95.2 percent through purchases from third parties and from the Group's participation in an additional share emission. The difference between total purchase consideration of RR 314 million and the carrying amount of minority interest acquired totaling RR 233 million has been recorded within retained earnings.

In May 2005, the Group disposed of its equity stake in ZAO NOVA Bank, a Group subsidiary, to ZAO Levit, a Group shareholder, for RR 156 million, recognizing a gain on the sale of RR 12 million, net of associated income tax of RR 8 million.

In June 2005, the Group sold its 66 percent participation interest in OOO Geoilbent, a Group associate, to OAO LUKOIL and its subsidiary for RR 5,108 million, recognizing a gain on sale of RR 2,234 million, net of associated income tax of RR 793 million.

In June 2005, the Group sold its 34 percent interest in OAO Selkupneftegas, a Group associate, to OAO NK Rosneft for RR 573 million, recognizing a gain on sale of RR 436 million, net of associated income tax of RR 137 million.

In June 2005, the Group disposed of its 25.1 percent interest in OAO Tambeyneftegas, a Group associate, to OOO Gazprombank-Invest for RR 120 million, recognizing a gain on sale of RR 4 million, net of associated income tax of RR 7 million.

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

## 5 PROPERTY, PLANT AND EQUIPMENT

| | Operating assets | Assets under construction | Total |
|---|---|---|---|
| Cost | 65,823 | 4,174 | 69,997 |
| Accumulated depreciation, depletion and amortization | (4,322) | - | (4,322) |
| **Net book value at 31 December 2005** | **61,501** | **4,174** | **65,675** |
| Additions | 1,012 | 3,049 | 4,061 |
| Transfers | 1,075 | (1,075) | - |
| Disposals, net | (268) | (269) | (537) |
| Depreciation, depletion and amortization | (3,107) | - | (3,107) |
| Cost | 67,536 | 5,879 | 73,415 |
| Accumulated depreciation, depletion and amortization | (7,323) | - | (7,323) |
| **Net book value at 30 September 2006** | **60,213** | **5,879** | **66,092** |

| | Operating assets | Assets under construction | Total |
|---|---|---|---|
| Cost | 54,867 | 8,728 | 63,595 |
| Accumulated depreciation, depletion and amortization | (912) | - | (912) |
| **Net book value at 31 December 2004** | **53,955** | **8,728** | **62,683** |
| Additions | 794 | 3,528 | 4,322 |
| Transfers | 7,918 | (7,918) | - |
| Disposals, net | (64) | (17) | (81) |
| Depreciation, depletion and amortization | (2,631) | - | (2,631) |
| Cost | 63,504 | 4,321 | 67,825 |
| Accumulated depreciation, depletion and amortization | (3,532) | - | (3,532) |
| **Net book value at 30 September 2005** | **59,972** | **4,321** | **64,293** |

Included in additions to property, plant and equipment for the nine months ended 30 September 2006 and 2005 is capitalized interest of RR 260 million and RR 538 million, respectively.

## 6 LONG -TERM DEBT

| | 30 September 2006 | 31 December 2005 |
|---|---|---|
| US dollar denominated loans | 2,680 | 6,116 |
| Russian rouble denominated bonds | 1,000 | 1,000 |
| Euro denominated loans | 599 | 786 |
| Total | 4,279 | 7,902 |
| Less: current portion of long-term debt | (3,163) | (7,010) |
| **Total long-term debt** | **1,116** | **892** |

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

## 6 LONG -TERM DEBT (CONTINUED)

At 30 September 2006 and 31 December 2005, long-term debt by facility comprised the following:

| | 30 September 2006 | 31 December 2005 |
|---|---|---|
| BNP PARIBAS Bank | 2,455 | - |
| Russian rouble denominated bonds | 1,000 | 1,000 |
| C.R.R. B.V. | - | 5,757 |
| Other | 824 | 1,145 |
| Total | 4,279 | 7,902 |
| Less: current portion of long-term debt | (3,163) | (7,010) |
| **Total long-term debt** | **1,116** | **892** |

***BNP PARIBAS Bank.*** In May 2006, the Group entered into a USD 100 million loan agreement with BNP PARIBAS Bank, of which RR 2,455 million (USD 92 million) was outstanding at 30 September 2006. The loan agreement bears annual interest of LIBOR plus 1 percent (6.3 percent at 30 September 2006), and is repayable monthly in equal parts through March 2008.

***C.R.R. B.V.*** In June 2006, the Group repaid its outstanding credit-linked notes in full and as scheduled.

Scheduled maturities of long-term debt at 30 September 2006 were as follows:

| Twelve months ended 30 September: | |
|---|---|
| 2008 | 1,005 |
| 2009 | 110 |
| 2010 | 1 |
| **Total long-term debt** | **1,116** |

## 7 SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

| | 30 September 2006 | 31 December 2005 |
|---|---|---|
| US dollar denominated loans | - | 1,192 |
| Add: current portion of long-term debt | 3,163 | 7,010 |
| **Total short-term debt and current portion of long-term debt** | **3,163** | **8,202** |

During the nine months ended 30 September 2006, the Group repaid all of its outstanding short-term debt and opened a line of credit facility with Bayerische Hypo- und Vereinsbank AG and UBS AG with available borrowing capacity of USD 50 million and USD 100 million, respectively, on either fixed or variable interest rates subject to the specific type of credit facility.

***US dollar denominated loans.*** Short-term US dollar denominated loans had a weighted average annual interest rate of 7.8 percent at 31 December 2005.

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

## 8 SHAREHOLDERS' EQUITY

***Ordinary share capital.*** In June 2006, the Annual General Meeting of Shareholders of NOVATEK approved a 1000:1 share split of the Company's ordinary shares. In July 2006, the Federal Financial Markets Service of Russia registered the Prospectus for the issue of securities related to the share split of its ordinary shares. As a result of the share split, each ordinary share has a nominal value of ten Russian kopeks per share. NOVATEK's Global Depository Receipts ("GDR") ratio has been changed automatically from one hundred GDRs representing one ordinary share to one GDR representing ten ordinary shares. This share split has been given retroactive effect in this consolidated interim condensed financial information.

***Dividends.*** In September 2006, the Group's shareholders approved interim dividends for 2006 of RR 1,670 million (RR 0.55 per share of ordinary stock or 5.50 per GDR). At 30 September 2006, RR 501 million were still payable.

## 9 OIL AND GAS SALES

| | Three months ended 30 September: | | Nine months ended 30 September: | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Natural gas | 6,471 | 5,482 | 20,813 | 16,874 |
| Stable gas condensate | 4,762 | 2,629 | 11,143 | 3,203 |
| Liquefied petroleum gas | 842 | 524 | 2,391 | 638 |
| Crude oil | 467 | 488 | 1,359 | 3,667 |
| Oil products | 27 | 612 | 388 | 2,710 |
| **Total oil and gas sales** | **12,569** | **9,735** | **36,094** | **27,092** |

Stable gas condensate and liquefied petroleum gas sales comprise the output from the Group's Purovsky Gas Condensate Plant, which commenced operations in June 2005.

## 10 TRANSPORTATION EXPENSES

| | Three months ended 30 September: | | Nine months ended 30 September: | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Natural gas transportation to customers | 1,564 | 1,177 | 5,001 | 3,562 |
| Stable gas condensate and liquefied petroleum gas transportation by rail | 608 | 381 | 1,638 | 470 |
| Stable gas condensate transportation by tankers | 475 | - | 1,133 | - |
| Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines | 19 | 28 | 58 | 141 |
| Crude oil transportation to customers | 14 | 37 | 32 | 127 |
| Insurance expense | 3 | 65 | 4 | 231 |
| Other transportation costs | 2 | 8 | 9 | 20 |
| **Total transportation expenses** | **2,685** | **1,696** | **7,875** | **4,551** |

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

## 11 TAXES OTHER THAN INCOME TAX

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

| | Three months ended 30 September: | | Nine months ended 30 September: | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Unified natural resources production tax | 1,401 | 1,080 | 4,205 | 3,284 |
| Property tax | 108 | 70 | 318 | 225 |
| Excise tax | - | 20 | 64 | 102 |
| Other taxes | 20 | 46 | 61 | 80 |
| Subtotal | 1,529 | 1,216 | 4,648 | 3,691 |
| Less: reversal of provision for additional taxes | - | - | - | (427) |
| **Total taxes other than income tax** | **1,529** | **1,216** | **4,648** | **3,264** |

During the three months ended 30 September 2006, the Group did not produce products subject to excise tax.

## 12 INCOME TAX

***Effective income tax rate.*** The Group's Russian statutory income tax rate in 2006 and 2005 is 24.0 percent. For the nine months ended 30 September 2006 and 2005, the consolidated Group's effective income tax rate was 24.7 percent and 25.8 percent, respectively. For the three months ended 30 September 2006 and 2005, the consolidated Group's effective income tax rate was 24.6 percent and 27.7 percent, respectively.

## 13 CONTINGENCIES AND COMMITMENTS

***Operating environment.*** The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not practicably convertible in most countries outside of the Russian Federation, and relatively high inflation. The tax and customs legislation within the Russian Federation is subject to varying interpretations and changes that can occur frequently.

While there have been significant improvements in the macro-economic environment of the Russian Federation, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

***Commitments.*** At 30 September 2006, the Group entered into capital expenditures commitments aggregating approximately RR 381 million for the continuation of phase two construction of the Purovsky Gas Condensate Plant through the remainder of 2006.

***Taxation.*** Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 30 September 2006, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued.

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

## 13 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

The Group's oil and gas fields and license areas are situated on land located in the Yamal-Nenets Autonomous Region. Licenses are issued by the Federal Agency for the Use of Natural Resources under the Ministry of Natural Resources and the Group pays unified natural resources production tax to produce oil and gas from these fields and contributions for exploration of license areas. The principal licenses of the Group and their expiry dates are:

| Field | License holder | License expiry date |
|---|---|---|
| Yurkharovskoye | Yurkharovneftegas | 2034 |
| Khancheyskoye | Tarkosaleneftegas | 2019 |
| East-Tarkosalinskoye | Tarkosaleneftegas | 2018 |
| Sterkhovoye (within Olympinsky license area) | PurNovaGas (wholly-owned subsidiary of Purneftegasgeologia) | 2026 |
| Termokarstovoye | Terneftegas | 2021 |

Management believes the Group has the right to extend its licenses beyond the initial expiration date under the existing legislation and intends to exercise this right on all of its fields. In February 2005, the Group was successful in extending the license for the Yurkharovskoye field from 2020 to 2034. The Group has plans to submit the appropriate application with the respective Agency for the Use of Natural Resources for the extension of the terms of the licenses for East Tarkosalinskoye and Khancheyskoye fields during 2007.

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

***Legal contingencies.*** During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the consolidated interim condensed financial information.

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

## 14 RELATED PARTY TRANSACTIONS

During 2005, the Group had significant activities with companies related to its shareholders in connection with sales of crude oil, stable gas condensate and liquefied petroleum gas and sales of equity securities. The Group's reported results of operations, financial position and cash flows may have been different had such transactions been carried out amongst unrelated parties. During 2006, no such sales activities have occurred. However, certain other related party transactions have continued as outlined below. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties.

***Purchases and sales of crude oil:***

| | Three months ended 30 September: | | | |
|---|---|---|---|---|
| | 2006 | | 2005 | |
| **Name of related party** | Sales volumes (thousands of tons) | Russian roubles (millions) | Sales volumes (thousands of tons) | Russian roubles (millions) |
| Sales to Kerden Trading Limited | - | - | 22 | 157 |

| | Nine months ended 30 September: | | | |
|---|---|---|---|---|
| | 2006 | | 2005 | |
| **Name of related party** | Sales volumes (thousands of tons) | Russian roubles (millions) | Sales volumes (thousands of tons) | Russian roubles (millions) |
| Sales to Kerden Trading Limited | - | - | 97 | 616 |
| Sales to TNG Energy | - | - | 86 | 492 |
| Purchases from Geoilbent (until June 2005) | - | - | 219 | 562 |

***Sales of stable gas condensate.*** During the three and nine months ended 30 September 2005, the Group sold 307 thousand tons and 394 thousand tons of stable gas condensate to Kerden Trading Limited for RR 2,619 million and RR 3,190 million, respectively. Beginning January 2006, the Group commenced export sales through its newly established foreign subsidiaries (see Note 1).

***Balances with related parties:***

| | 30 September 2006 | 31 December 2005 |
|---|---|---|
| Prepayments and advances (for construction) | 164 | 95 |
| Long-term loan receivables and other non-current assets | 167 | 159 |
| Short-term loan receivables, prepayments and other current assets | 38 | 180 |
| Trade and other receivables | 162 | 1,657 |
| Cash and cash equivalents | 1,781 | 179 |
| Trade payables | 168 | 49 |

Cash and cash equivalents represent cash accounts and deposits held in OAO "Pervyi Ob'edinennyi Bank" (First United Bank), the successor of NOVA Bank after its merger with OAO KB "Samarskyi kredit" (Samara Credit) in January 2006.

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

## 14 RELATED PARTY TRANSACTIONS (CONTINUED)

***Other transactions with related parties:***

| | Three months ended 30 September: | | Nine months ended 30 September: | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Sales of inventory and oil products | 10 | 99 | 54 | 117 |
| Purchases of construction services | 142 | 154 | 656 | 530 |
| Materials, services and other | 62 | 43 | 176 | 111 |
| Interest income | 4 | 68 | 17 | 460 |
| Interest expense | - | - | - | 64 |

Other related party transactions are disclosed in Note 4.

## 15 SEGMENT INFORMATION

The Group operates principally in the oil and gas industry in the Russian Federation. The Group evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Group as a whole. However, the Group's activities are considered by management to comprise the following business segments:

- Exploration and production – acquisitions, exploration, development, production, processing, marketing and transportation of oil and gas;
- Other – other activities, including head office services, certain general and administrative expenses, polymer and tape insulation and banking (through May 2005, see Note 4).

Segment information for the three months ended 30 September 2006 was as follows:

| | **Exploration and production** | **Other** | **Total** |
|---|---|---|---|
| **Segment revenues** | | | |
| External revenues and other income | 12,579 | 381 | 12,960 |
| Inter-segment sales | 2 | - | 2 |
| **Total segment revenues** | **12,581** | **381** | **12,962** |
| **Segment results** | **6,147** | **73** | **6,220** |

Segment information for the nine months ended 30 September 2006 was as follows:

| | **Exploration and production** | **Other** | **Total** |
|---|---|---|---|
| **Segment revenues** | | | |
| External revenues and other income | 35,847 | 997 | 36,844 |
| Inter-segment sales | 7 | - | 7 |
| **Total segment revenues** | **35,854** | **997** | **36,851** |
| **Segment results** | **17,140** | **95** | **17,235** |

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

## 15 SEGMENT INFORMATION (CONTINUED)

Segment information for the three months ended 30 September 2005 was as follows:

| | Exploration and production | Other | Total |
|---|---|---|---|
| **Segment revenues** | | | |
| External revenues and other income | 9,735 | 373 | 10,108 |
| Inter-segment sales | 9 | - | 9 |
| **Total segment revenues** | **9,744** | **373** | **10,117** |
| **Segment results** | **4,637** | **116** | **4,753** |

Segment information for the nine months ended 30 September 2005 was as follows:

| | Exploration and production | Other | Total |
|---|---|---|---|
| **Segment revenues** | | | |
| External revenues and other income | 27,121 | 942 | 28,063 |
| Inter-segment sales | 13 | - | 13 |
| **Total segment revenues** | **27,134** | **942** | **28,076** |
| **Segment results** | **12,659** | **280** | **12,939** |

All of the Group’s production and processing assets are located in the Russian Federation.

## 16 SUBSEQUENT EVENTS

In October 2006, the Group established OOO “NOVATEK-Refuelling complexes”, a wholly-owned subsidiary, to manage the wholesale and retail trading of liquefied petroleum gas and other oil products. The Group also established OOO “NOVATEK North-West”, a wholly-owned subsidiary, to manage the administrative and technical commercial activities relating to the export of stable gas condensate.

## 17 NEW ACCOUNTING DEVELOPMENTS

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the Group has not early adopted.

These new standards and interpretations are not expected to significantly affect the Group's financial statements when adopted: IFRS 7, *Financial Instruments: Disclosures* and a Complementary Amendment to IAS 1 *Presentation of Financial Statements - Capital Disclosures* (effective from 1 January 2007); IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for annual periods beginning on or after 1 March 2006); IFRIC 8, *Scope of IFRS 2* (effective for annual periods beginning on or after 1 May 2006); and IFRIC 9 *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 September 2006); IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006); and IFRIC 11, *IFRS 2: Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007).

New or amended standards and interpretations effective for the Group from 1 January 2006 are discussed below. None of the adoptions had a material impact on the Group's financial position or results of operations.

IFRIC 4, *Determining whether an Arrangement contains a Lease* ("IFRIC 4"). IFRIC 4 provides guidance on how to determine whether an arrangement contains a lease as defined in IAS 17, *Leases*, on when the assessment or reassessment of an arrangement should be made and on how lease payments should be separated from any other elements in the arrangement.

IAS 39 (Amendment), *The Fair Value Option*; IAS 39 (Amendment), *Cash Flow Hedge Accounting of Forecast Intragroup Transactions*; IAS 39 (Amendment), *Financial Guarantee Contracts*. The amendments to IAS 39 clarified the use of the fair value through profit or loss category of financial instruments and clarified the accounting for financial guarantees as either insurance contracts or financial instruments.

IAS 21 (Amendment), *Net Investment in a Foreign Operation* (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Previously, such exchange differences were required to be recognized in consolidated profit or loss. The amendment also extends the definition of 'net investment in a foreign operation' to include loans between sister companies.

IAS 19 (Amendment), *Employee Benefits.* The amendment to IAS 19 introduces an additional recognition option for actuarial gains and losses in post-employment defined benefit plans.

IFRS 1 (Amendment), *First-time Adoption of International Financial Reporting Standards* and IFRS 6 (Amendment), *Exploration for and Evaluation of Mineral Resources*. The amendments to IFRS 1 and IFRS 6 provided limited relief to first-time adopters of IFRS with respect to the provisions of IFRS 6.

IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* ("IFRIC 5"). IFRIC 5 provides guidance on the accounting for interests in decommission funds.

IFRIC 6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* ("IFRIC 6"). IFRIC 6 addresses the accounting for liabilities under an EU Directive on waste management for sales of household equipment.

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