



NOVATEK

Six Months Ended 30 June 2006 Operational and Financial Results Conference Call



Mark A. Gyetvay, Chief Financial Officer and Member of the Board of Directors

1 September 2006

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- changes in the balance of oil and gas supply and demand in Russia and Europe;
- the effects of domestic and international oil and gas price volatility and changes in regulatory conditions, including prices and taxes;
- the effects of competition in the domestic and export oil and gas markets;
- our ability to successfully implement any of our business strategies;
- the impact of our expansion on our revenue potential, cost basis and margins;
- our ability to produce target volumes in the face of restrictions on our access to transportation infrastructure;
- the effects of changes to our capital expenditure projections on the growth of our production;
- inherent uncertainties in interpreting geophysical data;
- commercial negotiations regarding oil and gas sales contracts;
- changes to project schedules and estimated completion dates;
- potentially lower production levels in the future than currently estimated by our management and/or independent petroleum reservoir engineers;
- our ability to service our existing indebtedness;
- our ability to fund our future operations and capital needs through borrowing or otherwise;
- our success in identifying and managing risks to our businesses;
- our ability to obtain necessary regulatory approvals for our businesses;
- the effects of changes to the Russian legal framework concerning currently held and any newly acquired oil and gas production licenses;
- changes in political, social, legal or economic conditions in Russia and the CIS;
- the effects of, and changes in, the policies of the government of the Russian Federation, including the President and his administration, the Prime Minister, the Cabinet and the Prosecutor General and his office;
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- the effects of technological changes;
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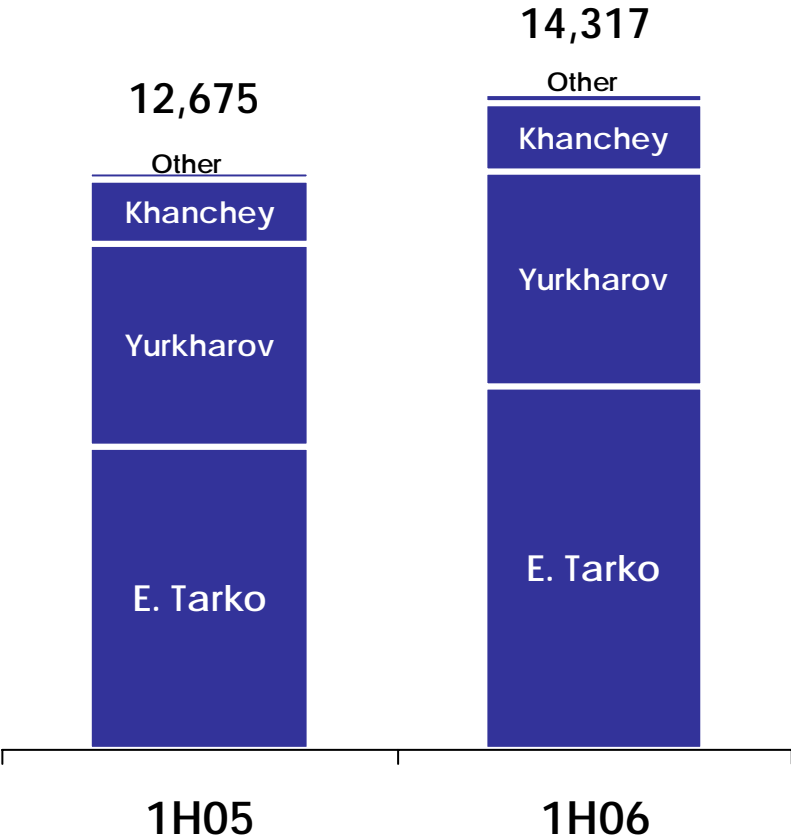
1H 2006 Summary Highlights

- ❑ **Record natural gas production and sales volumes** maintained throughout 1H 2006
 - Average natural gas production of 79 mmcm per day an increase of 14% over average 2005
 - Natural gas sales volumes increased by 13%
- ❑ **Significant H-o-H increase in total liquids export/CIS sales volumes**
 - 167% increase over 1H 2005 from 248 thousand tons to 663 thousand tons (excluding 187 thousand tons in transit as of 30 June 2006)
- ❑ **Strong H-o-H revenues and earnings increase**
 - Gas sales increased by 26% and liquids sales by 54%
 - Profit attributable to Shareholders and EPS increased by 38% on a normalized basis, excluding gains on disposals
- ❑ **Strong balance sheet** – maintained strong liquidity ratios, significantly reduced debt position, and increased cash and cash equivalents

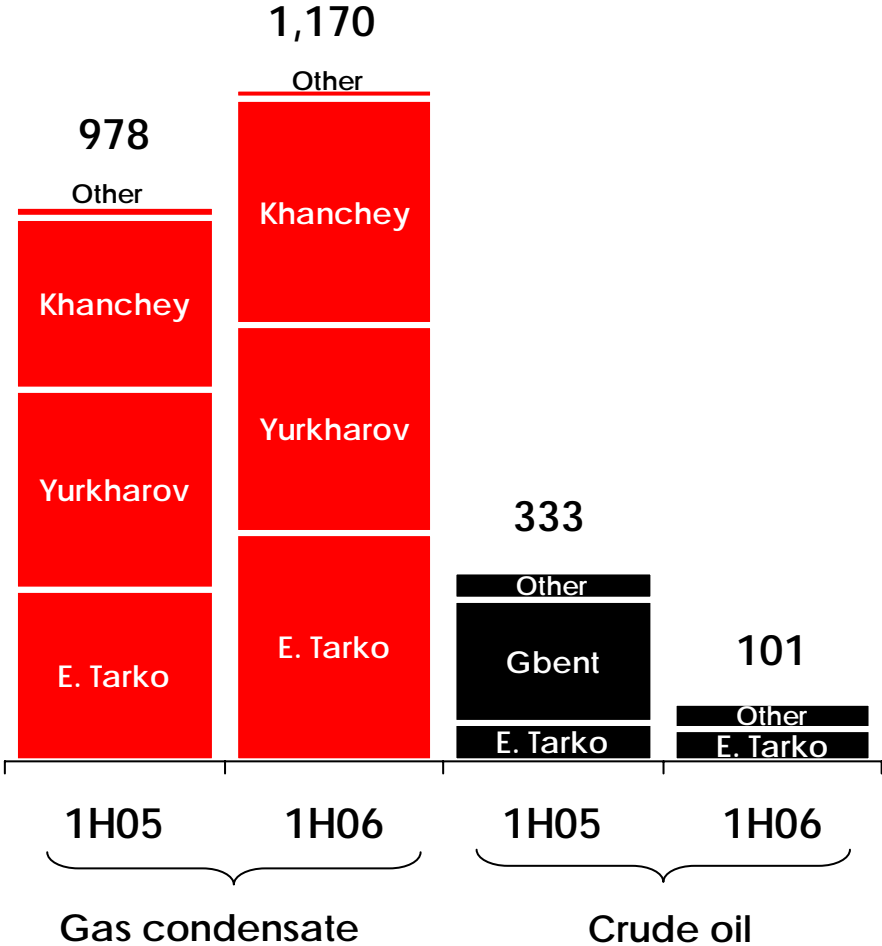
Operational Overview

Gross hydrocarbon production

Natural gas production, mmcm

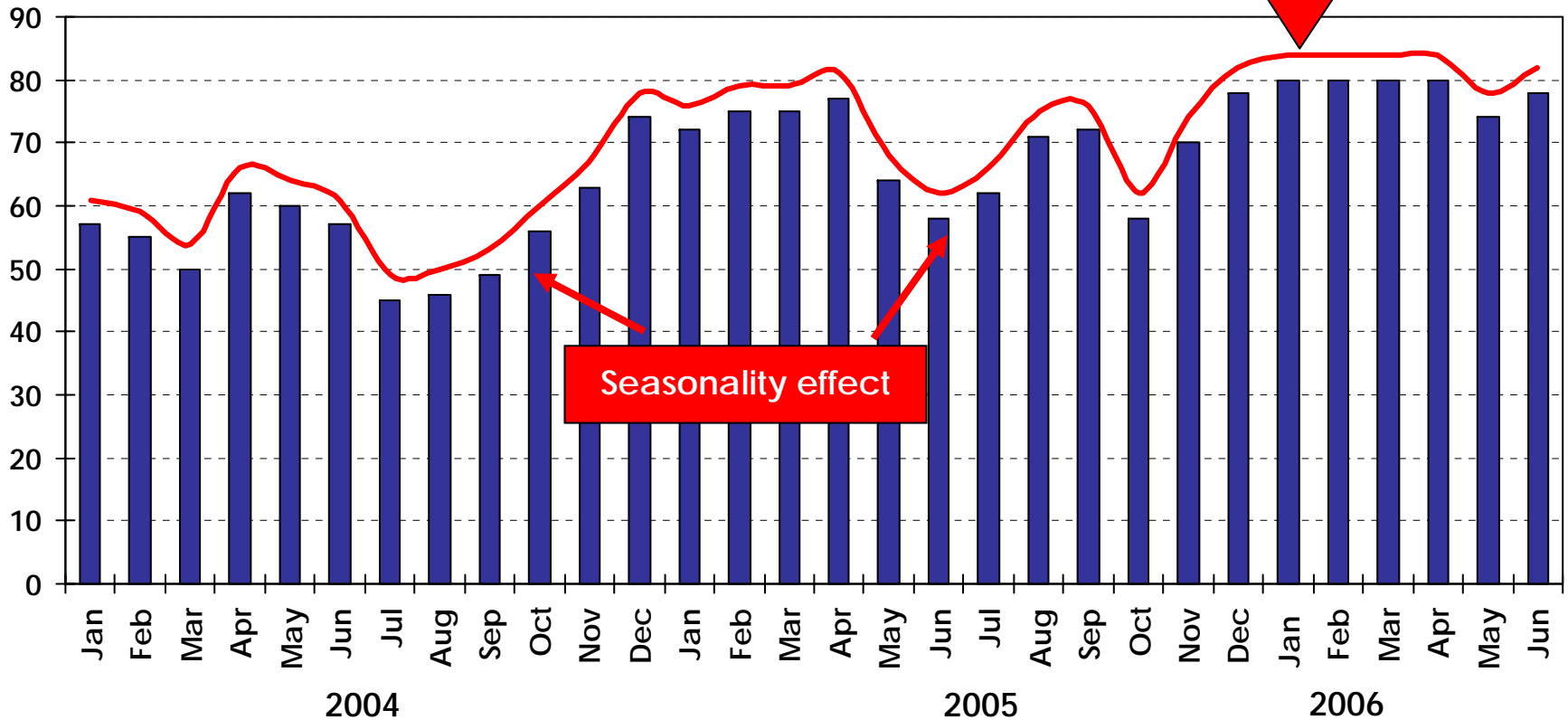


Liquids production, '000 tons



Increasing gas production

Monthly Gas Production, mmcm/day



Avg. 56 mmcm/day

Avg. 69 mmcm/day

Avg. 79 mmcm/day



Purovsky processing plant & Vitino Sea Port Terminal

Key facts (during 1H 06):

■ Total volumes delivered

- East Tarkosalinskoye and Khancheykoye fields: 739 mt (98% of production)
- Yurkharovskoye: 295 mt (88% of production)

■ Total plant output

- Stable gas condensate: 775 mt
- LPG: 253 mt

■ Stable gas condensate recognized as inventory

- 187 mt at 30 June 2006

■ Plant capacity

- Approximately 100%

■ Tankers from Vitino Sea Port Terminal

- 65% of stable gas condensate to US markets
- 35% to European markets

■ 80% of LPG volumes sold on the domestic market

Gas Condensate field to delivery point – approximate timeline



From field to processed stable gas condensate:
➤ 3 days



Loading stable gas condensate in rail cars:
➤ 1 day



Transport to Vitino Port and tanker loading:
➤ 8 days



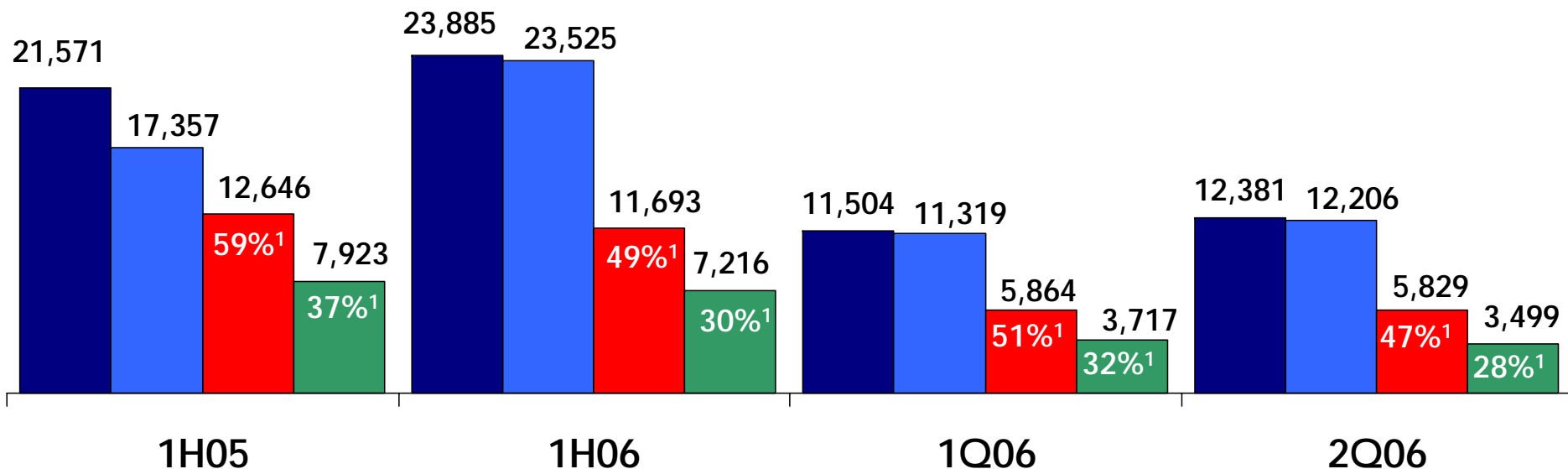
Transport to European markets:
➤ 7 days



Transport to US markets:
➤ 14 days

Financial Overview

Summary financial results (million RR)



1H 2005 w/o disposals	RR million	% of TR & Other Income
Total revenues & other income	17,940	
EBITDA	9,015	50%
Net profit	5,237	29%

1Q 06 vs 2Q 06 Main drivers in Δ	1Q 06	2Q 06	Δ %
Stable gas condensate sales	2,359	3,842	63%
Chg. in inventory (expense) credit	646	(117)	118%
SG&A (expense)	(665)	(860)	29%

■ Total revenues & other income
 ■ Oil & gas sales
 ■ EBITDA
 ■ Net profit

Notes

- Percentage of total revenues % other income
- EBITDA represents net income before finance income (expense) and income taxes from the Statements of Income, and depreciation, depletion and amortization and Share-based compensation from the Statements of Cash Flows

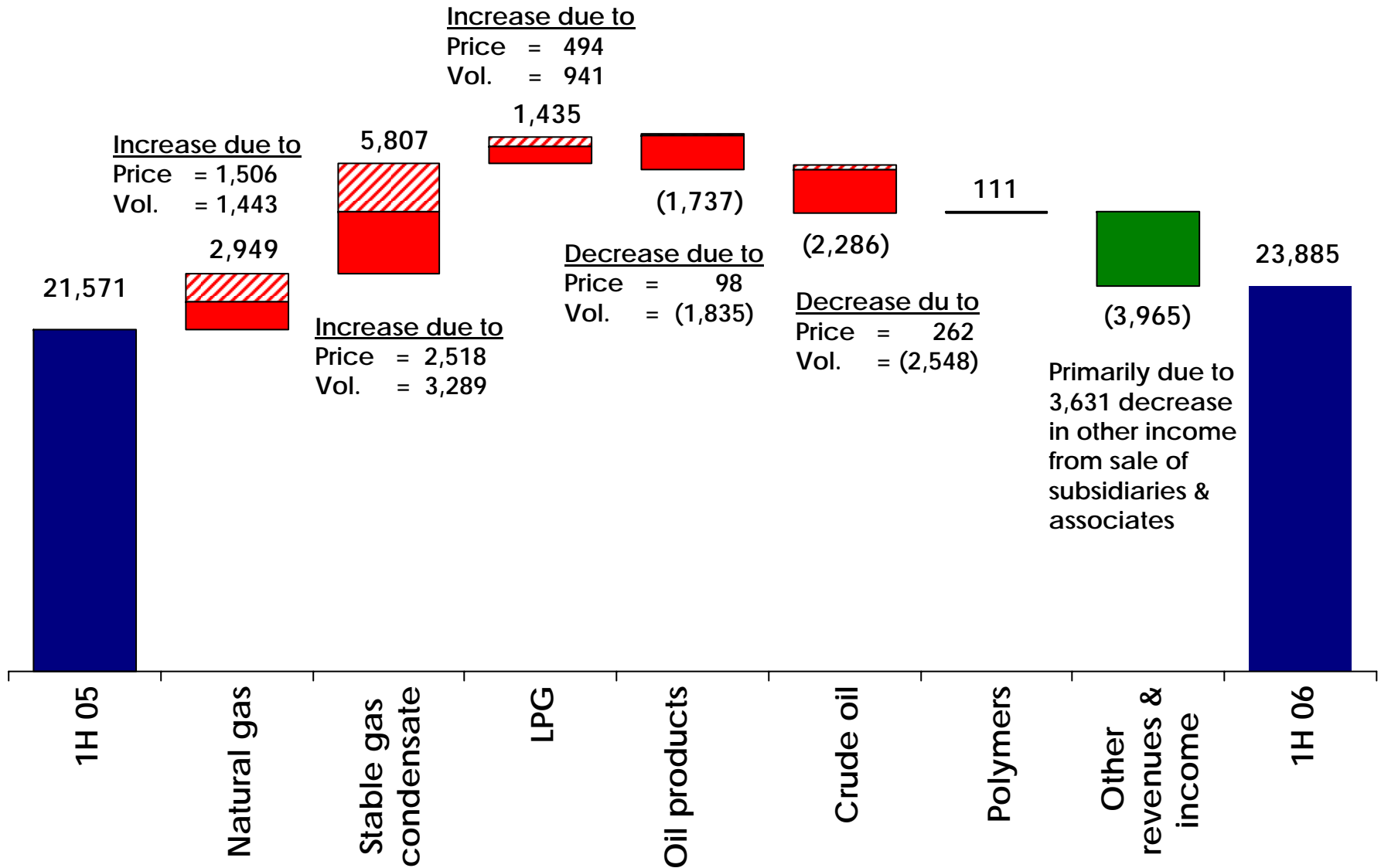
Steady period on period growth

1Q 06	2Q 06	+ / (-)%	RR million	1H05	1H 06	+ / (-)%
11,319	12,206	8%	Oil & gas sales	17,357	23,525	36%
(113)	(172)	(52%)	Other income	3,624	(285)	(108%)
11,504	12,381	8%	Total revenues & other income	21,571	23,885	11%
6,723	7,672	14%	Operating expense	10,783	14,395	33%
5,864	5,829	(1%)	EBITDA⁽¹⁾	12,646	11,693	(8%)
Na	Na		EBITDA⁽¹⁾ net of disposals	9,015	11,693	30%
24.1%	25.7%		Effective Tax Rate	25.0%	24.8%	
3,717	3,499	(6%)	Profit attributable to Novatek	7,923	7,216	(9%)
1,186	1,035	(13%)	Capex	3,205	2,221	(31%)
1,686	911	(46%)	Net debt ⁽²⁾	6,138 ⁽³⁾	911	(85%)
2%	1%		Net debt / Total capitalization ⁽⁴⁾	8% ⁽³⁾	1%	

Notes:

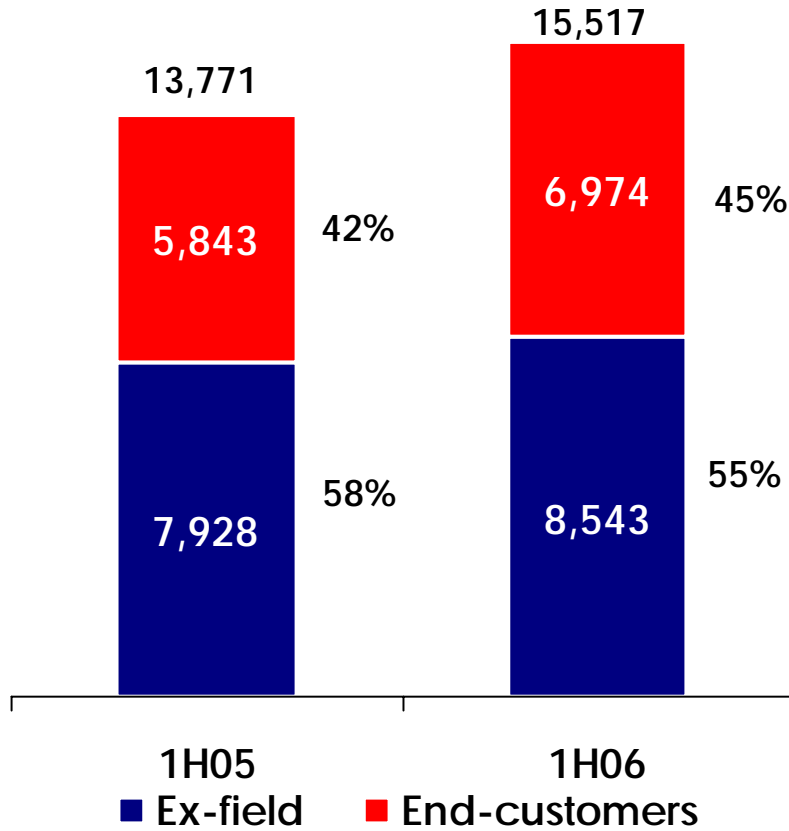
- EBITDA represents net income before finance income (expense) and income taxes from the Statements of Income, and depreciation, depletion and amortization and Share-based compensation from the Statements of Cash Flows
- Net debt calculated as long-term debt plus short-term debt less cash and cash equivalents
- As of 12/31/2005
- Total capitalization calculated as total debt plus shareholders equity plus minority interest plus deferred tax liability

Revenue & other income reconciliation (RR million)



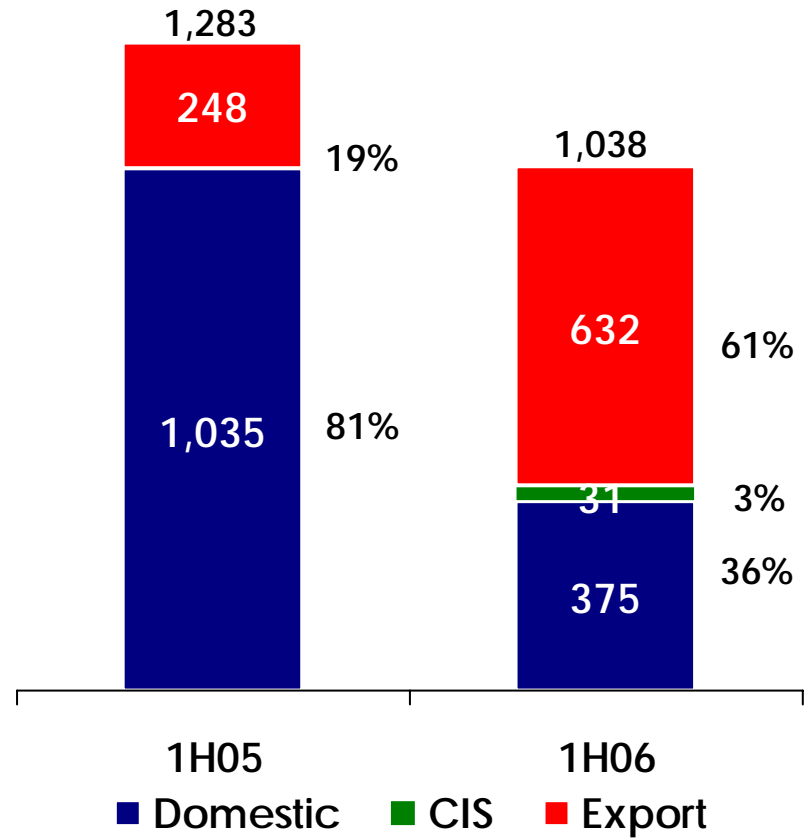
Market distribution – sales volumes

Natural gas, mmcm



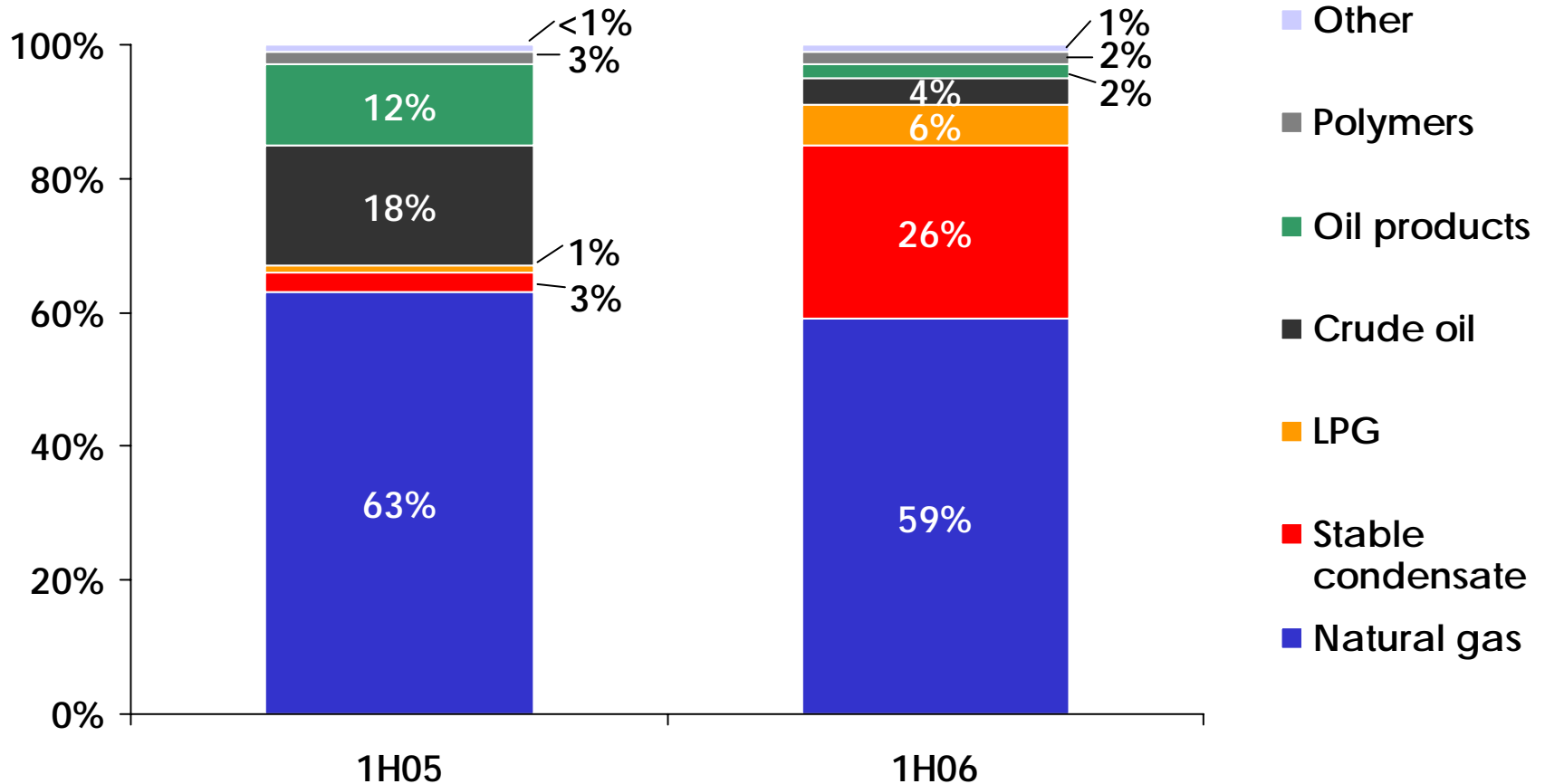
13% increase in sales volumes; slight increase in sales to end-customers but distribution between categories remained relatively unchanged

Liquids, '000 tons



Decrease in volumes due to stable gas condensate in transit (187 thousand tons) at 30 June 2006 and the disposal of Geoilbent in June 2005. Significant increase in export/CIS volumes (167%)

Total revenue breakdown



The decrease in natural gas revenues as a percentage of total revenues in 2006 was due to the increase in prices for liquid hydrocarbons in 2006 as well as a significant increase in export sales volumes and subsequently higher net realized prices

Realized prices (net of VAT and export duties)

1Q 06	2Q 06	+ /(-)	+ /(-)%	Hydrocarbon prices	1H 05	1H 06	+ /(-)	+ /(-)%	
<u>Domestic market</u>									
1,220	1,244	24	2%	Natural gas end-user, RR/mcm	1,100	1,231	131	12%	
679	669	(10)	(1%)	Natural gas ex-field, RR/mcm	627	674	47	8%	
n/a	7,993	n/a	n/a	Stable gas condensate, RR/ton	6,271	7,993	1,722	27%	
6,075	6,499	424	7%	Crude oil, RR/ton	4,081	6,277	2,196	54%	
6,457	4,440	(2,017)	(31%)	LPG, RR/ton	4,181	5,493	1,312	31%	
6,132	6,329	197	3%	Oil products, RR/ton	4,531	6,250	1,719	38%	
<u>CIS market ¹</u>									
8,455	7,497	(958)	(11%)	LPG, RR/ton	n/a	7,783	n/a	n/a	
<u>Export market ¹</u>									
9,877	11,636	1,759	18%	Stable gas condensate, RR/ton	6,574	10,865	4,291	65%	
6,724	7,177	453	7%	Crude oil, RR/ton	5,954	7,074	1,120	19%	
10,629	8,865	(1,764)	(17%)	LPG, RR/ton	n/a	10,258	n/a	n/a	

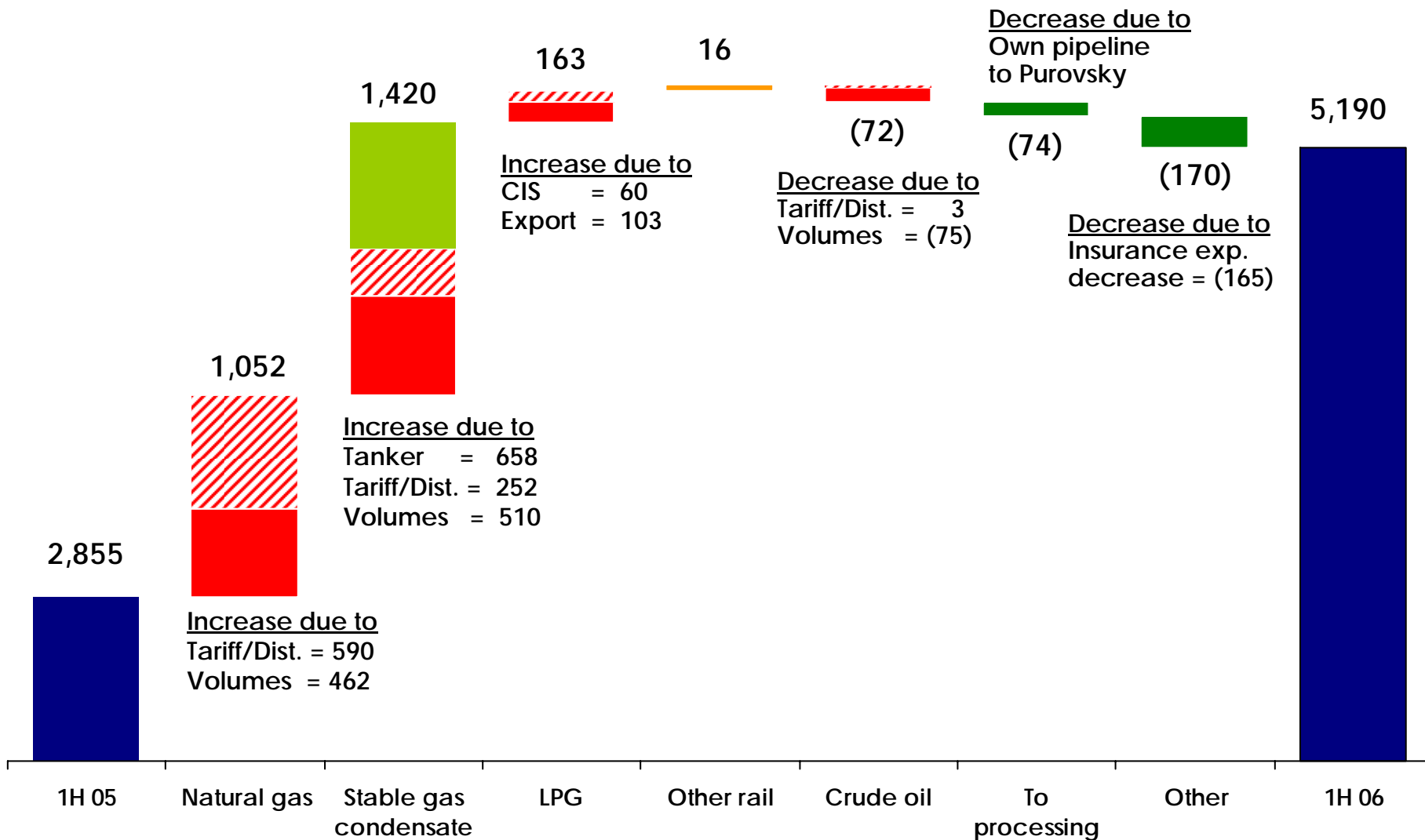
Note
1. Includes cost of transportation

Operating expenses breakdown (% of Total revenue (TR))

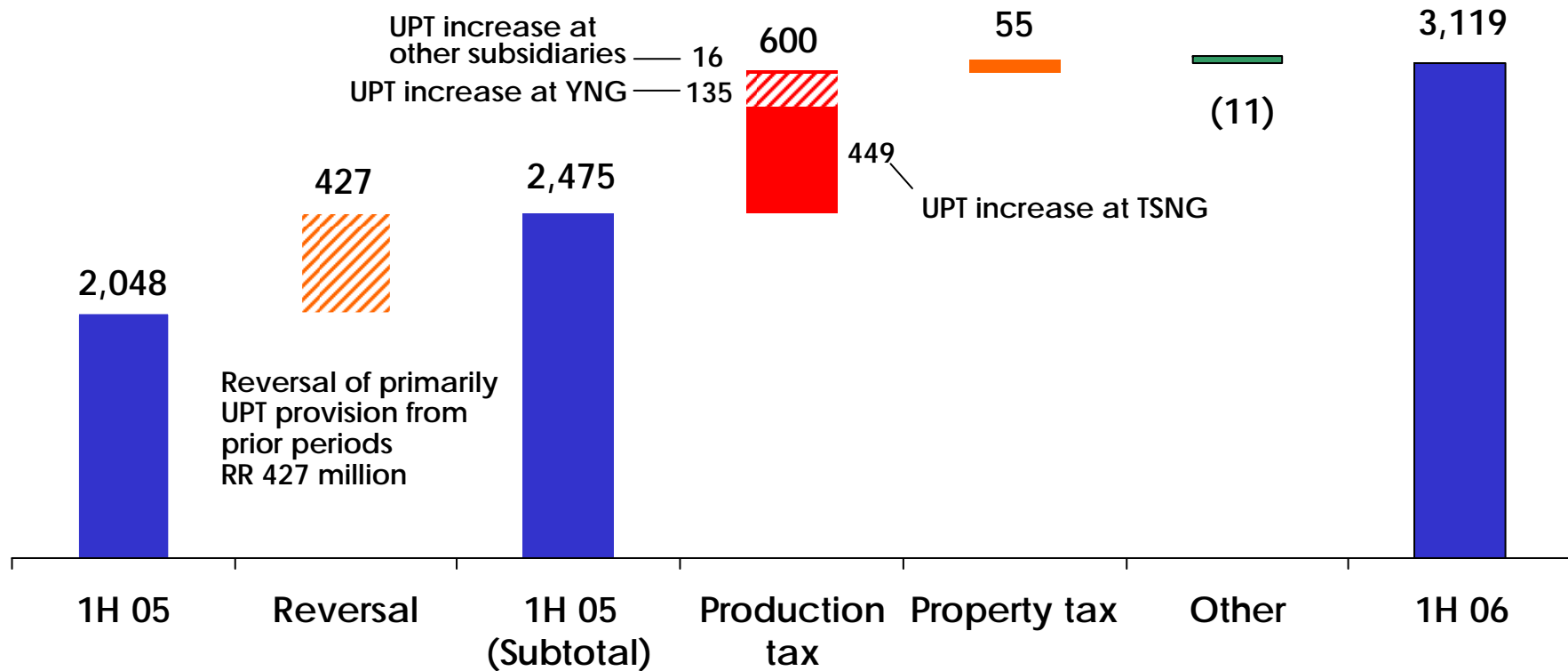
1Q 06	% of TR	2Q 06	% of TR	Operating Expenses, RR million	1H 05	% of TR	1H 06	% of TR
2,564	22%	2,596	21%	Transportation expense	2,855	16%	5,190	22%
1,533	13%	1,566	13%	Taxes other than income	2,048	11%	3,119	13%
993	9%	996	8%	Depreciation and amortization	1,664	9%	1,992	8%
964	8%	943	8%	Materials, services and other	1,669	9%	1,907	8%
665	6%	860	7%	General and administrative	1,021	6%	1,525	6%
112	1%	115	1%	Exploration expense	270	2%	227	1%
76	1%	18	0%	Net impairment expense	45	0%	94	0%
(646)	(6%)	117	1%	Change in inventory	(120)	(1%)	(529)	(2%)
6,314	54%	7,211	57%	Subtotal operating expenses	9,452	53%	13,525	56%
409	4%	1,331	4%	Cost of purchased oil, condensate and natural gas	1,331	7%	870	4%
6,723	58%	14,395	61%	Total operating expense	10,783	60%	14,395	60%

- ❑ Q-o-Q 2006 expenses as a percentage of total revenues were relatively unchanged with the exception of change in inventory which was a credit in 1Q06 due to the change in marketing of stable gas condensate sales
- ❑ H-o-H Transportation costs grew primarily due to a 23% increase in the natural gas tariff per 1000 m³ per 100 km, and a 167% increase in liquid hydrocarbon volumes sold to export markets under different delivery terms
- ❑ Taxes other than on income increased primarily due to higher production volumes and a 8.9% increase in the UPT rate for natural gas offset slightly by a tax reversal in 2005

Transportation expense (RR million)



Taxes other than income (RR million)



- Increase in “taxes other than income” of 52% is due to an increase in production tax (UPT) of 27%, primarily due to increased production from TSNG and YNG and an increase in the UPT rate for natural gas (RR135 per mcm to RR 147 per mcm) which was offset by a reversal of a provision for other taxes from prior periods
- Total UPT on natural gas and liquids was RR 2,096 million and RR 708 million, respectively
- Increase in Property tax due to additions of property, plant and equipment at Nova ZPK, Novatek and YNG

Condensed balance sheet (RR million)

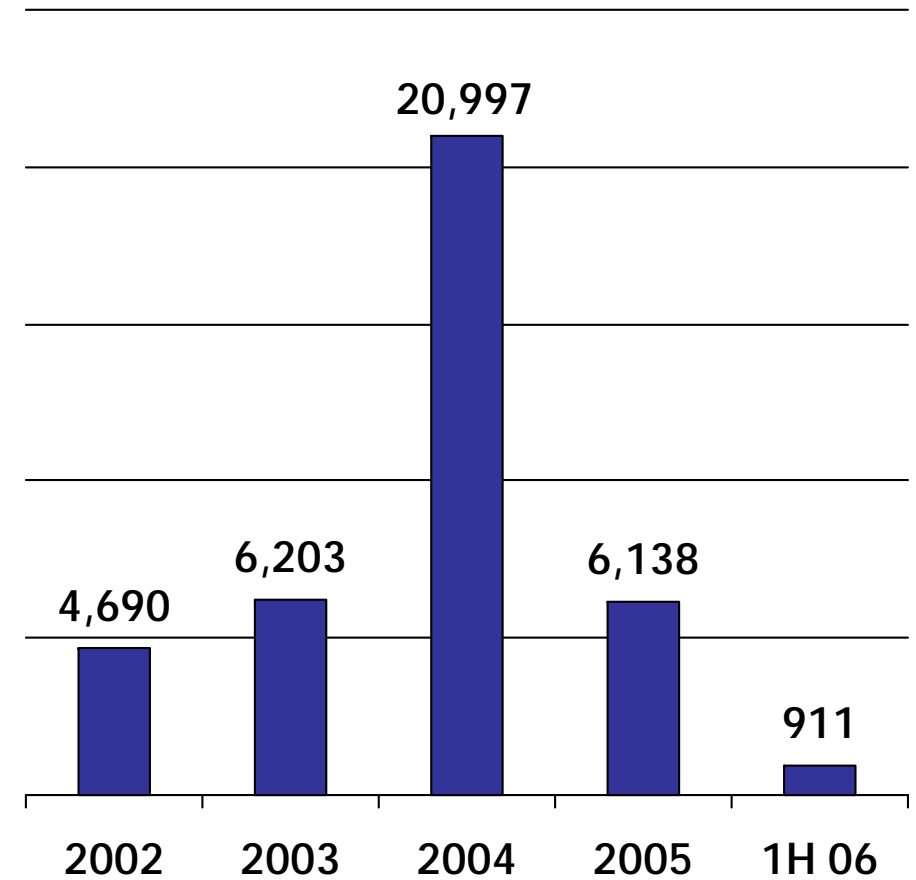
RR million	2005	1H 06	+ / (-)	+ / (-)%
Total current assets	11,922	12,871	949	8%
<i>Incl. Cash & cash equivalents</i>	<i>2,956</i>	<i>4,061</i>	<i>1,105</i>	<i>37%</i>
Total non-current assets	66,840	67,654	814	1%
<i>Incl. Net PP&E</i>	<i>65,675</i>	<i>66,259</i>	<i>584</i>	<i>1%</i>
Total assets	78,762	80,525	1,763	2%
Total current liabilities	10,432	6,357	(4,075)	(39%)
<i>Incl. ST Debt</i>	<i>8,202</i>	<i>3,828</i>	<i>(4,374)</i>	<i>(53%)</i>
Total non-current liabilities	10,781	10,848	67	1%
<i>Incl. Deferred income tax liability</i>	<i>8,396</i>	<i>8,196</i>	<i>(200)</i>	<i>(2%)</i>
<i>Incl. LT Debt</i>	<i>892</i>	<i>1,144</i>	<i>252</i>	<i>28%</i>
Total Liabilities	21,213	17,205	(4,008)	(19%)
Total equity (including minority interest)	57,549	63,320	5,771	10%
Total liabilities & equity	78,762	80,525	1,763	2%

Debt structure

Debt structure and maturities

RR million	1H 06	2005
Short-term debt	1,700	1,192
<i>current portion of long-term debt</i>	<i>2,128</i>	<i>7,010</i>
Long-term debt	1,144	892
Scheduled maturities		
2006	-	-
2007	-	375
2008	817	360
2009	283	141
2010	44	16
Total debt	4,972	9,094
Cash and equivalents	4,061	2,956
Net debt	911	6,138

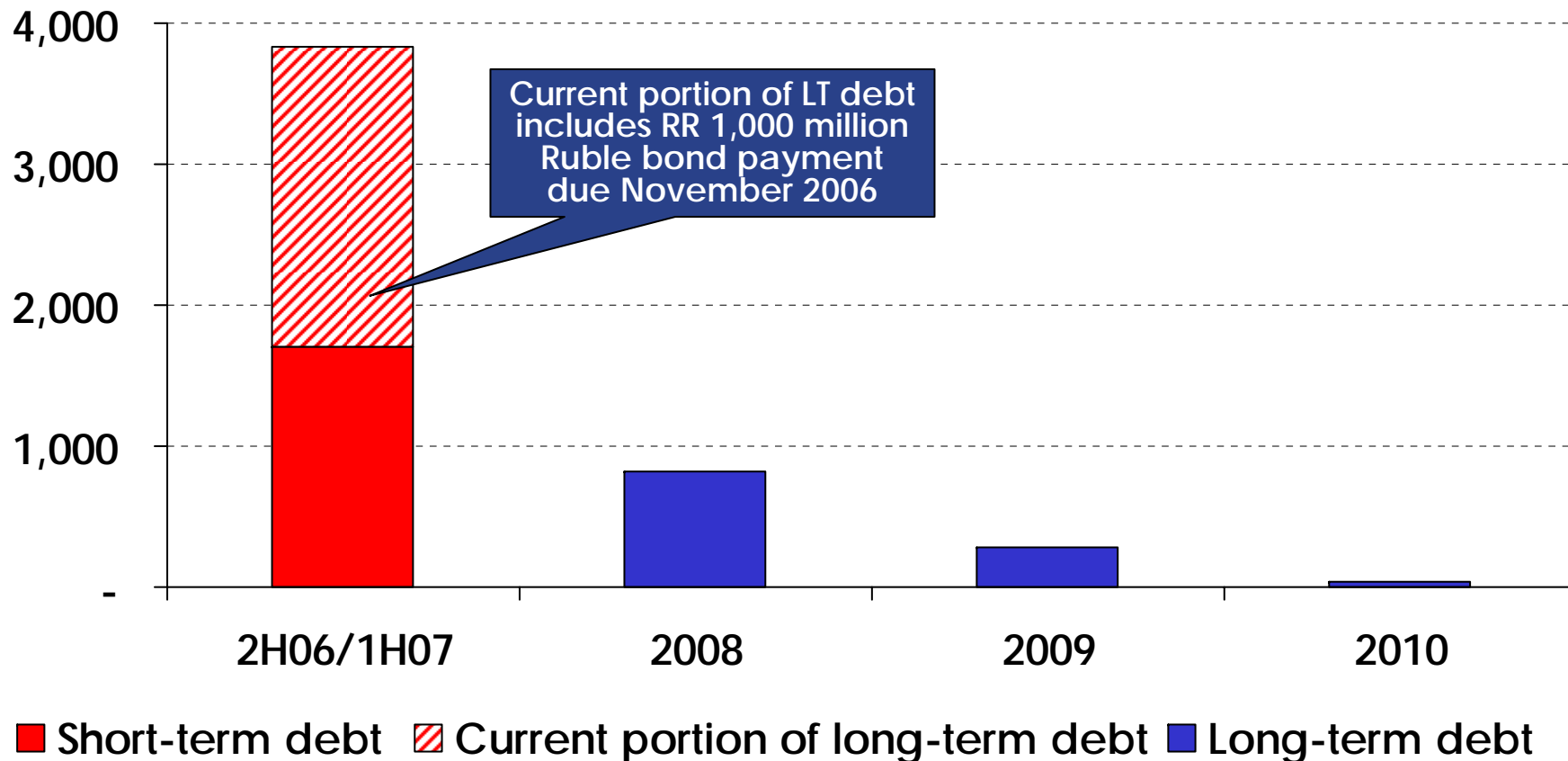
Net Debt evolution, RR million



Net debt reduction of over 96% since 2004

Total debt maturity profile (RR million)

Current debt maturity profile as at 30 June 2006



Questions and Answers