

OA0 NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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INDEPENDENT AUDITOR'S REPORT

To the shareholders and directors of OAO NOVATEK

- 1 We have audited the accompanying consolidated financial statements of OAO NOVATEK and its subsidiaries (the "Group") set out on pages 4 to 33 which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

- 6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

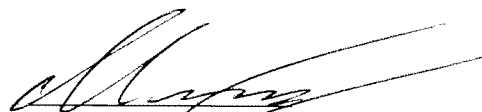
Moscow, Russian Federation
14 April 2007


OAQ NOVATEK
Consolidated Balance Sheet
(in millions of Russian roubles)

	Notes	At 31 December:	
		2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	5	66,734	65,675
Long-term loans receivable and other non-current assets		1,774	1,165
Total non-current assets		68,508	66,840
Current assets			
Inventories	6	2,146	1,418
Current income tax prepayments		940	732
Trade and other receivables	7	2,877	4,849
Prepayments and other current assets	8	4,187	1,967
Cash and cash equivalents	9	5,668	2,956
Total current assets		15,818	11,922
Total assets		84,326	78,762
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	10	543	892
Deferred income tax liability	18	8,412	8,396
Other non-current liabilities		1,597	1,493
Total non-current liabilities		10,552	10,781
Current liabilities			
Short-term debt and current portion of long-term debt	11	2,565	8,202
Trade payables and accrued liabilities		1,801	1,261
Current income tax payable		48	46
Other taxes payable		684	923
Total current liabilities		5,098	10,432
Total liabilities		15,650	21,213
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Additional paid-in capital		30,081	29,905
Asset revaluation surplus on acquisitions		5,617	5,481
Retained earnings		32,229	21,489
Total equity attributable to OAO NOVATEK shareholders	12	68,320	57,268
Minority interest		356	281
Total equity		68,676	57,549
Total liabilities and equity		84,326	78,762

The accompanying notes are an integral part of these consolidated financial statements.

Approved for issue and signed on behalf of the Board of Directors on 14 April 2007:


L. Mikhelson
General Director


M. Gyetvay
Financial Director

OAO NOVATEK
Consolidated Statement of Income
(in millions of Russian roubles)

	Notes	Year ended 31 December:	
		2006	2005
Revenues			
Oil and gas sales	13	47,488	37,246
Sales of polymer and insulation tape		1,109	964
Other revenues		217	267
Total revenues		48,814	38,477
Net gain on disposal of investments in oil and gas producing associates		-	3,611
Net gain on disposal of interest in subsidiaries		9	20
Other income (loss)		(148)	79
Total revenues and other income		48,675	42,187
Operating expenses			
Transportation expenses	14	(10,803)	(6,605)
Taxes other than income tax	15	(6,223)	(4,494)
Materials, services and other	16	(3,893)	(3,737)
Depreciation, depletion and amortization	5	(3,671)	(3,372)
General and administrative expenses	17	(3,165)	(2,417)
Purchases of oil, gas condensate and natural gas		(1,805)	(2,065)
Exploration expenses		(459)	(348)
Net impairment expense		(100)	(87)
Changes in inventories		597	264
Total operating expenses		(29,522)	(22,861)
Profit from operations		19,153	19,326
Finance income (expense)			
Interest expense		(516)	(1,121)
Interest income		274	672
Foreign exchange gain (loss)		211	(280)
Total finance income (expense)		(31)	(729)
Share of profit of associates, net of income tax		-	143
Profit before income tax		19,122	18,740
Income tax expense			
Current income tax expense		(5,527)	(5,615)
Net deferred income tax benefit		412	537
Total income tax expense	18	(5,115)	(5,078)
Profit for the year		14,007	13,662
Profit (loss) attributable to:			
Minority interest		(72)	(35)
Shareholders of OAO NOVATEK		14,079	13,697
Basic and diluted earnings per share (in Russian roubles)		4.64	4.51
<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 these consolidated financial statements.

OAO NOVATEK
Consolidated Statement of Cash Flows
(in millions of Russian roubles)

	Notes	Year ended 31 December:	
		2006	2005
Profit before income tax		19,122	18,740
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		3,728	3,410
Net impairment expense		100	87
Net foreign exchange loss (gain)		(211)	280
Net loss (gain) on disposal of assets		223	(3,664)
Share-based compensation	21	176	108
Interest expense		516	1,121
Interest income		(274)	(672)
Share of profit of associates, net of income tax		-	(143)
Net change in other non-current assets		(65)	707
Other adjustments		(91)	29
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(506)	(2,705)
Decrease (increase) in inventories		(740)	(504)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends		600	223
Increase (decrease) in other taxes payable		(217)	(364)
Total effect of working capital changes		(863)	(3,350)
Income taxes paid		(5,754)	(6,407)
Net cash provided by operating activities		16,607	10,246
Cash flows from investing activities			
Purchases of property, plant and equipment		(4,439)	(4,433)
Acquisition of subsidiaries and minority interests, net of cash acquired		(184)	(52)
Proceeds from disposals of subsidiaries, associates and minority interests, net of cash disposed	4	45	5,565
Interest paid and capitalized		(287)	(608)
Loans provided		(153)	(260)
Repayments of loans provided		39	8,085
Dividends and non-banking interest received		269	686
Net cash (used for) provided by investing activities		(4,710)	8,983
Cash flows from financing activities			
Proceeds from long-term borrowings		2,689	2,058
Proceeds from short-term borrowings		3,734	2,755
Repayments of long-term borrowings		(7,428)	(14,102)
Repayments of short-term borrowings		(4,437)	(7,110)
Non-banking interest paid		(305)	(992)
Dividends paid	12	(3,290)	(1,889)
Net cash (used for) provided by financing activities		(9,037)	(19,280)
Net effect of exchange rate changes on cash and cash equivalents		(148)	(12)
Net movements in banking mandatory cash balance in the Central Bank of Russia		-	16
Net increase (decrease) in cash and cash equivalents		2,712	(47)
Cash and cash equivalents at beginning of the year		2,956	3,003
Cash and cash equivalents at end of the year		5,668	2,956

The accompanying notes are an integral part of these consolidated financial statements.

OAO NOVATEK

Consolidated Statement of Changes in Equity

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

	Number of ordinary shares (in thousands)	Ordinary share capital	Additional paid in capital	Asset revaluation surplus	Retained earnings	Equity attributable to OAO NOVATEK shareholders	Minority interest	Total equity
At 31 December 2004	3,036,306	393	29,797	5,481	8,952	44,623	449	45,072
Cumulative effect of adoption of IFRS 3, <i>Business Combinations</i>	-	-	-	-	762	762	-	762
At 31 December 2004, as restated for adoption of IFRS 3, <i>Business Combinations</i>	3,036,306	393	29,797	5,481	9,714	45,385	449	45,834
Dividends	-	-	-	-	(1,922)	(1,922)	-	(1,922)
Impact of disposals and acquisitions on minority interest	-	-	-	-	-	-	(133)	(133)
Share-based compensation funded by shareholders	-	-	108	-	-	108	-	108
Profit (loss) for the year	-	-	-	-	13,697	13,697	(35)	13,662
At 31 December 2005	3,036,306	393	29,905	5,481	21,489	57,268	281	57,549
Dividends	-	-	-	-	(3,258)	(3,258)	-	(3,258)
Acquisitions of subsidiaries (Note 4)	-	-	-	136	-	136	203	339
Acquisitions and disposals of minority interest (Note 4)	-	-	-	-	(81)	(81)	(197)	(278)
Impact on minority interest of additional shares subscription in subsidiaries	-	-	-	-	-	-	141	141
Share-based compensation funded by shareholders	-	-	176	-	-	176	-	176
Profit (loss) for the year	-	-	-	-	14,079	14,079	(72)	14,007
At 31 December 2006	3,036,306	393	30,081	5,617	32,229	68,320	356	68,676

The accompanying notes are an integral part of these consolidated financial statements.

ОАО NOVATEK

Notes to the Consolidated Financial Statements

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

In October 2006, the Group established OOO NOVATEK-Refuelling Complexes, a wholly-owned subsidiary, to manage the wholesale and retail trading of liquefied petroleum gas and other oil products.

In September 2006, the Group and OAO OGK-5 established OAO Northern Energy Company for the purpose of evaluating potential investment opportunities in the power generation sector. At 31 December 2006 the Group owned 50 percent plus one share of this new subsidiary.

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

In 2005, the Group started the legal process of renaming its key subsidiaries to create a uniform brand image for NOVATEK. During 2006, the Group subsidiaries OOO Yurkharovneftegas and OOO Tarkosaleneftegas were renamed to OOO NOVATEK-YURKHAROVNEFTEGAS and OOO NOVATEK-TARKOSALENEFTEGAS, respectively.

2 BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). In the absence of specific IFRS guidance for oil and gas producing companies, the Group has developed accounting policies in accordance with other generally accepted accounting principles for oil and gas producing companies insofar as they do not conflict with IFRS principles.

The Group entities maintained their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation (“RAR”). The Group’s consolidated financial statements are based on the statutory records with adjustments and reclassifications recorded in the consolidated financial statements for the fair presentation in accordance with IFRS. The principal adjustments primarily relate to (1) depreciation, depletion and amortization, and valuation of property, plant and equipment, (2) consolidation of subsidiaries, (3) business combinations, (4) accounting for income taxes, and (5) valuation of unrecoverable assets, expense recognition and other provisions.

The consolidated financial statements have been prepared under the historical cost convention. The Group’s entities functional currency is the Russian rouble (“RR”).

Use of estimates. The preparation of consolidated financial statements 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 financial statements preparation and the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. Estimates have principally been made in respect to fair values of assets and liabilities (Notes 3 and 19), impairment provisions (Note 3), oil and gas reserves (Note 3) and deferred income taxes (Notes 3 and 18). Actual results may differ from such estimates, however, management considers that the effect of any changes in these estimates would not be significant.

2 BASIS OF PRESENTATION (CONTINUED)

Exchange rates, restrictions and controls. The official rate of exchange of the Russian rouble to the US dollar (“USD”) at 31 December 2006 and 2005 was 26.33 and 28.78 Russian roubles to USD 1.00, respectively. Any translation of Russian rouble amounts to US dollars or any other hard currency should not be construed as a representation that such Russian rouble amounts have been, could be, or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation. The accompanying consolidated financial statements include the operations of all controlled companies in which NOVATEK directly or indirectly owns more than 50 percent of the voting stock or otherwise has the power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is obtained unless the acquisition occurred between entities under common control, which are accounted for from the beginning of the earliest period presented. Subsidiaries are no longer consolidated from the date that control ceases. Except for the acquisition of entities under common control, the purchase method of accounting is used to account for the acquisition of subsidiaries.

Upon achieving a controlling interest in an entity in which the Group previously held a non-controlling interest, the acquiree’s identifiable assets, liabilities and contingent liabilities are restated to their fair values as of the date of achieving control. The effect of revaluing previously held interests to current fair values is recorded within asset revaluation surplus in the consolidated statement of shareholders’ equity.

Intercompany transactions, balances and unrealized gains on transactions between the Group entities are eliminated; unrealized losses are also eliminated unless the cost cannot be recovered.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by NOVATEK. Minority interest forms a separate component of the Group’s equity.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in other non-current assets. Goodwill on an acquisition of an associate is included in investments in associates.

The Group applied the transitional rules of IFRS 3, *Business Combinations*, in respect of goodwill and negative goodwill arising from business combinations for which the agreement date was before 31 March 2004. In accordance with IFRS 3, goodwill arising from business combinations for which the agreement date is on or after 31 March 2004 is tested annually for impairment and carried at cost less accumulated impairment losses. Negative goodwill arising from a business combination for which the agreement is on or after 31 March 2004 is recognized directly in the consolidated statement of income. Beginning 1 January 2005, previously recognized goodwill is no longer amortized and is now tested for impairment in accordance with IAS 36, *Impairment of Assets*. At 31 December 2004, the Group had negative goodwill of RR 762 million recorded within other long-term assets in its consolidated balance sheet. On 1 January 2005, this negative goodwill was derecognized in accordance with IFRS 3 and retained earnings were increased by the same amount.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

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

Investments in associates. Associated companies are entities over which the Group has significant influence, but which it does not control. Generally, significant influence exists when the Group has between 20 percent and 50 percent of the voting rights. Associated companies are accounted for using the equity method. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognized in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Property, plant and equipment. Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation, depletion, amortization and impairment.

The Group follows the successful efforts method of accounting for its oil and gas properties and equipment whereby property acquisitions, successful exploratory wells, all development costs and support equipment and facilities are capitalized. Unsuccessful exploratory wells are charged to expense at the time the wells are determined to be non-productive. Production costs, overheads and all exploration costs other than exploratory drilling are charged to expense as incurred. Acquisition costs of unproved properties are evaluated periodically and any impairment assessed is charged to expense.

The Group's principal reserves have been independently estimated by internationally recognized petroleum engineers. Other oil and gas reserves of the Group have been determined based on estimates of mineral reserves prepared by management in accordance with internationally recognized definitions. The present value of the estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, are recognized when the obligation is incurred and are included within the carrying value of property, plant and equipment, subject to depletion using the unit-of-production method.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is retired.

At each reporting date management assess whether there is any indication of impairment in respect of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the consolidated statement of income. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. Gains and losses are recognized in consolidated statement of income.

Exploration costs. Exploration costs (geological and geophysical expenditures, expenditures associated with the maintenance of non-proven reserves and other expenditures relating to the exploration activity), excluding exploratory drilling expenditures and license acquisition costs, are charged to consolidated statement of income as incurred. License acquisition costs and exploratory drilling costs are recognized as assets until it is determined whether proved reserves justifying their commercial development have been found. If no proved reserves are found, the capitalized drilling costs are charged to the consolidated statement of income. License acquisition costs and exploratory drilling costs recognized as assets are reviewed for impairment on an annual basis.

Depreciation. Depreciation, depletion and amortization of oil and gas properties and equipment (except for processing facilities) is calculated using the unit-of-production method for each field based upon proved developed reserves for development costs, and total proved reserves for costs associated with acquisitions of proved properties. Reserve amounts used for depreciation, depletion and amortization calculations include reserves expected to be produced beyond license expiry dates. Management believes that there is requisite legislation to extend mineral licenses at the initiative of the Group and, as such, intends to extend its licenses for properties expected to produce beyond the current license expiry dates. In February 2005, the Group successfully extended its license on the Yurkharovskoye field from 2020 through 2034, which year represents the expected end of the economic life of the field. The cost of license extension was not material.

Property, plant and equipment, other than oil and gas properties and equipment, are depreciated on a straight-line basis over their estimated useful lives. Assets under construction are not depreciated.

The estimated useful lives of the Group's other assets are as follows:

	<u>Years</u>
Machinery and equipment	5-15
Processing facilities	20-30
Buildings	25-50

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge or benefit comprises current tax and deferred tax and is recognized in the consolidated statement of income unless it relates to transactions that are recognized, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or when the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are netted only with respect to individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories. Natural gas, gas condensate, crude oil and related products inventories are valued at the lower of cost or net realizable value. The cost of inventories includes applicable purchase costs of raw materials, direct operating costs, and related production overhead expenses and is recorded at average cost. Net realizable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

Materials and supplies inventories are recorded at average cost and are carried at amounts which do not exceed their respective amounts recoverable in the normal course of business.

Trade and other receivables. Trade receivables are represented by amounts due from regular customers in the ordinary course of business (production and marketing of natural gas, gas condensate, crude oil and related products; production and marketing of polymer and insulation tape products). Trade and other receivables are presented at recoverable amounts and include value-added taxes, which are payable to the tax authorities upon collection of such receivables. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognized in the consolidated statement of income.

Cash and cash equivalents. Cash and cash equivalents comprises cash on hand, cash deposits held with banks, and investments which are readily convertible to known amounts of cash and which are not subject to significant risk of change in value and have an original maturity of three months or less.

Dividends. Dividends are recognized as a liability and deducted from shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements are authorized for issue.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Value added tax. Output value added tax ("VAT") related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deductible and deferred VAT payable) is recognized on a gross basis and disclosed separately as current asset and liability, except for VAT related to assets under construction which are included within other non-current assets. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings received or provided are recognized initially at cost, which is the fair value of the consideration received or provided, net of transaction costs incurred, if any. Borrowings denominated in foreign currencies are re-measured at each period end at the foreign exchange rate as of the balance sheet date. Borrowings received or provided that are originated by the Group are subsequently measured at amortized cost and, for borrowings provided, net of any impairment losses.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortized cost using the effective interest method.

Provisions for liabilities and charges. Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reassessed at each reporting date and changes in the provisions resulting from the passage of time are reflected in the consolidated statement of income within operating income and expenses.

Asset retirement obligations. An asset retirement obligation is recognized when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation, determined using discount rates reflecting adjustments for risks specific to the obligation. Changes in the obligation resulting from the passage of time are recognized as interest expense. Changes in the obligation, reassessed at each balance sheet date, related to a change in the expected pattern of settlement of the obligation, or in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the period. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability.

Foreign currency transactions. Transactions denominated in foreign currencies are converted into the functional currency of each entity of the Group at the exchange rates prevailing on the date of transactions. Exchange gains and losses resulting from foreign currency remeasurement into the functional currencies are included in the determination of profit for the year.

Revenue recognition. Revenues from oil and gas sales and sales of polymer and insulation tape are recognized when such products are delivered to customers and title has transferred. If the Group agrees to transport goods to a specified location, revenue is recognized when the goods are passed to the customer at the destination point. Revenues are stated net of value-added tax and export duties.

Sales of services are recognized in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognized on a time-proportion basis using the effective interest method.

General and administrative expenses. General and administrative expenses represent overall corporate management and other expenses related to the general management and administration of the business unit as a whole. They include management and administrative compensation, certain legal and other advisory expenses, insurance of properties, social expenses and other expenses necessary for the administration of the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

Share based payments. The Group accounts for share-based payments in accordance with IFRS 2, *Share-based Payment* ("IFRS 2"). The fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted measured at the grant date. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and additional paid in capital when awards are exercised.

For share-based payments made to employees by shareholders, an increase to additional paid in capital is recorded equal to the associated compensation expense each period.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to shareholders of NOVATEK by the weighted average number of shares outstanding during the reporting year.

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenues earned from sales to external customers and whose revenues, results or assets are ten percent or more of all the segments are reported separately.

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments. The risks and returns of the Group's operations are primarily determined by the nature of the different activities that the Group engages in, rather than the geographical location of these operations. This is reflected by the Group's organizational structure.

The Group has two reportable business segments: Exploration and production and Corporate and other. The Group has three major reportable geographical segments: Russia, Europe and USA.

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

During 2006, the Group entered into commodity price swap contracts for total notional volume of 900 thousand barrels. The notional volumes of the contracts were not exchanged. None of the contracts qualified for hedge treatment under IAS 39. The Group settled all outstanding contracts realizing net losses of RR 83 million. The results of the commodity price swap contracts were recorded within other income (loss) in the consolidated statement of income. The Group did not have any open positions related to commodity instruments at 31 December 2006.

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

During 2006, the Group entered into short-term foreign currency forward contracts to manage its exposure to foreign currency fluctuations on debt repayment in US dollars. Neither of these contracts qualified for hedge treatment under IAS 39. Under the foreign currency forward contracts, the Group entered into a firm commitment to purchase USD 50 million in exchange for selling Russian roubles in the aggregate amount of RR 1,402 million at expiry. Upon the settlement of the contracts, the Group recognized an aggregate loss of RR 52 million recorded within foreign exchange gain (loss) in the consolidated statement of income. The Group did not have any open positions related to foreign currency instruments at 31 December 2006.

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4 ACQUISITIONS AND DISPOSALS

In May 2006, the Group acquired a controlling interest in OOO NOVASIB (“NOVASIB”), which holds the exploration license for the Raduzhniy license area located in YNAO for RR 54 million, of which RR 27 million is payable subject to receipt of a production license. After the acquisition, NOVASIB became a wholly-owned subsidiary of the Group. A member of the Group’s Board of Directors also served as general director of the seller at the time of sale.

In May 2006, the Group acquired a further 10 percent participation interest in OOO YARGEO (“YARGEO”), which holds the exploration license for the Yarudeyskiy license area located in YNAO for RR 33 million, of which RR 11 million is payable subject to receipt of a production license. The acquisition of this stake raised the Group’s interest in YARGEO to 51 percent. A member of the Group’s Board of Directors also served as general director of the seller at the time of sale.

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

Below is a summary of management’s preliminary assessments of the fair values of the assets, liabilities and contingent liabilities of the acquired companies. Management believes that the purchase prices for NOVASIB and YARGEO approximate the fair value of unproved oil and gas properties acquired. Such unproved oil and gas properties are included within property, plant and equipment in the consolidated balance sheet. No goodwill was recognized in the acquisitions. Carrying values prior to acquisition are not available as the acquirees did not prepare financial statements in accordance with IFRS prior to the acquisition and it was impracticable to do so. The financial and operational activities of the acquirees were not material to the Group’s revenue and results of operations for the year ended 31 December 2006.

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

During 2006, the Group increased its interest in the total share capital of OAO Purneftegasegeologia, a Group subsidiary, by 14.6 percent to 95.2 percent through purchases from third parties and from the Group’s participation in an additional share emission. The difference of RR 81 million between total purchase consideration of RR 314 million and the carrying amount of minority interest acquired totaling RR 233 million has been recorded within retained earnings.

In June 2005, the Group sold its 66 percent participation interest in Geoilbent to OAO LUKOIL and its subsidiary for RR 5,108 million, recognizing a gain on sale of RR 2,234 million, net of associated income tax of RR 793 million. The Group included its investment in Geoilbent within exploration and production in the Group’s segment information.

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

In June 2005, the Group disposed of its 25.1 percent interest in Tambeyneftegas to OOO Gazprombank-Invest for RR 120 million, recognizing a gain on sale of RR 4 million, net of associated income tax of RR 7 million. The Group included its investment in Tambeyneftegas within exploration and production in the Group’s segment information.

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

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5 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment, for the years ended 31 December 2006 and 2005 were as follows:

	Oil and gas properties and equipment	Assets under construction	Other	Total
Cost	53,708	8,728	1,159	63,595
Accumulated depreciation, depletion and amortization	(806)	-	(106)	(912)
Net book value at 1 January 2005	52,902	8,728	1,053	62,683
Additions	1,144	4,346	970	6,460
Transfers	7,491	(8,894)	1,403	-
Depreciation, depletion and amortization	(3,255)	-	(155)	(3,410)
Disposals, net	(36)	(6)	(85)	(127)
Impairments	30	-	39	69
Cost	62,341	4,174	3,482	69,997
Accumulated depreciation, depletion and amortization	(4,065)	-	(257)	(4,322)
Net book value at 31 December 2005	58,276	4,174	3,225	65,675
Acquisition of subsidiaries	741	-	-	741
Additions	469	4,227	7	4,703
Transfers	3,280	(3,711)	431	-
Depreciation, depletion and amortization	(3,490)	-	(238)	(3,728)
Disposals, net	(250)	(173)	(234)	(657)
Cost	66,555	4,517	3,643	74,715
Accumulated depreciation, depletion and amortization	(7,529)	-	(452)	(7,981)
Net book value at 31 December 2006	59,026	4,517	3,191	66,734

Included within the oil and gas properties and equipment balance at 31 December 2006 and 2005 are proved properties of RR 28,168 million and RR 29,125 million, net of accumulated depreciation, depletion and amortization of RR 3,225 million and RR 1,527 million, respectively.

Included within general and administrative expenses are RR 57 million and RR 38 million of depreciation of administrative buildings for the years ended 31 December 2006 and 2005, respectively (see Note 17).

Estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, amounting to RR 424 million and RR 398 million at 31 December 2006 and 2005, respectively, are included in the cost of oil and gas properties and equipment. The Group has estimated its liability based on current environmental legislation using estimated costs when the expenses are expected to be incurred through 2051. The corresponding obligation is recorded within other non-current liabilities in the Group's consolidated balance sheet. Governmental authorities are continually considering environmental regulations and their enforcement. Consequently, the Group's ultimate environmental liabilities may differ from the recorded amounts.

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5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in additions to property, plant and equipment for the years ending 31 December 2006 and 2005 is capitalized interest of RR 287 million and RR 608 million, respectively. The interest capitalization rates for 2006 and 2005 used for additions were 6.2 percent and 9.1 percent, respectively.

During 2005, the transfers and additions to oil and gas property and equipment included the completion of the Purovsky Gas Condensate Plant in the amount of RR 4,862 million. The Group also completed the BOP Plant (Biaxial-Oriented Polypropylene Plant) for RR 1,047 million recorded within Other.

6 INVENTORIES

	At 31 December:	
	2006	2005
Materials and supplies at net realizable value (net of provisions of RR 46 million and RR 91 million at 31 December 2006 and 2005, respectively)	452	565
Materials and supplies at cost	560	416
Natural gas and hydrocarbon liquids	814	178
Polymer and insulation tape products (net of provisions of RR 33 million and nil at 31 December 2006 and 2005, respectively)	231	243
Other inventories	89	16
Total inventories	2,146	1,418

7 TRADE AND OTHER RECEIVABLES

	At 31 December:	
	2006	2005
Trade receivables (net of provision of RR 16 million and RR 59 million at 31 December 2006 and 2005, respectively)	1,843	2,282
Recoverable value-added tax	664	2,415
Interest on loans receivable	26	29
Other receivables (net of provision of RR 59 million and RR 62 million at 31 December 2006 and 2005, respectively)	344	123
Total trade and other receivables	2,877	4,849

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8 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 December:	
	2006	2005
Prepayments and advances to suppliers (net of provision of RR 11 million and RR 18 million at 31 December 2006 and 2005, respectively)	1,143	1,101
Deferred export duties for stable gas condensate	924	-
Deferred transportation expense for natural gas	874	106
Prepaid taxes other than income tax	777	465
Deferred transportation expense for stable gas condensate	306	-
Other current assets	163	295
Total prepayments and other current assets	4,187	1,967

9 CASH AND CASH EQUIVALENTS

	At 31 December:	
	2006	2005
Cash at current bank accounts	1,522	1,138
Russian rouble denominated deposits (average interest rate 4% p.a. and 4% p.a. for 2006 and 2005, respectively)	3,757	536
US dollar denominated deposits (average interest rate 5% p.a. and 4% p.a. for 2006 and 2005, respectively)	389	1,282
Total cash and cash equivalents	5,668	2,956

All deposits have original maturities of less than three months.

10 LONG-TERM DEBT

	At 31 December:	
	2006	2005
US dollar denominated loans	2,153	6,116
Russian rouble denominated bonds	-	1,000
Euro denominated loans	507	786
Total	2,660	7,902
Less: current portion of long-term debt	(2,117)	(7,010)
Total long-term debt	543	892

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10 LONG-TERM DEBT (CONTINUED)

At 31 December 2006 and 2005, the Group's long-term debt by facility is as follows:

	At 31 December:	
	2006	2005
BNP PARIBAS Bank	1,975	-
C.R.R. B.V.	-	5,757
Russian rouble denominated bonds	-	1,000
Other loans	685	1,145
Total	2,660	7,902
Less: current portion of long-term debt	(2,117)	(7,010)
Total long-term debt	543	892

BNP PARIBAS Bank. In May 2006, the Group entered into a USD 100 million loan agreement with BNP PARIBAS Bank, of which RR 1,975 million (USD 75 million) was outstanding at 31 December 2006. The loan bears annual interest of LIBOR plus 1 percent (6.3 percent at 31 December 2006), and is repayable monthly in equal parts through March 2008.

C.R.R. B.V. At 31 December 2005, US dollar denominated loans included a USD 200 million loan (RR 5,757 million) from C.R.R. B.V. backed by unsecured, 18-month credit-linked notes with an annual coupon rate of 7.75 percent, payable semi-annually. In June 2006, the Group repaid its outstanding credit-linked notes in full and as scheduled.

Russian rouble denominated bonds. In December 2004, the Group issued one million non-convertible Russian rouble denominated bonds, each with a nominal value of RR 1,000 and an annual coupon rate of 9.4 percent, payable semi-annually. In November 2006, the Group repaid the bonds in full and as scheduled.

Other loans. At 31 December 2006 and 2005, other loans included US dollar denominated loans totaling RR 178 million (USD 6.8 million) and RR 359 million (USD 12 million), respectively, with a weighted average interest rate of 10.3 percent and 9.6 percent, respectively. The loans mature between 2007 and 2009. At 31 December 2006 and 2005, other loans also included Euro denominated loans totaling RR 507 million (Euro 14.6 million) and RR 786 million (Euro 23 million), respectively, with a weighted average effective interest rate of 13.5 percent and 12 percent, respectively. The loans mature between 2007 and 2009.

Scheduled maturities of long-term debt outstanding are as follows:

Year ended 31 December	Scheduled maturities at 31 December:	
	2006	2005
2007	-	375
2008	501	360
2009	42	141
Thereafter	-	16
Total long-term debt	543	892

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

	At 31 December:	
	2006	2005
US dollar denominated loans	448	1,192
Add: current portion of long-term debt	2,117	7,010
Total short-term debt and current portion of long-term debt	2,565	8,202

US dollar denominated loans. In November 2006, the Group entered into a USD 50 million loan agreement with the CALYON S.A., of which 448 RR million (USD 17 million) was outstanding at 31 December 2006. The loan bears annual interest of LIBOR plus 0.85 percent (6.2 percent at 31 December 2006), and is repayable in December 2007. At 31 December 2005, short-term US dollar denominated loans bore a weighted average interest rate of 7.8 percent.

During 2006, the Group opened lines of credit facility with Bayerische Hypo- und Vereinsbank AG, CALYON RUSBANK Corporate and Investment Bank and UBS AG with available borrowing capacity of USD 50 million, USD 50 million and USD 100 million, respectively, on either fixed or variable interest rates subject to the specific type of credit facility.

12 SHAREHOLDERS' EQUITY

Ordinary share capital. Share capital issued and paid-in consisted of 3,036,306,000 ordinary shares at 31 December 2006 and 2005 with a par value of RR 0.1 each. The total authorized number of ordinary shares was 10,593,682,000 shares at 31 December 2006 and 2005.

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

Dividends. Dividends declared and paid were as follows:

	Year ended 31 December:	
	2006	2005
Dividends payable at 1 January	33	-
Dividends declared during the year	3,258	1,922
Dividends paid during the year	(3,290)	(1,889)
Dividends payable at 31 December	1	33
Dividends per share declared during the year (in Russian roubles)	1.07	0.63
Dividends per GDR declared during the year (in Russian roubles)	10.7	6.3

The Group declares and pays dividends in Russian roubles.

Share-based compensation. In 2005, certain shareholders provided share-based compensation to the Group's chief financial officer and to the Group's head of exploration and production activities. The share awards comprise shares in a limited liability company that indirectly holds shares of NOVATEK. The fair value of the awards of RR 879 million is being recognized as compensation expense evenly over their five year vesting period beginning the second quarter of 2005. A corresponding increase is recorded to additional paid in capital as expense is recognized to reflect the shareholders contribution in providing the award. The fair value of the awards was determined by reference to the fair value of the limited liability company's net assets estimated by its owners.

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12 SHAREHOLDERS' EQUITY (CONTINUED)

Distributable retained earnings. In accordance with Russian legislation, NOVATEK distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. Russian legislation identifies the net profit as basis of distribution. For 2006, the current year net statutory profit for NOVATEK as reported in the published annual statutory reporting forms was RR 12,946 million (2005: RR 15,179 million) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 30,830 million (2005: RR 21,142 million).

13 OIL AND GAS SALES

	Year ended 31 December:	
	2006	2005
Natural gas	28,048	22,729
Stable gas condensate	13,768	6,349
Liquefied petroleum gas	3,270	1,472
Crude oil	1,928	3,899
Oil products	474	2,797
Total oil and gas sales	47,488	37,246

14 TRANSPORTATION EXPENSES

	Year ended 31 December:	
	2006	2005
Natural gas transportation to customers	6,934	5,052
Stable gas condensate and liquefied petroleum gas transportation by rail	2,194	943
Stable gas condensate transportation by tankers	1,484	-
Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines	78	163
Crude oil transportation to customers	93	133
Insurance expense	8	290
Other	12	24
Total transportation expenses	10,803	6,605

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15 TAXES OTHER THAN INCOME TAX

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

	Year ended 31 December:	
	2006	2005
Unified natural resources production tax	5,556	4,367
Property tax	483	327
Excise tax	80	102
Other taxes	104	125
Subtotal	6,223	4,921
Less: reversal of provision for additional taxes	-	(427)
Total taxes other than income tax	6,223	4,494

In 2005, the unified natural resources production tax for natural gas production was fixed at a rate of RR 135 per thousand cubic meters. Beginning 1 January 2006, the rate increased to RR 147 per thousand cubic meters.

The unified natural resources production tax rate for gas condensate is set at 17.5 percent of gas condensate revenues recognized by the Group.

Under the Tax Code of the Russian Federation, the tax rate for the unified natural resources production tax for crude oil is calculated by reference to an average price for Urals oil mix and an average exchange rate over the relevant tax period. Beginning 1 January 2005 the base rate is set at RR 419 per metric ton of crude oil.

Reversal of provision for additional taxes. During 2004, the Russian tax authorities' position on calculating the tax basis for unified natural resources production tax on gas condensate differed from how the Group calculated the tax. As a result, through 31 March 2005, the Group recorded provisions for additional taxes in excess of its declarations submitted to the tax authorities. In July 2005, a revised methodology on calculating the unified natural resources production tax on gas condensate was enacted. The revision supported the Group's methodology and was retroactively effective from 1 January 2004. Accordingly, the Group reversed its previously recorded provisions of RR 427 million as of 1 April 2005.

16 MATERIALS, SERVICES AND OTHER

	Year ended 31 December:	
	2006	2005
Employee compensation	1,351	1,161
Materials and supplies	1,219	1,212
Repair and maintenance services	333	268
Fire safety and security expense	254	148
Tolling and processing fees	226	507
Electricity and fuel	192	135
Other	318	306
Total materials, services and other	3,893	3,737

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17 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:	
	2006	2005
Employee compensation	1,476	1,004
Maintenance of social infrastructure and charity	491	280
Legal, audit, and consulting services	256	233
Insurance expense	225	367
Business trips expense	166	147
Rent expense	123	59
Depreciation of administrative buildings	57	38
Other	371	289
Total general and administrative expenses	3,165	2,417

18 INCOME TAX

Reconciliation of income tax. The table below reconciles actual income tax expense and theoretical income tax, determined by applying the statutory tax rate to profit before income tax and share of income in associates.

	Year ended 31 December:	
	2006	2005
Profit before income tax and share of income in associates	19,122	18,597
Theoretical income tax expense at statutory rate of 24 percent	4,589	4,463
Increase (decrease) due to:		
Non-deductible expenses	403	439
Foreign entities' taxation at lower income tax rate	(65)	-
Tax losses carried forward	-	(76)
Other non-temporary differences	188	252
Total income tax expense	5,115	5,078

Effective income tax rate. The Group's Russian statutory income tax rate in 2006 and 2005 was 24.0 percent. For the years ended 31 December 2006 and 2005, the Group's effective income tax rate was 26.7 percent and 27.3 percent, respectively.

Deferred income tax. Differences between IFRS and Russian statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes.

Deferred income tax balances are presented in the consolidated balance sheets as follows:

	At 31 December:	
	2006	2005
Long-term deferred income tax asset (other non-current assets)	321	21
Long-term deferred income tax liability	(8,412)	(8,396)
Net deferred income tax liability	(8,091)	(8,375)

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18 INCOME TAX (CONTINUED)

Deferred income tax assets expected to be recovered within twelve months of 31 December 2006 and 2005 were RR 387 million and RR 275 million, respectively. Deferred tax liabilities expected to be recovered within twelve months of 31 December 2006 and 2005 were RR 376 million and RR 45 million, respectively.

Movements in deferred income tax assets and liabilities during the years ended 31 December 2006 and 2005 were as follows:

	At 31 December 2006	Statement of Income effect	Acquisitions	At 31 December 2005	Statement of Income effect	At 31 December 2004
Liabilities						
Property, plant and equipment	(8,946)	496	(180)	(9,262)	(187)	(9,075)
Investments in associates	-	-	-	-	347	(347)
Inventories	(82)	(58)	-	(24)	(18)	(6)
Trade payables and accrued liabilities	(303)	(293)	-	(10)	168	(178)
Total deferred income tax liabilities	(9,331)	145	(180)	(9,296)	310	(9,606)
Assets						
Inventories	391	205	33	153	46	107
Trade and other receivables	23	(13)	-	36	(132)	168
Trade payables and accrued liabilities	516	(84)	-	600	218	382
Tax losses carried forward	238	143	19	76	76	-
Other	72	16	-	56	19	37
Total deferred income tax assets	1,240	267	52	921	227	694
Net deferred income tax liabilities	(8,091)	412	(128)	(8,375)	537	(8,912)

At 31 December 2006, the Group had recognized deferred income tax assets of RR 238 million (31 December 2005: RR 76 million) in respect of unused tax loss carry forwards of RR 992 million (31 December 2005: RR 317 million). Tax losses can be carried forward for relief against taxable profits for 10 year after they are incurred, subject to certain limitations. In determining future taxable profits and the amount of tax benefits that are probable in the future Management makes judgements and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

At 31 December 2006 and 2005, the Group had not recorded a deferred tax liability in respect of taxable temporary differences of RR 7,577 million and RR 7,084 million, respectively, associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

19 FINANCIAL INSTRUMENTS

Foreign exchange. The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble or the US dollar. At 31 December 2006, cash, trade and other receivables, trade and other payables, short-term and long-term debt denominated in US dollars and Euro amounted to RR 748 million, RR 950 million, RR 120 million, RR 448 million, RR 2,660 million, respectively, and at 31 December 2005, amounted to RR 1,289 million, RR 1,545 million, RR 32 million, RR 1,192 million, RR 6,902 million, respectively. Amounts translated at the official Russian rouble to US dollar and Euro exchange rates are those used by the Central Bank of the Russian Federation.

19 FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow and fair value interest rate risk. The Group is exposed to cash flow interest rate risk through market value fluctuations of interest-bearing long-term borrowings a majority of which are at floating interest rates. The Group has no significant interest-bearing assets and does not use any hedging instruments to manage its exposure to changes in interest rates.

Credit risks. 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. The Group does not require collateral or other security to support receivables from customers. 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.

Fair values. The fair value of financial instruments is determined with reference to various market information and other valuation methods as considered appropriate. At 31 December 2006, the fair values, where determinable, of financial instruments held by the Group did not materially differ from their carrying values.

20 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 December 2006, the Group had capital expenditures commitments aggregating approximately RR 5,200 million (at 31 December 2005: RR 1,010 million) for continuation of phase two construction of the Purovsky Gas Condensate Plant and phase two development of the Yurkharovskoye field through 2009.

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.

As at 31 December 2006, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued.

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.

ОАО NOVATEK**Notes to the Consolidated Financial Statements**

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

20 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

Field	License holder	License expiry date
Yurkharovskoye	ООО NOVATEK-YURKHAROVNEFTEGAS	2034
Khancheykoye	ООО NOVATEK-TARKOSALENEFTEGAS	2019
East-Tarkosalinskoye	ООО NOVATEK-TARKOSALENEFTEGAS	2018
Sterkhovoye (within the Olympinsky license area)	ООО PurNovaGas (wholly-owned subsidiary of ОАО Purneftegasgeologia)	2026
Termokarstovoye	ООО Terneftegas	2021

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

Environmental liabilities. The Group and its predecessor entities have operated in the oil and gas industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations and, as obligations are determined, they are recognized as 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 year, 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 financial statements.

ОАО NOVATEK**Notes to the Consolidated Financial Statements**

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

21 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 government. Transactions only with OAO Gazprom, a shareholder of NOVATEK from October 2006, are presented below.

During 2005, the Group had significant activities with companies related to its shareholders in connection with sales of crude oil, stable gas condensate and liquefied petroleum gas and sales of equity securities. The Group's reported results of operations, financial position and cash flows may have been different had such transactions been carried out amongst unrelated parties. During 2006, no such sales activities have occurred. However, certain other related party transactions have continued through September 2006 and were based on market prices. 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 these consolidated financial statements, 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.

Related parties - subject to control by significant shareholders	As at and for the year ended 31 December:	
	2006	2005
Balances		
Prepayments and advances (for construction)	-	95
Other non-current assets	-	57
Long-term loans receivable	-	102
Prepayments and advances	-	15
Trade and other receivables	-	1,628
Interest receivable	-	29
Short-term loans receivable	-	165
Cash and cash equivalents	-	179
Trade and other payables	-	49
Transactions		
Crude oil, stable gas condensate and liquefied petroleum gas sales	-	7,727
Purchases of crude oil	-	562
Sales of inventory and oil products	54	40
Purchases of construction services	656	791
Materials, services and other	176	163
Interest expense	-	64
Interest income	17	467

OAO NOVATEK**Notes to the Consolidated Financial Statements**

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

21 RELATED PARTY TRANSACTIONS (CONTINUED)

OAO Gazprom	As at and for the three months ended 31 December 2006:
<i>Balances</i>	
Trade and other payables	163
<i>Transactions</i>	
Purchases of natural gas	237
Natural gas transportation to customers	1,932

Key management compensation. During 2006 and 2005, 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 364 million and RR 153 million in cash, respectively, in compensation and directors' fees, excluding dividends. In addition, during 2006 and 2005, RR 176 million and RR 108 million, respectively, were recognized as part of the share-based compensation scheme and included in general and administrative expense.

22 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 and banking (through May 2005, see Note 4).

Segment information as at 31 December 2006 and 2005 was as follows:

At 31 December 2006	Exploration and production	Corporate and other	Total
Segment assets	73,608	3,545	77,153
Unallocated assets			7,173
Total assets	73,608	3,545	84,326
Segment liabilities	(3,968)	(106)	(4,074)
Unallocated liabilities			(11,576)
Total liabilities	(3,968)	(106)	(15,650)
<hr/>			
At 31 December 2005	Exploration and production	Corporate and other	Total
Segment assets	71,410	3,341	74,751
Unallocated assets			4,011
Total assets	71,410	3,341	78,762
Segment liabilities	(3,470)	(142)	(3,612)
Unallocated liabilities			(17,601)
Total liabilities	(3,470)	(142)	(21,213)

OAO NOVATEK**Notes to the Consolidated Financial Statements**

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

22 SEGMENT INFORMATION (CONTINUED)

Segment information for the years ended 31 December 2006 and 2005 was as follows:

Year ended 31 December 2006	Exploration and production	Corporate and other	Total
Segment revenues			
External revenues and other income	47,413	1,251	48,664
Inter-segment sales	10	18	28
Total segment revenues	47,423	1,269	48,692
Segment expenses			
External expenses	(25,854)	(3,668)	(29,522)
Inter-segment expenses	(18)	(10)	(28)
Total segment expenses	(25,872)	(3,678)	(29,550)
Segment result	21,551	(2,409)	19,142
Unallocated gains on sales of investments			11
Profit from operations			19,153
Acquisition of subsidiaries	741	-	741
Capital expenditures	4,347	356	4,703
Depreciation, depletion and amortization	(3,565)	(163)	(3,728)
Charges for impairment	(32)	(68)	(100)
Year ended 31 December 2005			
Segment revenues			
External revenues and other income	37,442	1,114	38,556
Inter-segment sales	8	3	11
Total segment revenues	37,450	1,117	38,567
Segment expenses			
External expenses	(20,244)	(2,617)	(22,861)
Inter-segment expenses	(3)	(8)	(11)
Total segment expenses	(20,247)	(2,625)	(22,872)
Segment result	17,203	(1,508)	15,695
Unallocated gains on sales of investments			3,631
Profit from operations			19,326
Income of associated companies, net	143	-	143
Capital expenditures	4,990	1,470	6,460
Depreciation, depletion and amortization	(3,358)	(52)	(3,410)
Charges for impairment	(52)	(35)	(87)

ОАО NOVATEK**Notes to the Consolidated Financial Statements**

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

22 SEGMENT INFORMATION (CONTINUED)

Unallocated assets include cash and cash equivalents, loans provided and deferred tax assets. Unallocated liabilities comprise items such as current income tax payable, borrowings and deferred tax liabilities.

Capital expenditures include purchases of property, plant, and equipment. Charges for impairment above include impairment provisions for accounts and loans receivable and inventories.

The inter-segment revenues mainly consist of:

- Exploration and production – sale of gas and oil products to the other segments, for which prices are based on market prices; and
- Corporate and other – rendering rent services, transportation sales and sales of polymer to the other segments, for which prices are based on market prices.

Geographical segments. The Group's two business segments operate in three major geographical areas of the world. In the Russian Federation, its home country, the Group is mainly engaged in the exploration, development, extraction and sales of natural gas, crude oil, gas condensate and related products and sales of polymer and insulation tape. Activities outside the Russian Federation are conducted in the United States (sales of stable gas condensate), in Europe (sales of stable gas condensate, liquefied petroleum gas and crude oil) and other areas (sales of liquefied petroleum gas and sales of polymer and insulation tape). Information for the main geographical segments of the Group is set out below.

At 31 December 2006 and for the year then ended	Russia	Europe	USA	Other	Total
Total segment assets	75,260	1,893	-	-	77,153
External revenues and other income	33,231	9,410	5,481	542	48,664
Unallocated gain on sales of investments					11
Total revenues and other income as per consolidated statement of income					48,675
Capital expenditures	4,699	4	-	-	4,703
At 31 December 2005 and for the year then ended	Russia	Europe	USA	Other	Total
Total segment assets	74,751	-	-	-	74,751
External revenues and other income	30,794	7,732	-	30	38,556
Unallocated gain on sales of investments					3,631
Total revenues and other income as per consolidated statement of income					42,187
Capital expenditures	6,460	-	-	-	6,460

Segment revenue from external customers is based on the geographical location of customers. Segment assets are based on the geographical location of the assets. Capital expenditure is based on the geographical location of the Group's assets.

ОАО NOVATEK**Notes to the Consolidated Financial Statements**

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

23 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

The amounts included within the consolidated financial statements associated with the exploration for and evaluation of mineral resources for the years ended 31 December 2006 and 2005 was as follows:

	At 31 December and for the year then ended:	
	2006	2005
Assets	654	205
Liabilities	(23)	(13)
Expense	(459)	(348)
Cash flows used for operating activities	(335)	(363)
Cash flows used for investing activities	(567)	(88)

Assets include uncompleted cost of drilling and equipping of exploratory wells on unproved reserves and participation advance payment for the right to purchase an oil and gas exploration and production license on the West-Urengoyskoye area (see Note 24).

Liabilities include unpaid obligations under the contracts for drilling and equipping exploratory wells. Cash flows used for operating activities and for investing activities include cash paid for geological and geophysical studies performed and cash paid for drilling and equipping exploratory wells and acquiring the right for mineral resources, respectively.

24 SUBSEQUENT EVENTS

In November 2006, NOVATEK won the right to purchase an oil and gas exploration and production license on the West-Urengoyskoye area located in YNAO at an auction held by the Territorial Agency for the Use of Natural Resources. Participation advance payment in the amount of RR 300 million was included in other non-current assets in the consolidated balance sheet at 31 December 2006; the final payment of RR 1,410 million was made in March 2007. The license was issued in February 2007 and expires in December 2031.

In February 2007, NOVATEK announced the implementation of a post-employment benefit program. Under the program, employees who worked for the Group for more than three years and retired 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 of employment and location of employment. The program is effective from 1 January 2007 and applies to employees who retire after that date. The Group is currently assessing the accounting impact of this program.

25 NEW ACCOUNTING PRONOUNCEMENTS

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

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its consolidated financial statements.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organization for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group is currently assessing what impact the new IFRS 8 will have on disclosures in its consolidated financial statements.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);
- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

New or amended standards effective for the Group from 1 January 2006 are discussed below.

IFRS 6, Exploration for and Evaluation of Mineral Resources ("IFRS 6"). IFRS 6 was adopted by the Group. IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements. Adoption of the standard did not require changes of the Group's accounting policies.

IAS 21 (Amendment), Net Investment in a Foreign Operation. The amendment to IAS 21 was adopted by the Group. It clarifies treatment of foreign exchange differences on intercompany loans that form part of a net investment in a foreign operation.

25 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

New or amended interpretations effective for the Group from 1 January 2006 are discussed below:

- IFRIC 4, Determining whether an Arrangement contains a Lease (“IFRIC 4”). IFRIC 4 provides guidance on how to determine whether an arrangement contains a lease as defined in IAS 17, Leases, on when the assessment or reassessment of an arrangement should be made and on how lease payments should be separated from any other elements in the arrangement.
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (“IFRIC 5”). IFRIC 5 provides guidance on the accounting for interests in decommission funds.
- IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (“IFRIC 6”). IFRIC 6 addresses the accounting for liabilities under an EU Directive on waste management for sales of household equipment.

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

OAO NOVATEK
Unaudited Supplemental Oil and Gas Disclosures

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In the absence of specific IFRS guidance which establishes a comprehensive set of disclosures for oil and gas producing companies, the Group has reverted to other relevant disclosure standards that are consistent with norms established for the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities but excludes disclosures regarding the standardized measures of oil and gas activities.

The Group's exploration and production activities are exclusively within the Russian Federation; therefore, all of the information provided in this section pertains to this country. The Group operates through various oil and gas production subsidiaries. The Group also owned interest in oil and gas producing entities, referred to as Associates that were accounted for under the equity method.

Oil and Gas Exploration and Development Costs

The following tables set forth information regarding oil and gas acquisition, exploration and development activities. The amounts reported as costs incurred include both capitalized costs and costs charged to expense during the years ended 31 December 2006 and 2005 (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2006	2005
Costs incurred in exploration and development activities		
Acquisition cost	741	-
Exploration costs	740	395
Development costs	3,883	5,039
Total costs incurred in exploration and development activities	5,364	5,434

	At 31 December:	
	2006	2005
Capitalized costs relating to oil and gas producing activities		
Wells and related equipment and facilities	56,171	52,817
Support equipment and facilities	9,740	8,882
Uncompleted wells, equipment and facilities	4,165	4,134
Total capitalized costs relating to oil and gas producing activities	70,076	65,833
Accumulated depreciation, depletion and amortization	(7,471)	(4,033)
Net capitalized costs relating to oil and gas producing activities	62,605	61,800

Results of Operations for Oil and Gas Producing Activities

The Group's results of operations for oil and gas producing activities are shown below. The results of operations for oil and gas producing activities do not include general corporate overhead or its associated tax effects. Income tax is based on statutory rates (amounts in millions of Russian roubles).

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

	Year ended 31 December:	
	2006	2005
Revenues from oil and gas sales	47,488	37,246
Production costs	(1,729)	(2,342)
Long-term supply purchases	(1,805)	(2,065)
Transportation expenses	(10,783)	(6,291)
Taxes other than income tax	(6,019)	(4,336)
Depreciation, depletion and amortization	(3,466)	(3,255)
Exploration expenses	(459)	(348)
Results of operations for oil and gas producing activities before income tax	23,227	18,609
Related income tax expense	(5,574)	(4,466)
Results of operations for oil and gas producing activities	17,653	14,143
Share in associates' results of operations for oil and gas producing activities	-	143

Proved Oil and Gas Reserves

The Group's oil and gas reserves estimation and reporting process involves an annual independent third party reserve appraisal as well as internal technical appraisals of reserves. The Group maintains its own internal reserve estimates that are calculated by technical staff working directly with the oil and gas properties. The Group's technical staffs periodically updates reserve estimates during the year based on evaluations of new wells, performance reviews, new technical information and other studies.

The oil and gas reserve estimates reported below are determined by the Group's independent petroleum reservoir engineers, DeGolyer and MacNaughton ("D&M"), for the Group's primary fields – Yurkharovskoye, East-Tarkosalinskoye, Khancheyskoye, Sterkhovoye, and Termokarstovoye – as well as other oil and gas producing fields, North Gubkinskoye and South Tarasovskoye, that were appraised by independent consulting firm, Ryder Scott Co. LP as of 31 December 2004. The Group provides D&M annually with engineering, geological and geophysical data, actual production histories and other information necessary for the reserve determination. The Group's and D&M's technical staffs meet to review and discuss the information provided, and upon completion of this process, senior management reviews and approves the final reserve estimates issued by D&M.

The following reserve estimates were prepared using standard geological and engineering methods generally accepted by the petroleum industry. The method or combination of methods used in the analysis of each reservoir is tempered by experience with similar reservoirs, stages of development, quality and completeness of basic data, and production history.

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2006 and 2005.

Extensions of production licenses are assumed to be at the discretion of the Group. Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group's production licenses. The Group's licenses expire between 2018 and 2034, with the most significant license, Yurkharovskoye field, expiring in 2034. Management believes that there is requisite legislation to extend mineral licenses at the initiative of the Group and, as such, intends to extend its licenses for properties expected to produce beyond the license expiry dates. In February 2005, the Group successfully extended its license on Yurkharovskoye field from 2020 through 2034, which year represents the expected end of the economic life of the field. The cost of license extension was not material. The Group has plans to submit the appropriate application with the respective Agency for the Use of Natural Resources for the extension of the terms of the licenses for East Tarkosalinskoye and Khancheyskoye fields during 2007.

OAQ NOVATEK
Unaudited Supplemental Oil and Gas Disclosures

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

The Group has disclosed information on proved oil and gas reserve quantities for periods up to and past the license expiry dates separately.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves which are expected to be recovered through existing wells with existing equipment and operating methods. Undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to re-complete existing wells and/or install facilities to collect and deliver the production.

Net reserves exclude quantities due to others when produced.

The below reserve quantities include 100 percent of the net proved reserve quantities attributable to the Company's consolidated subsidiaries. A portion of the Group's total proved reserves are classified as either developed non-producing or undeveloped. Of the non-producing reserves, a portion represents existing wells which are to be returned to production at a future date.

Additions represent two more fields, Sterkhovoye and Termokarstovoye, appraised by D&M in 2005. For convenience, volumes are provided both in English and metric units.

Net proved reserves of natural gas are presented below.

	Net proved reserves of natural gas recoverable up to license expiry dates		Net proved reserves of natural gas recoverable past license expiry dates		Total net proved reserves of natural gas	
	<i>Billions of cubic feet</i>	<i>Billions of cubic meters</i>	<i>Billions of cubic feet</i>	<i>Billions of cubic meters</i>	<i>Billions of cubic feet</i>	<i>Billions of cubic meters</i>
Reserves at 31 December 2004	16,805	476	3,787	107	20,592	583
Changes attributable to:						
Revisions of previous estimates	2,418	69	(315)	(9)	2,103	60
Additions	609	17	213	6	822	23
Production	(883)	(25)	-	-	(883)	(25)
Reserves at 31 December 2005	18,949	537	3,685	104	22,634	641
Changes attributable to:						
Revisions of previous estimates	1,043	30	321	9	1,364	39
Production	(1,008)	(29)	-	-	(1,008)	(29)
Reserves at 31 December 2006	18,984	538	4,006	113	22,990	651
Net proved developed reserves (included above)						
At 31 December 2004	11,016	312	2,728	77	13,744	389
At 31 December 2005	10,513	298	2,925	83	13,438	381
At 31 December 2006	14,911	422	3,134	89	18,045	511

OAO NOVATEK
Unaudited Supplemental Oil and Gas Disclosures

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Net proved reserves of crude oil, gas condensate and natural gas liquids are presented below.

	Net proved reserves of crude oil, gas condensate and natural gas liquids recoverable up to license expiry dates		Net proved reserves of crude oil, gas condensate and natural gas liquids recoverable past license expiry dates		Total net proved reserves of crude oil, gas condensate and natural gas liquids	
	<i>Millions of barrels</i>	<i>Millions of metric tons</i>	<i>Millions of barrels</i>	<i>Millions of metric tons</i>	<i>Millions of barrels</i>	<i>Millions of metric tons</i>
Reserves at 31 December 2004	242	29	53	7	295	36
Changes attributable to:						
Revisions of previous estimates	46	5	(11)	(1)	35	4
Additions	54	7	14	1	68	8
Production	(17)	(2)	-	-	(17)	(2)
Reserves at 31 December 2005	325	39	56	7	381	46
Changes attributable to:						
Revisions of previous estimates	30	4	14	2	44	6
Production	(18)	(2)	-	-	(18)	(2)
Reserves at 31 December 2006	337	41	70	9	407	50
Net proved developed reserves (included above)						
At 31 December 2004	130	15	8	1	138	16
At 31 December 2005	123	15	10	1	133	16
At 31 December 2006	199	24	11	1	210	25

ОАО NOVATEK
Contact Information

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