OAO NOVATEK

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

AS OF AND FOR THE THREE MONTHS ENDED 31 MARCH 2006

CONTENTS **Page**

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REVIEW REPORT OF AUDITORS

To the shareholders and directors of OAO NOVATEK

1. We have reviewed the accompanying consolidated interim balance sheet of OAO NOVATEK and its subsidiaries (the "Group") as of 31 March 2006, and the related consolidated interim statements of income, of cash flows and of changes in equity for the three months then ended. This consolidated interim condensed financial information as set out on pages 4 to 16 is the responsibility of the Group's management. Our responsibility is to issue a report on this consolidated interim condensed financial information based on our review.

2. We conducted our review in accordance with the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the consolidated interim condensed financial information is free of material misstatement. A review is limited primarily to inquiries of Group personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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

ZAO PricewaterhouseCoopers

Moscow, Russian Federation
22 May 2006

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

	Notes	31 March 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment, net	4	65,740	65,675
Long-term loan receivables and other non-current assets		1,249	1,165
Total non-current assets		**66,989**	**66,840**
Current assets			
Short-term loan receivables, prepayments and other current assets		3,689	1,967
Prepaid income tax		734	732
Inventories		1,908	1,418
Trade and other receivables		2,560	4,849
Cash and cash equivalents		5,873	2,956
Total current assets		**14,764**	**11,922**
Total assets		**81,753**	**78,762**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	5	782	892
Deferred income tax liability		8,151	8,396
Other non-current liabilities		1,491	1,493
Total non-current liabilities		**10,424**	**10,781**
Current liabilities			
Short-term debt and current portion of long-term debt	6	6,777	8,202
Other taxes payable		828	923
Income taxes payable		120	46
Trade payables and accrued liabilities		2,309	1,261
Total current liabilities		**10,034**	**10,432**
Total liabilities		**20,458**	**21,213**
Equity attributable to Group shareholders			
Ordinary share capital		393	393
Additional paid-in capital		29,949	29,905
Asset revaluation surplus		5,481	5,481
Retained earnings		25,206	21,489
Total equity attributable to Group shareholders		**61,029**	**57,268**
Minority interest		**266**	**281**
Total equity		**61,295**	**57,549**
Total liabilities and equity		**81,753**	**78,762**

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

Approved and authorized for issue on 22 May 2006:

L. Mikhelson
General Director

M. Gyetvay
Financial Director

OAO NOVATEK
Consolidated Interim Statements of Income (unaudited)
(in millions of Russian roubles, except share and per share amounts)

	Notes	Three months ended 31 March: 2006	2005
Revenues			
Oil and gas sales	7	11,319	8,482
Sales of polymer and insulation tape		257	212
Other revenues		41	99
Total revenues		**11,617**	**8,793**
Other income (loss)		(113)	(4)
Total revenues and other income		**11,504**	**8,789**
Operating expenses			
Transportation expenses	8	(2,594)	(1,483)
Taxes other than income tax	9	(1,553)	(1,301)
Depreciation, depletion and amortization	4	(996)	(814)
Materials, services and other		(964)	(828)
General and administrative expenses		(665)	(351)
Purchases of oil, gas condensate and natural gas		(409)	(650)
Exploration expenses		(112)	(149)
Net impairment expense		(76)	(42)
Changes in inventories		646	77
Total operating expenses		**(6,723)**	**(5,541)**
Profit from operations		**4,781**	**3,248**
Finance income (expense)			
Interest expense		(137)	(341)
Interest income		63	227
Foreign exchange gain (loss)		167	(127)
Total finance income (expense)		**93**	**(241)**
Share of net income of associates, net of income tax		-	77
Profit before income tax		**4,874**	**3,084**
Income tax expense			
Current income tax expense		(1,463)	(866)
Deferred income tax benefit		291	90
Total income tax expense	10	**(1,172)**	**(776)**
Profit for the period		**3,702**	**2,308**
Profit (loss) attributable to:			
Minority interest		(15)	(7)
Shareholders of OAO NOVATEK		**3,717**	**2,315**
Basic and diluted earnings per share (in Russian roubles)		1,224	762
Weighted average shares outstanding		*3,036,306*	*3,036,306*

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

OAO NOVATEK
Consolidated Interim Statements of Cash Flows (unaudited)
(in millions of Russian roubles)

	Three months ended 31 March: 2006	2005
Profit before income tax	**4,874**	**3,084**
Adjustments to profit before income tax:		
Depreciation, depletion and amortization	1,024	821
Net increase in impairment provisions	76	42
Net foreign exchange loss (gain)	(167)	127
Net gain on disposal of assets	79	-
Share-based compensation	44	-
Interest expense	137	341
Interest income	(63)	(227)
Share of income from associates, net of income tax	-	(77)
Net change in other non-current assets	(44)	173
Other adjustments	(37)	9
Working capital changes		
Decrease (increase) in trade and other receivables, prepayments and other current assets	541	(86)
Decrease (increase) in inventories	(546)	(51)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends	942	881
Increase (decrease) in other taxes payable	(99)	340
Total effect of working capital changes	**838**	**1,084**
Income taxes paid	(1,386)	(689)
Net cash provided by operating activities	**5,375**	**4,688**
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,069)	(1,141)
Acquisition of subsidiaries and associated companies, net of cash acquired	-	(25)
Interest paid and capitalized	(60)	(233)
Loans provided	(58)	(167)
Repayments of loans provided	38	173
Dividends and non-banking interest received	40	44
Net cash used for investing activities	**(1,109)**	**(1,349)**
Cash flows from financing activities		
Proceeds from long-term borrowings	-	1,557
Proceeds from short-term borrowings	1,177	755
Repayments of long-term borrowings	(101)	(3,428)
Repayments of short-term borrowings	(2,323)	(3,338)
Non-banking interest paid	-	(156)
Dividends paid	(32)	-
Net cash used for financing activities	**(1,279)**	**(4,610)**
Net effect of exchange rate on cash and cash equivalents	(70)	3
Net movements in restricted cash accounts	-	(10)
Net increase (decrease) in cash and cash equivalents	**2,917**	**(1,278)**
Cash and cash equivalents at the beginning of the reporting period	2,956	3,003
Cash and cash equivalents at the end of the reporting period	**5,873**	**1,725**

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

(in millions of Russian roubles, unless otherwise stated)

	Number of ordinary shares	Ordinary share capital	Additional paid in capital	Asset revaluation surplus	Retained earnings	Equity attributable to Group shareholders	Minority interest	Total equity
For the three months ended 31 March 2005								
31 December 2004	***3,036,306***	**393**	**29,797**	**5,481**	**8,952**	**44,623**	**449**	**45,072**
Cumulative effect of adoption of IFRS 3, *Business Combinations*	-	-	-	-	762	762	-	762
31 December 2004, as restated for adoption of IFRS 3, *Business Combinations*	*3,036,306*	393	29,797	5,481	9,714	45,385	449	45,834
Impact of disposals and acquisitions on minority interest	-	-	-	-	-	-	(4)	(4)
Profit (loss) for the period	-	-	-	-	2,315	2,315	(7)	2,308
31 March 2005	***3,036,306***	**393**	**29,905**	**5, 481**	**12,029**	**47,700**	**438**	**48,138**
For the three months ended 31 March 2006								
31 December 2005	***3,036,306***	**393**	**29,905**	**5, 481**	**21,489**	**57,268**	**281**	**57,549**
Share-based compensation funded by shareholders	-	-	44	-	-	44	-	44
Profit (loss) for the period	-	-	-	-	3,717	3,717	(15)	3,702
31 March 2006	***3,036,306***	**393**	**29,949**	**5,481**	**25,206**	**61,029**	**266**	**61,295**

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

1 ORGANISATION AND PRINCIPAL ACTIVITIES

OAO NOVATEK (hereinafter referred to as "NOVATEK") and its subsidiaries (hereinafter jointly referred to as the "Group") is an independent oil and gas company engaged in the acquisition, exploration, development, production and processing of hydrocarbons with its core operations of oil and gas properties located and incorporated in the Yamal-Nenets Autonomous Region ("YNAO") in the Russian Federation.

In May 2005, the Group disposed of its equity stake in ZAO NOVA Bank, a Group subsidiary, to ZAO Levit, a Group shareholder.

In June 2005, the Group disposed of its interests in the following associates: 66 percent participation interest in OOO Geoilbent ("Geoilbent"), 34 percent interest in OAO Selkupneftegas, and 25.1 percent interest in OAO Tambeyneftegas.

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

The Group's natural gas sales fluctuate on a seasonal basis due mostly to Russian weather conditions, with sales peaking in the winter months of December and January and decreasing in the summer months of July and August.

2 BASIS OF PRESENTATION

The consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*. This consolidated interim condensed financial information should be read in conjunction with NOVATEK's consolidated financial statements for the year ended 31 December 2005 prepared in accordance with International Financial Reporting Standards ("IFRS"). The 31 December 2005 consolidated balance sheet data has been derived from the audited financial statements.

Use of estimates. The preparation of consolidated interim condensed financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. Estimates have principally been made in respect to fair values of assets and liabilities, impairment provisions and deferred income taxes. Actual results may differ from such estimates.

Exchange rates. The official rate of exchange of the Russian rouble to the US dollar ("USD") at 31 March 2006 and 31 December 2005 was 27.76 and 28.78 Russian roubles to USD 1.00, respectively. Any translation of Russian rouble amounts to US dollars or any other hard currency should not be construed as a representation that such Russian rouble amounts have been, could be, or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

Reclassifications. The Group previously disclosed transportation expenses rechargeable to customers with no margin and associated revenue within transportation expenses and oil and gas sales, respectively. Management believes that their presentation on a net basis more appropriately reflects the substance of the transactions. Additionally, certain expenses incurred by the Group's headquarters and administrative functions of the production subsidiaries previously reported within materials, services and other have been reclassified to general and administrative expenses to more appropriately reflect their nature. Comparative amounts for the three months ended 31 March 2005 have been adjusted as follows.

(in millions of Russian roubles, unless otherwise stated)

2 BASIS OF PRESENTATION (CONTINUED)

	As originally reported	Net-off of transportation expenses	Reclassification of administrative expenses and other	After reclassifications
Oil and gas sales	8,693	(211)	-	8,482
Materials, services and other	(867)	-	39	(828)
Purchases of oil, gas condensate and natural gas	(611)	-	(39)	(650)
Changes in inventories	-	-	77	77
Transportation expenses	(1,740)	211	46	(1,483)
General and administrative expenses	(228)	-	(123)	(351)

At 31 December 2005, RR 106 million of transportation expenses included in inventories was reclassified to short-term loan receivables, prepayments and other current assets. Management believes that the current year presentation more accurately represents the Group's activities.

3 ACCOUNTING POLICIES

Derivative instruments. The Group accounts for derivative instruments in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). All derivative instruments are recorded in the balance sheet at their fair values. Under IAS 39, in order to consider these derivative instruments as hedges, (1) we must designate the derivative instrument as a hedge of future production or a hedge of future foreign currency, and (2) we must be exposed to the risk of changes in fair values or future cash flows. Changes in the market values of the derivative instruments treated as hedges are not recognized in income until the hedged item is also recognized in income. If the above criteria are not met, we will record the unrealized gains and losses on derivative instruments in the consolidated interim statements of income.

Commodity instruments

The Group entered into commodity derivative instruments to secure a price for a portion of future production that is acceptable at the time at which the derivative instruments is entered. The primary objective of these derivative instruments is to reduce our exposure to the possibility of declining oil and gas prices during the contractual period. The Group does not enter into commodity derivative instruments for trading purposes.

During the three months ended 31 March 2006, the Group entered into two commodity price swap contracts expiring in May 2006 and June 2006 for notional volumes of 450 thousand barrels under each contract. The notional volumes of the contracts are not exchanged. Neither of the contracts qualified for hedge treatment under IAS 39. Under the commodity price swap contracts, the Group pays the excess of the floating market price of crude oil over the fixed contract price USD 66.42 per barrel for the May contract and USD 67.24 for the June contract. In the event that the floating market price is less than the fixed price stipulated in the contracts, the Group will receive the difference from the counterparty. At 31 March 2006, the fair values of the open commodity price swap contracts resulted in an aggregate loss of RR 37 million recorded within other income (loss).

Foreign currency instruments

The Group entered into foreign currency derivative instruments to offset certain operational and financial statement exposures from changes in foreign currency exchange rates. Such exposures result from the portion of the Group's operations, assets and liabilities that are denominated in currencies other than the Russian rouble, primarily US dollars and Euros. Foreign exchange derivative instruments are utilized to manage the risk exposures associated with fluctuations on certain firm sales and purchases, debt instruments and other transactions that are denominated in currencies other than the Russian rouble, and certain non-Russian rouble assets and liabilities.

3 ACCOUNTING POLICIES (CONTINUED)

During the three months ended 31 March 2006, the Group entered into two short-term foreign currency forward contracts in February 2006 and March 2006, with both forward contracts expiring on 13 June 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. Under the foreign currency forward contracts, the Group entered into a firm commitment to purchase USD 50 million in exchange to sell Russian roubles in the aggregate amount of RR 1,402 million at expiry. At 31 March 2006, the fair values of the open foreign currency forward contracts resulted in an aggregate loss of RR 14 million recorded within foreign exchange gain (loss).

Except as discussed below, the principal accounting policies followed by the Group are consistent with those disclosed in the financial statements for the year ended 31 December 2005.

New accounting developments. Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the Group has not early adopted:

IFRS 7, *Financial Instruments: Disclosures* and a Complementary Amendment to IAS 1 *Presentation of Financial Statements - Capital Disclosures* (effective from 1 January 2007); IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006); IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006); and IFRIC 9 *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006).

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

New accounting developments that were adopted or modified on 1 January 2006 and their impact on the Group are discussed below.

IFRIC 4, *Determining whether an Arrangement contains a Lease* ("IFRIC 4"). IFRIC 4 provides guidance on how to determine whether an arrangement contains a lease as defined in IAS 17, *Leases*, on when the assessment or reassessment of an arrangement should be made and on how lease payments should be separated from any other elements in the arrangement. The adoption of IFRIC 4 did not have a material impact on the Group's financial position or results of operations.

IAS 39 (Amendment), *The Fair Value Option*; IAS 39 (Amendment), *Cash Flow Hedge Accounting of Forecast Intragroup Transactions*; IAS 39 (Amendment), *Financial Guarantee Contracts*. The amendments to IAS 39 clarified the use of fair values, clarified that the definition of a financial hedge extends to certain intercompany transactions and clarified the accounting for insurance contracts. The amendments to IAS 39 did not have a material impact on the Group's financial position or results of operations.

IAS 19 (Amendment), *Employee Benefits.* The amendment to IAS 19 introduces an additional recognition option for actuarial gains and losses in post-employment defined benefit plans. The amendments to IAS 19 did not have a material impact on the Group's financial position or results of operations.

IFRS 1 (Amendment), *First-time Adoption of International Financial Reporting Standards* and IFRS 6 (Amendment), *Exploration for and Evaluation of Mineral Resources*. The amendments to IFRS 1 and IFRS 6 provided limited relief to first-time adopters of IFRS with respect to the provisions of IFRS 6. These amendments did not have a material impact on the Group's financial position or results of operations.

IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* ("IFRIC 5"). IFRIC 5 provides guidance on the accounting for interests in decommission funds. The adoption of IFRIC 5 did not have a material impact on the Group's financial position or results of operations.

IFRIC 6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* ("IFRIC 6"). IFRIC 6 addresses the accounting for liabilities under an EU Directive on waste management for sales of household equipment. The adoption of IFRIC 6 did not have a material impact on the Group's financial position or results of operations.

(in millions of Russian roubles, unless otherwise stated)

4 PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	Total
Cost	54,867	8,728	63,595
Accumulated depreciation, depletion and amortization	(912)	-	(912)
Net book value at 31 December 2004	**53,955**	**8,728**	**62,683**
Additions	257	1,320	1,577
Transfers	222	(222)	-
Disposals and impairments, net	(18)	(6)	(24)
Depreciation, depletion and amortization	(821)	-	(821)
Cost	55,328	9,820	65,148
Accumulated depreciation, depletion and amortization	(1,733)	-	(1,733)
Net book value at 31 March 2005	**53,595**	**9,820**	**63,415**

	Operating assets	Assets under construction	Total
Cost	65,823	4,174	69,997
Accumulated depreciation, depletion and amortization	(4,322)	-	(4,322)
Net book value at 31 December 2005	**61,501**	**4,174**	**65,675**
Additions	118	1,068	1,186
Transfers	242	(242)	-
Disposals and impairments, net	(95)	(2)	(97)
Depreciation, depletion and amortization	(1,024)	-	(1,024)
Cost	66,074	4,998	71,072
Accumulated depreciation, depletion and amortization	(5,332)	-	(5,332)
Net book value at 31 March 2006	**60,742**	**4,998**	**65,740**

Included in additions to property, plant and equipment for the three months ended 31 March 2006 and 2005 is capitalized interest of RR 87 million and RR 233 million, respectively.

5 LONG -TERM DEBT

	31 March 2006	31 December 2005
US dollar denominated loans	5,856	6,116
Russian rouble denominated bonds	1,000	1,000
Euro denominated loans	680	786
Total	7,536	7,902
Less: current portion of long-term debt	(6,754)	(7,010)
Total long-term debt	**782**	**892**

(in millions of Russian roubles, unless otherwise stated)

5 LONG -TERM DEBT (CONTINUED)

At 31 March 2006 and 31 December 2005, long-term debt by facility comprised the following:

	31 March 2006	31 December 2005
C.R.R. B.V.	5,553	5,757
Russian rouble denominated bonds	1,000	1,000
Other	983	1,145
Total	7,536	7,902
Less: current portion of long-term debt	(6,754)	(7,010)
Total long-term debt	**782**	**892**

C.R.R. B.V. At 31 March 2006 and 31 December 2005, US dollar denominated loans included a USD 200 million loan from C.R.R. B.V. backed by unsecured, 18-month credit-linked notes with an annual coupon rate of 7.75 percent, payable semi-annually. The loan is repayable in June 2006.

Russian rouble denominated bonds. At 31 March 2006, the Group had an outstanding balance of one million non-convertible Russian rouble denominated bonds, placed in December 2004, with a nominal value of RR 1,000 and annual coupon rate of 9.4 percent, payable semi-annually. The bond issue matures in November 2006.

Scheduled maturities of long-term debt at 31 March 2006 were as follows:

Twelve months ended 31 March:	
2008	371
2009	352
2010	59
Total long-term debt	**782**

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

	31 March 2006	31 December 2005
US dollar denominated loans	23	1,192
Add: current portion of long-term debt	6,754	7,010
Total short-term debt and current portion of long-term debt	**6,777**	**8,202**

US dollar denominated loans. Short-term US dollar denominated loans had a weighted average interest rate of 8.3 percent and 7.8 percent at 31 March 2006 and 31 December 2005, respectively.

(in millions of Russian roubles, unless otherwise stated)

7 OIL AND GAS SALES

	Three months ended 31 March:	
	2006	2005
Natural gas	7,331	5,938
Stable gas condensate	2,539	-
Liquefied petroleum gas	909	-
Crude oil	398	1,446
Oil products	142	1,098
Total oil and gas sales	**11,319**	**8,482**

Stable gas condensate and liquefied petroleum gas sales comprise the output from the Group's Purovsky Gas Condensate Plant, which commenced operations in June 2005.

8 TRANSPORTATION EXPENSES

	Three months ended 31 March:	
	2006	2005
Natural gas transportation to customers	1,796	1,281
Stable gas condensate, liquefied petroleum gas and oil products transported by rail and tankers	768	-
Transportation of unstable gas condensate from the fields to the processing facilities through third party pipelines	20	59
Crude oil transportation to customers	5	49
Insurance expense	-	91
Other transportation costs	5	3
Total transportation expenses	**2,594**	**1,483**

9 TAXES OTHER THAN INCOME TAX

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

	Three months ended 31 March:	
	2006	2005
Unified natural resources production tax	1,411	1,151
Property tax	103	76
Excise tax	26	51
Other taxes	13	23
Total taxes other than income tax	**1,553**	**1,301**

10 INCOME TAX

Effective income tax rate. The Group's Russian statutory income tax rate in 2006 and 2005 is 24.0 percent. For the three months ended 31 March 2006 and 2005, the consolidated Group's effective income tax rate was 24.1 percent and 25.8 percent, respectively.

(in millions of Russian roubles, unless otherwise stated)

11 CONTINGENCIES AND COMMITMENTS

Operating environment. The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

While there have been significant improvements in the macro-economic environment of the Russian Federation, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

Commitments. At 31 March 2006, the Group had entered into commitments aggregating approximately RR 366 million to complete second phase of construction of the Purovsky Gas Condensate Plant throughout 2006.

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

Oilfield licenses. The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitation, suspension or revocation. The Group’s management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any materially adverse effect on the Group’s financial position, statements of income or of cash flows.

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

Field	License holder	License expiry date
Yurkharovskoye	Yurkharovneftegas	2034
Khancheyskoye	Tarkosaleneftegas	2019
East-Tarkosalinskoye	Tarkosaleneftegas	2018
Sterkhovoye (within Olympinsky license area)	Purneftegasgeologiya	2026
Termokarstovoye	Terneftegas	2021

Management believes the Group has the right to extend its licenses beyond the initial expiration date under the existing legislation and intends to exercise this right on all of its fields. In February 2005, the Group was successful in extending the license for the Yurkharovskoye field from 2020 to 2034. The Group currently plans to extend the terms of the licenses for its two other core fields, East-Tarkosalinskoye and Khancheyskoye.

(in millions of Russian roubles, unless otherwise stated)

11 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Environmental liabilities. The Group and its predecessor entities have operated in the oil and gas industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations and, as obligations are determined, they are recognized immediately, if no current or future benefit is discernible. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation, cannot be estimated. Under existing legislation, management believes that there are no probable liabilities which will have a material adverse effect on the Group's financial position, statements of income or of cash flows.

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

12 RELATED PARTY TRANSACTIONS

During 2005, the Group had significant activities with companies related to its shareholders in connection with sales of crude oil, stable gas condensate and liquefied petroleum gas and sales of equity securities. The Group's reported results of operations, financial position and cash flows would have been different had such transactions been carried out amongst unrelated parties. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties.

Purchases and sales of crude oil:

	Three months ended 31 March:			
	2006		2005	
Name of related party	Sales volumes (thousands of tons)	Russian roubles (millions)	Sales volumes (thousands of tons)	Russian roubles (millions)
Sales to Kerden Trading Limited	-	-	33,500	187
Sales to TNG Energy	-	-	54,900	304
Purchases from Geoilbent (until June 2005)	-	-	109,289	288

Balances with related parties:

	31 March 2006	31 December 2005
Prepayments and advances (for construction)	278	95
Long-term loan receivables and other non-current assets	151	159
Short-term loan receivables, prepayments and other current assets	196	180
Trade and other receivables	165	1,657
Cash and cash equivalents	598	179
Trade payables	115	49

Other transactions with related parties:

	Three months ended 31 March:	
	2006	2005
Sales of inventory and oil products	41	7
Interest expense	-	41
Interest income	7	196
Purchases of construction services	135	201

(in millions of Russian roubles, unless otherwise stated)

13 SEGMENT INFORMATION

The Group operates principally in the oil and gas industry in the Russian Federation. The Group evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Group as a whole. However, the Group's activities are considered by management to comprise the following business segments:

- Exploration and production – acquisitions, exploration, production, processing, marketing and transportation of oil and gas;
- Other – other activities, including head office services, polymer and tape insulation and banking (through May 2005, see Note 1).

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

	Exploration and production	Other	Total
Segment revenues			
External revenues and other income	11,241	262	11,503
Inter-segment sales	4	-	4
Total segment revenues	**11,245**	**262**	**11,507**
Segment result	**5,435**	**11**	**5,446**

Segment information for the three months ended 31 March 2005 was as follows:

	Exploration and production	Other	Total
Segment revenues			
External revenues and other income	8,502	287	8,789
Inter-segment sales	4	-	4
Total segment revenues	**8,506**	**287**	**8,793**
Segment result	**3,530**	**78**	**3,608**

All of the Group's operating assets are located in the Russian Federation.

14 SUBSEQUENT EVENTS

On 21 April 2006, the Board of Directors approved and declared a final 2005 dividend payment of RR 523 per share of common stock. The final dividend payment totalling RR 1,588 million will be paid 60 days after shareholders' approval to shareholders of record at the close of business on 21 April 2006.

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