

**OAO NOVATEK**

**IFRS CONSOLIDATED INTERIM CONDENSED  
FINANCIAL INFORMATION (UNAUDITED)**

**AS OF AND FOR THE THREE  
MONTHS ENDED 31 MARCH 2007**

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## REVIEW REPORT OF AUDITOR'S

To the shareholders and Board of Directors of OAO NOVATEK

### *Introduction*

1. We have reviewed the accompanying consolidated interim condensed balance sheet of OAO NOVATEK and its subsidiaries (the "Group") as of 31 March 2007, the related consolidated interim condensed statements of income, of cash flows and of changes in equity for the three months then ended. Management is responsible for the preparation and presentation of this consolidated interim condensed financial information as set out on pages 4 to 18 in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

### *Scope of Review*

2. We conducted our review in accordance with the International Standard on Review Engagements No. 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation  
25 May 2007

**OAD NOVATEK**  
**Consolidated Interim Condensed Balance Sheet (unaudited)**  
(in millions of Russian roubles)

	Notes	31 March 2007	31 December 2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	69,507	66,734
Other non-current assets		1,456	1,774
<b>Total non-current assets</b>		<b>70,963</b>	<b>68,508</b>
<b>Current assets</b>			
Inventories		1,854	2,146
Current income tax prepayments		1,168	940
Trade and other receivables		3,624	2,877
Prepayments and other current assets		3,172	4,187
Cash and cash equivalents	5	9,180	5,668
<b>Total current assets</b>		<b>18,998</b>	<b>15,818</b>
<b>Total assets</b>		<b>89,961</b>	<b>84,326</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Non-current liabilities</b>			
Long-term debt	6	242	543
Deferred income tax liability		8,283	8,412
Other non-current liabilities		1,611	1,597
<b>Total non-current liabilities</b>		<b>10,136</b>	<b>10,552</b>
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	8	3,201	2,565
Trade payables and accrued liabilities		2,636	1,801
Current income tax payable		176	48
Other taxes payable		750	684
<b>Total current liabilities</b>		<b>6,763</b>	<b>5,098</b>
<b>Total liabilities</b>		<b>16,899</b>	<b>15,650</b>
<b>Equity attributable to OAO NOVATEK shareholders</b>			
Ordinary share capital		393	393
Additional paid-in capital		30,125	30,081
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		36,576	32,229
<b>Total equity attributable to OAO NOVATEK shareholders</b>		<b>72,711</b>	<b>68,320</b>
<b>Minority interest</b>		<b>351</b>	<b>356</b>
<b>Total equity</b>		<b>73,062</b>	<b>68,676</b>
<b>Total liabilities and equity</b>		<b>89,961</b>	<b>84,326</b>

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

Approved for issue and signed on behalf of the Board of Directors on 25 May 2007:



L. Mikhelsof  
General Director



M. Gyetvay  
Financial Director

**OAO NOVATEK****Consolidated Interim Condensed Statement of Income (unaudited)**

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

	Notes	Three months ended 31 March:	
		2007	2006
<b>Revenues</b>			
Oil and gas sales	9	14,871	11,380
Sales of polymer and insulation tape		309	257
Other revenues		65	41
<b>Total revenues</b>		<b>15,245</b>	<b>11,678</b>
Other income (loss)		16	(113)
<b>Total revenues and other income</b>		<b>15,261</b>	<b>11,565</b>
<b>Operating expenses</b>			
Transportation expenses	10	(4,079)	(2,655)
Taxes other than income tax	11	(1,609)	(1,553)
Materials, services and other		(1,069)	(964)
Depreciation, depletion and amortization		(1,018)	(996)
General and administrative expenses		(713)	(665)
Purchases of oil, gas condensate and natural gas		(563)	(409)
Exploration expenses		(202)	(112)
Net impairment expense		(37)	(76)
Changes in inventories		(275)	646
<b>Total operating expenses</b>		<b>(9,565)</b>	<b>(6,784)</b>
<b>Profit from operations</b>		<b>5,696</b>	<b>4,781</b>
<b>Finance income (expense)</b>			
Interest expense		(78)	(137)
Interest income		94	63
Foreign exchange gain (loss)		7	167
<b>Total finance income (expense)</b>		<b>23</b>	<b>93</b>
<b>Profit before income tax</b>		<b>5,719</b>	<b>4,874</b>
<b>Income tax expense</b>			
Current income tax expense		(1,539)	(1,463)
Net deferred income tax benefit		162	291
<b>Total income tax expense</b>	12	<b>(1,377)</b>	<b>(1,172)</b>
<b>Profit for the period</b>		<b>4,342</b>	<b>3,702</b>
Profit (loss) attributable to:			
Minority interest		(5)	(15)
<b>Shareholders of OAO NOVATEK</b>		<b>4,347</b>	<b>3,717</b>
Basic and diluted earnings per share (in Russian roubles)		1.43	1.22
<i>Weighted average shares outstanding (in thousands)</i>		<i>3,036,306</i>	<i>3,036,306</i>

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

**OAO NOVATEK**
**Consolidated Interim Condensed Statement of Cash Flows (unaudited)**

(in millions of Russian roubles)

	Notes	Three months ended 31 March:	
		2007	2006
<b>Profit before income tax</b>		<b>5,719</b>	<b>4,874</b>
<b>Adjustments to profit before income tax:</b>			
Depreciation, depletion and amortization		1,029	1,024
Net impairment expense		37	76
Foreign exchange loss (gain)		(7)	(167)
Net loss (gain) on disposal of assets		(7)	79
Share-based compensation	15	44	44
Interest expense		78	137
Interest income		(94)	(63)
Net change in other non-current assets		53	(44)
Other adjustments		(26)	(37)
<b>Working capital changes</b>			
Decrease (increase) in trade and other receivables, prepayments and other current assets		240	541
Decrease (increase) in inventories		263	(546)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends		837	942
Increase (decrease) in other taxes payable		66	(99)
<b>Total effect of working capital changes</b>		<b>1,406</b>	<b>838</b>
Income taxes paid		(1,639)	(1,386)
<b>Net cash provided by operating activities</b>		<b>6,593</b>	<b>5,375</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(3,466)	(1,069)
Interest paid and capitalized		(34)	(60)
Loans provided		-	(58)
Repayments of loans provided		-	38
Dividends and interest received		93	40
<b>Net cash (used for) provided by investing activities</b>		<b>(3,407)</b>	<b>(1,109)</b>
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings		408	1,177
Repayments of long-term borrowings		(528)	(101)
Repayments of short-term borrowings		-	(2,323)
Interest paid		(42)	-
Dividends paid		-	(32)
<b>Net cash (used for) provided by financing activities</b>		<b>(162)</b>	<b>(1,279)</b>
Net effect of exchange rate changes on cash, cash equivalents and bank overdrafts		-	(70)
<b>Net increase (decrease) in cash, cash equivalents and bank overdrafts</b>		<b>3,024</b>	<b>2,917</b>
Cash and cash equivalents at the beginning of the reporting period		5,668	2,956
<b>Cash, cash equivalents and bank overdrafts at the end of the reporting period</b>	5	<b>8,692</b>	<b>5,873</b>

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

**ОАО NOVATEK****Consolidated Interim Condensed Statement of Changes in Equity (unaudited)**

(in millions of Russian roubles, except for number of shares)

	<i>Number of ordinary shares (in thousands)</i>	<b>Ordinary share capital</b>	<b>Additional paid-in capital</b>	<b>Asset revaluation surplus on acquisitions</b>	<b>Retained earnings</b>	<b>Equity attributable to ОАО NOVATEK shareholders</b>	<b>Minority interest</b>	<b>Total equity</b>
<b><i>For the three months ended 31 March 2006</i></b>								
<b>31 December 2005</b>	<b>3,036,306</b>	<b>393</b>	<b>29,905</b>	<b>5,481</b>	<b>21,489</b>	<b>57,268</b>	<b>281</b>	<b>57,549</b>
Share-based compensation funded by shareholders	-	-	44	-	-	44	-	44
Profit (loss) for the period	-	-	-	-	3,717	3,717	(15)	3,702
<b>31 March 2006</b>	<b>3,036,306</b>	<b>393</b>	<b>29,949</b>	<b>5,481</b>	<b>25,206</b>	<b>61,029</b>	<b>266</b>	<b>61,295</b>
<b><i>For the three months ended 31 March 2007</i></b>								
<b>31 December 2006</b>	<b>3,036,306</b>	<b>393</b>	<b>30,081</b>	<b>5,617</b>	<b>32,229</b>	<b>68,320</b>	<b>356</b>	<b>68,676</b>
Share-based compensation funded by shareholders	-	-	44	-	-	44	-	44
Profit (loss) for the period	-	-	-	-	4,347	4,347	(5)	4,342
<b>31 March 2007</b>	<b>3,036,306</b>	<b>393</b>	<b>30,125</b>	<b>5,617</b>	<b>36,576</b>	<b>72,711</b>	<b>351</b>	<b>73,062</b>

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

## ОАО NOVATEK

### Selected Notes to the Consolidated Interim Condensed Financial Information (unaudited)

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

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## 1 ORGANIZATION AND PRINCIPAL ACTIVITIES

ОАО 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 sells its natural gas on the Russian domestic market at unregulated market prices, whereas the majority of natural gas sold on the domestic market is sold at prices regulated by the Federal Tariff Service, a governmental agency. The Group’s stable gas condensate and crude oil sales are sold on both the Russian domestic and international markets, and are subject to periodic fluctuations in benchmark crude oil prices. Additionally, 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 volumes comprising stable gas condensate, crude oil and oil products remain relatively stable from period to period.

## 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 2006 prepared in accordance with International Financial Reporting Standards (“IFRS”). The 31 December 2006 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 consolidated interim condensed financial information 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 to fair values of assets and liabilities, oil and gas reserves, deferred income taxes, and pension obligations (Note 7).

Management reviews these estimates and assumptions on a continuous basis, by reference to past experiences and other factors considered as reasonable which form the basis for assessing the book values of assets and liabilities. Adjustments to accounting estimates are recognized in the period in which the estimate is revised, if the change affects only that period or in the period, of the revision and subsequent periods, if both periods are affected. Actual results may differ from such estimates if different assumptions or circumstances apply; however, management considers that the effect of any changes in these estimates would not be significant.

**Exchange rates.** The official rate of exchange of the Russian rouble to the US dollar (“USD”) at 31 March 2007 and 31 December 2006 was 26.01 and 26.33 Russian roubles to 1.00 USD, respectively. The official rate of exchange of the Russian rouble to the Euro at both 31 March 2007 and 31 December 2006 was 34.70 Russian roubles to 1.00 Euro. Any re-measurement 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.

**Reclassifications.** The following reclassifications have been made to the comparative figures to conform to the current period presentation. Commencing January 2007, liquefied petroleum gas sales and oil products sales are presented gross of rail transportation costs. Accordingly, liquefied petroleum gas sales and oil products sales for the three months ended 31 March 2006 were increased by RR 52 million and RR 9 million, respectively. Correspondingly, stable gas condensate, liquefied petroleum gas, and oil products transportation by rail were increased by RR 61 million.

## 3 ACCOUNTING POLICIES

The principal accounting policies and methods of computation followed by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2006, except for the matters discussed below.

**OAO NOVATEK****Selected Notes to the Consolidated Interim Condensed Financial Information (unaudited)**

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

**3 ACCOUNTING POLICIES (CONTINUED)**

**Adoption of IFRS 7.** Effective 1 January 2007, the Group adopted IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7"). IFRS 7 introduces new requirements and guidelines regarding the disclosures of financial instruments. The Group will disclose in its annual consolidated financial statements the complete information required by IFRS 7. The adoption of IFRS 7 does not have any impact on the classification and valuation of the Group's financial instruments.

**Pension obligations.** The Group operates a post-employment defined benefit plan based on employees' years of service and average salary.

The liability recognized in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the balance sheet date, together with adjustments for unrecognized past service costs. The present value of the pension obligations are determined by discounting the estimated future cash outflows. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The discount rate was determined by reference to Russian rouble denominated bonds issued by the Government of the Russian Federation chosen to match the duration of the post-employment benefit obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded to the statement of income in the period in which they arise. Past-service costs are amortized on a straight-line basis over the vesting period.

**4 PROPERTY, PLANT AND EQUIPMENT**

<i>For the three months ended 31 March 2006</i>	Operating assets	Assets under construction	Total
Cost	65,823	4,174	69,997
Accumulated depreciation, depletion and amortization	(4,322)	-	(4,322)
<b>Net book value at 31 December 2005</b>	<b>61,501</b>	<b>4,174</b>	<b>65,675</b>
Additions	118	1,068	1,186
Transfers	242	(242)	-
Disposals, net	(95)	(2)	(97)
Depreciation, depletion and amortization	(1,024)	-	(1,024)
Cost	66,074	4,998	71,072
Accumulated depreciation, depletion and amortization	(5,332)	-	(5,332)
<b>Net book value at 31 March 2006</b>	<b>60,742</b>	<b>4,998</b>	<b>65,740</b>
	Operating assets	Assets under construction	Total
<i>For the three months ended 31 March 2007</i>			
Cost	70,198	4,517	74,715
Accumulated depreciation, depletion and amortization	(7,981)	-	(7,981)
<b>Net book value at 31 December 2006</b>	<b>62,217</b>	<b>4,517</b>	<b>66,734</b>
Additions	1,770	2,041	3,811
Transfers	315	(315)	-
Disposals, net	(6)	(3)	(9)
Depreciation, depletion and amortization	(1,029)	-	(1,029)
Cost	72,267	6,240	78,507
Accumulated depreciation, depletion and amortization	(9,000)	-	(9,000)
<b>Net book value at 31 March 2007</b>	<b>63,267</b>	<b>6,240</b>	<b>69,507</b>

**OAO NOVATEK****Selected Notes to the Consolidated Interim Condensed Financial Information (unaudited)**

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

**4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Included in additions to property, plant and equipment for the three months ended 31 March 2007 and 2006 is capitalized interest of RR 34 million and RR 87 million, respectively.

**5 CASH AND CASH EQUIVALENTS**

	<u>31 March 2007</u>	<u>31 December 2006</u>
Cash and cash equivalents per consolidated balance sheet	9,180	5,668
Bank overdrafts (Note 8)	(488)	-
<b>Cash, cash equivalents and bank overdrafts per consolidated statement of cash flows</b>	<b>8,692</b>	<b>5,668</b>

**6 LONG -TERM DEBT**

	<u>31 March 2007</u>	<u>31 December 2006</u>
US dollar denominated loans	1,662	2,153
Euro denominated loans	448	507
Total	2,110	2,660
Less: current portion of long-term debt	(1,868)	(2,117)
<b>Total long-term debt</b>	<b>242</b>	<b>543</b>

At 31 March 2007 and 31 December 2006, long-term debt by facility comprised the following:

	<u>31 March 2007</u>	<u>31 December 2006</u>
BNP PARIBAS Bank	1,517	1,975
Other	593	685
Total	2,110	2,660
Less: current portion of long-term debt	(1,868)	(2,117)
<b>Total long-term debt</b>	<b>242</b>	<b>543</b>

**BNP PARIBAS Bank.** In May 2006, the Group entered into a USD 100 million loan agreement with BNP PARIBAS Bank. The loan bears annual interest of LIBOR plus 1 percent (6.3 percent at both 31 March 2007 and 31 December 2006), and is repayable monthly in equal parts through March 2008. The carrying value of the loan approximates its fair value.

Scheduled maturities of long-term debt at 31 March 2007 were as follows:

<b>Twelve months ended 31 March:</b>	
2008	240
2009	2
<b>Total long-term debt</b>	<b>242</b>

**OAO NOVATEK****Selected Notes to the Consolidated Interim Condensed Financial Information (unaudited)**

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

**7 PENSION OBLIGATIONS**

In February 2007, the Group announced the implementation of a post-employment benefit program. Under the pension program, employees who are employed by the Group for more than three years and retire from the Group on or after the statutory retirement age will receive monthly payments from NOVATEK for life unless they are actively employed. The payment amounts depend on the average salary, duration and location of employment. The program is effective from 1 January 2007 and applies to employees who retire after that date.

The program represents an unfunded defined benefit plan and is accounted for as such under provisions of IAS 19, *Employee Benefits*. The impact of the program on the consolidated interim condensed financial information is disclosed below.

The amounts recognized in the consolidated balance sheet and included in other non-current liabilities are determined as follows:

	<u>31 March 2007</u>
Present value of the defined benefit obligations	315
Unrecognized past service cost	(288)
<b>Liability in the consolidated balance sheet</b>	<b>27</b>

The movement in the present value of the defined benefit obligations is as follows:

	<u>Three months ended 31 March 2007</u>
<b>Beginning of the period</b>	<b>-</b>
Past service cost	293
Interest cost	4
Current service cost	15
Benefits paid	-
Actuarial loss	3
<b>End of the period</b>	<b>315</b>

The amounts recognized in the consolidated statement of income are as follows:

	<u>Three months ended 31 March 2007</u>
Current service cost	15
Interest cost	4
Actuarial loss	3
Amortization of past service cost	5
<b>Total recognized in operating expenses</b>	<b>27</b>

Of the total charge, RR 14 million and RR 13 million were included as employee compensation in materials, services and other and general and administrative expenses, respectively.

The principal actuarial assumptions used at the balance sheet date were as follows:

Weighted average discount rate	6.4%
Projected annual rate of remuneration growth	10%
Expected pension payments increases (every three years)	10%

**OA0 NOVATEK****Selected Notes to the Consolidated Interim Condensed Financial Information (unaudited)**

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

**7 PENSION OBLIGATIONS (CONTINUED)**

The assumed future average salary and pension payments increases for the Group have been calculated on the basis of inflation forecasts, analysis of increases of past salaries and the general salary policy in the Group. It was assumed that the thresholds for the maximum and minimum amount of monthly pension payments would increase by 10 percent every three years.

Mortality assumptions are based on the Russian mortality tables published by the State Statistics Committee from the years 1986 to 1987. Management believes that these mortality tables are the most conservative and prudent Russian whole-population mortality tables available.

Management has assessed that reasonable changes in the most significant actuarial assumptions will not have a significant impact on the liability recognized in the consolidated interim condensed balance sheet.

**8 SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT**

	<u>31 March 2007</u>	<u>31 December 2006</u>
US dollar denominated loans	845	448
US dollar denominated bank overdrafts	488	-
<b>Total</b>	<b>1,333</b>	<b>448</b>
Add: current portion of long-term debt	1,868	2,117
<b>Total short-term debt and current portion of long-term debt</b>	<b>3,201</b>	<b>2,565</b>

*US dollar denominated loans.* In November 2006, the Group entered into a USD 50 million loan agreement with CALYON S.A., of which RR 845 million (USD 32.5 million) and RR 448 million (USD 17 million) were outstanding at 31 March 2007 and 31 December 2006, respectively. The loan bears annual interest of LIBOR plus 0.85 percent (6.2 percent at both 31 March 2007 and 31 December 2006), and is repayable through February 2008. The carrying value of the loan approximates its fair value.

At 31 March 2007, the Group had unused credit facilities for the total amount of RR 5,601 million (USD 215.3 million) on either fixed or variable interest rates subject to the specific type of credit facility.

**9 OIL AND GAS SALES**

	<u>Three months ended 31 March:</u>	
	<u>2007</u>	<u>2006</u>
Natural gas	10,351	7,331
Stable gas condensate	3,234	2,539
Liquefied petroleum gas	848	961
Crude oil	323	398
Oil products	115	151
<b>Total oil and gas sales</b>	<b>14,871</b>	<b>11,380</b>

**OAO NOVATEK****Selected Notes to the Consolidated Interim Condensed Financial Information (unaudited)**

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

**10 TRANSPORTATION EXPENSES**

	Three months ended 31 March:	
	2007	2006
Natural gas transportation to customers	2,766	1,796
Stable gas condensate, liquefied petroleum gas, and oil products transportation by rail	812	535
Stable gas condensate transportation by tankers	454	294
Other	47	30
<b>Total transportation expenses</b>	<b>4,079</b>	<b>2,655</b>

**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 31 March:	
	2007	2006
Unified natural resources production tax	1,441	1,411
Property tax	121	103
Excise tax	26	26
Other taxes	21	13
<b>Total taxes other than income tax</b>	<b>1,609</b>	<b>1,553</b>

**12 INCOME TAX**

**Effective income tax rate.** The Group's Russian statutory income tax rate in 2007 and 2006 is 24.0 percent. For the three months ended 31 March 2007 and 2006, the consolidated Group's effective income tax rate was 24.1 percent for both periods.

**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 31 March 2007, the Group had capital expenditures commitments aggregating approximately RR 8,374 million (at 31 December 2006: RR 5,200 million) for continuation of phase two construction of the Purovsky Gas Condensate Plant (through 2008) and phase two development of the Yurkharovskoye field (through 2009).

### 13 CONTINGENCIES AND COMMITMENTS (CONTINUED)

**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, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

At 31 March 2007, 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 is accrued.

**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 actively monitors the terms and commitments of its respective licenses and 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, statement 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.

**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 an 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, statement 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.

### 14 FINANCIAL RISK MANAGEMENT

During the normal course of conducting business activities, the Group's is exposed to a variety of financial risks including, but not limited to: market risk (currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. These risks create volatilities in earnings, equity and cash flows from period to period. The Group's financial management policies are aimed at minimizing or eliminating potential adverse effects these risks may have on the Company's financial performance. Historically, the Group has not entered into derivative financial instruments to hedge its financial risk exposures but may, from time to time, as part of its risk management strategy, use derivative financial instruments to hedge its exposures to financial risks.

## 14 FINANCIAL RISK MANAGEMENT (CONTINUED)

**Foreign exchange risk.** The Group operates internationally and is exposed to foreign exchange risk arising from various Russian rouble exposures, primarily with respect to the US dollar and Euro. Foreign exchange risk arises primarily from future commercial transactions and recognized assets and liabilities when they are denominated in a currency that is not the entity's functional currency. The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble or the US dollar. 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.

At 31 March 2007, cash and cash equivalents, trade and other receivables, trade and other payables, short-term debt and long-term debt denominated in US dollars and Euro amounted to RR 1,060 million, RR 978 million, RR 88 million, RR 1,313 million, and RR 2,111 million, respectively. At 31 December 2006, cash and cash equivalents, trade and other receivables, trade and other payables, short-term debt and long-term debt denominated in US dollars and Euro amounted to RR 748 million, RR 950 million, RR 120 million, RR 448 million, and RR 2,660 million, respectively.

**Cash flow and fair value interest rate risk.** The Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, whereas borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Financing decisions are made after careful consideration of various scenarios and may include refinancing, renewal of existing positions or alternative financing. Historically, the Group has not entered into derivative instruments to hedge its cash flow and fair value interest rate risk but may, from time to time, as part of its risk management strategy, use derivative financial instruments to hedge its exposures to interest rate risks.

**Credit risk.** Credit risk is managed on a Group level and arises from cash and cash equivalents, including short-term deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions. Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to have minimal risk of default. Management assesses the credit quality of its customers by taking into account their financial position, past experience and other factors. Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

**Liquidity risk.** Liquidity risk is managed at the Group level and includes maintaining a sufficient cash balance, conservative management of excess liquidity, access to funding from an adequate amount of committed credit facilities and limits on bank concentrations. Due to the dynamic nature of the underlying businesses and the capital intensity of its business operations, the Group maintains flexibility in funding by ensuring availability under committed credit lines and expected cash flows from operating activities.

## 15 RELATED PARTY TRANSACTIONS

All natural gas producers and wholesalers operating in Russia are obliged to transport their natural gas volumes through the Unified Gas Supply System (UGSS), which is owned and operated by OAO Gazprom, a State monopoly. As an independent natural gas producer, the Group utilizes the UGSS to transport natural gas to end-consumers at the tariff established by the Federal Tariff Service. Transactions only with OAO Gazprom, a shareholder of NOVATEK from October 2006, are presented below.

During 2006, the Group had transactions with entities controlled by the Group's significant shareholders. Starting October 2006, these entities are no longer considered to be related parties of the Group.

**OAO NOVATEK****Selected Notes to the Consolidated Interim Condensed Financial Information (unaudited)**

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

**15 RELATED PARTY TRANSACTIONS (CONTINUED)**

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.

For the purposes of this consolidated interim condensed financial information, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

<i>OAO Gazprom</i>	<b>Three months ended 31 March:</b>	
	<b>2007</b>	<b>2006</b>
<b>Transactions</b>		
Purchases of natural gas	330	-
Natural gas transportation to customers	2,730	-

<i>OAO Gazprom</i>	<b>31 March 2007</b>	<b>31 December 2006</b>
<b>Balances</b>		
Trade and other payables	968	163

<i>Related parties – subject to control by significant shareholders</i>	<b>Three months ended 31 March:</b>	
	<b>2007</b>	<b>2006</b>
<b>Transactions</b>		
Sales of inventory and oil products	-	41
Interest income	-	7
Purchases of construction services	-	135

**Key management compensation.** During three months ended 31 March 2007 and 2006, the Group paid to the members of the Board of Directors and the Management Board, some of whom have also direct and indirect interests in the Group, the total of RR 43 million and RR 50 million in cash, respectively, in compensation and directors' fees, excluding dividends. In addition, RR 44 million was recognized in both periods as part of the share-based compensation scheme and included in general and administrative expense.

**16 SEGMENT INFORMATION**

The Group's primary format for reporting segment information is business segments. 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 natural gas, gas condensate, crude oil and related products; and
- Corporate and other – other activities, including head-office, certain general and administrative services, polymer and tape insulation.

**OAO NOVATEK****Selected Notes to the Consolidated Interim Condensed Financial Information (unaudited)**

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

**16 SEGMENT INFORMATION (CONTINUED)**

Segment information for the three months ended 31 March 2007 and 2006 was as follows:

<i>For the three months ended 31 March 2007</i>	<b>Exploration and production</b>	<b>Other</b>	<b>Total</b>
<b>Segment revenues</b>			
External revenues and other income	14,893	368	15,261
Inter-segment sales	4	10	14
<b>Total segment revenues</b>	<b>14,897</b>	<b>378</b>	<b>15,275</b>
<b>Segment results</b>	<b>6,202</b>	<b>(506)</b>	<b>5,696</b>
<hr/>			
<i>For the three months ended 31 March 2006</i>	<b>Exploration and production</b>	<b>Other</b>	<b>Total</b>
<b>Segment revenues</b>			
External revenues and other income	11,302	262	11,564
Inter-segment sales	4	-	4
<b>Total segment revenues</b>	<b>11,306</b>	<b>262</b>	<b>11,568</b>
<b>Segment results</b>	<b>5,248</b>	<b>(468)</b>	<b>4,780</b>

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

**17 SUBSEQUENT EVENTS**

On 24 May 2007, the Annual General Meeting of Shareholders of OAO NOVATEK approved the final 2006 dividends of RR 1.10 per share or RR 11 per Global Depository Receipt. The final dividend payment totaling RR 3,340 million will be paid within 60 days to shareholders of record at the close of business on 5 April 2007.

**18 NEW ACCOUNTING DEVELOPMENTS**

Beginning 1 January 2007, the Group has adopted the following interpretations:

- IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006). IFRIC 7 clarifies the requirements under IAS 29, *Financial Reporting in Hyperinflationary Economies* relating to how comparative amounts in financial statements should be restated when an entity identifies the existence of hyperinflation in the economy of the currency in which its financial statements are measured; and how deferred tax items in the opening balance sheet should be restated;
- IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006). IFRIC 8 clarifies that the accounting standard IFRS 2, *Share-based Payment* applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration;
- IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required;
- IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date.

The adoption of these interpretations, if applicable, had an insignificant effect on the Group's consolidated interim condensed financial information.

Recently, the International Accounting Standards Board published the following new standards and interpretations which have not been early adopted by the Group.

- IFRS 8, *Operating Segments* (effective for annual periods beginning on or after 1 January 2009) ("IFRS 8"). IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information;
- IAS 23 (Revised), *Recognition of Borrowing Costs*. The revision removed the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009;
- IFRIC 11, *IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). IFRIC 11 addresses accounting for certain transactions an entity may enter into to satisfy rights to equity instruments previously granted to employees. Additionally it provides guidance on accounting for rights to equity instruments of a parent company granted for employees of a subsidiary in the subsidiary's separate financial statements;
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements.

These new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements when adopted.

**ОАО NOVATEK**  
**Contact information**

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The Group's registered office is:

ОАО NOVATEK  
Ulitsa Pobedy 22a  
629850 Tarko-Sale  
Yamalo-Nenetsky Autonomous Region  
Russian Federation

Telephone: 7 (495) 730-60-00

Fax: 7 (495) 721-22-53

[www.novatek.ru](http://www.novatek.ru)