

OAO NOVATEK

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

**AS OF AND FOR THE THREE AND
SIX MONTHS ENDED 30 JUNE 2006**

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REVIEW REPORT OF AUDITORS

To the shareholders and directors of OAO NOVATEK

1. We have reviewed the accompanying consolidated interim condensed balance sheet of OAO NOVATEK and its subsidiaries (the "Group") as of 30 June 2006, the related consolidated interim condensed statements of income for the three and six months then ended, and the related consolidated interim condensed statements of cash flows and of changes in equity for the six months then ended. This consolidated interim condensed financial information as set out on pages 4 to 19 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 Pricewaterhouse Coopers Audit

Moscow, Russian Federation
15 August 2006

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

	Notes	30 June 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment, net	5	66,259	65,675
Long-term loan receivables and other non-current assets		1,395	1,165
Total non-current assets		67,654	66,840
Current assets			
Short-term loan receivables, prepayments and other current assets		3,881	1,967
Prepaid income tax		345	732
Inventories		1,884	1,418
Trade and other receivables		2,700	4,849
Cash and cash equivalents		4,061	2,956
Total current assets		12,871	11,922
Total assets		80,525	78,762
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	6	1,144	892
Deferred income tax liability		8,196	8,396
Other non-current liabilities		1,508	1,493
Total non-current liabilities		10,848	10,781
Current liabilities			
Short-term debt and current portion of long-term debt	7	3,828	8,202
Other taxes payable		633	923
Income taxes payable		126	46
Trade payables and accrued liabilities		1,770	1,261
Total current liabilities		6,357	10,432
Total liabilities		17,205	21,213
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Additional paid-in capital		29,993	29,905
Asset revaluation surplus		5,617	5,481
Retained earnings		27,036	21,489
Total equity attributable to OAO NOVATEK shareholders		63,039	57,268
Minority interest		281	281
Total equity		63,320	57,549
Total liabilities and equity		80,525	78,762

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

Approved and authorized for issue on 15 August 2006:


L. Mikhelson
General Director


M. Gyetvay
Financial Director

OAO NOVATEK
Consolidated Interim Condensed Statements of Income (unaudited)

(in millions of Russian roubles, except for share and per share amounts)

	Notes	Three months ended 30 June:		Six months ended 30 June:	
		2006	2005	2006	2005
Revenues					
Oil and gas sales	8	12,206	8,875	23,525	17,357
Sales of polymer and insulation tape		291	225	548	437
Other revenues		56	54	97	153
Total revenues		12,553	9,154	24,170	17,947
Net gain on disposal of investments in oil and gas producing associates	4	-	3,611	-	3,611
Net gain on disposal of subsidiaries	4	-	20	-	20
Other income (loss)		(172)	(3)	(285)	(7)
Total revenues and other income		12,381	12,782	23,885	21,571
Operating expenses					
Transportation expenses	9	(2,596)	(1,372)	(5,190)	(2,855)
Taxes other than income tax	10	(1,566)	(747)	(3,119)	(2,048)
Depreciation, depletion and amortization	5	(996)	(850)	(1,992)	(1,664)
Materials, services and other		(943)	(841)	(1,907)	(1,669)
General and administrative expenses		(860)	(670)	(1,525)	(1,021)
Purchases of oil, gas condensate and natural gas		(461)	(681)	(870)	(1,331)
Exploration expenses		(115)	(121)	(227)	(270)
Net impairment expense		(18)	(3)	(94)	(45)
Changes in inventories		(117)	43	529	120
Total operating expenses		(7,672)	(5,242)	(14,395)	(10,783)
Profit from operations		4,709	7,540	9,490	10,788
Finance income (expense)					
Interest expense		(134)	(290)	(271)	(631)
Interest income		87	237	150	464
Foreign exchange gain (loss), net		(31)	(136)	136	(263)
Total finance income (expense)		(78)	(189)	15	(430)
Share of profit of associates, net of income tax		-	66	-	143
Profit before income tax		4,631	7,417	9,505	10,501
Income tax expense					
Current income tax expense		(1,441)	(2,070)	(2,904)	(2,936)
Net deferred income tax benefit		253	253	544	343
Total income tax expense	11	(1,188)	(1,817)	(2,360)	(2,593)
Profit for the period		3,443	5,600	7,145	7,908
Profit (loss) attributable to:					
Minority interest		(56)	(8)	(71)	(15)
Shareholders of OAO NOVATEK		3,499	5,608	7,216	7,923
Basic and diluted earnings per share (in Russian roubles)		1.15	1.85	2.38	2.61
Weighted average shares outstanding (in thousands)		3,036,306	3,036,306	3,036,306	3,036,306

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

OAO NOVATEK
Consolidated Interim Condensed Statements of Cash Flows (unaudited)

(in millions of Russian roubles)

	Notes	Six months ended 30 June:	
		2006	2005
Profit before income tax		9,505	10,501
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		2,044	1,680
Net impairment expense		94	45
Net foreign exchange loss (gain)		(136)	263
Net loss (gain) on disposal of assets		209	(3,624)
Share-based compensation		88	20
Interest expense		271	631
Interest income		(150)	(464)
Share of profit of associates, net of income tax		-	(143)
Net change in other non-current assets		39	466
Other adjustments		(58)	15
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(105)	(1,190)
Decrease (increase) in inventories		(529)	(241)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends		24	574
Increase (decrease) in other taxes payable		(302)	(529)
Total effect of working capital changes		(912)	(1,386)
Income taxes paid		(2,425)	(1,985)
Net cash provided by operating activities		8,569	6,019
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,918)	(2,363)
Acquisition of subsidiaries and minority interests, net of cash acquired	4	(222)	(43)
Proceeds from disposal of subsidiaries and associates, net of cash disposed	4	-	4,871
Interest paid and capitalized		(179)	(451)
Loans provided		(142)	(199)
Repayments of loans provided		38	310
Dividends and non-banking interest received		151	81
Net cash (used for) provided by investing activities		(2,272)	2,206
Cash flows from financing activities			
Proceeds from long-term borrowings		1,352	2,057
Proceeds from short-term borrowings		3,631	1,947
Repayments of long-term borrowings		(5,617)	(5,345)
Repayments of short-term borrowings		(3,098)	(4,931)
Non-banking interest paid		(196)	(511)
Dividends paid		(1,132)	(438)
Net cash used for financing activities		(5,060)	(7,221)
Net effect of exchange rate on cash and cash equivalents		(132)	8
Net movements in restricted cash accounts		-	16
Net increase (decrease) in cash and cash equivalents		1,105	1,028
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		4,061	4,031

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

OAO NOVATEK
Consolidated Interim Condensed Statements of Changes in Equity (unaudited)

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

	<i>Number of ordinary shares (in thousands)</i>	Ordinary share capital	Additional paid-in capital	Asset revaluation surplus	Retained earnings	Equity attributable to OAO NOVATEK shareholders	Minority interest	Total equity
<u>For the six months ended 30 June 2005</u>								
31 December 2004	3,036,306	393	29,797	5,481	8,952	44,623	449	45,072
Cumulative effect of adoption of IFRS 3, <i>Business Combinations</i>	-	-	-	-	762	762	-	762
31 December 2004, as restated for adoption of IFRS 3, <i>Business Combinations</i>	3,036,306	393	29,797	5,481	9,714	45,385	449	45,834
Dividends	-	-	-	-	(777)	(777)	-	(777)
Impact of disposals and acquisitions on minority interest	-	-	-	-	-	-	(132)	(132)
Share-based compensation funded by shareholders	-	-	20	-	-	20	-	20
Profit (loss) for the period	-	-	-	-	7,923	7,923	(15)	7,908
30 June 2005	3,036,306	393	29,817	5,481	16,860	52,551	302	52,853
<u>For the six months ended 30 June 2006</u>								
31 December 2005	3,036,306	393	29,905	5,481	21,489	57,268	281	57,549
Dividends	-	-	-	-	(1,588)	(1,588)	-	(1,588)
Acquisition of subsidiaries (Note 4)	-	-	-	136	-	136	162	298
Impact of acquisitions on minority interest (Note 4)	-	-	-	-	(81)	(81)	(232)	(313)
Impact on minority interest of additional shares subscription in subsidiaries	-	-	-	-	-	-	141	141
Share-based compensation funded by shareholders	-	-	88	-	-	88	-	88
Profit (loss) for the period	-	-	-	-	7,216	7,216	(71)	7,145
30 June 2006	3,036,306	393	29,993	5,617	27,036	63,039	281	63,320

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

OAQ NOVATEK

Selected notes to the Consolidated Interim Condensed Financial Information (unaudited)

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

1 ORGANISATION AND PRINCIPAL ACTIVITIES

OAQ 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.

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.

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.

2 BASIS OF PRESENTATION

The consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*. This consolidated interim condensed financial information should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 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 of 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 30 June 2006 and 31 December 2005 was 27.08 and 28.78 Russian roubles to USD 1.00, respectively. Any translation of Russian rouble amounts to US dollars or any other hard currency should not be construed as a representation that such Russian rouble amounts have been, could be, or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

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

Share split. In July 2006, NOVATEK registered a 1000:1 share split (see Note 15). This share split has been given retroactive effect in this consolidated interim condensed financial information.

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.

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

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

2 BASIS OF PRESENTATION (CONTINUED)

Comparative amounts for the six months ended 30 June 2005 have been adjusted as follows.

	As originally reported	Net-off of transportation expenses	Reclassification of administrative expenses and other	After reclassifications
Oil and gas sales	17,769	(412)	-	17,357
Materials, services and other	(1,644)	-	(25)	(1,669)
Purchases of oil, gas condensate and natural gas	(1,381)	-	50	(1,331)
Changes in inventories	-	-	120	120
Transportation expenses	(3,313)	412	46	(2,855)
General and administrative expenses	(830)	-	(191)	(1,021)

Comparative amounts for the three months ended 30 June 2005 have been adjusted as follows.

	As originally reported	Net-off of transportation expenses	Reclassification of administrative expenses and other	After reclassifications
Oil and gas sales	9,076	(201)	-	8,875
Materials, services and other	(777)	-	(64)	(841)
Purchases of oil, gas condensate and natural gas	(770)	-	89	(681)
Changes in inventories	-	-	43	43
Transportation expenses	(1,597)	201	24	(1,372)
General and administrative expenses	(578)	-	(92)	(670)

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 condensed 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.

3 ACCOUNTING POLICIES (CONTINUED)

During the six months ended 30 June 2006, the Group entered into commodity price swap contracts for total notional volume of 900 thousand barrels. The notional volumes of the contracts are not exchanged. Neither of the contracts qualified for hedge treatment under IAS 39. During the six months ended 30 June 2006, the Group settled contracts for notional volumes totaling 600 thousand barrels, realizing losses of RR 33 million. For the remaining notional 300 thousand barrels, the Group pays the excess of the floating market price of crude oil over the fixed contract price of USD 70.05 per barrel. 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 30 June 2006, the fair values of the open commodity price swap contracts resulted in an unrealized loss of RR 32 million. Both the realized and unrealized results of the Group's commodity trading activities were recorded within other income (loss) in the consolidated interim condensed statement of income.

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 commitments for sales and purchases, debt instruments and other transactions that are denominated in currencies other than the Russian rouble, and certain non-Russian rouble assets and liabilities.

During the six months ended 30 June 2006, the Group entered into two short-term foreign currency forward contracts 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. Upon the settlement of the contracts, the Group recognized an aggregate loss of RR 52 million recorded within foreign exchange gain (loss) in the consolidated interim condensed statement of income.

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

Except as discussed in Note 16, the principal accounting policies followed by the Group are consistent with those disclosed in the financial statements for the year ended 31 December 2005.

4 ACQUISITIONS AND DISPOSALS

In May 2006, the Group acquired a controlling interest in OOO NOVASIB ("NOVASIB"), which holds the exploration license for the Raduzhniy license area located in YNAO, for RR 54 million. After the acquisition, NOVASIB became a wholly-owned subsidiary of the Group. A member of the Group's Board of Directors also serves as general director of the seller.

In May 2006, the Group acquired a 10 percent participation interest in OOO YARGEO ("YARGEO"), which holds the exploration license for the Yarudeyskiy license area located in YNAO, for RR 33 million. The acquisition of this stake raised the Group's interest in YARGEO to 51 percent. A member of the Group's Board of Directors also serves as general director of the seller. The revaluation of the 41 percent participation interest in YARGEO held by the Group prior to acquisition was recorded as an increase in Asset revaluation surplus of RR 136 million in the consolidated interim condensed statement of changes in equity.

OAO NOVATEK**Selected notes to the Consolidated Interim Condensed Financial Information (unaudited)**(in Russian roubles [tabular amounts in millions] unless otherwise stated)

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

Below is a summary of management's preliminary assessments of the fair values of the assets and liabilities of the acquired companies. Management believes that the purchase prices for NOVASIB and YARGEO approximate the fair value of unproved oil and gas properties acquired. Such unproved oil and gas properties are included within property, plant and equipment in the consolidated interim condensed balance sheet. No goodwill was recognized in the acquisitions. Carrying values prior to acquisition are not available as the acquirees did not prepare financial information in accordance with IFRS prior to the acquisition. The activities of the acquirees since acquisition were not material to the Group's results of operations for the three or six months ended 30 June 2006.

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

During the second quarter of 2006, the Group increased its interest in the total share capital of OAO Purneftegasgeologia, a Group subsidiary, by 14.5 percent to 95.1 percent through purchases from third parties and from the Group's participation in an additional share emission. The difference between total purchase consideration of RR 313 million and the carrying amount of minority interest acquired totaling RR 232 million has been recorded within retained earnings.

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

In June 2005, the Group sold its 66 percent participation interest in OOO Geoilbent, a Group associate, to OAO LUKOIL and its subsidiary for RR 5,108 million, recognizing a gain on sale of RR 2,234 million, net of associated income tax of RR 793 million.

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

In June 2005, the Group disposed of its 25.1 percent interest in OAO Tambeyneftegas, a Group associate, to OOO Gazprombank-Invest for RR 120 million, recognizing a gain on sale of RR 4 million, net of associated income tax of RR 7 million.

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

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

5 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	608	2,597	3,205
Transfers	6,528	(6,528)	-
Disposals and impairments, net	(59)	(3)	(62)
Depreciation, depletion and amortization	(1,680)	-	(1,680)
Cost	61,937	4,794	66,731
Accumulated depreciation, depletion and amortization	(2,585)	-	(2,585)
Net book value at 30 June 2005	59,352	4,794	64,146

	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	963	2,000	2,963
Transfers	634	(634)	-
Disposals and impairments, net	(203)	(132)	(335)
Depreciation, depletion and amortization	(2,044)	-	(2,044)
Cost	67,192	5,408	72,600
Accumulated depreciation, depletion and amortization	(6,341)	-	(6,341)
Net book value at 30 June 2006	60,851	5,408	66,259

Included in additions to property, plant and equipment for the six months ended 30 June 2006 and 2005 is capitalized interest of RR 179 million and RR 451 million, respectively.

6 LONG -TERM DEBT

	30 June 2006	31 December 2005
US dollar denominated loans	1,614	6,116
Russian rouble denominated bonds	1,000	1,000
Euro denominated loans	658	786
Total	3,272	7,902
Less: current portion of long-term debt	(2,128)	(7,010)
Total long-term debt	1,144	892

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

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

6 LONG -TERM DEBT (CONTINUED)

At 30 June 2006 and 31 December 2005, long-term debt by facility comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
BNP PARIBAS Bank	1,354	-
Russian rouble denominated bonds	1,000	1,000
C.R.R. B.V.	-	5,757
Other	918	1,145
Total	3,272	7,902
Less: current portion of long-term debt	(2,128)	(7,010)
Total long-term debt	1,144	892

BNP PARIBAS Bank. In May 2006, the Group entered into a USD 100 million loan agreement with BNP PARIBAS Bank, of which RR 1,354 million (USD 50 million) was drawn at 30 June 2006. The loan agreement bears annual interest of LIBOR plus 1 percent (6.1 percent at 30 June 2006). The loan is repayable monthly in equal parts through December 2007.

C.R.R. B.V. In June 2006, the Group repaid its outstanding credit-linked notes in full and as scheduled.

Scheduled maturities of long-term debt at 30 June 2006 were as follows:

Twelve months ended 30 June:

2008	817
2009	283
2010	44
Total long-term debt	1,144

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
US dollar denominated loans	1,354	1,192
US dollar bank overdrafts	346	-
Total	1,700	1,192
Add: current portion of long-term debt	2,128	7,010
Total short-term debt and current portion of long-term debt	3,828	8,202

US dollar denominated loans. Short-term US dollar denominated loans had a weighted average annual interest rate of 6.3 percent and 7.8 percent at 30 June 2006 and 31 December 2005, respectively.

US dollar bank overdrafts. In April 2006, the Group opened an uncommitted trade service facility with Bayerische Hypo- und Vereinsbank AG in the amount up to USD 50 million.

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

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

8 OIL AND GAS SALES

	Three months ended 30 June:		Six months ended 30 June:	
	2006	2005	2006	2005
Natural gas	7,010	5,454	14,341	11,392
Stable gas condensate	3,842	574	6,381	574
Liquefied petroleum gas	640	114	1,549	114
Crude oil	495	1,733	893	3,179
Oil products	219	1,000	361	2,098
Total oil and gas sales	12,206	8,875	23,525	17,357

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.

9 TRANSPORTATION EXPENSES

	Three months ended 30 June:		Six months ended 30 June:	
	2006	2005	2006	2005
Natural gas transportation to customers	1,641	1,104	3,437	2,385
Stable gas condensate and liquefied petroleum gas transportation by rail	556	89	1,030	89
Stable gas condensate transportation by tankers	364	-	658	-
Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines	19	54	39	113
Crude oil transportation to customers	13	41	18	90
Insurance expense	1	75	1	166
Other transportation costs	2	9	7	12
Total transportation expenses	2,596	1,372	5,190	2,855

10 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 30 June:		Six months ended 30 June:	
	2006	2005	2006	2005
Unified natural resources production tax	1,393	1,053	2,804	2,204
Property tax	107	79	210	155
Excise tax	38	31	64	82
Other taxes	28	11	41	34
Subtotal	1,566	1,174	3,119	2,475
Less: reversal of provision for additional taxes	-	(427)	-	(427)
Total taxes other than income tax	1,566	747	3,119	2,048

11 INCOME TAX

Effective income tax rate. The Group's Russian statutory income tax rate in 2006 and 2005 is 24.0 percent. For the six months ended 30 June 2006 and 2005, the consolidated Group's effective income tax rate was 24.8 percent and 25.0 percent, respectively. For the three months ended 30 June 2006 and 2005, the consolidated Group's effective income tax rate was 25.7 percent and 24.7 percent, respectively.

12 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, and relatively high inflation. The tax and customs legislation within the Russian Federation is subject to varying interpretations and changes that can occur frequently.

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

Commitments. At 30 June 2006, the Group had entered into commitments aggregating approximately RR 493 million to start 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 30 June 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
Khancheyevskoye	Tarkosalneftegas	2019
East-Tarkosalinskoye	Tarkosalneftegas	2018
Sterkhovoye (within Olympinsky license area)	Purneftegasgeologiya	2026
Termokarstovoye	Terneftegas	2021

12 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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. In July 2006, the Group applied to extend the terms of the license for the Khancheyskoye field to 2029, and currently plans to extend the terms of the license for the East-Tarkosalinskoye field.

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.

13 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. During 2006, no such sales activities have occurred. However, certain other related party transactions have continued as outlined below. 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:

Name of related party	Three months ended 30 June:			
	2006		2005	
	Sales volumes (thousands of tons)	Russian roubles (millions)	Sales volumes (thousands of tons)	Russian roubles (millions)
Sales to Kerden Trading Limited	-	-	42	273
Sales to TNG Energy	-	-	31	195
Purchases from Geoilbent (until June 2005)	-	-	110	274

Name of related party	Six months ended 30 June:			
	2006		2005	
	Sales volumes (thousands of tons)	Russian roubles (millions)	Sales volumes (thousands of tons)	Russian roubles (millions)
Sales to Kerden Trading Limited	-	-	75	460
Sales to TNG Energy	-	-	86	499
Purchases from Geoilbent (until June 2005)	-	-	219	562

Sales of stable gas condensate. During the three and six months ended 30 June 2005, the Group sold 87 thousand tons of stable gas condensate to Kerden Trading Limited for RR 569 million. Beginning January 2006, the Group commenced export sales through its newly established foreign subsidiaries (see Note 1).

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

13 RELATED PARTY TRANSACTIONS (CONTINUED)*Balances with related parties:*

	30 June 2006	31 December 2005
Prepayments and advances (for construction)	130	95
Long-term loan receivables and other non-current assets	165	159
Short-term loan receivables, prepayments and other current assets	39	180
Trade and other receivables	128	1,657
Cash and cash equivalents	2,747	179
Trade payables	166	49

Cash and cash equivalents represent cash accounts and deposits held in OAO "Pervyi Ob'edinennyi Bank" (First United Bank), the successor of NOVA Bank after its merge with OAO KB "Samarskiy kredit" (Samara Credit) in January 2006.

Other transactions with related parties:

	Three months ended 30 June:		Six months ended 30 June:	
	2006	2005	2006	2005
Sales of inventory and oil products	3	11	44	18
Interest expense	-	23	-	64
Interest income	6	196	13	392
Purchases of construction services	379	167	514	368

Other related party transactions are disclosed in Notes 4 and 15.

14 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, development, 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 4).

Segment information for the three months ended 30 June 2006 was as follows:

	Exploration and production	Other	Total
Segment revenues			
External revenues and other income	12,027	354	12,381
Inter-segment sales	1	-	1
Total segment revenues	12,028	354	12,382
Segment result	5,558	11	5,569

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

14 SEGMENT INFORMATION (CONTINUED)

Segment information for the six months ended 30 June 2006 was as follows:

	Exploration and production	Other	Total
Segment revenues			
External revenues and other income	23,268	616	23,884
Inter-segment sales	5	-	5
Total segment revenues	23,273	616	23,889
Segment result	10,993	22	11,015

Segment information for the three months ended 30 June 2005 was as follows:

	Exploration and production	Other	Total
Segment revenues			
External revenues and other income	8,850	301	9,151
Inter-segment sales	-	-	-
Total segment revenues	8,850	301	9,151
Segment result	4,488	90	4,578

Segment information for the six months ended 30 June 2005 was as follows:

	Exploration and production	Other	Total
Segment revenues			
External revenues and other income	17,352	588	17,940
Inter-segment sales	4	-	4
Total segment revenues	17,356	588	17,944
Segment result	8,018	168	8,186

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

15 SUBSEQUENT EVENTS

In June 2006, two of the Group's shareholders, Levit and SWGI Growth Fund (Cyprus) Limited, signed a preliminary agreement to sell an equity interest of up to 19.9 percent in NOVATEK to OAO Gazprom (represented by ZGG GmbH) at market value. Management expects the transaction to be completed in August 2006.

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

On 7 August 2006, the Board of Directors declared a dividend payment for the six months 2006 of RR 0.55 per share of common stock, post share split. The total amount of the interim dividend is RR 1,670 million and payable 60 days after shareholders' approval for shareholders of record at the close of business on 31 July 2006.

16 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 2007 or later periods and which the Group has not early adopted.

These new standards and interpretations are not expected to significantly affect the Group's financial statements when 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 annual periods beginning on or after 1 March 2006); IFRIC 8, *Scope of IFRS 2* (effective for annual 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); and IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006).

New or amended standards and interpretations effective for the Group from 1 January 2006 are discussed below. None of the adoptions had a material impact on the Group's financial position or results of operations.

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.

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

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.

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.

IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* ("IFRIC 5"). IFRIC 5 provides guidance on the accounting for interests in decommission funds.

IFRIC 6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* ("IFRIC 6"). IFRIC 6 addresses the accounting for liabilities under an EU Directive on waste management for sales of household equipment.

ОАО NOVATEK
Contact information

The Group's registered office is:

ОАО NOVATEK
Ulitsa Pobedy 22a
629850 Tarko-Sale
Yamalo-Nenetsky Autonomous Region
Russian Federation

Telephone: 7 (495) 730-60-00

Fax: 7 (495) 721-22-53

www.novatek.ru