

OAO NOVATEK

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

**AS OF AND FOR THE THREE
MONTHS ENDED 31 MARCH 2008**

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

	Notes	31 March 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	4	88,174	82,669
Investments in associates		1,103	1,125
Long-term loans and receivables		873	681
Other non-current assets		2,672	2,462
Total non-current assets		92,822	86,937
Current assets			
Inventories		1,744	1,794
Current income tax prepayments		339	335
Trade and other receivables		5,208	3,267
Prepayments and other current assets		5,999	7,660
Cash and cash equivalents	5	5,234	3,982
Total current assets		18,524	17,038
Total assets		111,346	103,975
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	6	2	42
Deferred income tax liabilities		8,204	8,083
Other non-current liabilities		862	905
Asset retirement obligations		1,102	1,058
Total non-current liabilities		10,170	10,088
Current liabilities			
Short-term debt and current portion of long-term debt	8	5,055	6,560
Trade payables and accrued liabilities		4,321	3,599
Current income tax payable		586	645
Other taxes payable		1,859	1,271
Total current liabilities		11,821	12,075
Total liabilities		21,991	22,163
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Additional paid-in capital		30,301	30,257
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		52,571	45,068
Total equity attributable to OAO NOVATEK shareholders		88,882	81,335
Minority interest		473	477
Total equity		89,355	81,812
Total liabilities and equity		111,346	103,975

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 15 May 2008:


L. Mikhelson
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:	
		2008	2007
Revenues			
Oil and gas sales	9	20,167	14,885
Sales of polymer and insulation tape		551	309
Other revenues		158	65
Total revenues		20,876	15,259
Other income (loss)		16	16
Total revenues and other income		20,892	15,275
Operating expenses			
Transportation expenses	10	(4,556)	(4,093)
Taxes other than income tax	11	(1,763)	(1,609)
Materials, services and other		(1,469)	(1,069)
Purchases of natural gas and liquid hydrocarbons		(1,171)	(563)
Depreciation, depletion and amortization	4	(993)	(1,018)
General and administrative expenses		(837)	(713)
Exploration expenses		(230)	(202)
Net impairment expense		(6)	(37)
Changes in inventories		2	(275)
Total operating expenses		(11,023)	(9,579)
Profit from operations		9,869	5,696
Finance income (expense)			
Interest expense		(57)	(78)
Interest income		70	94
Foreign exchange gain (loss)		126	7
Total finance income (expense)		139	23
Share of profit (loss) of associates, net of income tax		(22)	-
Profit before income tax		9,986	5,719
Income tax expense			
Current income tax expense		(2,313)	(1,539)
Net deferred income tax (expense) benefit		(174)	162
Total income tax expense	12	(2,487)	(1,377)
Profit for the period		7,499	4,342
Profit (loss) attributable to:			
Minority interest		(4)	(5)
Shareholders of OAO NOVATEK		7,503	4,347
Basic and diluted earnings per share (in Russian roubles)		2.47	1.43
<i>Weighted average number of 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	
		2008	2007
Profit before income tax		9,986	5,719
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		1,014	1,029
Net impairment expense		6	37
Net foreign exchange loss (gain)		(126)	(7)
Net loss (gain) on disposal of assets		(6)	(7)
Share-based compensation	15	44	44
Interest expense		57	78
Interest income		(70)	(94)
Share of loss (profit) in associates, net of income tax		22	-
Net change in other non-current assets		51	53
Other adjustments		(18)	(26)
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(369)	240
Decrease (increase) in inventories		59	610
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends		751	837
Increase (decrease) in other taxes payable		588	66
Total effect of working capital changes		1,029	1,753
Income taxes paid		(2,376)	(1,639)
Net cash provided by operating activities		9,613	6,940
Cash flows from investing activities			
Purchases of property, plant and equipment		(6,450)	(3,466)
Purchases of tangible assets		(314)	(347)
Interest paid and capitalized		(55)	(34)
Loans provided		(175)	-
Interest received		52	93
Net cash (used for) provided by investing activities		(6,942)	(3,754)
Cash flows from financing activities			
Proceeds from short-term debt		-	408
Repayments of long-term debt		(83)	(528)
Interest paid		(25)	(42)
Net cash (used for) provided by financing activities		(108)	(162)
Net effect of exchange rate changes on cash, cash equivalents and bank overdrafts		(43)	-
Net increase (decrease) in cash, cash equivalents and bank overdrafts		2,520	3,024
Cash and cash equivalents at beginning of the period		2,614	5,668
Cash, cash equivalents and bank overdrafts at end of the period		5,134	8,692

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

OAO 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>	Ordinary share capital	Additional paid-in capital	Asset revaluation surplus on acquisitions	Retained earnings	Equity attributable to OAO NOVATEK shareholders	Minority interest	Total equity
<i>For the three months ended 31 March 2007</i>								
1 January 2007	3,036,306	393	30,081	5,617	32,229	68,320	356	68,676
Share-based compensation funded by shareholders	-	-	44	-	-	44	-	44
Profit (loss) for the period	-	-	-	-	4,347	4,347	(5)	4,342
31 March 2007	3,036,306	393	30,125	5,617	36,576	72,711	351	73,062
<i>For the three months ended 31 March 2008</i>								
1 January 2008	3,036,306	393	30,257	5,617	45,068	81,335	477	81,812
Share-based compensation funded by shareholders	-	-	44	-	-	44	-	44
Profit (loss) for the period	-	-	-	-	7,503	7,503	(4)	7,499
31 March 2008	3,036,306	393	30,301	5,617	52,571	88,882	473	89,355

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

OAO NOVATEK

Notes to the Consolidated Interim Condensed Financial Information (unaudited)

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

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”) of the Russian Federation.

The Group sells its natural gas on the Russian domestic market at both regulated and unregulated market prices, however 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 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 2007 prepared in accordance with International Financial Reporting Standards (“IFRS”). The 31 December 2007 consolidated balance sheet data has been derived from the audited consolidated financial statements.

Use of estimates and judgments. The critical accounting estimates and judgments followed by the Group in the preparation of consolidated interim condensed financial information are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2007. Estimates have principally been made in respect to useful lives of property, plant and equipment, fair values of assets and liabilities, deferred income taxes, estimation of oil and gas reserves, impairment provisions, pension obligations and assets retirement obligations.

Management reviews these estimates and judgments on a continuous basis, by reference to past experiences and other factors considered as reasonable which form the basis for assessing the book values of assets and liabilities. Adjustments to accounting estimates are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both 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, restrictions and controls. The official rate of exchange of the Russian rouble to the US dollar (“USD”) at 31 March 2008 and 31 December 2007 was 23.52 and 24.55 Russian roubles to USD 1.00, respectively. The official rate of exchange of the Russian rouble to the Euro at 31 March 2008 and 31 December 2007 was 37.07 and 35.93 Russian roubles to 1.00 Euro, respectively. Any re-measurement of Russian rouble amounts to US dollars or any other currency should not be construed as a representation that such Russian rouble amounts have been, could be, or will in the future be converted into other currencies at these exchange rates.

Reclassifications. The following reclassifications have been made to the comparative figures to conform to the current period presentation. Commencing January 2008, crude oil sales on the domestic market are presented gross of rail transportation costs. Accordingly, crude oil sales on the domestic market and crude oil transportation to customers for the three months ended 31 March 2007 were increased by RR 14 million.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies and methods of computation followed by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2007.

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

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

4 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment, for the three months ended 31 March 2008 and 2007 are as follows:

<i>For the three months ended 31 March 2007</i>	Operating assets	Assets under construction	Total
Cost	70,198	4,517	74,715
Accumulated depreciation, depletion and amortization	(7,981)	-	(7,981)
Net book value at 1 January 2007	62,217	4,517	66,734
Additions	1,770	2,041	3,811
Transfers	315	(315)	-
Depreciation, depletion and amortization	(1,029)	-	(1,029)
Disposals, net	(6)	(3)	(9)
Cost	72,267	6,240	78,507
Accumulated depreciation, depletion and amortization	(9,000)	-	(9,000)
Net book value at 31 March 2007	63,267	6,240	69,507
<i>For the three months ended 31 March 2008</i>	Operating assets	Assets under construction	Total
Cost	75,502	18,842	94,344
Accumulated depreciation, depletion and amortization	(11,675)	-	(11,675)
Net book value at 1 January 2008	63,827	18,842	82,669
Additions	196	6,341	6,537
Transfers	1,324	(1,324)	-
Depreciation, depletion and amortization	(1,016)	-	(1,016)
Disposals, net	(14)	(2)	(16)
Cost	76,989	23,857	100,846
Accumulated depreciation, depletion and amortization	(12,672)	-	(12,672)
Net book value at 31 March 2008	64,317	23,857	88,174

Included in additions to property, plant and equipment for the three months ended 31 March 2008 and 2007 is capitalized interest of RR 55 million and RR 34 million, respectively.

5 CASH AND CASH EQUIVALENTS

Cash, cash equivalents and bank overdrafts include the following for the purposes of the statement of cash flows:

	31 March 2008	31 December 2007
Cash and cash equivalents per the consolidated balance sheet	5,234	3,982
Less: bank overdrafts	(100)	(1,368)
Cash, cash equivalents and bank overdrafts per the consolidated statement of cash flows	5,134	2,614

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

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

6 LONG-TERM DEBT

	<u>31 March 2008</u>	<u>31 December 2007</u>
Euro denominated loans	218	270
US dollar denominated loans	35	54
Total	253	324
Less: current portion of long-term debt	(251)	(282)
Total long-term debt	2	42

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 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.

	<u>31 March 2008</u>	<u>31 December 2007</u>
Present value of the defined benefit obligations	511	492
Unrecognized past service cost	(270)	(276)
Defined benefit plan liability recognized in the consolidated balance sheet included in other non-current liabilities	241	216

The movements in the present value of the defined benefit obligations are as follows:

	<u>Three months ended 31 March:</u>	
	<u>2008</u>	<u>2007</u>
At 1 January	492	-
Past service cost	-	293
Interest cost	4	4
Current service cost	15	15
Actuarial loss	-	3
At 31 March	511	315

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

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

7 PENSION OBLIGATIONS (CONTINUED)

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

	Three months ended 31 March:	
	2008	2007
Current service cost	15	15
Interest cost	4	4
Actuarial loss	-	3
Amortization of past service cost	6	5
Defined benefit plan costs recognized in operating expenses	25	27
<i>of which the following amounts were included as employee compensation in:</i>		
Materials, services and other	14	14
General and administrative expenses	11	13

The principal actuarial assumptions used at 31 March 2008 and for the period then ended were the same as for the year ended 31 December 2007. Management has assessed that reasonable changes in the most significant actuarial assumptions will not have a significant impact on the consolidated interim condensed statement of income or the liability recognized in the consolidated interim condensed balance sheet.

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

	31 March 2008	31 December 2007
US dollar denominated loans	4,704	4,910
US dollar denominated bank overdrafts	100	1,368
Total	4,804	6,278
Add: current portion of long-term debt	251	282
Total short-term debt and current portion of long-term debt	5,055	6,560

US dollar denominated loans. At 31 March 2008, the US dollar denominated loans included a loan from BNP PARIBAS Bank in the amount of RR 2,352 million (USD 100 million) with an annual interest of LIBOR plus 0.75 percent (3.5 percent at 31 March 2008). The loan is repayable in September 2008.

At 31 March 2008, the US dollar denominated loans included loans from CALYON S.A. and CALYON RUSBANK Corporate and Investment Bank in the total amount RR 2,352 million (USD 100 million) with annual interest of LIBOR plus 0.85 percent (3.6 percent at 31 March 2008). The loans are repayable in May 2008.

The carrying values of the short-term debt approximate their fair value.

Available credit facilities and bank overdrafts. At 31 March 2008 and 31 December 2007, the Group used RR 100 million and RR 1,368 million of its credit facilities as bank overdrafts, respectively. Available funds under these short-term credit lines with various international banks totaled RR 5,191 million (USD 221 million) and RR 4,148 million (USD 169 million) at 31 March 2008 and 31 December 2007, respectively, on either fixed or variable interest rates subject to the specific type of credit facility.

In addition the Group has available funds up to the maximum amount of RR 2,352 million (USD 100 million) under a two year credit line facility with UniCredit Bank with interest rates negotiated on each withdrawal dates. At 31 March 2008 no funds were withdrawn on this facility.

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

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

9 OIL AND GAS SALES

	Three months ended 31 March:	
	2008	2007
Natural gas	11,593	10,351
Stable gas condensate	5,943	3,234
Liquefied petroleum gas	1,532	848
Crude oil	557	337
Oil products	542	115
Total oil and gas sales	20,167	14,885

10 TRANSPORTATION EXPENSES

	Three months ended 31 March:	
	2008	2007
Natural gas transportation to customers	2,865	2,766
Stable gas condensate and liquefied petroleum gas transportation by rail	1,069	812
Stable gas condensate transportation by tankers	527	454
Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines	43	25
Crude oil transportation to customers	28	32
Other	24	4
Total transportation expenses	4,556	4,093

11 TAXES OTHER THAN INCOME TAX

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

	Three months ended 31 March:	
	2008	2007
Unified natural resources production tax	1,606	1,441
Property tax	142	121
Other taxes	15	47
Total taxes other than income tax	1,763	1,609

12 INCOME TAX

Effective income tax rate. The Group's Russian statutory income tax rate in 2008 and 2007 is 24.0 percent. For the three months ended 31 March 2008 and 2007, the consolidated Group's effective income tax rate was 24.9 percent and 24.1 percent, respectively.

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

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

13 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The accounting policies for financial instruments have been applied to the line items below:

<i>Financial assets</i>	<i>Loans and receivables</i>	
	31 March 2008	31 December 2007
<i>Non-current</i>		
Long-term loans receivable	589	412
Trade and other receivables	284	269
Long-term deposit and letters of credit	95	175
<i>Current</i>		
Short-term loans receivable	36	36
Trade and other receivables	5,208	3,267
Cash and cash equivalents	5,234	3,982
Total carrying amount	11,446	8,141

<i>Financial liabilities</i>	<i>Measured at amortized cost</i>	
	31 March 2008	31 December 2007
<i>Non-current</i>		
Long-term debt	2	42
<i>Current</i>		
Current portion of long-term debt	251	282
Short-term debt	4,804	6,278
Trade and other payables	2,185	1,711
Total carrying amount	7,242	8,313

Financial risk management objectives and policies. In the ordinary course of business, the Group is exposed to market risks from fluctuating prices on commodities purchased and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on the degree of price volatility, such fluctuations in market prices may create volatility in the Group's financial results. To effectively manage the variety of exposures that may impact financial results, the Group's overriding strategy is to maintain a strong financial position.

The Group's principal risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to these limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Market risk. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices, will affect the Group's financial results or the value of its holdings of financial instruments. The primary objective of mitigating these market risks is to manage and control market risk exposures, while optimizing the return on risk.

The Group is exposed to market price movements relating to changes in commodity prices such as crude oil, gas condensate, liquefied petroleum products and natural gas (commodity price risk), foreign currency exchange rates, interest rates, equity prices and other indices that could adversely affect the value of the Group's financial assets, liabilities or expected future cash flows.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various exposures in the normal course of business, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises primarily from future commercial transactions, recognized assets and liabilities when assets and liabilities are denominated in a currency other than the functional currency.

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

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

13 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble or the US dollar. Foreign currency derivative instruments may be 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.

The carrying amounts of the Group's financial instruments are denominated in the following currencies:

At 31 March 2008	Russian rouble	US dollar	Euro	Other	Total
<i>Financial assets</i>					
<i>Non-current</i>					
Long-term loans receivable	589	-	-	-	589
Trade and other receivables	284	-	-	-	284
Long-term deposit and letters of credit	95	-	-	-	95
<i>Current</i>					
Short-term loans receivable	36	-	-	-	36
Trade and other receivables	2,491	2,715	-	2	5,208
Cash and cash equivalents	4,881	330	7	16	5,234
<i>Financial liabilities</i>					
<i>Non-current</i>					
Long-term debt	-	(2)	-	-	(2)
<i>Current</i>					
Current portion of long-term debt	-	(33)	(218)	-	(251)
Short-term debt	-	(4,804)	-	-	(4,804)
Trade and other payables	(1,994)	(164)	(22)	(5)	(2,185)
Net exposure at 31 March 2008	6,382	(1,958)	(233)	13	4,204
<hr/>					
At 31 December 2007	Russian rouble	US dollar	Euro	Other	Total
<i>Financial assets</i>					
<i>Non-current</i>					
Long-term loans receivable	412	-	-	-	412
Trade and other receivables	269	-	-	-	269
Long-term deposit and letters of credit	169	-	6	-	175
<i>Current</i>					
Short-term loans receivable	36	-	-	-	36
Trade and other receivables	1,913	1,350	-	4	3,267
Cash and cash equivalents	3,763	189	7	23	3,982
<i>Financial liabilities</i>					
<i>Non-current</i>					
Long-term debt	-	(4)	(38)	-	(42)
<i>Current</i>					
Current portion of long-term debt	-	(50)	(232)	-	(282)
Short-term debt	-	(6,278)	-	-	(6,278)
Trade and other payables	(1,657)	(31)	(16)	(7)	(1,711)
Net exposure at 31 December 2007	4,905	(4,824)	(273)	20	(172)

13 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

(b) Commodity price risk

The Group's overall commercial trading strategy in natural gas, stable gas condensate and crude oil and related products is centrally managed. Changes in commodity prices could negatively or positively affect the Group's results of operations. The Group manages the exposure to commodity price risk by optimizing its core activities to achieve stable price margins.

Natural gas. As an independent natural gas producer, the Group is not subject to the government's regulation of natural gas prices. Nevertheless, the Group's prices are strongly influenced by the prices regulated by the Federal Tariffs Service (FTS), a governmental agency. In November 2006, the FTS approved and published a plan to liberalize the price of natural gas sold on the Russian domestic market by the year 2011. Effective from 1 January 2008, the FTS increased by 25 percent the regulated price for the year 2008. As part of that program, the FTS plans to further increase the regulated price in 2009 and 2010. Management believes it has limited downside commodity price risk for natural gas and does not use commodity derivative instruments for trading purposes. However, to effectively manage the margins achieved through its natural gas trading activities, management has established targets for volumes sold to wholesale traders, end-customers and the natural gas exchange.

Liquid hydrocarbons. The Group sells all its crude oil and related products and gas condensate under spot contracts. Gas condensate volumes sold to the US and European markets are based on benchmark reference crude oil prices of WTI and Brent dated, respectively, plus a margin or discount, depending on current market situation. Crude oil sold internationally are based on benchmark reference crude oil prices of Brent dated, plus a discount and on a transaction-by-transaction basis for volumes sold domestically. As a result, the Group's revenues from the sales of liquid hydrocarbons are subject to commodity price volatility based on fluctuations or changes in the crude oil benchmark reference prices. Presently, the Group does not use commodity derivative instruments for trading purposes to mitigate price volatility.

(c) Cash flow and fair value interest rate risk

The Group is subject to interest rate risk on financial liabilities with variable interest rates. To mitigate this risk, the Group's treasury function performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In cases where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favorable interest rate terms.

Changes in interest rates impact primarily debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new debts management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable over the expected period until maturity.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	31 March 2008	31 December 2007
At variable rate	4,804	6,278
At fixed rate	253	324
Total debt	5,057	6,602

The Group centralizes the cash requirements and surpluses of controlled subsidiaries and the majority of their external financing requirements, and applies, on its consolidated net debt position, a funding policy to optimize its financing costs and manage the impact of interest-rate changes on its financial results in line with market conditions. In this way, the Group is able to ensure that the balance between the floating rate portion of its debt and its cash surpluses has a low level of exposure to any change in interest rates over the short term. This policy makes it possible to significantly limit the Group's sensitivity to interest-rate volatility.

13 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

The Group's trade and other receivables consist of a large number of customers, spread across diverse industries and geographical areas. Most of the Group's international liquid sales are made to customers with independent external ratings. All domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis. The Group also requires 100 percent prepayments from small customers for natural gas deliveries and partial advances from others. Although the Group does not require collateral in respect of trade and other receivables, it has developed standard credit payment terms and constantly monitors the status of trade receivables and the creditworthiness of the customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Liquidity risk. Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. The Group has entered into a number of short-term credit facilities. Such credit lines and overdraft facilities can be drawn down to meet short-term financing needs. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

All of the Group's financial liabilities represent non-derivative financial instruments. The following tables summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

At 31 March 2008	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Debt at fixed rate				
<i>Principal</i>	251	2	-	253
<i>Interest</i>	29	-	-	29
Debt at variable rate				
<i>Principal</i>	4,804	-	-	4,804
<i>Interest</i>	48	-	-	48
Trade and other payables	2,185	-	-	2,185
Total financial liabilities	7,317	2	-	7,319

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

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

13 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At 31 December 2007	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Debt at fixed rate				
<i>Principal</i>	282	42	-	324
<i>Interest</i>	41	2	-	43
Debt at variable rate				
<i>Principal</i>	6,278	-	-	6,278
<i>Interest</i>	157	-	-	157
Trade and other payables	1,711	-	-	1,711
Total financial liabilities	8,469	44	-	8,513

Capital management. The primary objectives of the Group's capital management policy is to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain investor, market and creditor confidence to support its business activities.

The Group presently has an investment grade credit rating of Baa3 (stable outlook) by Moody's Investor Services and is rated BB (positive) by Standard & Poors. To maintain its credit rating, the Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis.

The Group manages its liquidity on a corporate-wide basis to ensure adequate funding to sufficiently meet group operational requirements. All external debts are centralized at the Parent level, and all financing to Group entities is facilitated through inter-company loan arrangements.

The Group has a stated dividend policy that distributes at least 30 percent of its parent company non-consolidated statutory net profit determined according to Russian accounting standards. The dividend for a specific year is determined after taken into consideration future earnings, capital expenditure requirements, future business opportunities and the Group current financial position. Dividends are recommended by the Board of Directors and approved by the NOVATEK's shareholders.

There were no changes to the Group's approach to capital management during the period.

14 CONTINGENCIES AND COMMITMENTS

Operating environment. The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation, and relatively high inflation. 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 2008, the Group had contractual capital expenditures commitments aggregating approximately RR 25,674 million (at 31 December 2007: RR 21,744 million) for phase two development of the Yurkharovskoye field (through 2009), development of the East-Tarkosalinskoye and Khancheiskoye fields (through 2008 and 2010, respectively), for continuation of phase two construction of the Purovsky Gas Condensate Plant (through 2009) and for development of the Sterkhovoye field (through 2008).

14 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.

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.

Mineral licenses. The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its mineral licenses. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitation, suspension or revocation. The Group's management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any material adverse effect on the Group's financial position, 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 a change in interpretation of existing regulations, civil litigation or changes in legislation cannot be estimated. Under existing legislation, management believes that there are no probable liabilities which will have a material adverse effect on the Group's financial position, statement of income or of cash flows.

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

15 RELATED PARTY TRANSACTIONS

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. Management has used reasonable judgments in considering each possible related party relationship with attention directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties. The Group enters into transactions with related parties based on market or regulated prices.

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

15 RELATED PARTY TRANSACTIONS (CONTINUED)

All natural gas producers and wholesalers operating in Russia 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 Gazprom group parent company – OAO Gazprom, a shareholder of NOVATEK from October 2006, are presented below. The difference with the expenses for natural gas transportation as disclosed in Note 10 relates to volumes sold on electronic trading facilities of Mezhrefiongaz, a subsidiary of OAO Gazprom.

<i>OAO Gazprom</i>	For the three months ended 31 March	
	2008	2007
Transactions		
Purchases of natural gas	410	330
Natural gas transportation to customers	2,840	2,730
<hr/>		
<i>OAO Gazprom</i>	31 March 2008	31 December 2007
Balances		
Prepayments and other current assets	-	835
Trade and other payables	274	152
<hr/>		
<i>Related parties – associates</i>	For the three months ended 31 March 2008	
Transactions		
Other revenues		59
Interest income		14
<hr/>		
<i>Related parties – associates</i>	31 March 2008	31 December 2007
Balances		
Long-term loans receivable	585	409
Interest on long-term loans receivable	29	16
Trade payables and accrued liabilities	668	324
<hr/>		
<i>Related parties – parties under significant influence of key management personnel</i>	For the three months ended 31 March 2008	
Transactions		
Purchases of construction services (capitalized within property, plant and equipment)		2,913
Oil products sales		138
Other revenues		7
Interest income		3
<hr/>		
<i>Related parties – parties under significant influence of key management personnel</i>	31 March 2008	
Balances		
Prepayments and advances (for construction)		1,536
Prepayments and other current assets		81
Cash and cash equivalents		1,568
Trade payables and accrued liabilities		147

15 RELATED PARTY TRANSACTIONS (CONTINUED)

Key management compensation. During three months ended 31 March 2008 and 2007, the Group paid to the key management personnel (the members of the Board of Directors and the Management Board, some of whom have also direct and indirect interests in the Group) short-term compensation, including salary, bonuses, excluding dividends the total of RR 66 million and RR 43 million in cash, respectively. Such amounts include personal income tax and are net of unified social tax. The remuneration for serving on the Board of Directors is subject to approval by the General Meeting of Shareholders. Key management personnel also receive certain short-term benefits related to healthcare. In addition, RR 44 million was recognized in both periods as part of the share-based compensation scheme and included in general and administrative expenses.

16 SEGMENT INFORMATION

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

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;
- Corporate and other – other activities, including head-office, certain general and administrative services, polymer and tape insulation.

Segment information for the three months ended 31 March 2008 and 2007 is as follows:

<i>For the three months ended 31 March 2008</i>	Exploration and production	Corporate and other	Total
Segment revenues			
External revenues and other income	20,248	644	20,892
Inter-segment sales	6	32	38
Total segment revenues	20,254	676	20,930
Segment result	10,280	(381)	9,899
Unrealized margin in segment assets			(30)
Profit from operations			9,869
Finance income (expense), net			139
Share of profit of associates, net of income tax			(22)
Profit before income tax			9,986
Income tax expense			(2,487)
Profit for the period			7,499

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

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16 SEGMENT INFORMATION (CONTINUED)

<i>For the three months ended 31 March 2007</i>	Exploration and production	Corporate and other	Total
Segment revenues			
External revenues and other income	14,907	368	15,275
Inter-segment sales	4	10	14
Total segment revenues	14,911	378	15,289
Segment result	6,202	(506)	5,696
Finance income (expense), net			23
Profit before income tax			5,719
Income tax expense			(1,377)
Profit for the period			4,342

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

17 SUBSEQUENT EVENTS

On 21 April 2008, the Board of Directors recommended the final 2007 dividends of RR 1.52 per share or RR 15.2 per Global Depository Receipt. The final dividend payment totaling RR 4,615 million will be paid within 60 days to shareholders of record at the close of business on 10 April 2008 upon approval of the Annual General Meeting of shareholders.

On 21 April 2008, the Group obtained a USD 800 million unsecured syndicated term loan facility for general corporate purposes including funding capital expenditure programs. The facility has a three year tenor with an 18 month repayment grace period and is to be repaid in quarterly installments. The facility pays an initial margin of LIBOR plus 1.25 percent per annum for the first 18 months and rising to 1.50 percent per annum thereafter. The facility terms include maintenance of the certain financial covenants. At 15 May 2008 USD 100 million was withdrawn under this facility agreement.

18 NEW ACCOUNTING PRONOUNCEMENTS

Beginning 1 January 2008, the Group has adopted the following interpretations:

- IAS 27, *Consolidated and Separate Financial Statements* (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value;
- Amendment to IFRS 2, *Share-based Payment* (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment;
- 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;
- IFRIC 13, *Customer Loyalty Programs* (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 provides guidance on the recognition and measurement of award credits which a company grants to its customers; and
- IFRIC 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008). IFRIC 14 addresses the measurement of defined benefit plan assets and accounting for an obligation under a minimum funding requirement.

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.

- IAS 1, *Presentation of Financial Statements* (revised September 2007); effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances;
- IFRS 8, *Operating Segments* (effective for annual periods beginning on or after 1 January 2009). IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information;

18 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- Amendment to IAS 32 and IAS 1, *Puttable financial instruments and obligations arising on liquidation* (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability;
- IAS 27, *Consolidated and Separate Financial Statements* (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value;
- IFRS 3, *Business Combinations* (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone;
- Amendment to IFRS 2, *Share-based Payment* (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment;
- 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;

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group’s consolidated interim condensed financial information.

ОАО NOVATEK
Contact Information

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