

**OAO NOVATEK**

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

**AS OF AND FOR THE THREE AND  
NINE MONTHS ENDED 30 SEPTEMBER 2007**

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## REVIEW REPORT OF AUDITOR

To the shareholders and Board of Directors of OAO NOVATEK

### *Introduction*

1. We have reviewed the accompanying consolidated interim condensed balance sheet of OAO NOVATEK and its subsidiaries (the "Group") as of 30 September 2007, the related consolidated interim condensed statement of income for the three and nine months then ended, and the related statements of cash flows and of changes in equity for the nine months then ended. Management is responsible for the preparation and presentation of this consolidated interim condensed financial information as set out on pages 4 to 20 in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

### *Scope of Review*

2. We conducted our review in accordance with the International Standard on Review Engagements No. 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation  
16 November 2007

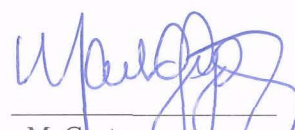
**OAO NOVATEK**  
**Consolidated Interim Condensed Balance Sheet (unaudited)**  
(in millions of Russian roubles)

	Notes	30 September 2007	31 December 2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	76,522	66,734
Investments in associates		1,144	-
Long-term loans receivable		281	102
Other non-current assets		1,323	1,672
<b>Total non-current assets</b>		<b>79,270</b>	<b>68,508</b>
<b>Current assets</b>			
Inventories		1,902	2,146
Current income tax prepayments		569	940
Trade and other receivables		4,460	2,877
Prepayments and other current assets		2,722	4,187
Cash and cash equivalents		7,654	5,668
<b>Total current assets</b>		<b>17,307</b>	<b>15,818</b>
<b>Total assets</b>		<b>96,577</b>	<b>84,326</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Non-current liabilities</b>			
Long-term debt	6	105	543
Deferred income tax liability		8,211	8,412
Other non-current liabilities		1,670	1,597
<b>Total non-current liabilities</b>		<b>9,986</b>	<b>10,552</b>
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	8	2,825	2,565
Trade payables and accrued liabilities		3,121	1,801
Current income tax payable		440	48
Other taxes payable		1,227	684
<b>Total current liabilities</b>		<b>7,613</b>	<b>5,098</b>
<b>Total liabilities</b>		<b>17,599</b>	<b>15,650</b>
<b>Equity attributable to OAO NOVATEK shareholders</b>			
Ordinary share capital		393	393
Additional paid-in capital		30,213	30,081
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		42,522	32,229
<b>Total equity attributable to OAO NOVATEK shareholders</b>	9	<b>78,745</b>	<b>68,320</b>
<b>Minority interest</b>		<b>233</b>	<b>356</b>
<b>Total equity</b>		<b>78,978</b>	<b>68,676</b>
<b>Total liabilities and equity</b>		<b>96,577</b>	<b>84,326</b>

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

Approved for issue and signed on behalf of the Board of Directors on 16 November 2007:

  
L. Mikhelson  
General Director

  
M. Gyetvay  
Financial Director

**OAO NOVATEK**
**Consolidated Interim Condensed Statement of Income (unaudited)**

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

	Notes	Three months ended 30 September:		Nine months ended 30 September:	
		2007	2006	2007	2006
<b>Revenues</b>					
Oil and gas sales	10	14,680	12,749	44,093	36,503
Sales of polymer and insulation tape		413	276	1,133	824
Other revenues		103	73	259	170
<b>Total revenues</b>		<b>15,196</b>	<b>13,098</b>	<b>45,485</b>	<b>37,497</b>
Other income (loss)		(1)	42	24	(243)
<b>Total revenues and other income</b>		<b>15,195</b>	<b>13,140</b>	<b>45,509</b>	<b>37,254</b>
<b>Operating expenses</b>					
Transportation expenses	11	(3,344)	(2,865)	(10,943)	(8,284)
Taxes other than income tax	12	(1,425)	(1,529)	(4,649)	(4,648)
Materials, services and other		(1,172)	(987)	(3,382)	(2,894)
Depreciation, depletion and amortization	5	(850)	(1,048)	(2,860)	(3,040)
General and administrative expenses		(913)	(792)	(2,735)	(2,317)
Purchases of oil, gas condensate and natural gas		(671)	(296)	(1,657)	(1,166)
Exploration expenses		(48)	(180)	(457)	(407)
Net impairment income (expense)		(50)	21	(103)	(73)
Changes in inventories		(51)	(36)	(305)	493
<b>Total operating expenses</b>		<b>(8,524)</b>	<b>(7,712)</b>	<b>(27,091)</b>	<b>(22,336)</b>
<b>Profit from operations</b>		<b>6,671</b>	<b>5,428</b>	<b>18,418</b>	<b>14,918</b>
<b>Finance income (expense)</b>					
Interest expense		(64)	(120)	(206)	(391)
Interest income		88	46	281	196
Foreign exchange gain (loss)		(43)	61	(29)	197
<b>Total finance income (expense)</b>		<b>(19)</b>	<b>(13)</b>	<b>46</b>	<b>2</b>
Share of profit of associates, net of income tax		18	-	18	-
<b>Profit before income tax</b>		<b>6,670</b>	<b>5,415</b>	<b>18,482</b>	<b>14,920</b>
<b>Income tax expense</b>					
Current income tax expense		(1,727)	(1,709)	(5,029)	(4,613)
Net deferred income tax benefit		175	379	217	923
<b>Total income tax expense</b>	13	<b>(1,552)</b>	<b>(1,330)</b>	<b>(4,812)</b>	<b>(3,690)</b>
<b>Profit for the period</b>		<b>5,118</b>	<b>4,085</b>	<b>13,670</b>	<b>11,230</b>
Profit (loss) attributable to:					
Minority interest		(1)	(1)	(12)	(72)
<b>Shareholders of OAO NOVATEK</b>		<b>5,119</b>	<b>4,086</b>	<b>13,682</b>	<b>11,302</b>
Basic and diluted earnings per share (in Russian roubles)		1.69	1.35	4.51	3.72
<i>Weighted average shares outstanding (in thousands)</i>		<i>3,036,306</i>	<i>3,036,306</i>	<i>3,036,306</i>	<i>3,036,306</i>

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

**ОАО NOVATEK**
**Consolidated Interim Condensed Statement of Cash Flows (unaudited)**

(in millions of Russian roubles)

	Notes	Nine months ended 30 September:	
		2007	2006
<b>Profit before income tax</b>		<b>18,482</b>	<b>14,920</b>
<b>Adjustments to profit before income tax:</b>			
Depreciation, depletion and amortization		2,905	3,107
Net impairment expense		103	73
Foreign exchange loss (gain)		29	(197)
Net loss (gain) on disposal of assets		-	183
Share-based compensation	16	132	132
Interest expense		206	391
Interest income		(281)	(196)
Share of income in associates		(18)	-
Net change in other non-current assets		62	(197)
Other adjustments		(61)	(96)
<b>Working capital changes</b>			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(304)	(1,102)
Decrease (increase) in inventories		194	(460)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends		198	504
Increase (decrease) in other taxes payable		543	(309)
<b>Total effect of working capital changes</b>		<b>631</b>	<b>(1,367)</b>
Income taxes paid		(4,268)	(3,915)
<b>Net cash provided by operating activities</b>		<b>17,922</b>	<b>12,838</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(12,300)	(2,760)
Acquisition of subsidiaries and minority interests, net of cash acquired		(160)	(224)
Interest paid and capitalized		(74)	(260)
Loans provided		(278)	(142)
Repayments of loans provided		95	39
Dividends and interest received		304	194
<b>Net cash (used for) provided by investing activities</b>		<b>(12,413)</b>	<b>(3,153)</b>
<b>Cash flows from financing activities</b>			
Proceeds from long-term borrowings		-	2,689
Proceeds from short-term borrowings		2,963	2,351
Repayments of long-term borrowings		(2,201)	(5,931)
Repayments of short-term borrowings		(842)	(3,508)
Interest paid		(92)	(205)
Dividends paid	9	(3,340)	(2,790)
<b>Net cash (used for) provided by financing activities</b>		<b>(3,512)</b>	<b>(7,394)</b>
Net effect of exchange rate changes on cash, cash equivalents		(11)	(126)
<b>Net increase (decrease) in cash, cash equivalents</b>		<b>1,986</b>	<b>2,165</b>
Cash and cash equivalents at the beginning of the reporting period		5,668	2,956
<b>Cash, cash equivalents at the end of the reporting period</b>		<b>7,654</b>	<b>5,121</b>

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

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

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

	<i>Number of ordinary shares (in thousands)</i>	<b>Ordinary share capital</b>	<b>Additional paid-in capital</b>	<b>Asset revaluation surplus on acquisitions</b>	<b>Retained earnings</b>	<b>Equity attributable to OAO NOVATEK shareholders</b>	<b>Minority interest</b>	<b>Total equity</b>
<b><i>For the nine months ended 30 September 2006</i></b>								
<b>1 January 2006</b>	<b>3,036,306</b>	<b>393</b>	<b>29,905</b>	<b>5,481</b>	<b>21,489</b>	<b>57,268</b>	<b>281</b>	<b>57,549</b>
Dividends (Note 9)	-	-	-	-	(3,258)	(3,258)	-	(3,258)
Acquisition of subsidiaries	-	-	-	136	-	136	162	298
Impact of acquisitions on minority interest	-	-	-	-	(81)	(81)	(233)	(314)
Impact on minority interest of additional shares subscription in subsidiaries	-	-	-	-	-	-	141	141
Share-based compensation funded by shareholders	-	-	132	-	-	132	-	132
Profit (loss) for the period	-	-	-	-	11,302	11,302	(72)	11,230
<b>30 September 2006</b>	<b>3,036,306</b>	<b>393</b>	<b>30,037</b>	<b>5,617</b>	<b>29,452</b>	<b>65,499</b>	<b>279</b>	<b>65,778</b>
<b><i>For the nine months ended 30 September 2007</i></b>								
<b>1 January 2007</b>	<b>3,036,306</b>	<b>393</b>	<b>30,081</b>	<b>5,617</b>	<b>32,229</b>	<b>68,320</b>	<b>356</b>	<b>68,676</b>
Dividends (Note 9)	-	-	-	-	(3,340)	(3,340)	-	(3,340)
Impact of acquisitions on minority interest	-	-	-	-	(49)	(49)	(111)	(160)
Share-based compensation funded by shareholders	-	-	132	-	-	132	-	132
Profit (loss) for the period	-	-	-	-	13,682	13,682	(12)	13,670
<b>30 September 2007</b>	<b>3,036,306</b>	<b>393</b>	<b>30,213</b>	<b>5,617</b>	<b>42,522</b>	<b>78,745</b>	<b>233</b>	<b>78,978</b>

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.

The Group sells its natural gas on the Russian domestic market at unregulated market prices, whereas the majority of natural gas sold on the domestic market is sold at prices regulated by the Federal Tariff Service, a governmental agency. The Group’s stable gas condensate and crude oil sales are sold on both the Russian domestic and international markets, and are subject to periodic fluctuations in benchmark crude oil prices. Additionally, the Group’s natural gas sales fluctuate on a seasonal basis due mostly to Russian weather conditions, with sales peaking in the winter months of December and January and decreasing in the summer months of July and August. The Group’s liquids sales volumes comprising stable gas condensate, crude oil and oil products remain relatively stable from period to period.

In September 2007, the Group acquired a 50 percent working interest in the Concession Agreement for Gas and Crude Oil Exploration and Exploitation in El Arish Offshore Area (referred to as “Concession Agreement”) in the Arab Republic of Egypt. The remaining working interest is held by Tharwa Petroleum S.A.E. Per the Concession Agreement the Group is committed to spend a minimum of USD 40 million on exploration operations during the initial exploration period of four years (Note 14).

## **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 2006 prepared in accordance with International Financial Reporting Standards (“IFRS”). The 31 December 2006 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 consolidated interim condensed financial information 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, oil and gas reserves, deferred income taxes, and pension obligations (Note 7).

Management reviews these estimates and assumptions on a continuous basis, by reference to past experiences and other factors considered reasonable which form the basis for assessing the book values of assets and liabilities. Adjustments to accounting estimates are recognized in the period in which the estimate is revised, if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected. Actual results may differ from such estimates if different assumptions or circumstances apply; however, management considers that the effect of any changes in these estimates would not be significant.

**Exchange rates.** The official rate of exchange of the Russian rouble to the US dollar (“USD”) at 30 September 2007 and 31 December 2006 was 24.95 and 26.33 Russian roubles to 1.00 USD, respectively. The official rate of exchange of the Russian rouble to the Euro at 30 September 2007 and 31 December 2006 was 35.35 and 34.70 Russian roubles to 1.00 Euro, respectively. Any re-measurement 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.



## **2 BASIS OF PRESENTATION (CONTINUED)**

**Reclassifications.** The following reclassifications have been made to the comparative figures to conform to the current period presentation. Commencing January 2007, liquefied petroleum gas sales and oil products sales are presented gross of rail transportation costs. Accordingly, liquefied petroleum gas sales and oil products sales for the nine months ended 30 September 2006 were increased by RR 393 million and RR 16 million, respectively. Correspondingly, stable gas condensate, liquefied petroleum gas, and oil products transportation expenses by rail were increased by RR 409 million. Liquefied petroleum gas sales and oil products sales for the three months ended 30 September 2006 were increased by RR 179 million and RR 1 million, respectively. Correspondingly, stable gas condensate, liquefied petroleum gas, and oil products transportation by rail were increased by RR 180 million.

## **3 ACCOUNTING POLICIES**

The principal accounting policies and methods of computation followed by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2006, except for the matters discussed below.

**Adoption of IFRS 7.** Effective 1 January 2007, the Group adopted IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7"). IFRS 7 introduces new requirements and guidelines regarding the disclosures of financial instruments. The Group will disclose in its annual consolidated financial statements the complete information required by IFRS 7. The adoption of IFRS 7 does not have any impact on the classification and valuation of the Group's financial instruments.

**Pension obligations.** The Group operates a post-employment defined benefit plan based on employees' years of service and average salary.

The liability recognized in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the balance sheet date, together with adjustments for unrecognized past service costs. The present value of the pension obligations are determined by discounting the estimated future cash outflows. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The discount rate was determined by reference to Russian rouble denominated bonds issued by the Government of the Russian Federation chosen to match the duration of the post-employment benefit obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded to the statement of income in the period in which they arise. Past-service costs are amortized on a straight-line basis over the vesting period.

## **4 ACQUISITIONS**

In July 2007, the Group purchased 25 percent participation interests in OOO Oiltechproduct-Invest, OOO Petra Invest-M and OOO Tailiksneftegas, which hold the exploration licenses for the Sredniy Chaselskiy, Severo Russkiy, Yuzhno-Zapolyarniy, Zapadno-Tazovski, Anomalniy and Severo-Yamsoveskiy license areas, for cash consideration of RR 1,125 million, payable upon the extension of the exploration licenses till 2010-2011. The Group has an option to purchase additional 25 percent participation interests in the aforementioned companies after they are granted the production licenses and if the license areas are deemed economically viable. Purchase prices for these entities approximate their fair value. The financial and operational activities of the acquirees were not material to the Group's assets, liabilities, revenue and results of operations as of and for the nine months ended 30 September 2007.

**ОАО 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**

<i>For the nine months ended 30 September 2006</i>	Operating assets	Assets under construction	Total
Cost	65,823	4,174	69,997
Accumulated depreciation, depletion and amortization	(4,322)	-	(4,322)
<b>Net book value at 1 January 2006</b>	<b>61,501</b>	<b>4,174</b>	<b>65,675</b>
Additions	1,012	3,049	4,061
Transfers	1,075	(1,075)	-
Disposals, net	(268)	(269)	(537)
Depreciation, depletion and amortization	(3,107)	-	(3,107)
Cost	67,536	5,879	73,415
Accumulated depreciation, depletion and amortization	(7,323)	-	(7,323)
<b>Net book value at 30 September 2006</b>	<b>60,213</b>	<b>5,879</b>	<b>66,092</b>

<i>For the nine months ended 30 September 2007</i>	Operating assets	Assets under construction	Total
Cost	70,198	4,517	74,715
Accumulated depreciation, depletion and amortization	(7,981)	-	(7,981)
<b>Net book value at 1 January 2007</b>	<b>62,217</b>	<b>4,517</b>	<b>66,734</b>
Additions	1,847	10,875	12,722
Transfers	2,067	(2,067)	-
Disposals, net	(21)	(4)	(25)
Depreciation, depletion and amortization	(2,909)	-	(2,909)
Cost	74,067	13,321	87,388
Accumulated depreciation, depletion and amortization	(10,866)	-	(10,866)
<b>Net book value at 30 September 2007</b>	<b>63,201</b>	<b>13,321</b>	<b>76,522</b>

Included in additions to property, plant and equipment for the nine months ended 30 September 2007 and 2006 is capitalized interest of RR 74 million and RR 260 million, respectively.

**6 LONG -TERM DEBT**

	30 September 2007	31 December 2006
US dollar denominated loans	85	2,153
Euro denominated loans	329	507
Total	414	2,660
Less: current portion of long-term debt	(309)	(2,117)
<b>Total long-term debt</b>	<b>105</b>	<b>543</b>

**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 September 2007 and 31 December 2006, long-term debt by facility comprised the following:

	<u>30 September 2007</u>	<u>31 December 2006</u>
BNP PARIBAS Bank	-	1,975
Other	414	685
<b>Total</b>	<b>414</b>	<b>2,660</b>
Less: current portion of long-term debt	(309)	(2,117)
<b>Total long-term debt</b>	<b>105</b>	<b>543</b>

**BNP PARIBAS Bank.** At 31 December 2006, US dollar denominated loans included a loan from BNP PARIBAS Bank in the amount of RR 1,975 million (USD 75 million). The loan bore annual interest of LIBOR plus 1 percent and in July 2007 was fully repaid ahead of its maturity schedule.

Scheduled maturities of long-term debt at 30 September 2007 were as follows:

**Twelve months ended 30 September:**

2009	103
2010	2
<b>Total long-term debt</b>	<b>105</b>

**7 PENSION OBLIGATIONS**

In February 2007, the Group announced the implementation of a post-employment benefit program. Under the pension program, employees who are employed by the Group for more than three years and retire from the Group on or after the statutory retirement age will receive monthly payments from NOVATEK for life unless they are actively employed. The payment amounts depend on the average salary, duration and location of employment. The program is effective from 1 January 2007 and applies to employees who retire after that date.

The program represents an unfunded defined benefit plan and is accounted for as such under provisions of IAS 19, *Employee Benefits*. The impact of the program on the consolidated interim condensed financial information is disclosed below.

The amounts recognized in the consolidated balance sheet and included in other non-current liabilities are determined as follows:

	<u>30 September 2007</u>
Present value of the defined benefit obligations	354
Unrecognized past service cost	(279)
<b>Liability in the consolidated balance sheet</b>	<b>75</b>

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

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

**7 PENSION OBLIGATIONS (CONTINUED)**

The movement in the present value of the defined benefit obligations is as follows:

	<b>Nine months ended 30 September 2007</b>
<b>Beginning of the period</b>	-
Past service cost	293
Interest cost	13
Current service cost	45
Benefits paid	-
Actuarial loss	3
<b>End of the period</b>	<b>354</b>

The amounts recognized in the consolidated statement of income are as follows:

	<b>Three months ended 30 September 2007</b>	<b>Nine months ended 30 September 2007</b>
Current service cost	15	45
Interest cost	4	13
Actuarial loss	-	3
Amortization of past service cost	5	14
<b>Total recognized in operating expenses</b>	<b>24</b>	<b>75</b>

Of the total charge for the nine months ended 30 September 2007, RR 36 million and RR 39 million were included as employee compensation in materials, services and other and general and administrative expenses, respectively (for the three months ended 30 September 2007: RR 12 million in both categories).

The principal actuarial assumptions used at the balance sheet date were as follows:

Weighted average discount rate	6.4%
Projected annual rate of remuneration growth	10%
Expected pension payments increases (every three years)	10%

The assumed future average salary and pension payments increases for the Group have been calculated on the basis of inflation forecasts, analysis of increases of past salaries and the general salary policy in the Group. It was assumed that the thresholds for the maximum and minimum amount of monthly pension payments would increase by 10 percent every three years.

Mortality assumptions are based on the Russian mortality tables published by the State Statistics Committee from the years 1986 to 1987. Management believes that these mortality tables are the most conservative and prudent Russian whole-population mortality tables available.

Management has assessed that reasonable changes in the most significant actuarial assumptions will not have a significant impact on the liability recognized in the consolidated interim condensed balance sheet.

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

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

**8 SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT**

	<b>30 September 2007</b>	<b>31 December 2006</b>
US dollar denominated loans	2,496	448
Russian rouble denominated loans	20	-
<b>Total</b>	<b>2,516</b>	<b>448</b>
Add: current portion of long-term debt	309	2,117
<b>Total short-term debt and current portion of long-term debt</b>	<b>2,825</b>	<b>2,565</b>

*US dollar denominated loans.* Short-term US dollar denominated loans had a weighted average interest rate of 6.5 percent and 6.2 percent at 30 September 2007 and 31 December 2006, respectively.

At 30 September 2007 and 31 December 2006, the Group had unused credit facilities for the total amount of 6,237 million (USD 250 million) and RR 6,135 million (USD 233 million), respectively, on either fixed or variable interest rates subject to the specific type of credit facility.

**9 SHAREHOLDERS' EQUITY**

*Dividends.* The Group declares and pays dividends in Russian roubles.

	<b>Nine months ended 30 September:</b>	
	<b>2007</b>	<b>2006</b>
Dividends payable at beginning of the period	1	33
Dividends declared during the period	3,340	3,258
Dividends paid during the period	(3,340)	(2,790)
<b>Dividends payable at end of the period</b>	<b>1</b>	<b>501</b>
Dividends per share declared during the period (in Russian roubles)	1.10	1.07
Dividends per GDR declared during the period (in Russian roubles)	11.0	10.7

On 4 October 2007, the Extraordinary General Meeting of Shareholders of ОАО NOVATEK approved interim dividends for 2007 totaling RR 2,520 million (RR 0.83 per share of ordinary stock or RR 8.30 per GDR) which will be paid within 60 days to shareholders of record at the close of business on 3 September 2007.

**10 OIL AND GAS SALES**

	<b>Three months ended 30 September:</b>		<b>Nine months ended 30 September:</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Natural gas	7,359	6,471	26,204	20,813
Stable gas condensate	5,232	4,762	13,158	11,143
Liquefied petroleum gas	1,530	1,021	3,255	2,784
Crude oil	504	467	1,214	1,359
Oil products	55	28	262	404
<b>Total oil and gas sales</b>	<b>14,680</b>	<b>12,749</b>	<b>44,093</b>	<b>36,503</b>

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

**11 TRANSPORTATION EXPENSES**

	Three months ended 30 September:		Nine months ended 30 September:	
	2007	2006	2007	2006
Natural gas transportation to customers	1,934	1,564	6,806	5,001
Stable gas condensate and liquefied petroleum gas transportation by rail	955	788	2,606	2,047
Stable gas condensate transportation by tankers	406	475	1,379	1,133
Other	49	38	152	103
<b>Total transportation expenses</b>	<b>3,344</b>	<b>2,865</b>	<b>10,943</b>	<b>8,284</b>

**12 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 September:		Nine months ended 30 September:	
	2007	2006	2007	2006
Unified natural resources production tax	1,286	1,401	4,148	4,205
Property tax	122	108	395	318
Excise tax	3	-	36	64
Other taxes	14	20	70	61
<b>Total taxes other than income tax</b>	<b>1,425</b>	<b>1,529</b>	<b>4,649</b>	<b>4,648</b>

**13 INCOME TAX**

**Effective income tax rate.** The Group's Russian statutory income tax rate in 2007 and 2006 is 24.0 percent. For the nine months ended 30 September 2007 and 2006, the consolidated Group's effective income tax rate was 26.1 percent and 24.7 percent, respectively. For the three months ended 30 September 2007 and 2006, the consolidated Group's effective income tax rate was 23.3 percent and 24.6 percent, respectively.

**14 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 practicably 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 September 2007, the Group had capital expenditures commitments aggregating approximately RR 20,333 million (at 31 December 2006: RR 5,200 million) for phase two development of the Yurkharovskoye (through 2009) and Khancheyskoye (through 2010) fields, development of the East-Tarkosalinskoe oil field (through 2008) and for continuation of phase two construction of the Purovsky Gas Condensate Plant (through 2008).

**14 CONTINGENCIES AND COMMITMENTS (CONTINUED)**

In addition, the Group had capital expenditures commitments under the Concession Agreement for USD 40 million for exploration activities at the El Arish offshore area in Egypt through 2011.

**Taxation.** Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

At 30 September 2007, 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 is accrued.

**Mineral licenses.** The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its mineral licenses. Management actively monitors the terms and commitments of its respective licenses and 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, statement 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.

**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 as is the enforcement posture of the government authorities. The Group periodically evaluates its obligations under environmental regulations and, as obligations are determined, they are recognized as an expense immediately if no future benefit is discernible. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be estimated. Under existing legislation, management believes that there are no probable liabilities which will have a material adverse effect on the Group's financial position, statement of income or of cash flows.

**Legal contingencies.** During the 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.

## 15 FINANCIAL RISK MANAGEMENT

During the normal course of conducting business activities, the Group's is exposed to a variety of financial risks including, but not limited to: market risk (currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. These risks create volatilities in earnings, equity and cash flows from period to period. The Group's financial management policies are aimed at minimizing or eliminating potential adverse effects these risks may have on the Group's financial performance. Historically, the Group has not entered into derivative financial instruments to hedge its financial risk exposures but may, from time to time, as part of its risk management strategy, use derivative financial instruments to hedge its exposures to financial risks.

**Foreign exchange risk.** The Group is exposed to foreign exchange risk arising from various Russian rouble exposures in the normal course of business, primarily with respect to the US dollar and Euro. Foreign exchange risk arises primarily from future commercial transactions and recognized assets and liabilities when they are denominated in a currency that is not the entity's functional currency. The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble or the US dollar. Foreign currency derivative instruments may be 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.

At 30 September 2007, cash and cash equivalents, trade and other receivables, trade and other payables, short-term debt and long-term debt denominated in US dollars and Euro amounted to RR 1,356 million, RR 1,183 million, RR 94 million, RR 2,496 million, and RR 414 million, respectively. At 31 December 2006, cash and cash equivalents, trade and other receivables, trade and other payables, short-term debt and long-term debt denominated in US dollars and Euro amounted to RR 748 million, RR 950 million, RR 120 million, RR 448 million, and RR 2,660 million, respectively.

**Cash flow and fair value interest rate risk.** The Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, whereas borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Financing decisions are made after careful consideration of various scenarios and may include refinancing, renewal of existing positions or alternative financing. Historically, the Group has not entered into derivative instruments to hedge its cash flow and fair value interest rate risk but may, from time to time, as part of its risk management strategy, use derivative financial instruments to hedge its exposures to interest rate risks.

**Credit risk.** Credit risk is managed on a Group level and arises from cash and cash equivalents, including short-term deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions. Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to have minimal risk of default. Management assesses the credit quality of its customers by taking into account their financial position, past experience and other factors. Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

**Liquidity risk.** Liquidity risk is managed at the Group level and includes maintaining a sufficient cash balance, conservative management of excess liquidity, access to funding from an adequate amount of committed credit facilities and limits on bank concentrations. Due to the dynamic nature of the underlying businesses and the capital intensity of its business operations, the Group maintains flexibility in funding by ensuring availability under committed credit lines and expected cash flows from operating activities.



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

**16 RELATED PARTY TRANSACTIONS**

All natural gas producers and wholesalers operating in Russia transport their natural gas volumes through the Unified Gas Supply System (UGSS), which is owned and operated by OAO Gazprom, a State monopoly. As an independent natural gas producer, the Group utilizes the UGSS to transport natural gas to end-consumers at the tariff established by the Federal Tariff Service. Transactions only with Gazprom group parent company – OAO Gazprom, a shareholder of NOVATEK from October 2006, are presented below. The difference with the expenses for the transport of natural gas as disclosed in Note 11 relates to volumes sold on electronic trading facilities of Mezhhregiongaz, a subsidiary of OAO Gazprom.

During 2006, the Group had transactions with entities controlled by the Group's significant shareholders. Starting October 2006, these entities were no longer considered to be related parties of the Group.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties. For the purposes of this consolidated interim condensed financial information, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

<i>OAO Gazprom</i>	Three months ended 30 September:		Nine months ended 30 September:	
	2007	2006	2007	2006
<b>Transactions</b>				
Purchases of natural gas	312	-	949	-
Natural gas transportation to customers	1,900	-	6,684	-
<hr/>				
<i>OAO Gazprom</i>	30 September 2007		31 December 2006	
<b>Balances</b>				
Trade and other payables		238		163
<hr/>				
<i>Related parties – associates</i>	30 September 2007		31 December 2006	
<b>Balances</b>				
Long-term loans receivable		277		-
<hr/>				
<i>Related parties – subject to control by significant shareholders</i>	Three months ended 30 September:		Nine months ended 30 September:	
	2007	2006	2007	2006
<b>Transactions</b>				
Sales of inventory and oil products	-	10	-	54
Material, services and other	-	62	-	176
Interest income	-	4	-	17
Purchases of construction services	-	142	-	656

**Key management compensation.** During the nine months ended 30 September 2007 and 2006, the Group paid to the members of the Board of Directors and the Management Board, some of whom have also direct and indirect interests in the Group, the total of RR 340 million and RR 305 million in cash, respectively, in compensation and directors' fees, excluding dividends. For the three months ended 30 September 2007 and 2006, the Group paid RR 101 million and RR 93 million, respectively. In addition, RR 44 million was recognized during the three months ended 30 September 2007 and 2006, and RR 132 million during the nine months ended 30 September 2007 and 2006 as part of the share-based compensation scheme and included in general and administrative expense.

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**17 SEGMENT INFORMATION**

The Group's primary format for reporting segment information is business segments. The Group evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Group as a whole. However, the Group's activities are considered by management to comprise the following business segments:

- Exploration and production – acquisitions, exploration, development, production, processing, marketing and transportation of natural gas, gas condensate, crude oil and related products; and
- Corporate and other – other activities, including head-office, certain general and administrative services, polymer and tape insulation.

Segment information for the three and nine months ended 30 September 2007 and 2006 was as follows:

<i>For the three months ended 30 September 2007</i>	<b>Exploration and production</b>	<b>Other</b>	<b>Total</b>
<b>Segment revenues</b>			
External revenues and other income	14,717	478	15,195
Inter-segment sales	-	11	11
<b>Total segment revenues</b>	<b>14,717</b>	<b>489</b>	<b>15,206</b>
<b>Segment results</b>	<b>7,767</b>	<b>(1,096)</b>	<b>6,671</b>

<i>For the nine months ended 30 September 2007</i>	<b>Exploration and production</b>	<b>Other</b>	<b>Total</b>
<b>Segment revenues</b>			
External revenues and other income	44,210	1,299	45,509
Inter-segment sales	7	30	37
<b>Total segment revenues</b>	<b>44,217</b>	<b>1,329</b>	<b>45,546</b>
<b>Segment results</b>	<b>20,844</b>	<b>(2,426)</b>	<b>18,418</b>

<i>For the three months ended 30 September 2006</i>	<b>Exploration and production</b>	<b>Other</b>	<b>Total</b>
<b>Segment revenues</b>			
External revenues and other income	12,759	381	13,140
Inter-segment sales	2	-	2
<b>Total segment revenues</b>	<b>12,761</b>	<b>381</b>	<b>13,142</b>
<b>Segment results</b>	<b>5,973</b>	<b>(545)</b>	<b>5,428</b>

<i>For the nine months ended 30 September 2006</i>	<b>Exploration and production</b>	<b>Other</b>	<b>Total</b>
<b>Segment revenues</b>			
External revenues and other income	36,256	997	37,253
Inter-segment sales	7	-	7
<b>Total segment revenues</b>	<b>36,263</b>	<b>997</b>	<b>37,260</b>
<b>Segment results</b>	<b>16,602</b>	<b>(1,685)</b>	<b>14,917</b>

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

**18 NEW ACCOUNTING DEVELOPMENTS**

Beginning 1 January 2007, the Group has adopted the following interpretations:

- IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006). IFRIC 7 clarifies the requirements under IAS 29, *Financial Reporting in Hyperinflationary Economies* relating to how comparative amounts in financial statements should be restated when an entity identifies the existence of hyperinflation in the economy of the currency in which its financial statements are measured; and how deferred tax items in the opening balance sheet should be restated;
- IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006). IFRIC 8 clarifies that the accounting standard IFRS 2, *Share-based Payment* applies to arrangements where an entity makes share-based payments for apparently no or inadequate consideration;
- IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required;
- IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date.

The adoption of these interpretations, if applicable, had an insignificant effect on the Group's consolidated interim condensed financial information.

Recently, the International Accounting Standards Board published the following new standards and interpretations which have not been early adopted by the Group.

- IFRS 8, *Operating Segments* (effective for annual periods beginning on or after 1 January 2009) ("IFRS 8"). IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information;
- IAS 1, *Presentation of Financial Statements (revised September 2007)*; effective for annual periods beginning on or after 1 January 2009 ("IAS 1"). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances;
- IAS 23 (Revised), *Recognition of Borrowing Costs*. The revision removed the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009;
- IFRIC 11, *IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). IFRIC 11 addresses accounting for certain transactions an entity may enter into to satisfy rights to equity instruments previously granted to employees. Additionally it provides guidance on accounting for rights to equity instruments of a parent company granted for employees of a subsidiary in the subsidiary's separate financial statements;

**19 NEW ACCOUNTING DEVELOPMENTS (CONTINUED)**

- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements.
- IFRIC 13, *Customer Loyalty Programs* (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 provides guidance on the recognition and measurement of award credits which a company grants to its customers.
- IFRIC 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008). IFRIC 14 addresses the measurement of defined benefit plan assets and accounting for an obligation under a minimum funding requirement.

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

**ОАО NOVATEK**  
**Contact information**

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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](http://www.novatek.ru)