

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations for the three and six months ended 30 June 2006 and 2005 together with our unaudited consolidated interim condensed financial information as of and for the three and six months ended 30 June 2006. The unaudited consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. This consolidated interim condensed financial information should be read together with the consolidated financial statements for the year ended 31 December 2005 prepared in accordance with International Financial Reporting Standards ("IFRS"). All Russian rouble amounts have been stated at their nominal value for all periods shown.

The financial and operating information contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" comprises information of OAO NOVATEK and its consolidated subsidiaries.

OVERVIEW

We are Russia's largest independent natural gas producer and the second-largest producer of natural gas in Russia after Gazprom. In terms of proved natural gas reserves, we are the third largest holder of natural gas resources in Russia after Gazprom and LUKOIL.

Our exploration, development, production, processing and marketing of natural gas, gas condensate, crude oil and related oil products have been conducted primarily within the Russian Federation and, prior to June 2005, most of our revenues were derived from sales within the Russian Federation. However, with the commissioning of the Purovsky Gas Condensate Processing Plant (Purovsky Plant) in June 2005, we now export the majority of our stable gas condensate directly to international markets, significantly increasing the share of our revenues derived from international sales.

In November and December 2005, we established Novatek Overseas AG and Runitek GmbH, respectively, 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. Effective January 2006, we commenced export sales through our newly established foreign subsidiaries.

In July 2006, NOVATEK executed a 1,000:1 share split of ordinary shares outstanding which has been given retroactive effect in the consolidated interim condensed financial information. The weighted average number of ordinary shares, adjusted for the share split, outstanding for periods shown was 3,036,306,000.

SELECTED DATA

| <i>millions of Russian roubles except as stated</i> | Three months ended | | | Six months ended | | |
|---|--------------------|---------|-------------|------------------|----------|-------------|
| | 30 June: | | Change % | 30 June: | | Change % |
| 2006 | 2005 | 2006 | | 2005 | | |
| Financial results | | | | | | |
| Total revenues (net of VAT and export duties) | 12,553 | 9,154 | 37.1% | 24,170 | 17,947 | 34.7% |
| Operating expenses | (7,672) | (5,242) | 46.4% | (14,395) | (10,783) | 33.5% |
| Profit attributable to NOVATEK shareholders | 3,499 | 5,608 | (37.6%) | 7,216 | 7,923 | (8.9%) |
| EBITDA ⁽¹⁾ | 5,829 | 8,493 | (31.4%) | 11,693 | 12,646 | (7.5%) |
| Earnings per share of common stock (post share split, in Russian roubles) | 1.15 | 1.85 | (37.8%) | 2.38 | 2.61 | (8.8%) |
| Operating results | | | | | | |
| Natural gas sales volumes (mmcm) | 7,683 | 6,764 | 13.6% | 15,517 | 13,771 | 12.7% |
| Stable gas condensate sales volumes (thousand tons) | 331 | 87 | 280.5% | 588 | 87 | 575.9% |
| Liquefied petroleum gas sales volumes (thousand tons) | 123 | 27 | 355.6% | 252 | 27 | 833.3% |
| Crude oil sales volumes (thousand tons) | 74 | 341 | (78.3%) | 140 | 705 | (80.1%) |
| Oil product sales volumes (thousand tons) | 35 | 215 | (83.7%) | 58 | 463 | (87.5%) |
| Cash Flow results | | | | | | |
| Net cash provided by operating activities | 3,194 | 1,331 | 140.0% | 8,569 | 6,019 | 42.4% |
| Capital expenditures | 1,035 | 1,624 | (36.3%) | 2,221 | 3,205 | (30.7%) |

⁽¹⁾ EBITDA represents net income before finance income (expense) and income taxes from the Statements of Income, and depreciation, depletion and amortization and share-based compensation from the Statements of Cash Flows.

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Transactions with related parties

During 2005, we had significant transactions with companies related to our shareholders and other related parties in connection with sales of crude oil, stable gas condensate and liquefied petroleum gas and purchases and sales of equity securities. Our reported results of operations, financial position and cash flows would 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 (see note 13, "Related Party Transactions"). Since 1 January 2006, the volume of related party transactions has been significantly reduced.

Commencement of Purovsky Plant

Prior to June 2005, all of our unstable gas condensate was transported through our own pipeline network and pipelines owned by Gazprom to the Surgutsky refinery for processing into crude oil and oil products (including diesel fuel and light distillate). The crude oil and oil products mix that we receive from the Surgutsky refinery are then transported to market using a combination of the Transneft crude oil pipeline network and the Russian Railways system.

With the commissioning of our Purovsky Plant in June 2005, we began transporting our unstable gas condensate production volumes from our East-Tarkosalinskoye and Khancheyevskoye fields through our own pipeline network directly to the Purovsky Plant. We have an agreement with Gazprom to access its gas condensate pipeline network to deliver the unstable gas condensate produced at our Yurkharovskoye field to the Purovsky Plant. The commissioning of our Purovsky Plant has changed our distribution channel for delivery of stable gas condensate to the market. We now export the majority of our stable gas condensate to international markets via rail and tankers.

Our revenues and margins have increased since prices for stable gas condensate in international markets have historically exceeded prices for Urals blend crude oil.

Natural gas prices

As an independent natural gas producer, we are not subject to the government's regulation of natural gas prices. Historically, we have sold most of our natural gas at prices higher than the regulated prices set by the government for Gazprom's domestic gas sales, although the prices we can achieve are strongly influenced by the prices regulated by the Federal Tariffs Service (FTS). The terms for delivery of natural gas affect our average realized prices. Natural gas sold "ex-field" is sold primarily to wholesale gas traders, in which case the buyer is responsible for the payment of gas transportation tariffs. Sales to wholesale traders allow us to diversify our gas sales without incurring additional commercial expenses. However, we generally realize higher prices and net margins for natural gas volumes sold directly to the end-customer, as the gas transportation tariff is included in the contract price and no retail margin is lost to wholesale gas traders. During the three and six months ended 30 June 2006, the average netback margin differential we received on end-customer sales compared to ex-field sales (average end-customer netback less average ex-field price) decreased by RR 10 per mcm, or 12.3%, and RR 1 per mcm, or 1.5%, respectively, compared to the corresponding periods in 2005 as a result of the increase in the transportation tariff per mcm in October 2005 and higher average realized prices from wholesale traders.

The following table shows our average realized natural gas sales prices (net of VAT) for the three and six months ended 30 June 2006 and 2005:

| <i>Russian roubles per mcm</i> | Three months ended | | Change | Six months ended | | Change |
|---|--------------------|----------|---------|------------------|----------|--------|
| | 30 June: | 30 June: | | 30 June: | 30 June: | |
| | 2006 | 2005 | % | 2006 | 2005 | % |
| Average natural gas price to end-customers ⁽¹⁾ | 1,244 | 1,109 | 12.2% | 1,231 | 1,100 | 11.9% |
| Gas transportation expense for sales to end-customers | 504 | 417 | 20.9% | 493 | 408 | 20.8% |
| Average natural gas netback on end-customer sales | 740 | 692 | 6.9% | 738 | 692 | 6.6% |
| Average natural gas price ex-field (wholesale traders) | 669 | 611 | 9.5% | 674 | 627 | 7.5% |
| Average netback margin differential | 71 | 81 | (12.3%) | 64 | 65 | (1.5%) |

⁽¹⁾ Includes cost of transportation.

Crude oil, stable gas condensate, liquefied petroleum gas and oil products prices

Crude oil, stable gas condensate, liquefied petroleum gas (LPG) and oil products prices on international markets have historically been volatile depending on, among other things, the balance between supply and demand fundamentals, the ability and willingness of oil producing countries to sustain production levels to meet increasing global demand and potential disruptions in global crude oil supplies due to war, geopolitical developments, terrorist activities or natural disasters. Crude oil prices in Russia have remained below prices in the international market primarily due to constraints on the ability of many Russian oil companies to transport their crude oil, whereas certain oil products and LPG prices in Russia have more closely followed prices on international markets. This has occasionally led to crude oil surpluses in key consuming regions in Russia driving down the price in the domestic market. Moreover, there is no independent or uniform benchmark price for crude oil in Russia because the majority of all crude oil destined for sale in Russia is produced and refined by the same vertically integrated Russian oil companies. Crude oil that is not exported from Russia or refined by the producer is offered for sale in the domestic market at prices determined on a transaction-by-transaction basis. Crude oil that we sell bound for international markets is transported through the Transneft pipeline system where it is blended with other crude oil of varying qualities to produce an export blend commonly referred to as “Urals blend”, which normally trades at a discount to the international benchmark Brent crude oil.

Our crude oil, stable gas condensate, LPG and oil products export and CIS prices include transportation expenses in accordance with the terms of delivery while prices for domestic sales do not. Under these agreements, the buyer takes ownership at the named place and responsibility for further transportation of the product to its final destination.

During 2006, our crude oil export terms of delivery were delivery at frontier (DAF) at the Polish and Belorussian borders (DAF Poland and Belorussia), while export terms of delivery in the corresponding period in 2005 were a combination of DAF Poland and Belorussia and free on board (FOB) at the port of Butinge, Lithuania. In the three and six months ended 30 June 2006, our average crude oil export contract price, including export duties, was approximately USD 456 per ton and USD 440 per ton, respectively, compared to approximately USD 337 per ton and USD 311 per ton in the three and six months ended 30 June 2005, respectively.

During 2006, our stable gas condensate export terms of delivery were delivery to the port of destination ex-ship (DES) or priced at cost and freight (CFR) while export terms in the 2005 period were primarily carriage paid to (CPT) the Port of Vitino. Our average export stable gas condensate contract price, including export duties, in the three and six months ended 30 June 2006 was approximately USD 606 per ton and USD 568 per ton, respectively, compared to approximately USD 361 per ton for both the three and six months ended 30 June 2005.

The following table shows our average realized stable gas condensate and crude oil sales prices (net of VAT and export duties where applicable) for the three and six months ended 30 June 2006 and 2005:

| <i>Russian roubles (RR) or US dollars (USD) per ton</i> | Three months ended | | Change % | Six months ended | | Change % |
|---|--------------------|-------|-------------|------------------|-------|-------------|
| | 30 June: | | | 30 June: | | |
| | 2006 | 2005 | | 2006 | 2005 | |
| Stable gas condensate | | | | | | |
| Net export price, RR per ton ⁽¹⁾ | 11,636 | 6,574 | 77.0% | 10,865 | 6,574 | 65.3% |
| Net export price, USD per ton | 427.7 | 235.1 | 81.9% | 392.5 | 235.1 | 66.9% |
| Domestic price, RR per ton | 7,993 | 6,271 | 27.5% | 7,993 | 6,271 | 27.5% |
| Crude oil | | | | | | |
| Net export price, RR per ton ⁽¹⁾ | 7,177 | 6,441 | 11.4% | 7,074 | 5,954 | 18.8% |
| Net export price, USD per ton | 263.8 | 229.4 | 15.0% | 255.6 | 213.0 | 20.0% |
| Domestic price, RR per ton | 6,499 | 4,718 | 37.7% | 6,277 | 4,081 | 53.8% |

⁽¹⁾ Includes cost of transportation.

Our LPG export and CIS terms of delivery during 2006 were delivery at frontier (DAF) at the Belarusian-Polish and Russian-Latvian borders. In the three and six months ended 30 June 2006, our average export LPG contract price, including export duties, was approximately USD 465 and USD 509 per ton, respectively, compared to nil in the corresponding periods in 2005. Our domestic sales of LPG are delivered free carrier (FCA) at the Purovsk railroad station. Sales of oil products from Surgutsky refinery are priced free carrier (FCA) at the Surgut railroad station.

The following table shows our average realized liquefied petroleum gas and oil products sales prices (net of VAT and export duties where applicable) for the three and six months ended 30 June 2006 and 2005:

| <i>Russian roubles (RR) or US dollars (USD) per ton</i> | Three months ended | | Change % | Six months ended | | Change % |
|---|--------------------|-------|-------------|------------------|-------|-------------|
| | 30 June: | | | 30 June: | | |
| | 2006 | 2005 | | 2006 | 2005 | |
| LPG | | | | | | |
| Net export price, RR per ton ⁽¹⁾ | 8,865 | - | 100.0% | 10,258 | - | 100.0% |
| Net export price, USD per ton | 325.9 | - | 100.0% | 370.6 | - | 100.0% |
| CIS price, RR per ton ⁽¹⁾ | 7,497 | - | 100.0% | 7,783 | - | 100.0% |
| Domestic price, RR per ton | 4,440 | 4,181 | 6.2% | 5,493 | 4,181 | 31.4% |
| Oil products | | | | | | |
| Domestic price, RR per ton | 6,329 | 4,644 | 36.3% | 6,250 | 4,531 | 37.9% |

⁽¹⁾ Includes cost of transportation.

Transportation tariffs

Transportation tariffs established by the FTS from 1 October 2005 for the transport of natural gas produced in Russia for shipments to consumers located within the customs territory of the Russian Federation and the member states of the Customs Union Agreement (Belarus, Kazakhstan, Kyrgyzstan and Tajikistan) are set at RR 23.84 (excluding VAT) per mcm per 100 km. This represents a 23.1% increase from the tariffs of RR 19.37 (excluding VAT) per mcm per 100 km set on 1 October 2004.

As of 1 August 2006, the methodology for the calculation of transportation tariffs for natural gas produced in the Russian Federation was changed by the FTS. Under the new methodology the tariff rate consists of two parts: a rate for the utilization of the main pipeline and a transportation rate per mcm per 100 km. The rate for utilization of the main pipeline is based on an “input/output” function which is determined by where gas enters and exits the main pipeline (the maximum “input/output” rate is RR 931.97 (excluding VAT) per mcm) and includes a constant rate of RR 12 (excluding VAT) per mcm for end customers using Gazprom gas distribution systems. For end customers with their own gas distribution systems the constant rate is deducted from the utilization rate. The transportation rate for gas delivered within the customs territory of the Russian Federation and the member states of the Customs Union Agreement is set at RR 5.28 (excluding VAT) per mcm per 100 km.

The increases in regulated transportation tariffs may be passed on to end-customers pursuant to contract terms. There is no set timetable for reviews or changes in transportation tariffs set by the FTS, and thus changes in transportation tariffs occur on an irregular basis.

We transport most of our crude oil through the pipeline network owned and operated by Transneft, Russia’s state-owned monopoly crude oil pipeline operator. Our transportation tariffs for the transport of crude oil through Transneft’s pipeline network are also set by the FTS. The overall expense per ton for the transport of crude oil depends on the length of the transport route from the producing field to the ultimate destination.

Our stable gas condensate, LPG and oil products are transported by rail which is owned and operated by Russian Railways, Russia’s state-owned monopoly railway operator. Our transportation tariffs for transport by rail are set by the FTS and vary depending on product and length of transport route. We deliver our stable gas condensate to international markets using the storage and loading facilities at the Port of Vitino on the White Sea and tankers for transportation to US and European markets. The costs associated with the transportation of stable gas condensate by tanker are determined by the distance to the final destination and standard shipping terms. The majority of our LPG and oil products are sold in Russia and the CIS.

Our tax burden

We have not employed any tax minimization schemes using offshore or domestic tax zones in the Russian Federation.

We are subject to a wide range of taxes imposed at the federal, regional, and local levels, many of which are based on revenue or volumetric measures. In addition to income tax, significant taxes to which we are subject include VAT, unified natural resources production tax (UPT), export duties, property tax, social taxes and contributions.

In practice the Russian tax authorities often have their own interpretation of tax laws that rarely favors taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to an inspection of their activities for a period of three calendar years which immediately proceeds the year in which the audit is conducted. Previous audits do not completely exclude subsequent claims relating to the audited period. In addition, in some instances, new tax regulations have been given retroactive effect.

OPERATIONAL HIGHLIGHTS

Hydrocarbon sales volumes

In the three and six months ended 30 June 2006, we increased our natural gas and liquids (crude oil, stable gas condensate, LPG and oil products) sales volumes due to steady increases in our production of these hydrocarbons compared to the corresponding periods in 2005. Our growth in production was achieved through the efficient exploitation of our existing producing asset base. We expect our total production volumes to continue growing, primarily as a result of the development activities at our existing producing fields and by exploring and developing other oil and gas fields in our asset portfolio.

Natural gas sales volumes

| <i>millions of cubic meters</i> | Three months ended | | Change % | Six months ended | | Change % |
|--|--------------------|--------------|--------------|------------------|---------------|--------------|
| | 30 June: | | | 30 June: | | |
| | 2006 | 2005 | | 2006 | 2005 | |
| Production from: | | | | | | |
| Yurkharovskoye field | 2,329 | 2,236 | 4.2% | 4,763 | 4,463 | 6.7% |
| East-Tarkosalinskoye field | 3,966 | 3,015 | 31.5% | 8,012 | 6,688 | 19.8% |
| Khancheyevskoye field | 728 | 733 | (0.7%) | 1,465 | 1,393 | 5.2% |
| Other fields | 9 | 9 | 0.0% | 14 | 23 | (39.1%) |
| Total natural gas production | 7,032 | 5,993 | 17.3% | 14,254 | 12,567 | 13.4% |
| Purchases from: | | | | | | |
| Gazprom | 504 | 369 | 36.6% | 1,032 | 923 | 11.8% |
| Other | 280 | 285 | (1.8%) | 361 | 335 | 7.8% |
| Total natural gas purchases | 784 | 654 | 19.9% | 1,393 | 1,258 | 10.7% |
| Total production and purchases | 7,816 | 6,647 | 17.6% | 15,647 | 13,825 | 13.2% |
| Purovsky Plant and own usage | (8) | (4) | 100.0% | (20) | (8) | (150.0%) |
| Decrease (increase) in pipeline and underground storage of natural gas | (125) | 121 | (203.3%) | (110) | (46) | 139.1% |
| Total natural gas sales volumes | 7,683 | 6,764 | 13.6% | 15,517 | 13,771 | 12.7% |
| <i>Sold to end-customers</i> | <i>3,256</i> | <i>2,646</i> | <i>23.1%</i> | <i>6,974</i> | <i>5,843</i> | <i>19.4%</i> |
| <i>Sold ex-field</i> | <i>4,427</i> | <i>4,118</i> | <i>7.5%</i> | <i>8,543</i> | <i>7,928</i> | <i>7.8%</i> |

In the three and six months ended 30 June 2006, our total consolidated natural gas production increased by 1,039 mmcm, or 17.3%, and 1,687 mmcm, or 13.4%, respectively, compared to the corresponding periods in 2005 and accounted for 91.5 % and 91.9%, respectively, of total natural gas sales volumes. The increase in natural gas production in the three month period was primarily due to organic growth at our Yurkharovskoye and East-Tarkosalinskoye fields which was partially offset by a decrease at our Khancheyevskoye field due to wells under reconstruction. In the six month period, however, the increase in our total consolidated natural gas production was due to organic growth at our three core fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyevskoye).

In the three and six months ended 30 June 2006, the Purovsky Plant's and our own usage of natural gas increased by 4 mmcm, or 100.0%, and 12 mmcm, or 150.0%, respectively, compared to the corresponding periods in 2005. The Purovsky Plant started pilot production in June 2005; therefore, there was no usage of natural gas by the plant during the first five months of 2005.

As of 30 June 2006, natural gas volumes stored in Gazprom's underground gas storage facilities totaled 260 mmcm of which 100 mmcm was injected into the Stepnovskoye storage facility and 160 mmcm was injected into the Punginskoye storage facility. We expect our volumes of natural gas injected into underground gas storage facilities to fluctuate period-to-period depending on market conditions, storage capacity constraints and our development plans to sustain and/or grow production during periods of seasonality.

Liquids sales volumes

| <i>thousands of tons</i> | Three months ended 30 June: | | Change % | Six months ended 30 June: | | Change % |
|--|--------------------------------|------------|----------------|------------------------------|--------------|----------------|
| | 2006 | 2005 | | 2006 | 2005 | |
| Production from: | | | | | | |
| Yurkharovskoye field | 167 | 171 | (2.3%) | 336 | 325 | 3.4% |
| East-Tarkosalinskoye field | 216 | 178 | 21.3% | 434 | 352 | 23.3% |
| Khancheyskoye field | 187 | 150 | 24.7% | 373 | 279 | 33.7% |
| Other fields | 26 | 35 | (25.7%) | 49 | 67 | 26.9% |
| Total liquids production | 596 | 534 | 11.6% | 1,192 | 1,023 | 16.5% |
| Purchases from: | | | | | | |
| Geoilbent | - | 126 | n/a | - | 236 | n/a |
| Other | 19 | 38 | (50.0%) | 42 | 75 | (44.0%) |
| Total liquids purchases | 19 | 164 | (88.4%) | 42 | 311 | (86.5%) |
| Total production and purchases | 615 | 698 | (11.9%) | 1,234 | 1,334 | (7.5%) |
| Losses ⁽¹⁾ | (5) | (13) | (61.5%) | (10) | (27) | (63.0%) |
| Decreases (increases) in liquids inventory balances | (46) | (14) | 228.6% | (186) | (24) | 675.0% |
| Total liquids sales volumes | 564 | 671 | (15.9%) | 1,038 | 1,283 | (19.1%) |
| <i>Stable gas condensate export</i> | 329 | 87 | 278.2% | 586 | 87 | 573.6% |
| <i>Stable gas condensate domestic</i> | 2 | 1 | 100.0% | 2 | 1 | 100.0% |
| <i>LPG export</i> | 7 | - | 100.0% | 20 | - | 100.0% |
| <i>LPG CIS</i> | 20 | - | 100.0% | 31 | - | 100.0% |
| <i>LPG domestic</i> | 97 | 27 | 259.3% | 202 | 27 | 648.1% |
| <i>Crude oil export</i> | 20 | 73 | (72.6%) | 26 | 161 | (83.9%) |
| <i>Crude oil domestic</i> | 54 | 268 | (79.9%) | 113 | 544 | (79.2%) |
| <i>Oil products domestic</i> | 35 | 215 | (83.7%) | 58 | 463 | (87.5%) |

⁽¹⁾ Losses associated with processing at the Purovsky Plant and Surgutsky refinery as well as during rail road and tanker transportation.

In the three and six months ended 30 June 2006, crude oil and gas condensate production increased by 62 thousand tons, or 11.6%, and 169 thousand tons, or 16.5%, to 596 thousand tons and 1,192 thousand tons, respectively, compared to the corresponding periods in 2005. The increase in the three month period was largely attributable to organic growth of gas condensate production at our East-Tarkosalinskoye and Khancheyskoye fields which was partially offset by a decrease in gas condensate production at our Yurkharovskoye field due to technical losses associated with increased gas production during the separation process. In the six month period, however, the increase in total liquids production was primarily attributable to organic growth of gas condensate production at our three core fields.

In the three and six months ended 30 June 2006, purchases decreased by 145 thousand tons, or 88.4%, and 269 thousand tons, or 86.5%, respectively, compared to the corresponding periods in 2005, primarily due to the divestiture of Geoilbent in June 2005. In the three and six months ended 30 June 2006, other purchases consisted of purchases from Purgazdobycha which decreased by 19 thousand tons, or 50%, and 33 thousand tons, or 44.0%, respectively, compared to the corresponding periods in 2005 due to a decrease in production from its fields.

In the three months ended 30 June 2006, we delivered 505 thousand tons and 57 thousand tons of unstable gas condensate to the Purovsky Plant and Surgutsky refinery, respectively, compared to 128 thousand tons and 370 thousand tons, respectively, in the corresponding period in 2005. In the six months ended 30 June 2006, we delivered 1,033 thousand tons and 101 thousand tons of unstable gas condensate to the Purovsky Plant and Surgutsky refinery, respectively, compared to 128 thousand tons and 823 thousand tons, respectively, in the corresponding period in 2005. Processed products from the Purovsky Plant are sold separately from the processed products we receive from the Surgutsky refinery. After processing gas condensate at the Surgutsky refinery we receive crude oil and a slate of oil products. The crude oil is sold as Ural's blend and delivered through the Transneft pipeline network. In the three and six months ended 30 June 2006, crude oil output comprised 35.4% and 38.6%, respectively, of the total yield from the Surgutsky refinery compared to 41.4% and 41.6%, respectively, in the corresponding periods in 2005.

Total liquids sales volumes were affected by the commencement of export sales through our newly established foreign subsidiaries and the terms of delivery for these sales. As of 30 June 2006, we had 187 thousand tons of stable gas condensate in transit and recognized as inventory until such time as it is delivered to the port of destination.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 30 JUNE 2006 COMPARED TO THE CORRESPONDING PERIOD IN 2005

The following table and discussion is a summary of our consolidated results of operations for the three months ended 30 June 2006 and 2005. Each line item is also shown as a percentage of our total revenues.

| <i>millions of Russian roubles</i> | Three months ended 30 June: | | | |
|---|-----------------------------|---------------------|---------------|---------------------|
| | 2006 | % of total revenues | 2005 | % of total revenues |
| Total revenues (net of VAT and export duties) | 12,553 | 100.0% | 9,154 | 100.0% |
| Other income (loss) | (172) | (1.4%) | 3,628 | 39.6% |
| Total revenues and other income | 12,381 | 98.6% | 12,782 | 139.6% |
| Operating expenses | (7,672) | (61.1%) | (5,242) | (57.3%) |
| Profit from operations | 4,709 | 37.5% | 7,540 | 82.4% |
| Finance income (expense) | (78) | (0.6%) | (189) | (2.1%) |
| Share of profit of associates | - | - | 66 | 0.7% |
| Profit before income tax and minority interest | 4,631 | 36.9% | 7,417 | 81.0% |
| Total income tax expense | (1,188) | (9.5%) | (1,817) | (19.8%) |
| Profit for the period | 3,443 | 27.4% | 5,600 | 61.2% |
| Minority interest | (56) | (0.4%) | (8) | (0.1%) |
| Profit attributable to NOVATEK shareholders | 3,499 | 27.9% | 5,608 | 61.3% |

Total revenues and other income

The following table sets forth our net sales (net of VAT and export duties, where applicable) and other income for the three months ended 30 June 2006 and 2005:

| <i>millions of Russian roubles</i> | Three months ended 30 June: | | Change % |
|--|-----------------------------|---------------|----------------|
| | 2006 | 2005 | |
| Net natural gas sales | 7,010 | 5,454 | 28.5% |
| <i>Net end-customer sales</i> | 4,051 | 2,936 | 38.0% |
| <i>Net ex-field sales</i> | 2,959 | 2,518 | 17.5% |
| Net stable gas condensate sales | 3,842 | 574 | 569.3% |
| <i>Net export sales</i> | 3,830 | 570 | 571.9% |
| <i>Net domestic sales</i> | 12 | 4 | 200.0% |
| Net liquefied petroleum gas sales | 640 | 114 | 461.4% |
| <i>Net export sales</i> | 63 | - | 100.0% |
| <i>Net CIS sales</i> | 148 | - | 100.0% |
| <i>Net domestic sales</i> | 429 | 114 | 276.3% |
| Net oil products sales | 219 | 1,000 | (78.1%) |
| <i>Net domestic sales</i> | 219 | 1,000 | (78.1%) |
| Net crude oil sales | 495 | 1,733 | (71.4%) |
| <i>Net export sales</i> | 146 | 469 | (68.9%) |
| <i>Net domestic sales</i> | 349 | 1,264 | (72.4%) |
| Total oil and gas sales | 12,206 | 8,875 | 37.5% |
| Sales of polymer and insulation tape | 291 | 225 | 29.3% |
| Other revenues | 56 | 54 | 3.7% |
| Total revenues | 12,553 | 9,154 | 37.1% |
| Other income (loss) | (172) | 3,628 | (104.7%) |
| Total revenues and other income | 12,381 | 12,782 | (3.1%) |

Natural gas sales

In the three months ended 30 June 2006, our revenues from the sale of natural gas increased by RR 1,556 million, or 28.5%, compared to the corresponding period in 2005. The increase in natural gas revenues was primarily attributable to an increase in prices and sales volumes. Revenues from the sale of natural gas accounted for 55.8% and 59.6% of our total revenues in the 2006 and 2005 periods, respectively. The decrease in natural gas sales as a percentage of total revenues was primarily due to a combination of increased sales volumes of stable gas condensate to international markets, where we are able to realize higher net prices, and the general increase in prices for liquid hydrocarbons in the 2006 period compared to the corresponding period in 2005. We sell our natural gas volumes exclusively in the Russian domestic market.

In the three months ended 30 June 2006, our average realized natural gas price per mcm increased by RR 106 per mcm, or 13.2%, to RR 912 per mcm from RR 806 per mcm in the corresponding period in 2005, due to an overall increase in prices and an increase in sales volumes to end-customers. The average realized prices of our natural gas sold to end-customers and natural gas sold ex-field were higher by 12.2% and by 9.5%, respectively, in the 2006 period compared to the corresponding period in 2005.

Stable gas condensate sales

In the three months ended 30 June 2006, our revenues from sales of stable gas condensate increased by RR 3,268 million, or 569.3%, compared to the corresponding period in 2005, and are directly related to the launch of our Purovsky Plant in June 2005, following which we were able to process and sell our gas condensate production separately, as stable gas condensate, as opposed to processing it at the Surgutsky refinery and selling it as Ural's blend crude oil and other oil products.

In the three months ended 30 June 2006, we exported 99.4% of our stable gas condensate sales volumes, 329 thousand tons, from the Purovsky Plant to markets in the United States and Europe using the loading and storage facilities at the Port of Vitino on the White Sea and tankers. In the 2006 period, our average realized price, excluding export duties, translated into US dollars for stable gas condensate sold on the export market increased by USD 192.6 per ton, or 81.9% to USD 427.7 per ton (DES) from USD 235.1 per ton (CPT) in the corresponding period in 2005. The significant increase was due to the overall strengthening of prices in international markets in 2006 and the change in our delivery terms due to the commencement of sales through our trading subsidiary beginning in January 2006. The average domestic price for stable gas condensate increased by RR 1,722 per ton, or 27.5%, in the 2006 period compared to the corresponding period in 2005.

Liquefied petroleum gas sales

In the three months ended 30 June 2006, our revenues from the sales of LPG increased by RR 526 million, or 461.4%, and were also directly related to the launch of our Purovsky Plant in June 2005. In the 2006 period, we increased our sales volumes of LPG by 97 thousand tons to 124 thousand tons, of which 78.2% was sold domestically for an average price of RR 4,440 per ton (FCA excluding VAT); an increase of RR 259 per ton, or 6.2%, compared to the corresponding period in 2005. The remaining volumes of LPG were sold as follows: 16.1% was sold in the CIS for an average price of RR 7,497 per ton (DAF excluding VAT) and the remaining volumes were sold to the export market for an average price of USD 325.9 per ton, (DAF excluding export duties). We had no sales of LPG to CIS or export markets in the corresponding period in 2005.

Oil products sales

In the three months ended 30 June 2006, our revenue from the sales of oil products decreased by RR 781 million, or 78.1%, compared to the corresponding period in 2005. The decrease in oil products revenues was primarily due to a decrease in the volumes of unstable gas condensate delivered to the Surgutsky refinery, which resulted in a decrease in the output of oil products available for sale. The decrease in sales volumes of 180 thousand tons, or 83.7%, was partly offset by an increase in the average domestic price of RR 1,685 per ton, or 36.3%. In the 2006 period, oil products sales volumes from the Surgutsky refinery amounted to 35 thousand tons compared to 215 thousand tons in the corresponding period in 2005. The main oil products sold in both periods were diesel fuel and light distillate. We sold 100% of our oil products' volumes to the domestic market in the 2006 period as we were able to realize better margins for light distillate and diesel fuel. The domestic market for oil products in the corresponding period in 2005 was characterized by generally lower prices across all oil products categories and we received a lower proportion of higher value oil products (diesel and distillate) from the Surgutsky refinery in 2005 compared to 2006.

Crude oil sales

In the three months ended 30 June 2006, our revenues from the sales of crude oil decreased by RR 1,238 million, or 71.4%, compared to the corresponding period in 2005, due to a reduction in the overall volumes of crude oil sold during the 2006 period. The reduction in crude oil sales volumes was partially offset by higher prices received from both export and domestic markets.

Total sales volumes of crude oil decreased in the three months ended 30 June 2006 by 267 thousand tons, or 78.3%, compared to the corresponding period in 2005. The decrease in sales volumes of crude oil in the 2006 period was due to the combined effect of the migration of processing of our unstable gas condensate from the Surgutsky refinery to the Purovsky Plant (a portion of gas condensate processed at the Surgutsky refinery is sold as crude oil) starting in June 2005, and the divestiture of our participation interest in Geoilbent in June 2005.

Our average realized sales price, excluding export duties, translated into US dollars for crude oil exported to international markets increased by USD 34.4 per ton, or 15.0%, to USD 263.8 per ton (DAF) in the three months ended 30 June 2006 compared to USD 229.4 per ton (DAF/FOB) in the corresponding period in 2005, primarily due to the higher pricing environment in the international crude oil markets. Our average realized crude oil domestic sales price (excluding VAT) also increased by RR 1,781 per ton, or 37.7%, to RR 6,499 per ton in the 2006 period, compared to RR 4,718 per ton in the corresponding period in 2005, due to the strengthening of domestic crude oil prices.

Sales of polymer and insulation tape

In the three months ended June 2006, our revenues from the sales of polymer and insulation tape increased by RR 66 million, or 29.3%, to RR 291 million compared to RR 225 million in the corresponding period in 2005, due to higher sales volumes and prices. In June 2005, we commenced production of BOPP film wrap at our subsidiary NOVATEK-Polimer which generated RR 144 million in revenue in the 2006 period compared to nil in the corresponding period in 2005. Other polymers sales contributed an additional RR 147 million in revenues compared to RR 225 million in the corresponding period in 2005. The decrease in sales of other polymers was primarily due to increased competition from foreign producers in the 2006 period compared to the corresponding period in 2005.

Other revenues

Other revenues include rent, polymer tolling and other services. In the three months ended 30 June 2006, other revenues increased by RR 2 million, or 3.7%, to RR 56 million from RR 54 million in the corresponding period in 2005. The increase was primarily due to an increase services provided to third parties.

Other income (loss)

In the three months ended 30 June 2006, other loss equaled RR 172 million, while in the corresponding period in 2005 we realized other income in the amount of RR 3,800 million. In the 2006 period, we had no income from gains on disposals compared to RR 3,631 million in gains on disposals of investments in oil and gas producing associates and disposals of subsidiaries in the corresponding period in 2005. In the 2006 period, other loss increased by RR 169 million, of which RR 28 million was related to commodity derivative instruments that did not qualify as hedge transactions under IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") and the remainder was due to the disposal of fixed assets and materials.

Operating expenses

In the three months ended 30 June 2006, total operating expenses increased by RR 2,430 million, or 46.4%, to RR 7,672 million compared to RR 5,242 million in the three months ended 30 June 2005, largely due to increases in non-controllable expenses such as production taxes and transportation costs. Most of our controllable expenses in the 2006 period were lower as a percentage of total revenues in comparison with the corresponding period in 2005. Operating expenses increased as a percentage of total revenues to 61.1% in the 2006 period compared to 57.3% in the corresponding period in 2005, as shown in the table below.

| <i>millions of Russian roubles</i> | Three months ended 30 June: | | | |
|--|------------------------------------|----------------------------|--------------|----------------------------|
| | 2006 | % of total revenues | 2005 | % of total revenues |
| Transportation expenses | 2,596 | 20.7% | 1,372 | 15.0% |
| Taxes other than income tax | 1,566 | 12.5% | 747 | 8.2% |
| Depreciation, depletion and amortization | 996 | 7.9% | 850 | 9.3% |
| Materials, services and other | 943 | 7.5% | 841 | 9.2% |
| General and administrative expenses | 860 | 6.9% | 670 | 7.3% |
| Purchases of oil, gas condensate and natural gas | 461 | 3.7% | 681 | 7.4% |
| Exploration expenses | 115 | 0.9% | 121 | 1.3% |
| Net impairment expense | 18 | 0.1% | 3 | 0.0% |
| Change in inventory | 117 | 0.9% | (43) | (0.5%) |
| Total operating expenses | 7,672 | 61.1% | 5,242 | 57.3% |

Non-controllable expenses

A significant proportion of our operating expenses are characterized as non-controllable expenses since we are unable to influence the increase in regulated tariffs for transportation of our hydrocarbons or the rates imposed by federal, regional or local tax authorities. In the three months ended 30 June 2006, non-controllable expenses of transportation expenses and taxes other than on income increased by RR 2,043 million, or 96.4%, to RR 4,162 million from RR 2,119 million in the corresponding period in 2005 primarily due to the increase in hydrocarbon production from our three core fields, the commencement of operations at the Purovsky Plant and the change in our delivery terms for stable gas condensate. As a percentage of total revenues, these non-controllable expenses increased by 10.2% to 33.2% in the 2006 period compared to 23.2% in the corresponding period in 2005.

Transportation expense

Our total transportation expense in the three months ended 30 June 2006 increased by RR 1,224 million, or 89.2%, compared to the corresponding period in 2005.

| <i>millions of Russian roubles</i> | Three months ended 30 June: | | Change % |
|--|------------------------------------|--------------|-----------------|
| | 2006 | 2005 | |
| Natural gas transportation to customers | 1,641 | 1,104 | 48.6% |
| Stable gas condensate and liquefied petroleum gas transported by rail | 556 | 89 | 524.7% |
| Stable gas condensate transported by tankers | 364 | - | 100.0% |
| Transportation of unstable gas condensate from the fields to the processing facilities through third party pipelines | 19 | 54 | (64.8%) |
| Crude oil transportation to customers by pipeline | 13 | 41 | (68.3%) |
| Insurance expense | 1 | 75 | (98.7%) |
| Other transportation costs | 2 | 9 | (77.8%) |
| Total transportation expenses | 2,596 | 1,372 | 89.2% |

In the three months ended 30 June 2006, transportation expense for natural gas increased by RR 537 million, or 48.6%, as a result of a 23.1% increase in our sales volumes of natural gas sold to end-customers, for whom the cost of transportation is included in the sales price, and a 20.9% increase in our average natural gas transportation expense per mcm, which is comprised of the tariff per mcm per 100 km, set by the FTS, and the average distance of our gas deliveries. The tariff for transportation of natural gas in the 2006 period was RR 23.84 per mcm per 100 km compared to RR 19.37 per mcm per 100 km in 2005. Our average gas delivery distance decreased by 39 km to 2,114 km in 2006 from 2,153 km in the corresponding period in 2005 period.

In the three months ended 30 June 2006, our total expense for transportation by rail increased by RR 467 million, or 524.7%. The increase was primarily due to 356 thousand tons of combined export and CIS volumes of stable gas condensate and LPG in the 2006 period compared to 87 thousand tons in the corresponding period in 2005. We did not sell any oil products to the export market in the 2006 and 2005 periods.

Our expense for stable gas condensate transported by rail to export markets increased by RR 381 million, or 428.1%, from RR 89 million to RR 470 million, or from approximately RR 1,022 per ton to approximately RR 1,429 per ton compared to the corresponding period in 2005. Transportation expense for LPG amounted to RR 76 million, of which RR 37 million was related to export sales and RR 39 million to CIS sales, or approximately RR 5,250 per ton and RR 1,972 per ton, respectively. Transportation expenses for LPG were nil in the corresponding period in 2005. The remaining RR 10 million was related to railway infrastructure maintenance and was not allocated between products.

With the commencement of export sales through our foreign subsidiaries, as of 1 January 2006, we now incur tanker expense for delivery of stable gas condensate to US and European markets. Total transportation expense for delivery of stable gas condensate by tanker amounted to RR 364 million in the three months ended 30 June 2006 and included RR 21 million for services provided by ice breakers.

In the three months ended 30 June 2006, our expense for transportation of crude oil to export markets decreased by RR 28 million, or 68.3%, compared to the corresponding period in 2005. The decrease in crude oil transportation expense was primarily due to a reduction in export volumes delivered which was slightly offset by an increase in the expense per ton due to increases in the transportation tariff in the 2006 period compared to the corresponding period in 2005.

Taxes other than income tax

In the three months ended 30 June 2006, taxes other than income tax increased by RR 819 million, or 109.6%, compared to the corresponding period in 2005. The increase was mainly due to increases in UPT and property tax.

| <i>millions of Russian roubles</i> | Three months ended 30 June: | | Change |
|--|------------------------------------|-------------|---------------|
| | 2006 | 2005 | % |
| Unified natural resources production tax (UPT) | 1,394 | 1,053 | 32.4% |
| Property tax | 107 | 79 | 35.4% |
| Excise tax | 38 | 31 | 22.6% |
| Other taxes | 28 | 11 | 154.5% |
| Reversal of provision for additional taxes | - | (427) | n/a |
| Total tax other than income tax | 1,566 | 747 | 109.6% |

In the three months ended 30 June 2006, the increase in taxes other than income tax resulted primarily from a RR 341 million, or 32.4%, increase in the UPT. The UPT increase in 2006 was primarily due to an increase in natural gas production volumes and an increase in the production tax rate for natural gas and to a lesser extent an increase in production and prices for crude oil and gas condensate, both of which affect the UPT tax rates for these products. In the 2006 period, production increases at Tarkosaleneftegas and Yurkharovneftegas accounted for RR 268 million, or 78.6%, and RR 64 million, or 18.8%, respectively, of the increase in this expense. In the 2006 period, the UPT rate for natural gas increased by RR 12 per mcm, or 8.9%, to RR 147 per mcm from RR 135 per mcm in the corresponding period in 2005. In the 2005 period, we reversed a provision for UPT relating to gas condensate production tax in prior periods which resulted in a decrease of RR 427 million in taxes other than income tax.

In the three months ended 30 June 2006, property tax expense increased by RR 28 million, or 35.4%, to RR 107 million compared to RR 79 million in the corresponding period in 2005. The increase was due to additions of property, plant and equipment (PPE) at Nova ZPK, operator of the Purovsky Plant, which accounted for RR 17 million of the increase, and additions of PPE at NOVATEK and Yurkharovneftegas, which accounted for RR 4 million and RR 4 million, respectively, of the increase.

Depreciation, depletion and amortization

In the three months ended 30 June 2006, depreciation, depletion and amortization (DDA) expense increased by RR 146 million, or 17.2%, compared to the corresponding period in 2005. The increase was primarily due to higher production levels which increased depletion of our oil and gas properties. Associated depletion increased by RR 75 million, or 9.2%, compared to the corresponding period in 2005. In the 2006 period, DDA per barrel of oil equivalent (boe) was RR 17.4 compared to DDA per boe of RR 18.1 in the corresponding period in 2005 as a result of an increase in our proved developed reserves estimates and lower capital expenditures in the 2006 period. The launch of the Purovsky Plant in June 2005 also added RR 45 million in straight-line oil and gas depreciation. The remaining balance was due to increases in straight line depreciation for other assets, including RR 10 million relating to Tarkosaleneftegaz and RR 18 million relating to NOVATEK-Polimer which were offset by a RR 2 million decrease relating to other companies.

Materials, services and other expense

In the three months ended 30 June 2006, our materials, services and other expenses increased by RR 102 million, or 12.1%, to RR 943 million compared to RR 841 million in the corresponding period in 2005. The main components of this expense in the three months ended 30 June 2006 were materials and payroll expenses.

| <i>millions of Russian roubles</i> | Three months ended 30 June: | | Change |
|---|------------------------------------|-------------|---------------|
| | 2006 | 2005 | % |
| Materials expense | 301 | 223 | 35.0% |
| Payroll expense | 316 | 224 | 41.1% |
| Processing services expense | 69 | 164 | (57.9%) |
| Security and fire safety expense | 62 | 49 | 26.5% |
| Energy expense | 26 | 21 | 23.8% |
| Other expenses | 169 | 160 | 5.6% |
| Total materials, services and other expenses | 943 | 841 | 12.1% |

Materials expense increased by RR 78 million, or 35.0%, to RR 301 million compared to RR 223 million in the corresponding period in 2005. The increase was mainly due to the commencement of BOPP production at NOVATEK-Polimer, and the associated increase in purchases of raw materials. Materials expense at NOVATEK-Polimer in the 2006 period amounted to RR 200 million compared to RR 153 million in the corresponding period in 2005. The increase, of RR 47 million, accounted for 60.3% of the total increase to materials expense. Materials expense at the Yurkharovskoye field increased by RR 8 million due to increased hydrocarbon production volumes. The increases were partially offset by a decrease of RR 10 million in other expenses at Tarkosaleneftegaz.

Payroll expense increased by RR 92 million, or 41.1%, to RR 316 million compared to RR 224 million in the corresponding period in 2005. The increase was primarily due to the launch of the Purovsky Plant and the related increase in staff at Nova ZPK, operator of the Purovsky Plant, and NovaTrans which provides rail transportation services for the delivery of stable gas condensate and LPG. These companies added RR 34 million and RR 16 million, respectively, to the increase in payroll expense.

Processing services expenses decreased by RR 95 million, or 57.9%, to RR 69 million from RR 164 million in the corresponding period in 2005, mainly due to a decrease in the volumes of unstable gas condensate processed at the Surgutsky refinery. Processing expenses at the Purovsky Plant are allocated among our various expense categories.

Security and fire safety expenses increased by RR 13 million, or 26.5%, to RR 62 million from RR 49 million in the corresponding period in 2005, and energy expenses increased by RR 5 million, or 23.8%, to RR 26 million from RR 21 million in the 2005 period. The increases were primarily due to the launch of the Purovsky Plant in June 2005.

In the three months ended 30 June 2006, other materials expenses increased by RR 9 million, compared to the corresponding period in 2005. The increase was related to fuel, rent, communications services, repair and maintenance and other expenses which increased by RR 10 million, RR 10 million, RR 5 million and RR 3 million, respectively. The increase in these expenses were partially offset by a decrease in well services and workovers, transport (not related to the transportation of our products) and other purchases expenses in an aggregate amount of RR 19 million.

General and administrative expenses

In the three months ended 30 June 2006, general and administrative expenses increased by RR 190 million, or 28.4%, to RR 860 million compared to RR 670 million in the corresponding period in 2005. The main components of these expenses, comprising 74.4% of the total expenses, were payroll, insurance, social and charitable, and legal, audit and consulting expenses.

| <i>millions of Russian roubles</i> | Three months ended 30 June: | | Change |
|--|------------------------------------|-------------|---------------|
| | 2006 | 2005 | % |
| Payroll expense | 394 | 252 | 56.3% |
| Social and charitable expenses | 136 | 107 | 27.1% |
| Insurance expense | 49 | 83 | (41.0%) |
| Legal, audit and consulting expenses | 61 | 74 | (17.6%) |
| Other expenses | 220 | 154 | 42.9% |
| Total general and administrative expenses | 860 | 670 | 28.4% |

Payroll expense increased by RR 142 million, or 56.3%, to RR 394 million compared to RR 252 million in the corresponding period in 2005. The increase in 2006 was primarily due to management bonuses and additional employees' wages at NOVATEK which on aggregate increased by RR 102 million and accounted for 71.8% of the total increase in payroll expense.

Social and charitable expenses increased by RR 29 million, or 27.1%, to RR 136 million compared to RR 107 million in the corresponding period in 2005, and were primarily related to our continued support for charities and social programs in the regions where we operate.

Insurance expense decreased by RR 34 million, or 41.0%, to RR 49 million compared to RR 83 million in the corresponding period in 2005. The decrease was the result of lower Group insurance rates due to a reduction in claims for accidents and the cessation of insurance related to the processing of liquids at the Surgutsky refinery due to the decrease in volumes delivered in the 2006 period.

Legal, audit and consulting services expenses decreased by RR 13 million, or 17.6%, to RR 61 million compared to RR 74 million in the corresponding period in 2005, due to a decrease in consulting services provided to the Group in the 2006 period. Consulting services expense decreased in the 2006 period due to certain one-time expenses incurred in 2005 related to the listing of the Group's shares on the London Stock Exchange in the form of global depositary receipts.

In 2006, other general and administrative expenses increased by RR 66 million, or 42.9%, compared to the corresponding period in 2005 partially due to the effects of inflation on these expenses. The increase was related to business trip, repair and maintenance, depreciation, rent and board remuneration expenses which increased by RR 22 million, RR 29 million, RR 15 million, RR 7 million and RR 8 million, respectively. The increase in these expenses were offset by decreases in materials, communications services, staff training and other expenses in an aggregate amount of RR 15 million.

Purchases of oil, gas condensate and natural gas

Our purchases of hydrocarbons decreased by RR 220 million, or 32.3%, to RR 461 million in the three months ended 30 June 2006 from RR 681 million in the corresponding period in 2005 primarily as a result of our divestiture of Geoilbent in June 2005.

Profit from operations

As a result of the factors discussed above and excluding the impact of our disposal of Geoilbent and other non-core subsidiaries in the second quarter of 2005, in the amount of RR 3,631 million, our profit from operations increased by RR 800 million, or 20.5%, in the 2006 period compared to the corresponding period in 2005. In the 2006 period, our profit from operations as a percentage of total revenues decreased to 37.5% compared to 82.4% in the corresponding period in 2005.

Finance income (expense)

Total finance expense decreased from a net expense of RR 189 million in the three months ended 30 June 2005 to a net expense of RR 78 million in the corresponding period in 2006. The decrease was due to lower interest expense and foreign exchange losses which were offset by a decrease in interest income in the 2006 period compared to the corresponding period in 2005.

In the 2006 period, interest expense decreased by RR 156 million or 53.8% compared to the corresponding period in 2005 mainly as a result of a reduction in our total debt. The decrease in interest expense was partly offset by a decrease in interest income of RR 150 million in the 2006 period, due to the repayment of certain loans provided to related parties in prior periods.

Foreign exchange loss decreased by RR 105 million to RR 31 million in the 2006 period, compared to foreign exchange losses of RR 136 million in the corresponding period in 2005. The decrease was primarily due to gains on the Group's US dollar denominated debt and the general strengthening of the Russian rouble in 2006. In the 2006 period, we recorded RR 169 million in foreign exchange gains on US dollar denominated debt which were offset by foreign exchange losses of RR 52 million recorded on foreign currency forward contracts described below.

During the three months ended 30 June 2006, the Group settled two short-term foreign currency forward contracts entered into during the first quarter of 2006, to manage our exposure to foreign currency fluctuations on debt repayment in US dollars. Neither of these contracts qualified for hedge treatment under IAS 39.

Share of profit of associated companies

In the three months ended 30 June 2006, our share of the net income of associated companies was nil compared to RR 66 million in the corresponding period in 2005 as a result of the divestiture of our participation interest in Geoilbent in June 2005.

Income tax expense

Our overall consolidated effective income tax rates (total tax expense calculated as a percentage of our reported IFRS profit before income tax and share of net income from associates) were 25.7% and 24.7% for the three months ended 30 June 2006 and 2005, respectively. Our effective income tax rate, after excluding the effect of foreign subsidiaries in Switzerland, was 25.9% in the 2006 period. Our effective tax rates in 2006 and 2005 correlate closely with our statutory income tax rate of 24%. The differences between our effective and statutory tax rates are primarily due to non-deductible expenses.

Profit for the period and earnings per share

Excluding the impact of our disposal of Geoilbent and other non-core subsidiaries net of associated income tax in the second quarter of 2005, profit attributable to NOVATEK shareholders increased by RR 577 million, or 19.7%, compared to the corresponding period in 2005.

Our weighted average basic and diluted earnings per share (post share split) decreased to RR 1.15 per share in the three months ended 30 June 2006 from RR 1.85 per share in the corresponding period in 2005, primarily due to the gain on disposals in the 2005 period as discussed above.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 2006 COMPARED TO THE CORRESPONDING PERIOD IN 2005

The following table and discussion is a summary of our consolidated results of operations for the six months ended 30 June 2006 and 2005. Each line item is also shown as a percentage of our total revenues.

| <i>millions of Russian roubles</i> | Six months ended 30 June: | | | |
|---|----------------------------------|----------------------------|---------------|----------------------------|
| | 2006 | % of total revenues | 2005 | % of total revenues |
| Total revenues (net of VAT and export duties) | 24,170 | 100.0% | 17,947 | 100.0% |
| Other income (loss) | (285) | (1.2%) | 3,624 | 20.2% |
| Total revenues and other income | 23,885 | 98.8% | 21,571 | 120.2% |
| Operating expenses | (14,395) | (59.6%) | (10,783) | (60.1%) |
| Profit from operations | 9,490 | 39.3% | 10,788 | 60.1% |
| Finance income (expense) | 15 | 0.1% | (430) | (2.4%) |
| Share of profit of associates | - | - | 143 | 0.8% |
| Profit before income tax and minority interest | 9,505 | 39.3% | 10,501 | 58.5% |
| Total income tax expense | (2,360) | (9.8%) | (2,593) | (14.4%) |
| Profit for the period | 7,145 | 29.6% | 7,908 | 44.1% |
| Minority interest | (71) | (0.3%) | (15) | (0.1%) |
| Profit attributable to NOVATEK shareholders | 7,216 | 29.9% | 7,923 | 44.1% |

Total revenues and other income

The following table sets forth our net sales (net of VAT and export duties, where applicable) and other income for the six months ended 30 June 2006 and 2005:

| <i>millions of Russian roubles</i> | Six months ended 30 June: | | Change % |
|--|----------------------------------|---------------|-----------------|
| | 2006 | 2005 | |
| Net natural gas sales | 14,341 | 11,392 | 25.9% |
| <i>Net end-customer sales</i> | 8,586 | 6,424 | 33.7% |
| <i>Net ex-field sales</i> | 5,755 | 4,968 | 15.8% |
| Net stable gas condensate sales | 6,381 | 574 | 1,011.7% |
| <i>Net export sales</i> | 6,369 | 570 | 1,017.4% |
| <i>Net domestic sales</i> | 12 | 4 | 200.0% |
| Net liquefied petroleum gas sales | 1,549 | 114 | 1,258.8% |
| <i>Net export sales</i> | 201 | - | 100.0% |
| <i>Net CIS sales</i> | 241 | - | 100.0% |
| <i>Net domestic sales</i> | 1,107 | 114 | 871.1% |
| Net oil products sales | 361 | 2,098 | (82.8%) |
| <i>Net domestic sales</i> | 361 | 2,098 | (82.8%) |
| Net crude oil sales | 893 | 3,179 | (71.9%) |
| <i>Net export sales</i> | 187 | 959 | (80.5%) |
| <i>Net domestic sales</i> | 706 | 2,220 | (68.2%) |
| Total oil and gas sales | 23,525 | 17,357 | 35.5% |
| Sales of polymer and insulation tape | 548 | 437 | 25.4% |
| Other revenues | 97 | 153 | (36.6%) |
| Total revenues | 24,170 | 17,947 | 34.7% |
| Other income (loss) | (285) | 3,624 | (107.9%) |
| Total revenues and other income | 23,885 | 21,571 | 10.7% |

Natural gas sales

In the six months ended 30 June 2006, our revenues from the sale of natural gas increased by RR 2,949 million, or 25.9%, compared to the corresponding period in 2005. The increase in natural gas revenues was attributable to the combined effect of increases in both prices and sales volumes. Revenues from the sale of natural gas accounted for 59.3% and 63.5% of our total revenues in the 2006 and 2005 periods, respectively. The decrease in natural gas sales as a percentage of total revenues was primarily due to a combination of increased sales volumes of stable gas condensate to international markets, where we are able to realize higher net prices, and the general increase in prices for liquid hydrocarbons in the 2006 period compared to the corresponding period in 2005. We sell our natural gas volumes exclusively in the Russian domestic market.

In the six months ended 30 June 2006, our average realized natural gas price per mcm increased by RR 97 per mcm, or 11.7%, to RR 924 per mcm from RR 827 per mcm in the corresponding period in 2005, due to an overall increase in prices and an increase in sales volumes to end-customers. The average realized prices of our natural gas sold to end-customers and natural gas sold ex-field were higher by 11.9% and by 7.5%, respectively, in the 2006 period compared to the corresponding period in 2005.

Stable gas condensate sales

In the six months ended 30 June 2006, our revenues from sales of stable gas condensate increased by RR 5,807 million, compared to the corresponding period in 2005, and are directly related to the launch of our Purovsky Plant in June 2005, following which we were able to process and sell our gas condensate production separately, as stable gas condensate, as opposed to processing it at the Surgutsky refinery and selling it as Ural's blend crude oil and other oil products.

In the six months ended 30 June 2006, we exported 99.6% of our stable gas condensate sales volumes, 586 thousand tons, from the Purovsky Plant to markets in the United States and Europe using the loading and storage facilities at the Port of Vitino on the White Sea and tankers. In the 2006 period, our average realized price, excluding export duties, translated into US dollars for stable gas condensate sold on the export market increased by USD 157.4 per ton, or 66.9%, to USD 392.5 per ton (DES) from USD 235.1 per ton (CPT) in the corresponding period in 2005. The significant increase was due to the overall strengthening of prices in international markets in 2006 and the change in our delivery terms due to the commencement of sales through our trading subsidiary beginning in January 2006. The average domestic price increased by RR 1,722 per ton, or 27.5%, compared to the corresponding period in 2005.

Liquefied petroleum gas sales

In the six months ended 30 June 2006, our revenues from the sales of LPG increased by RR 1,435 million, and were also directly related to the launch of our Purovsky Plant in June 2005. In the 2006 period, we increased our sales volumes of LPG by 226 thousand tons to 253 thousand tons in the 2006 period, of which 79.8% was sold domestically for an average price of RR 5,493 per ton (FCA excluding VAT), an increase of RR 1,312, or 31.4% compared to the corresponding period in 2005. The remaining volumes of LPG were sold as follows: 12.3% was sold in the CIS for an average price of RR 7,783 per ton (DAF excluding VAT) and 7.9% was sold to the export market for an average price of USD 370.6 per ton (DAF excluding export duties). We had no sales of LPG to CIS or export markets in the corresponding period in 2005.

Oil products sales

In the six months ended 30 June 2006, our revenue from the sales of oil products decreased by RR 1,737 million, or 82.8%, compared to the corresponding period in 2005. The decrease in oil products revenues was primarily due to a decrease in the volumes of unstable gas condensate delivered to the Surgutsky refinery, which resulted in a decrease in the output of oil products available for sale. The decrease in sales volumes of 405 thousand tons, or 87.5%, was partly offset by an increase in the average domestic price of RR 1,719 per ton, or 37.9%. In the 2006 period, oil products sales volumes from the Surgutsky refinery amounted to 58 thousand tons compared to 463 thousand tons in the corresponding period in 2005. The main oil products sold in both periods were diesel fuel and light distillate. We sold 100% of our oil products' volumes to the domestic market in the 2006 period as we were able to realize better margins for light distillate and diesel fuel. The domestic market for oil products in the corresponding period in 2005 was characterized by generally lower prices across all oil products categories and we received a lower proportion of higher value oil products (diesel and distillate) from the Surgutsky refinery in 2005 compared to 2006.

Crude oil sales

In the six months ended 30 June 2006, our revenues from the sales of crude oil decreased by RR 2,286 million, or 71.9%, compared to the corresponding period in 2005, due to a reduction in the overall volumes of crude oil sold during the 2006 period, largely as a result of our disposal of Geoilbent in the second quarter of 2005. The reduction in crude oil sales volumes was offset by higher prices received from both export and domestic markets.

Total sales volumes of crude oil decreased in the six months ended 30 June 2006 by 565 thousand tons, or 80.1%, compared to the corresponding period in 2005. The decrease in sales volumes of crude oil in the 2006 period was due to the migration of processing of our unstable gas condensate from the Surgutsky refinery to the Purovsky Plant (a portion of gas condensate processed at the Surgutsky refinery is sold as crude oil) starting in June 2005, and the divestiture of our participation interest in Geoilbent also in June 2005, from which we purchased significant volumes of crude oil.

Our average realized sales price, excluding export duties, translated into US dollars for crude oil exported to international markets increased by USD 42.6 per ton, or 20.0%, to USD 255.6 per ton (DAF) in the six months ended 30 June 2006 compared to USD 213.0 per ton (DAF/FOB) in the corresponding period in 2005, primarily due to the higher pricing environment in the international crude oil markets. Our average realized crude oil domestic sales price (excluding VAT) also increased by RR 2,196 per ton, or 53.8%, to RR 6,277 per ton in the 2006 period, compared to RR 4,081 per ton in the corresponding period in 2005, due to the strengthening of domestic crude oil prices.

Sales of polymer and insulation tape

In the six months ended 30 June 2006, our revenues from the sales of polymer and insulation tape increased by RR 111 million, or 25.4%, to RR 548 million compared to RR 437 million in the corresponding period in 2005, due to higher sales volumes and prices. In June 2005, we commenced production of BOPP film wrap at our subsidiary NOVATEK-Polimer which generated RR 253 million in revenue in the 2006 period compared to nil in the corresponding period in 2005. Other polymers sales contributed an additional RR 295 million in revenues compared to RR 437 million in the corresponding period in 2005. The decrease in sales of other polymers was primarily due to increased competition from foreign producers in the 2006 period compared the corresponding period in 2005.

Other revenues

Other revenues include rent, polymer tolling and other services. In the six months ended 30 June 2006, other revenues decreased by RR 56 million, or 36.6%, to RR 97 million from RR 153 million in the corresponding period in 2005. The decrease was due to the divestiture of certain non-core businesses, including banking, after the period ended 30 June 2005.

Other income (loss)

In the six months ended 30 June 2006, other loss equaled RR 285 million, while in the corresponding period in 2005 we realized other income in the amount of RR 3,624 million. In the 2006 period, we had no income from gains on disposals compared to RR 3,631 million in gains on disposals of investments in oil and gas producing associates and disposals of subsidiaries in the corresponding period in 2005. In the 2006 period, other loss increased by RR 278 million, of which RR 65 million was related to the fair values of open commodity derivative instruments that did not qualify as hedge transactions under IAS 39 and the remainder was due to disposal of fixed assets and materials.

Operating expenses

In the six months ended 30 June 2006, total operating expenses increased by RR 3,612 million, or 33.5%, to RR 14,395 million compared to RR 10,783 million in the six months ended 30 June 2005, largely due to increases in non-controllable expenses such as production taxes and transportation costs. Most of our controllable expenses in the 2006 period were lower as a percentage of total revenues in comparison with the corresponding period in 2005. Operating expenses decreased as a percentage of total revenues to 59.6% in the 2006 period compared 60.1% in the corresponding period in 2005, as shown in the table below.

| <i>millions of Russian roubles</i> | Six months ended 30 June: | | | |
|--|----------------------------------|----------------------------|---------------|----------------------------|
| | 2006 | % of total revenues | 2005 | % of total revenues |
| Transportation expenses | 5,190 | 21.5% | 2,855 | 15.9% |
| Taxes other than income tax | 3,119 | 12.9% | 2,048 | 11.4% |
| Depreciation, depletion and amortization | 1,992 | 8.2% | 1,664 | 9.3% |
| Materials, services and other | 1,907 | 7.9% | 1,669 | 9.3% |
| General and administrative expenses | 1,525 | 6.3% | 1,021 | 5.7% |
| Purchases of oil, gas condensate and natural gas | 870 | 3.6% | 1,331 | 7.4% |
| Exploration expenses | 227 | 0.9% | 270 | 1.5% |
| Net impairment expense | 94 | 0.4% | 45 | 0.3% |
| Change in inventory | (529) | (2.2%) | (120) | (0.7%) |
| Total operating expenses | 14,395 | 59.6% | 10,783 | 60.1% |

Non-controllable expenses

A significant proportion of our operating expenses are characterized as non-controllable expenses since we are unable to influence the increase in regulated tariffs for transportation of our hydrocarbons or the rates imposed by federal, regional or local tax authorities. In the three months ended 30 June 2006, non-controllable expenses of transportation expenses and taxes other than on income increased by RR 3,406 million, or 69.5%, to RR 8,309 million from RR 4,903 million in the corresponding period in 2005 primarily due to the increase in hydrocarbon production from our three core fields, the commencement of operations at the Purovsky Plant and the change in our delivery terms for stable gas condensate. As a percentage of total revenues, these non-controllable expenses increased by 10.2% to 33.2% in the 2006 period compared to 23.2% in the corresponding period in 2005.

Transportation expense

Our total transportation expense in the six months ended 30 June 2006 increased by RR 2,335 million, or 81.8%, compared to the corresponding period in 2005.

| <i>millions of Russian roubles</i> | Six months ended 30 June: | | Change % |
|--|----------------------------------|--------------|-----------------|
| | 2006 | 2005 | |
| Natural gas transportation to customers | 3,437 | 2,385 | 44.1% |
| Stable gas condensate and liquefied petroleum gas transported by rail | 1,030 | 89 | 1,057.3% |
| Stable gas condensate transported by tankers | 658 | - | 100.0% |
| Transportation of unstable gas condensate from the fields to the processing facilities through third party pipelines | 39 | 113 | (65.5%) |
| Crude oil transportation to customers by pipeline | 18 | 90 | (80.0%) |
| Insurance expense | 1 | 166 | (99.4%) |
| Other transportation costs | 7 | 12 | (41.7%) |
| Total transportation expenses | 5,190 | 2,855 | 81.8% |

In the six months ended 30 June 2006, transportation expense for natural gas increased by RR 1,052 million, or 44.1%, as a result of a 19.4% increase in our sales volumes of natural gas sold to end-customers, for whom the cost of transportation is included in the sales price, and a 20.8% increase in our average natural gas transportation expense per mcm, which is comprised of the tariff per mcm per 100 km, set by the FTS, and the average distance of our gas deliveries. The tariff for transportation of natural gas in the 2006 period was RR 23.84 per mcm per 100 km compared to RR 19.37 per mcm per 100 km in 2005. Our average gas delivery distance decreased by 40 km to 2,067 km in 2006 from 2,107 km in the corresponding period in 2005.

In the six months ended 30 June 2006, our total expense for transportation by rail increased by RR 941 million, or 1,057.3%. The increase was primarily due to 637 thousand tons of combined export and CIS volumes of stable gas condensate and LPG in the 2006 period compared to 87 thousand tons in the corresponding period in 2005. We did not sell any oil products to the export market in the 2006 and 2005 periods.

In the six month period, our expense for stable gas condensate transported by rail to export markets increased by RR 762 million from RR 89 million to RR 851 million, or from approximately RR 1,022 per ton to approximately RR 1,452 per ton compared to the corresponding period in 2005. Transportation expense for LPG amounted to RR 163 million, of which RR 103 million was related to export sales and RR 60 million to CIS sales, or approximately RR 5,117 per ton and RR 1,949 per ton, respectively. Transportation expenses for LPG were nil in the corresponding period in 2005. The remaining RR 16 million was related to railway infrastructure maintenance and was not allocated between products.

With the commencement of export sales through our foreign subsidiaries, as of 1 January 2006, we now incur tanker expense for delivery of stable gas condensate to US and European markets. Total transportation expense for delivery of stable gas condensate by tanker amounted to RR 658 million in the six months ended 30 June 2006 and included RR 44 million for services provided by ice breakers.

In the six months ended 30 June 2006, our expense for transportation of crude oil to export markets decreased by RR 72 million, or 80.0%, compared to the corresponding period in 2005. The decrease in crude oil transportation expense was primarily due to a reduction in export volumes delivered due to our disposal of Geoilbent. This reduction was slightly offset by an increase in the expense per ton due to increases in the transportation tariff in the 2006 period compared to the corresponding period in 2005.

Taxes other than income tax

In the six months ended 30 June 2006, taxes other than income tax increased by RR 1,071 million, or 52.3%, compared to the corresponding period in 2005. The increase was mainly due to increases in UPT and property tax which were offset by decreases in excise tax and other taxes.

| <i>millions of Russian roubles</i> | Six months ended 30 June: | | Change % |
|--|----------------------------------|--------------|---------------------|
| | 2006 | 2005 | |
| Unified natural resources production tax (UPT) | 2,804 | 2,204 | 27.2% |
| Property tax | 210 | 155 | 35.5% |
| Excise tax | 64 | 82 | (22.0%) |
| Other taxes | 41 | 34 | 20.6% |
| Reversal of provision for additional taxes | - | (427) | n/a |
| Total tax other than income tax | 3,119 | 2,048 | 52.3% |

In the six months ended 30 June 2006, the increase in taxes other than income tax resulted primarily from a RR 600 million, or 27.2%, increase in the UPT. The UPT increase in 2006 was primarily due to an increase in natural gas production volumes and an increase in the production tax rate for natural gas and to a lesser extent an increase in production and prices for crude oil and gas condensate, both of which affect the UPT tax rates for these products. In the 2006 period, production increases at Tarkosaleneftegas and Yurkharovneftegas accounted for RR 449 million, or 74.8%, and RR 135 million, or 22.5%, respectively, of the increase in this expense. In the 2006 period, the UPT rate for natural gas increased by RR 12 per mcm, or 8.9%, to RR 147 per mcm from RR 135 per mcm in the corresponding period in 2005. In the 2005 period, we reversed a provision for UPT relating to gas condensate production tax in prior periods which resulted in a decrease of RR 427 million in taxes other than income tax.

In the six months ended 30 June 2006, property tax expense increased by RR 55 million, or 35.5%, to RR 210 million compared to RR 155 million in the corresponding period in 2005. The increase was due to additions of property, plant and equipment (PPE) associated with our Purovsky Plant, which accounted for RR 28 million of the increase, and additions of PPE at NOVATEK and Yurkharovneftegas, which accounted for RR 11 million and RR 9 million, respectively, of the increase. The increases were offset by a decrease in property tax at other companies in the amount of RR 3 million.

In the six months ended 30 June 2006, excise tax expense decreased by RR 18 million, or 21.9%, to RR 64 million compared to RR 82 million in the corresponding period in 2005. The decrease was due to lower volumes of unstable gas condensate processed at the Surgutsky refinery in the second quarter due to the launch of the Purovsky Plant in June 2005.

Depreciation, depletion and amortization

In the six months ended 30 June 2006, depreciation, depletion and amortization (DDA) expense increased by RR 328 million, or 19.7%, compared to the corresponding period in 2005. The increase was primarily due to higher production levels which increased depletion of our oil and gas properties by RR 188 million, or 11.7%, compared to the corresponding period in 2005. In the 2006 period, DDA per barrel of oil equivalent (boe) was RR 17.4 compared to DDA per boe of RR 17.3 in the corresponding period in 2005 as a result of an increase in our proved developed reserves estimates which was offset by an increase in production in the 2006 period. The launch of the Purovsky Plant in June 2005 added RR 90 million in straight-line oil and gas depreciation. The remaining balance was due to an increase in straight line depreciation for other non-oil and gas assets, including RR 20 million relating to Tarkosalenftegas, RR 22 million relating to NOVATEK-Polimer and RR 8 million related to other companies.

Materials, services and other expense

In the six months ended 30 June 2006, our materials, services and other expenses increased by RR 238 million, or 14.3%, to RR 1,907 million compared to RR 1,669 million in the corresponding period in 2005. The main components of this expense in the six months ended 30 June 2006 were materials and payroll expenses.

| <i>millions of Russian roubles</i> | Six months ended 30 June: | | Change % |
|---|----------------------------------|--------------|---------------------|
| | 2006 | 2005 | |
| Materials expense | 657 | 442 | 48.6% |
| Payroll expense | 628 | 454 | 38.3% |
| Processing services expense | 130 | 350 | (62.9%) |
| Security and fire safety expense | 123 | 70 | 75.7% |
| Energy expense | 60 | 41 | 46.3% |
| Other expenses | 309 | 312 | (1.0%) |
| Total materials, services and other expenses | 1,907 | 1,669 | 14.3% |

Materials expense increased by RR 215 million, or 48.6%, to RR 657 million compared to RR 442 million in the corresponding period in 2005. The increase was mainly due to the commencement of BOPP production at NOVATEK-Polimer, and the associated increase in purchases of raw materials. Materials expense at NOVATEK-Polimer in the 2006 period amounted to RR 453 million compared to RR 276 million in the corresponding period in 2005. The increase, of RR 177 million, accounted for 82.3% of the total increase to materials expense.

Payroll expense increased by RR 174 million, or 38.3%, to RR 628 million compared to RR 454 million in the corresponding period in 2005. The increase was primarily due to the launch of the Purovsky Plant and NovaTrans, which provides rail transportation services for the delivery of stable gas condensate and LPG. These companies added RR 78 million and RR 31 million, respectively, to the increase in payroll expense.

Processing services expense decreased by RR 220 million, or 62.9%, to RR 130 million from RR 350 million in the corresponding period in 2005, mainly due to a decrease in the volumes of unstable gas condensate processed at the Surgutsky refinery. Processing expenses at the Purovsky Plant are allocated among our various expense categories.

Security and fire safety expenses increased by RR 53 million, or 75.7%, to RR 123 million from RR 70 million in the corresponding period in 2005, and energy expenses increased by RR 19 million, or 46.3%, to RR 60 million from RR 41 million in the corresponding period in 2005. The increases were primarily due to the launch of the Purovsky Plant in June 2005.

In 2006, other materials expenses decreased by RR 3 million, compared to the corresponding period in 2005. The decrease was related to well services workovers, transport expenses (not related to the transportation of our products) and other purchases expenses which decreased by RR 17 million, RR 6 million and RR 48 million, respectively. The decreases in these expenses were offset by increases in fuel, repair and maintenance, rent and other expenses in an aggregate amount of RR 68 million.

General and administrative expenses

In the six months ended 30 June 2006, general and administrative expenses increased by RR 504 million, or 49.4%, to RR 1,525 million compared to RR 1,021 million in the corresponding period in 2005. The main components of these expenses, comprising 75.2% of the total expenses, were payroll, insurance, social and charitable, and legal, audit and consulting expenses.

| <i>millions of Russian roubles</i> | Six months ended 30 June: | | Change |
|--|----------------------------------|--------------|---------------|
| | 2006 | 2005 | % |
| Payroll expense | 713 | 391 | 82.4% |
| Social and charitable expenses | 221 | 137 | 61.3% |
| Insurance expense | 128 | 150 | (14.7%) |
| Legal, audit and consulting expenses | 85 | 94 | (9.6%) |
| Other expenses | 378 | 249 | 51.8% |
| Total general and administrative expenses | 1,525 | 1,021 | 49.4% |

Payroll expense increased by RR 322 million, or 82.4%, to RR 713 million compared to RR 391 million in the corresponding period in 2005. The increase was primarily due to management bonuses and additional employees' wages at NOVATEK which on aggregate increased by RR 255 million and accounted for 79.2% of the total increase to payroll expense in 2006.

Social and charitable expenses increased by RR 84 million, or 61.3%, to RR 221 million compared to RR 137 million in the corresponding period in 2005, and were primarily related to our increased support for charities and social programs in the regions where we operate.

Insurance expense decreased by RR 22 million, or 14.7%, to RR 128 million compared to RR 150 million in the corresponding period in 2005. The decrease was mainly the result of lower Group insurance rates due to a reduction in claims for accidents and the cessation of insurance related to the processing of liquids at the Surgutsky refinery due to a decrease in volumes delivered in the 2006 period.

Legal, audit and consulting services expenses decreased by RR 9 million, or 9.6%, to RR 85 million compared to RR 94 million in the corresponding period in 2005. Consulting services expense decreased in the 2006 period due to certain one-time expenses incurred in 2005 related to the listing of the Group's shares on the London Stock Exchange in the form of global depository receipts.

In 2006, other general and administrative expenses increased by RR 129 million, or 51.8%, compared to the corresponding period in 2005 partially due to the effects of inflation on these expenses. The increase was related to business trip, repair and maintenance, depreciation, rent and board remuneration expenses which increased by RR 33 million, RR 34 million, RR 35 million, RR 23 million and RR 11 million, respectively. The increase in these expenses were partially offset by decreases in materials, communications services, staff training and other expenses in an aggregate amount of RR 7 million.

Purchases of oil, gas condensate and natural gas

Our purchases of hydrocarbons decreased by RR 461 million, or 34.6%, to RR 870 million in the six months ended 30 June 2006 from RR 1,331 million in the corresponding period in 2005 primarily as a result of our divestiture of Geoilbent in June 2005.

Profit from operations

As a result of the factors discussed above and excluding the effect of disposals of Geoilbent and other non-core operations in 2005 in the amount of RR 3,631 million, profit from operations increased by RR 2,333 million, or 32.6%, in the 2006 period compared to the corresponding period in 2005. In the 2006 period, our profit from operations as a percentage of total revenues decreased to 39.7% compared to 50.0% in the corresponding period in 2005.

Finance income (expense)

Total finance income increased from a net expense of RR 430 million in the six months ended 30 June 2005 to net income of RR 15 million in the corresponding period in 2006. The increase was due to lower interest expense and foreign exchange gains which were offset by a decrease in interest income in the 2006 period compared to the corresponding period in 2005.

In the 2006 period, interest expense decreased by RR 360 million, or 57.1%, compared to the corresponding period in 2005 mainly as a result of a reduction in our total debt. The decrease in interest expense was partially offset by a decrease in interest income of RR 314 million in the 2006 period, due to the repayment of certain loans provided to related parties in prior periods.

Foreign exchange gains increased by RR 399 million to RR 136 million in the 2006 period, compared to foreign exchange losses of RR 263 million in the corresponding period in 2005. The increase was primarily due to gains on US dollar denominated debt resulting from the strengthening of the Russian rouble in 2006. In the 2006 period, foreign exchange gains on US dollar denominated debt were RR 451 million. These gains were partially offset by RR 52 million of foreign exchange losses recorded from foreign currency forward contracts.

During the six months ended 30 June 2006, the Group entered into two short-term foreign currency forward contracts in February 2006 and June 2006, both of which expired in June 2006, to manage our exposure to foreign currency fluctuations on debt repayments in US dollars. Neither of these contracts qualified for hedge treatment under IAS 39. Losses associated with the contracts were recorded within foreign exchange gain (loss).

Share of profit of associated companies

In the six months ended 30 June 2006, our share of the net income of associated companies was nil compared to RR 143 million in the corresponding period in 2005 as a result of the divestiture of our participation interest in Geoilbent in June 2005.

Income tax expense

Our overall consolidated effective income tax rates (total tax expense calculated as a percentage of our reported IFRS profit before income tax and share of net income from associates) were 24.8% and 25.0% for the six months ended 30 June 2006 and 2005, respectively. Our effective income tax rate, after excluding the effect of foreign subsidiaries in Switzerland was 25.8% in the 2006 period. Our effective tax rates in 2006 and 2005 correlate closely with our statutory income tax rate of 24%. The differences between our effective and statutory tax rates are primarily due to non-deductible expenses.

Profit for the period and earnings per share

Excluding the impact of our disposal of Geoilbent and other non-core subsidiaries, net of associated income tax, in the second quarter of 2005, profit attributable to NOVATEK shareholders increased by RR 1,979 million, or 37.8%, in the six months ended 30 June 2006 compared to the corresponding period in 2005.

Our weighted average basic and diluted earnings per share (post share split) decreased to RR 2.38 per share in the six months ended 30 June 2006 from RR 2.61 per share in the corresponding period in 2005, primarily due to the gain on disposals in the 2005 period as discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are the cash provided from operating activities, debt financing, and access to capital markets. Our plan going forward is to finance our budgeted capital expenditures, interest and dividend payments mainly out of operating cash flows supplemented by additional borrowings and equity, if needed. During 2005 and through 30 June 2006, we have achieved significant reductions in our debt position and substantially improved our liquidity as outlined below.

Cash flows

The following table shows our net cash flows from operating, investing and financing activities for the six months ended 30 June 2006 and 2005:

| <i>millions of Russian roubles except ratios</i> | Six months ended 30 June: | | Change % |
|--|----------------------------------|-------------|---------------------|
| | 2006 | 2005 | |
| Net cash provided by operating activities | 8,569 | 6,019 | 42.4% |
| Net cash (used for) provided by investing activities | (2,272) | 2,206 | (203.0%) |
| Net cash used for financing activities | (5,060) | (7,221) | (29.9%) |

| <i>Liquidity ratios</i> | 30 June 2006 | 31 December 2005 | Change % |
|---|---------------------|-------------------------|---------------------|
| Current ratio | 2.02 | 1.14 | 77.2% |
| Total debt to equity | 0.08 | 0.16 | (50.0%) |
| Long-term debt to long term debt and equity | 0.02 | 0.02 | 15.5% |
| Net debt to total capitalization ⁽¹⁾ | 0.01 | 0.08 | (85.4%) |

⁽¹⁾ Net debt represents total debt less cash and cash equivalents. Total capitalization represents total debt, total equity and deferred income tax liability.

Net cash provided by operating activities

Net cash provided by operating activities increased by RR 2,550 million, or 42.4%, to RR 8,569 million in the six months ended 30 June 2006 compared to RR 6,019 million in the corresponding period in 2005. The increase was mainly attributable to significantly higher operating income from our oil and gas sales as a result of increases in our sales volumes and realized prices in the 2006 period compared to the corresponding period in 2005, partially offset by an increase in income tax payments.

Net cash from investing activities

After excluding the effect of disposals of Geoilbent and other non-core businesses, net cash used in investing activities decreased by RR 393 million, or 14.7%, to net cash used in investing activities of RR 2,272 million in the six months ended 30 June 2006 compared to RR 2,665 million in the corresponding period in 2005. The decrease was primarily due to spending in 2005 related to construction of our Purovsky Plant. Current development expenditures are focused on our key producing properties.

Net cash from financing activities

Net cash used in financing activities decreased by RR 2,161 million, or 29.9%, to RR 5,060 million in the six months ended 30 June 2006 compared to RR 7,221 million in the corresponding period in 2005. This decrease is the direct result of our significant reduction in our borrowings and our ability to fund our operating, exploration and development activities from cash generated by operations (see "Debt obligations" below).

Working capital

At 30 June 2006, our net working capital position (current assets less current liabilities) was RR 6,514 million compared to RR 1,490 million at 31 December 2005. The strengthening of our working capital position is the result of strong operating results which allowed us to repay a significant portion of our outstanding borrowings and our ability to refinance a portion of our current debt with long-term obligations.

Capital expenditures

Total capital expenditures on property, plant and equipment for the six months ended 30 June 2006 and 2005 are as follows:

| <i>millions of Russian roubles</i> | Six months ended 30 June: | | Change % |
|------------------------------------|----------------------------------|--------------|---------------------|
| | 2006 | 2005 | |
| Exploration and production | 2,167 | 2,995 | (27.6%) |
| Other | 54 | 210 | (74.3%) |
| Total | 2,221 | 3,205 | (30.7%) |

Exploration and production expenditures represent our investments in exploring for and developing our oil and gas properties. During the six months ended 30 June 2005, capital expenditures in exploration and production were mainly attributable to the construction of the Purovsky Plant and to a lesser extent the further development at our three core fields. During the 2006 period, capital expenditures were mainly attributable to field development. In 2006, we spent RR 286 million, RR 779 million and RR 728 million for field development at the Khancheykoye, East-Tarkosalinskoye and Yurkharovskoye fields, respectively, and RR 128 million on construction at the Purovsky Plant.

Debt obligations

Our total debt obligations decreased by RR 4,122 million, or 45.3%, to RR 4,972 million at 30 June 2006 from RR 9,094 million at 31 December 2005. Our borrowings have been used primarily for the financing of capital expenditures related to development of our three core oil and gas fields and investment in related assets such as the construction of the Purovsky Plant.

Our long-term debt at 30 June 2006 included a loan from BNP PARIBAS Bank in the amount of RR 1,354 million (USD 50 million) repayable monthly in equal parts through December 2007 and bearing interest of LIBOR plus 1 percent per annum. Also included in our long-term debt at 30 June 2006 are Russian rouble denominated bonds in the amount of RR 1,000 million, repayable in November 2006 and bearing interest of 9.4% and other loans in the amount of RR 918 million.

Our short-term debt at 30 June 2006 included US dollar denominated loans and US dollar bank overdrafts with an aggregated amount of RR 1,700 million.

At 30 June 2006, the Group had unutilized credit facilities in the aggregated amount of USD 87.2 million.

QUALITATIVE AND QUANTITATIVE DISCLOSURES AND MARKET RISKS

We are exposed to market risk from changes in commodity prices, foreign currency exchange rates, and interest rates. We are exposed to commodity price risk as our crude oil, and stable gas condensate destined for export sales are linked to crude oil prices. We are exposed to foreign exchange risk to the extent that our sales revenues, costs, receivables, loans and debt are denominated in currencies other than Russian roubles. We are subject to market risk from changes in interest rates that may affect the cost of our financing. From time to time we may use derivative instruments, such as commodity forward contracts, commodity price swaps, commodity options, foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks and we may hold or issue derivative or other financial instruments for trading purposes.

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the Russian rouble relative to the US dollar and Euro. At 30 June 2006, RR 1,614 million, or 49.3%, of our long-term debt was denominated in US dollars (out of RR 4,972 million of our total borrowings at that date). Changes in the value of the Russian rouble relative to the US dollar will impact our foreign currency-denominated costs and expenses and our debt service obligations for foreign currency-denominated borrowings in Russian rouble terms as well as receivables at our foreign subsidiaries. We believe that the risks associated with our foreign currency exposure are partially mitigated by the fact that a portion of our total revenues, approximately 42% in the 2006 period, is denominated in US dollars. As of 30 June 2006, the Russian rouble had strengthened against the US dollar by approximately 6% since 1 January 2006.

A hypothetical and instantaneous 10% strengthening in the Russian rouble in relation to the U.S. dollar at 30 June 2006 would have resulted in an estimated foreign exchange gain of approximately RR 331 million on foreign currency denominated borrowings held as of 30 June 2006.

Commodity risk

Substantially all of our crude oil, stable gas condensate and LPG export sales are sold under spot contracts. Our export prices are linked to world crude oil prices. External factors such as geopolitical developments, natural disasters and the actions of the Organization of Petroleum Exporting Countries affect crude oil prices and thus our export prices.

The weather is another factor affecting demand for and, therefore, the price of natural gas. Changes in weather conditions from year to year can influence demand for natural gas and to some extent gas condensate and oil products.

From time to time we may employ derivative instruments to mitigate the price risk of our sales activities. In our interim condensed financial information all derivative instruments are recorded at their fair values. Unrealized gains or losses on derivative instruments are recognized within other income (loss), unless the underlying arrangement qualifies as a hedge.

Pipeline access

We transport substantially all of our natural gas through the Gazprom owned unified gas supply system (UGSS). Gazprom is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia. Under existing legislation, Gazprom must provide access to the UGSS to all independent suppliers on a non-discriminatory basis provided there is capacity not being used by Gazprom. In practice, however, Gazprom exercises considerable discretion over access to the UGSS because it is the sole owner of information relating to capacity. There can be no assurance that Gazprom will continue to provide us with access to the UGSS, however, we have not been denied access in prior periods.

Ability to reinvest

Our business requires significant ongoing capital expenditures in order to grow our production. An extended period of low natural gas prices or high transportation tariffs would limit our ability to maintain an adequate level of capital expenditures, which in turn could limit our ability to increase or maintain current levels of production and deliveries of natural gas, gas condensate, crude oil and other associated products, adversely affecting our results.

Off balance sheet activities

At 30 June 2006, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.