OAO NOVATEK

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

AS OF AND FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2010

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REPORT ON REVIEW OF CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION

To the shareholders and Board of Directors of OAO NOVATEK

Introduction

1. We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO NOVATEK and its subsidiaries (the "Group") as of 30 June 2010, the related consolidated interim condensed statements of income and comprehensive income for the three and six months then ended, and the related consolidated interim condensed statements of cash flows and changes in equity for the six 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 42 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 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
12 August 2010

(in millions of Russian roubles)

	Notes	At 30 June 2010	At 31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	5	176,929	161,448
Investments in associates		1,289	1,214
Long-term loans and receivables		1,235	933
Other non-current assets		1,712	2,669
Total non-current assets		**181,165**	**166,264**
Current assets			
Inventories		2,433	1,790
Current income tax prepayments		983	241
Trade and other receivables		7,142	8,504
Prepayments and other current assets		7,138	5,800
Cash and cash equivalents		18,082	10,532
Total current assets		**35,778**	**26,867**
Assets held for sale		-	**508**
Total assets		**216,943**	**193,639**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	7	23,765	23,876
Deferred income tax liabilities		8,869	7,460
Other non-current liabilities		3,350	3,034
Asset retirement obligations		2,182	2,232
Total non-current liabilities		**38,166**	**36,602**
Current liabilities			
Short-term debt and current portion of long-term debt	8	21,223	13,827
Trade payables and accrued liabilities		6,211	7,335
Current income tax payable		49	386
Other taxes payable		1,447	2,045
Total current liabilities		**28,930**	**23,593**
Liabilities associated with assets held for sale		-	**4**
Total liabilities		**67,096**	**60,199**
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(599)	(599)
Additional paid-in capital		30,677	30,609
Asset revaluation surplus on acquisitions		5,617	5,617
Currency translation differences		(79)	(112)
Retained earnings		93,147	78,393
Total equity attributable to OAO NOVATEK shareholders		**129,156**	**114,301**
Non-controlling interest		**20,691**	**19,139**
Total equity		**149,847**	**133,440**
Total liabilities and equity		**216,943**	**193,639**

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 12 August 2010:

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 June: 2010	2009	Six months ended 30 June: 2010	2009
Revenues					
Oil and gas sales	11	25,051	22,376	52,288	38,692
Sales of polymer and insulation tape		611	501	1,080	898
Other revenues		44	271	80	539
Total revenues		**25,706**	**23,148**	**53,448**	**40,129**
Operating expenses					
Transportation expenses	12	(8,436)	(8,295)	(17,499)	(13,568)
Taxes other than income tax	13	(2,260)	(1,935)	(4,684)	(3,856)
Materials, services and other		(1,740)	(1,469)	(3,288)	(2,961)
Depreciation, depletion and amortization		(1,549)	(1,274)	(3,151)	(2,456)
General and administrative expenses		(1,631)	(1,281)	(3,094)	(2,381)
Exploration expenses		(335)	(231)	(466)	(330)
Purchases of natural gas and liquid hydrocarbons		(21)	(161)	(59)	(454)
Net impairment (expense) reversal		(9)	(71)	(35)	(70)
Change in natural gas, liquid hydrocarbons, polymer products and work-in-progress		264	(321)	612	(341)
Total operating expenses		**(15,717)**	**(15,038)**	**(31,664)**	**(26,417)**
Net gain on disposal of interest in subsidiaries		-	52	1,583	52
Other operating income (loss)		29	(210)	24	(153)
Profit from operations		**10,018**	**7,952**	**23,391**	**13,611**
Finance income (expense)					
Interest expense		(83)	(186)	(232)	(249)
Interest income		123	110	238	290
Foreign exchange gain (loss)		(1,118)	1,179	(472)	(1,846)
Total finance income (expense)		**(1,078)**	**1,103**	**(466)**	**(1,805)**
Share of profit (loss) of associates, net of income tax		(9)	11	(10)	(5)
Profit before income tax		**8,931**	**9,066**	**22,915**	**11,801**
Income tax expense					
Current income tax expense		(1,790)	(1,257)	(3,782)	(1,734)
Net deferred income tax benefit (expense)		(75)	(646)	(991)	(765)
Total income tax expense		**(1,865)**	**(1,903)**	**(4,773)**	**(2,499)**
Profit (loss)		**7,066**	**7,163**	**18,142**	**9,302**
Profit (loss) attributable to:					
Non-controlling interest		(73)	(15)	(179)	(10)
Shareholders of OAO NOVATEK		**7,139**	**7,178**	**18,321**	**9,312**
Basic and diluted earnings per share (in Russian roubles)		2.35	2.37	6.04	3.07
Weighted average number of shares outstanding (in thousands)		*3,032,114*	*3,032,114*	*3,032,114*	*3,032,114*

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

(in millions of Russian roubles)

	Notes	Six months ended 30 June: 2010	2009
Profit before income tax		**22,915**	**11,801**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		3,222	2,529
Net impairment expense		35	70
Net foreign exchange loss (gain)		472	1,846
Net loss (gain) on disposal of assets		(1,570)	(22)
Interest expense		232	249
Interest income		(238)	(290)
Share of loss (profit) in associates, net of income tax		10	5
Net change in other non-current assets		(85)	233
Share-based compensation	17	68	88
Other adjustments		104	(139)
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(93)	519
Decrease (increase) in inventories		(635)	485
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends		(438)	(1,063)
Increase (decrease) in other taxes payable		(398)	(404)
Total effect of working capital changes		**(1,564)**	**(463)**
Income taxes paid		(4,807)	(2,027)
Net cash provided by operating activities		**18,794**	**13,880**
Cash flows from investing activities			
Purchases of property, plant and equipment		(9,273)	(7,450)
Purchases of inventories intended for construction		(301)	(244)
Additional capital contribution, acquisition of subsidiaries and associates net of cash acquired		(1,915)	(6,025)
Proceeds from disposals of assets, subsidiaries and associates net of cash disposed		845	46
Interest paid and capitalized		(982)	(522)
Loans provided		(156)	(100)
Repayments of loans provided		219	1
Interest received		87	208
Net cash (used for) provided by investing activities		**(11,476)**	**(14,086)**
Cash flows from financing activities			
Proceeds from long-term debt		11,437	-
Proceeds from short-term debt		1,500	-
Repayments of long-term debt		(6,724)	(46)
Repayments of short-term debt		(2,729)	(320)
Interest paid		(214)	(35)
Dividends paid		(4,907)	(1,488)
Net cash (used for) provided by financing activities		**(1,637)**	**(1,889)**
Net effect of exchange rate changes on cash, cash equivalents and bank overdrafts		(128)	(976)
Net increase (decrease) in cash, cash equivalents and bank overdrafts		**5,553**	**(3,071)**
Cash and cash equivalents at beginning of the period		10,532	10,991
Net decrease (increase) in cash and cash equivalents reclassified to assets classified as held for sale		(52)	25
Cash, cash equivalents and bank overdrafts at end of the period		**16,033**	**7,945**

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

OAO NOVATEK
Consolidated Interim Condensed Statement of Comprehensive Income (unaudited)
(in millions of Russian roubles)

	Notes	Three months ended 30 June:		Six months ended 30 June:	
		2010	2009	2010	2009
Other comprehensive income (loss) after income tax:					
Currency translation differences		48	(48)	33	(11)
Other comprehensive income (loss)		**48**	**(48)**	**33**	(11)
Profit (loss)		**7,066**	**7,163**	**18,142**	**9,302**
Total comprehensive income		**7,114**	**7,115**	**18,175**	**9,291**
Total comprehensive income (loss) attributable to:					
Non-controlling interest		(73)	(15)	(179)	(10)
Shareholders of OAO NOVATEK		**7,187**	**7,130**	**18,354**	**9,301**

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)

	Number of ordinary shares (in thousands)	**Ordinary share capital**	**Treasury shares**	**Additional paid-in capital**	**Asset revaluation surplus on acquisitions**	**Currency translation differences**	**Retained earnings**	**Equity attributable to OAO NOVATEK shareholders**	**Non-controlling interest**	**Total equity**
For the six months ended 30 June 2009										
1 January 2009	***3,032,114***	**393**	**(599)**	**30,433**	**5,617**	**(91)**	**60,316**	**96,069**	**571**	**96,640**
Currency translation differences	-	-	-	-	-	(11)	-	(11)	-	(11)
Profit (loss)	-	-	-	-	-	-	9,312	9,312	(10)	9,302
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(11)**	**9,312**	**9,301**	**(10)**	**9,291**
Dividends (Note 9)	-	-	-	-	-	-	(4,609)	(4,609)	-	(4,609)
Impact of additional shares subscription in subsidiaries on non-controlling interest	-	-	-	-	-	-	-	-	160	160
Acquisition of subsidiaries (Note 4)	-	-	-	-	-	-	-		18,729	18,729
Share-based compensation funded by shareholders	-	-	-	88	-	-	-	88	-	88
30 June 2009	***3,032,114***	**393**	**(599)**	**30,521**	**5,617**	**(102)**	**65,019**	**100,849**	**19,450**	**120,299**

OAO NOVATEK
Consolidated Interim Condensed Statement of Changes in Equity (unaudited)
(in millions of Russian roubles, except for number of shares)

	Number of ordinary shares (in thousands)	Ordinary share capital	Treasury shares	Additional paid-in capital	Asset revaluation surplus on acquisitions	Currency translation differences	Retained earnings	Equity attributable to OAO NOVATEK shareholders	Non-controlling interest	Total equity
For the six months ended 30 June 2010										
1 January 2010	***3,032,114***	**393**	**(599)**	**30,609**	**5,617**	**(112)**	**78,393**	**114,301**	**19,139**	**133,440**
Currency translation differences	-	-	-	-	-	33	-	33	-	33
Profit (loss)	-	-	-	-	-	-	18,321	18,321	(179)	18,142
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**33**	**18,321**	**18,354**	**(179)**	**18,175**
Dividends (Note 9)	-	-	-	-	-	-	(5,306)	(5,306)	-	(5,306)
Acquisition of subsidiaries (Note 4)	-	-	-	-	-	-	-	-	2,413	2,413
Impact of additional shares subscription in subsidiaries on non-controlling interest (Note 4)	-	-	-	-	-	-	-	-	1,767	1,767
Acquisition of non-controlling interest (Note 4)	-	-	-	-	-	-	1,739	1,739	(2,368)	(629)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(81)	(81)
Share-based compensation funded by shareholders	-	-	-	68	-	-	-	68	-	68
30 June 2010	***3,032,114***	**393**	**(599)**	**30,677**	**5,617**	**(79)**	**93,147**	**129,156**	**20,691**	**149,847**

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

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

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

The Group sells its natural gas on the Russian domestic market at both regulated and unregulated market prices; however, 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 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 troughing 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 May 2010, the Group established OOO NOVATEK-Perm, a wholly-owned subsidiary, to support the Group's current natural gas deliveries to the Perm Region, one of the largest industrial centers in the Russian Federation, as well as to expand potential sales opportunities in the territory.

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 2009 prepared in accordance with International Financial Reporting Standards ("IFRS"). The 31 December 2009 consolidated interim condensed statement of financial position data has been derived from the audited consolidated financial statements.

Use of estimates and judgments. The critical accounting estimates and judgments followed by the Group in the preparation of consolidated interim condensed financial information are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2009. Estimates have principally been made in respect to useful lives of property, plant and equipment, fair values of assets and liabilities, deferred income taxes, estimation of oil and gas reserves, impairment provisions, pension obligations and assets retirement obligations.

Management reviews these estimates and judgments on a continuous basis, by reference to past experiences and other factors considered as 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.

Functional and presentation currency. Exchange rates used in preparation of these consolidated interim condensed financial information statements for the entities whose functional currency is not the Russian rouble were as follows:

			Average rate for the six months ended 30 June	
For one currency unit to one Russian rouble	At 30 June 2010	At 31 December 2009	2010	2009
US dollar ("USD")	31.20	30.24	30.07	33.07
Polish Zloty ("PLN")	9.16	10.30	9.98	9.81

2 BASIS OF PRESENTATION (CONTINUED)

Exchange rates, restrictions and controls. The official rate of exchange of the Russian rouble to the US dollar at 30 June 2010 and 31 December 2009 was 31.20 and 30.24 Russian roubles to USD 1.00, respectively. The official rate of exchange of the Russian rouble to the Euro at 30 June 2010 and 31 December 2009 was 38.19 and 43.39 Russian roubles to 1.00 Euro, respectively. Any re-measurement of Russian rouble amounts to US dollars or any other 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 other currencies at these exchange rates.

3 SUMMARY OF SIGNIFICANT 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 2009 with the exception of IFRS 3 *"Business Combinations"* (revised in January 2008) and IAS 27 *"Consolidated and Separate Financial Statements"* (revised January 2008). These exceptions are disclosed further in Note 20.

4 ACQUISITIONS AND DISPOSALS

Disposal of ownership interest in ZAO Terneftegas

On 24 June 2009, NOVATEK and TOTAL E&P ACTIVITIES PETROLIERES ("TOTAL") signed a Heads of Agreement (the "Agreement") establishing the framework for joint cooperation in exploring and developing the Group's Termokarstovoye gas condensate field located in the YNAO.

The Agreement provides for the establishment of a joint venture through the acquisition, by TOTAL of a 49 percent ownership interest in ZAO Terneftegas (formerly a limited liability company, OOO Terneftegas), a wholly-owned subsidiary of the Group and holder of the license for exploration and production of natural gas and gas condensate at the Termokarstovoye field. Under the terms and conditions of the Agreement, the joint venture has two years to complete exploration works and prepare a field development plan, with a final investment decision to proceed further to be taken in 2011.

In December 2009, the Group signed a Sales and Purchase contract with Total Termokarstovoye B.V., an affiliate of TOTAL, for:

- the sale of a 28 percent interest in ZAO Terneftegas for total consideration of USD 24.1 million, of which USD 16 million to be paid at the date of title transfer and the remaining USD 8.1 million (deferred payment) to be paid upon approval by TOTAL of the final investment decision; and
- a further increase of TOTAL's equity share in ZAO Terneftegas to 49 percent through a subscription to the entity's additional shares emission for total consideration of USD 18 million.

The Group transferred legal ownership of a 28 percent interest in ZAO Terneftegas to Total Termokarstovoye B.V. in February 2010 upon the execution of the first arrangement. In January 2010, prior to this transfer, ZAO Terneftegas registered with the Federal Service for Financial Markets (FSFM) for an additional shares emission, the acquisition of which was completed by TOTAL in June 2010 upon executing the second arrangement of the transaction.

At the date of issuing this financial information, the legal implementation of the second arrangement has not been finalized, the additional shares emission report has been submitted, but not formally registered by Total Termokarstovoye B.V. with the FSFM. However, based on the Agreement and the provisions of the Sales and Purchase contract, these two arrangements were accounted as a single transaction and in February 2010, the Group recorded a disposal of a 49 percent ownership interest in ZAO Terneftegas for total consideration of RR 982 million realizing a gain of RR 1,466 million, net of associated income tax of RR 117 million.

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

The following table summarizes the consideration details and shows the components of the gain from the sale of the ownership interest in ZAO Terneftegas:

	RR million
Cash	483
Receivable in respect of the deferred payment (USD 8.1 million at exchange rate of RR 30.11 to USD 1.00 discounted at 5.1 percent per annum)	222
The Group's proportion in an additional shares emission proceeds (51 percent of USD 18 million at exchange rate of RR 30.11 to USD 1.00)	277
Total consideration	982
Less: carrying amount of the Group's interest in net assets	(206)
Revaluation of the retained investment in joint venture	807
Gain on the sale of ownership interest	**1,583**

As described above, the Group retained a 51 percent interest in ZAO Terneftegas; however, the Agreement stipulates that key financial and operational decisions regarding its business shall be subject to unanimous approval by both participants and none of the participants have a preferential voting right. In February 2010, all operating bodies of the joint venture were established and the Group's effective control over ZAO Terneftegas ceased. As a result of these changes, the Group's interest in ZAO Terneftegas is subsequently accounted for using the equity method of accounting.

In accordance with IAS 27 *"Consolidated and Separate Financial Statements"*, the Group remeasured its retained investment in ZAO Terneftegas at fair value at the date of losing control, with the change in value of RR 807 million recognized as a part of the gain from disposal.

The following table reconciles the carrying value of ZAO Terneftegas prior to disposal and the carrying value of the retained investment in the entity recorded under the equity method of accounting in this financial information:

ZAO Terneftegas	**RR million**
Carrying value of the net assets at disposal	421
The Group's proportion in an additional shares emission proceeds	277
Less: carrying amount of the Group's interest in net assets	(206)
Revaluation of the retained investment	807
The carrying value of investment in joint venture	**1,299**

Prior to the disposal, the Group included balances and results of the operations of the disposed subsidiary within "exploration, production and marketing" in the Group's segment information.

Acquisition of controlling interests in the associates

On 15 February 2010, the Group increased its participation interests in OOO Oiltechproduct-Invest, OOO Petra Invest-M and OOO Tailiksneftegas, entities recorded as associates to 51 percent through the acquisition of an additional 26 percent participation interests in each company for the total cash consideration of RR 1,297 million. These entities are all exploration stage oil and gas companies and hold exploration licenses for the Sredne-Chaselskiy, Severo-Russkiy, Zapadno-Tazovskiy, Anomalniy and Severo-Yamsoveskiy license areas. These licenses expire in 2010 and 2013. The Group intends to receive production licenses for these fields based on the exploration activities performed to date. Following the acquisition, in February 2010, OOO Oiltechproduct-Invest obtained the production license for Zapadno-Chaselskiy (expires in 2030).

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

All three entities have no notable operating activities up to and as at the purchase date and are all considered to be in their early exploration stage; consequently, this acquisition is outside the definition of "business" as defined in IFRS 3, "*Business Combinations*". The acquisition cost has been allocated based on the relative fair values of the assets acquired (largely comprised of their respective mineral licenses), and liabilities assumed.

Recognized amounts of identifiable assets acquired and liabilities assumed are presented below.

RR million	OOO Oiltechproduct-Invest	OOO Petra Invest-M	OOO Tailiksneftegas	Total
Property, plant and equipment	547	370	959	1,876
Other non-financial assets	531	199	314	1,044
Financial assets	190	9	18	217
Short-term debt	(769)	(519)	(862)	(2,150)
Other financial liabilities	(149)	(108)	(203)	(460)
Non-financial liabilities	(146)	(41)	(102)	(289)
Total identifiable net assets (liabilities)	**204**	**(90)**	**124**	**238**

The following table shows the total cost of the acquired mineral rights.

RR million	OOO Oiltechproduct-Invest	OOO Petra Invest-M	OOO Tailiksneftegas	Total
Carrying value of the 25 percent participation interest	438	368	407	1,213
Purchase consideration for the 26 percent participation interest	502	380	415	1,297
Gross up for total value of the assets acquired	903	719	791	2,413
Less: identifiable net assets (liabilities)	(204)	90	(124)	(238)
Cost of the acquired mineral rights	**1,639**	**1,557**	**1,489**	**4,685**

The aforementioned property, plant and equipment in the amount RR 1,876 million and cost of mineral rights in the amount RR 4,685 million are included in the line acquisition of subsidiaries as disclosed in Note 5.

The financial and operational activities of OOO Oiltechproduct-Invest, OOO Petra Invest-M and OOO Tailiksneftegas were not material to the Group's revenues and results of operations for the three months ended 31 March 2010.

Acquisition of additional participation interest in subsidiaries

In April 2010, the Group increased its participation interests in OOO Oiltechproduct-Invest, OOO Petra Invest-M and OOO Tailiksneftegas to 82.4 percent, 92.6 percent and 94.2 percent, respectively, through an additional capital contribution to the ordinary share capital of these entities. Furthermore, in May 2010, the Group brought its participation interest in the share capital of each of the above mentioned companies to 100 percent through the acquisition of the remaining ordinary share capital from non-controlling interests. As a consequence of these two transactions the Group paid cash of RR 629 million, reduced non-controlling interests by RR 2,368 million and reflected a difference of RR 1,739 million directly to retained earnings.

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

Acquisition of OAO Yamal LNG

On 26 May 2009, the Group entered into the contract to acquire 51 percent of the outstanding ordinary shares of OAO Yamal LNG, an exploration stage oil and gas company located in the north-east of the Yamal peninsula, YNAO. This company holds the license for exploration and development of the South-Tambeyskoye field (initial license term expired in 2020 but was extended to 2045 in December 2009) with estimated natural gas and gas condensate reserves in accordance with the Russian reserve classification (categories C1 + C2) amounting to 1.26 tcm and 51.6 mt, respectively. The acquisition of the South-Tambeyskoye field significantly increases the Group's resource base ensuring future natural gas and gas condensate production growth.

OAO Yamal LNG had no notable operating activities up to and as at the purchase date and as this entity is in the early exploration stage; consequently, this acquisition is outside the definition of "business" as defined in IFRS 3, "*Business Combinations*". The cost of the acquisition has been allocated based on the relative fair values of the assets (largely comprised of the mineral license), and liabilities of the company acquired.

The following table summarizes the total purchase consideration for the acquisition of OAO Yamal LNG.

	USD million	Exchange rate	RR million
Cash	250	30.51	7,628
Promissory notes of NOVATEK	300	30.73	9,219
Deferred cash payment	100	30.51	2,546 (*)
Total purchase consideration	**650**		**19,393**

(*) – discounted at 7.5 percent per annum.

The contingent consideration arrangement (referred to as the deferred cash payment) requires the Group to pay the former owners of OAO Yamal LNG USD 100 million (undiscounted) upon the conclusion of an agreement between OAO Yamal LNG and OAO Gazprom, defining the main terms of the LNG sale produced from the South-Tambeyskoye field. On 18 June 2010, such Cooperation Agreement, setting out the key parameters for cooperation between Gazprom and NOVATEK in implementing the pilot LNG project including the development and subsequent utilization of related infrastructure facilities on the Yamal peninsula, has been signed.

Acquisition-related costs (legal and evaluation services) directly associated with the transaction in the amount of RR 100 million were included in the cost of the asset acquired.

Recognized amounts of identifiable assets acquired and liabilities assumed are presented below.

OAO Yamal LNG	**RR million**
Financial assets	886
Property, plant and equipment	818
Other non-financial assets	807
Long-term debt	(2,833)
Other financial liabilities	(271)
Asset retirement obligations	(587)
Other non-financial liabilities	(150)
Total identifiable net liabilities	**(1,330)**

In November 2009, the Group fully repaid the outstanding long-term debt of OAO Yamal LNG ahead of its maturity schedule.

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

The following table shows the total cost of the acquired asset.

	RR million
Total purchase consideration	19,393
Gross up for total value of the asset acquired	18,704
Legal and evaluation services	100
Add: identifiable net liabilities	1,330
Cost of the asset	**39,527**

In May 2009, the Group signed a call option agreement with one of the sellers, which provides the Group with the right, but not the obligation, to purchase an additional 23.9 percent of OAO Yamal LNG for USD 450 million within three years following the controlling acquisition. To enter into this call option agreement, the Group paid RR 325 million (USD 10 million) in July 2009, which was recorded as a decrease in retained earnings in the consolidated statement of changes in equity.

In accordance with the Russian legislation, in November 2009, the Group issued (via AKB "Bank of Moscow") a bank guarantee for RR 19.4 billion in favor of the minority holders of the ordinary shares of OAO Yamal LNG. The guarantee is provided as financial support in the case the minority shareholders tender to sell their stakes to the Group at the fixed price, and expires in August 2010. Management does not believe that any of the minority shareholders will tender their shares as a result of this offer and therefore no obligation has been recognized on the consolidated interim condensed statement of financial position as of 30 June 2010.

The financial and operational activities of OAO Yamal LNG were not material to the Group's revenues and results of operations for the six months ended 30 June 2009.

In March 2010, the existing shareholders of OAO Yamal LNG made cash contributions to the company's ordinary share capital proportionally to their respective ownership interests in the total amount of RR 3,607 million. The resulting increase of RR 1,767 million in non-controlling interest was recorded within consolidated interim condensed statement of equity.

Acquisition of OOO EkropromStroy

On 19 June 2009, the Group acquired 100 percent of the participation interest in OOO EkropromStroy from several members of key management personnel of the Group for total cash consideration of RR 1,999 million, all paid in 2009. The Group obtained an independent appraisal supporting the purchase price and considers that the amount paid is substantially consistent with the terms that would be agreed in an arm's length transaction. The company manages the construction of the Group's new office building located in Moscow and has no activities other than the management of construction activities and ownership of the constructed building. Accordingly, the purchase is outside the definition of business as defined in IFRS 3, *"Business Combinations"*. The cost of the acquisition has been allocated based on the relative fair values of the assets (largely comprised of the office building), and liabilities of the company acquired.

The financial and operational activities of OOO EkropromStroy were not material to the Group's revenues and results of operations for the year ended 30 June 2009.

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

5 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment, for the six months ended 30 June 2010 and 2009 are as follows:

For the six months ended 30 June 2009	Operating assets	Assets under construction and advances for construction	Total
Cost	100,029	24,771	124,800
Accumulated depreciation, depletion and amortization	(16,086)	-	(16,086)
Net book value at 1 January 2009	**83,943**	**24,771**	**108,714**
Acquisition of subsidiaries	40,152	2,463	42,615
Additions	481	8,184	8,665
Transfers	8,148	(8,148)	-
Depreciation, depletion and amortization	(2,546)	-	(2,546)
Disposals, net	(25)	(13)	(38)
Cost	148,813	27,257	176,070
Accumulated depreciation, depletion and amortization	(18,660)	-	(18,660)
Net book value at 30 June 2009	**130,153**	**27,257**	**157,410**

For the six months ended 30 June 2010	Operating assets	Assets under construction and advances for construction	Total
Cost	163,274	19,885	183,159
Accumulated depreciation, depletion and amortization	(21,711)	-	(21,711)
Net book value at 1 January 2010	**141,563**	**19,885**	**161,448**
Acquisition of subsidiaries	4,711	1,850	6,561
Additions	1,155	11,127	12,282
Transfers	8,430	(8,430)	-
Depreciation, depletion and amortization	(3,254)	-	(3,254)
Disposals, net	(82)	(26)	(108)
Cost	177,456	24,406	201,862
Accumulated depreciation, depletion and amortization	(24,933)	-	(24,933)
Net book value at 30 June 2010	**152,523**	**24,406**	**176,929**

Included in additions to property, plant and equipment for the six months ended 30 June 2010 and 2009 is capitalized interest of RR 1,083 million and RR 522 million, respectively.

Operating assets balance at 30 June 2010 and 2009 include costs to acquire unproved properties in the amount of RR 4,685 million and RR 39,564 million, respectively. The Group's management believes these costs are recoverable and has plans to explore and develop the respective properties.

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

6 CASH AND CASH EQUIVALENTS

Cash, cash equivalents and bank overdrafts include the following for the purposes of the consolidated interim condensed statement of cash flows:

	At 30 June 2010	At 31 December 2009
Cash and cash equivalents per the consolidated interim condensed statement of financial position	18,082	10,532
Less: bank overdrafts	(2,049)	-
Cash, cash equivalents and bank overdrafts per the consolidated interim condensed statement of cash flows	**16,033**	**10,532**

7 LONG-TERM DEBT

	At 30 June 2010	At 31 December 2009
US dollar denominated loans	20,436	26,673
Russian rouble denominated loans	12,566	11,030
Russian rouble denominated bonds	9,937	-
Total	42,939	37,703
Less: current portion of long-term debt	(19,174)	(13,827)
Total long-term debt	**23,765**	**23,876**

At 30 June 2010 and 31 December 2009, the Group's long-term debt by facility is as follows:

	At 30 June 2010	At 31 December 2009
Syndicated term loan facility	14,214	20,646
Russian rouble denominated bonds	9,937	-
Gazprombank	7,606	6,106
UniCredit Bank	6,222	6,027
Sberbank	4,960	4,924
Total	**42,939**	**37,703**

Syndicated term loan facility. On 21 April 2008, the Group obtained a USD 800 million unsecured syndicated term loan facility for general corporate purposes including funding capital expenditure programs. The facility has a three-year tenure with payments to begin 18 months after 21 April 2008 and is to be repaid in quarterly installments thereafter. The facility pays an initial interest of LIBOR plus 1.25 percent per annum for the first 18 months and increasing to 1.5 percent per annum thereafter (1.81 percent and 1.78 percent at 30 June 2010 and 31 December 2009, respectively). The loan facility includes the maintenance of certain restrictive financial covenants. At 30 June 2010, the remaining amount of the loan facility was RR 14,214 million (USD 456 million), net of unamortized part of the transaction costs of RR 46 million.

Russian rouble denominated bonds. In June 2010, the Group issued ten million three-year non-convertible Russian rouble denominated bonds, each with a nominal value RR 1,000 and an annual coupon rate of 7.5 percent, payable semi-annually. At 30 June 2010, the outstanding amount was RR 9,937 million, net of unamortized part of the transaction costs of RR 63 million.

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

7 LONG-TERM DEBT (CONTINUED)

Gazprombank. On 3 November 2009, the Group signed a loan agreement with OAO Gazprombank, which provided the Group with a loan facility of RR 10 billion until November 2012. At 30 June 2010, RR 7,606 million had been drawn down under this loan agreement. Throughout 2010, the Group gradually reduced the stated interest rate from the initial 13 percent to 9 percent per annum.

UniCredit Bank. On 5 October 2009, the Group obtained a USD 200 million loan until October 2012 under credit line facilities with UniCredit Bank at initial interest rate of LIBOR plus 6.5 percent, which was reduced to LIBOR plus 4.65 percent from 25 February 2010 (5.0 percent and 6.73 percent at 30 June 2010 and 31 December 2009, respectively). The loan includes the maintenance of certain restrictive financial covenants. At 30 June 2010, the outstanding loan amount was RR 6,222 million (USD 200 million), net of unamortized part of the transaction costs of RR 17 million.

Sberbank. On 28 August 2009, the Group obtained a RR 5 billion loan from OAO Sberbank repayable in January and February 2011. Throughout 2010, the Group gradually reduced the stated interest rate from the initial 12.37 percent to 8.5 percent per annum. At 30 June 2010, the outstanding amount was RR 4,960 million, net of unamortized part of the transaction costs of RR 40 million. Subsequent to the balance sheet date, on 7 July 2010, the loan was fully repaid ahead of its maturity schedule.

The fair values of long-term debt at 30 June 2010 and 31 December 2009 were as follows:

	At 30 June 2010	At 31 December 2009
Syndicated term loan facility	13,897	20,092
Russian rouble denominated bonds	9,937	-
Gazprombank	7,681	7,003
UniCredit Bank	6,094	6,222
Sberbank	4,960	5,268
Total	**42,569**	**38,585**

Scheduled maturities of long-term debt at 30 June 2010 were as follows:

Maturity period:	
1 July 2011 to 30 June 2012	7,530
1 July 2012 to 30 June 2013	16,235
Total long-term debt	**23,765**

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

	At 30 June 2010	At 31 December 2009
US dollar denominated bank overdrafts	2,049	-
Total	2,049	-
Add: current portion of long-term debt	19,174	13,827
Total short-term debt and current portion of long-term debt	**21,223**	**13,827**

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

8 SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT (CONTINUED)

Available credit facilities. At 30 June 2010, the Group used RR 2,049 million (USD 66 million) of its credit facilities as bank overdrafts. Available funds under short-term credit lines in the form of bank overdrafts with various international banks totaled RR 3,254 million (USD 104 million) and RR 6,048 million (USD 200 million) at 30 June 2010 and at 31 December 2009, respectively, on either fixed or variable interest rates subject to the specific type of credit facility.

The Group also has available funds under agreements with ZAO BNP PARIBAS Bank in the amount of USD 100 million until May 2012, Credit Agricole Corporate and Investment Bank in the amount of USD 100 million until June 2011 (interest rates negotiated at time of each withdrawal), and Gazprombank in the amount of RR 2,394 million until November 2012 with annual interest rate of 9 percent (Note 7).

9 SHAREHOLDERS' EQUITY

Treasury shares. In accordance with the *Share Buyback Program* authorized by the Board of Directors on 11 February 2008, the Group has periodically purchased ordinary shares of OAO NOVATEK in the form of Global Depository Receipts (GDRs) on the London Stock Exchange (the "LSE") through the use of independent brokers (one GDR consists of ten ordinary shares of OAO NOVATEK).

At 30 June 2010, one of the Group's wholly-owned subsidiaries, Novatek Equity (Cyprus) Limited, held 419,233 GDRs (4,192 thousand ordinary shares) at total cost of RR 599 million. The Group has decided that treasury shares are not entitled to vote.

Dividends. Dividends (including tax on dividends) declared and paid were as follows:

	Six months ended 30 June:	
	2010	**2009**
Dividends payable at beginning of the period	13	-
Dividends declared (*)	5,306	4,609
Dividends paid	(4,907)	(1,488)
Dividends payable at end of the period	**412**	**3,121**
Dividends per share declared during the period (in Russian roubles)	1.75	1.52
Dividends per GDR declared during the period (in Russian roubles)	17.5	15.2

(*) – excluding treasury shares.

On 28 April 2010, the Annual General Meeting of Shareholders of OAO NOVATEK approved the final 2009 dividend totaling RR 5,314 million (including treasury shares), which is to be paid within 60 days to the shareholders of record at the close of business on 22 March 2010. The amount due was included within trade payables and accrued liabilities and was settled in July 2010.

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

10 SHARE-BASED COMPENSATION PROGRAM

On 12 February 2010, NOVATEK's Management Committee approved a share-based compensation program (the "Program") for a limited number of the Group's senior and key management, as well as high-potential managers, but excluding the members of the Management Committee, which aims to encourage participants to take an active interest in the future development of the Group and to provide material incentive to create shareholders value in OAO NOVATEK. The Program was established in accordance with the *Concept of the Long-Term Incentive of Senior Employees* approved by the Board of Directors ("Board") on 25 September 2006 and the *Share Buyback Program*.

The Program is established as a cash-settled payment program and references the Group's GDRs, which are publicly traded on the London Stock Exchange under the ticker symbol "NVTK". The Program presently covers 174 employees amongst which 405,093 GDRs were allocated. Each participant is assigned a pre-determined number of GDRs in accordance with their respective job classification grade and the entitlement for the cash-settled share-based payment cannot be transferred to another person. The cash-settled payments will only be awarded if the participant is employed with the Group at the date of payment.

The Program has three one-year vesting periods ending 31 January 2011, 2012, and 2013. Each participant is granted share appreciation rights, as part of their remuneration package, and may elect to get paid in cash at the end of each vesting period or to defer payment to the subsequent vesting periods during the Program life. Each payment is based on the sale of the allocated GDRs and is calculated as the difference between the GDRs market price at time of sale and the Program's pre-defined price set at USD 48.62 relating to the one-third of the total number of GDRs assigned to each participant during the vesting period, including any deferrals from prior vesting periods. The grant date is defined as 31 March 2010 and represents the date when all participants agreed to a share-based payment arrangement. The closing price per GDR on the LSE at 30 June 2010 was USD 72.30.

In accordance with IFRS 2 *"Share-based payment"*, the Group re-measures the employees' services rendered and the liability incurred at the fair value of the liability. Until the liability is settled, the Group re-measures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period. The liability is measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model based on Monte-Carlo simulations, and to the extent to which the employees have rendered service to date.

The fair value of the Program is determined based on the following assumptions:

	2010	**2011**	**2012**
Expected volatility	77.9%	77.9%	77.9%
Risk-free interest rate	0.83%	0.84%	1.16%
Expected option life	0.46	1.46	2.46
Exercise price per GDR (in USD)	48.62	48.62	48.62

Expected volatility is calculated based on the historical volatility of the price per GDR for the historical period equal to the expected life of the Program (2.7 years). Risk-free interest rate is based on a benchmark USD curve including DEPO, FRA and IRS rates.

The fair value of the share-based payments is recognized as a payable to the employees over the vesting period and any changes in the fair value of the liability recognized in the consolidated statement of income. During the three month ended 30 June 2010, the Group recorded RR 86 million as expenses under this Program which is included in general and administrative expenses and the same amount recognized as a liability in trade payables and accrued liabilities at 30 June 2010.

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

11 OIL AND GAS SALES

	Three months ended 30 June:		Six months ended 30 June:	
	2010	2009	2010	2009
Natural gas	15,209	12,868	34,123	25,039
Stable gas condensate	6,424	7,500	11,357	10,141
Liquefied petroleum gas	3,024	1,649	6,056	2,887
Crude oil	354	341	679	584
Oil products	40	18	73	41
Total oil and gas sales	**25,051**	**22,376**	**52,288**	**38,692**

12 TRANSPORTATION EXPENSES

	Three months ended 30 June:		Six months ended 30 June:	
	2010	2009	2010	2009
Natural gas transportation to customers	5,669	5,674	12,382	8,951
Stable gas condensate and liquefied petroleum gas transportation by rail	1,811	1,646	3,439	2,978
Stable gas condensate transportation by tankers	785	853	1,336	1,400
Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines	124	81	243	159
Crude oil transportation to customers	45	40	93	77
Other	2	1	6	3
Total transportation expenses	**8,436**	**8,295**	**17,499**	**13,568**

13 TAXES OTHER THAN INCOME TAX

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

	Three months ended 30 June:		Six months ended 30 June:	
	2010	2009	2010	2009
Unified natural resources production tax	1,805	1,588	3,823	3,223
Property tax	348	315	684	570
Other taxes	107	32	177	63
Total taxes other than income tax	**2,260**	**1,935**	**4,684**	**3,856**

14 INCOME TAX

Effective income tax rate. The Group's Russian statutory income tax rate for 2010 and 2009 was 20 percent. For the six months ended 30 June 2010 and 2009, the consolidated Group's effective income tax rate was 20.8 percent and 21.2 percent, respectively. For the three months ended 30 June 2010 and 2009, the consolidated Group's effective income tax rate was 20.9 percent and 21.0 percent, respectively.

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

15 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	
Financial assets	At 30 June 2010	At 31 December 2009
Non-current		
Long-term loans receivable	16	-
Trade and other receivables	1,219	933
Long-term deposits	-	20
Current		
Short-term loans receivable	642	1,477
Trade and other receivables	7,142	8,504
Short-term bank deposits	17	111
Cash and cash equivalents	18,082	10,532
Total carrying amount	**27,118**	**21,577**

	Measured at amortized cost	
Financial liabilities	At 30 June 2010	At 31 December 2009
Non-current		
Long-term debt	23,765	23,876
Other non-current liabilities	2,885	2,636
Current		
Current portion of long-term debt	19,174	13,827
Short-term debt	2,049	-
Trade and other payables	3,232	4,562
Total carrying amount	**51,105**	**44,901**

Financial risk management objectives and policies. In the ordinary course of business, the Group is exposed to market risks from fluctuating prices on commodities purchased and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on the degree of price volatility, such fluctuations in market prices may create volatility in the Group’s financial results. To effectively manage the variety of exposures that may impact financial results, the Group’s overriding strategy is to maintain a strong financial position.

The Group’s principal risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to these limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities.

Market risk. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices, will affect the Group’s financial results or the value of its holdings of financial instruments. The primary objective of mitigating these market risks is to manage and control market risk exposures, while optimizing the return on risk.

The Group is exposed to market price movements relating to changes in commodity prices such as crude oil, gas condensate, liquefied petroleum products and natural gas (commodity price risk), foreign currency exchange rates, interest rates, equity prices and other indices that could adversely affect the value of the Group’s financial assets, liabilities or expected future cash flows.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various exposures in the normal course of business, primarily with respect to the US dollar. Foreign exchange risk arises primarily from future commercial transactions, recognized assets and liabilities when assets and liabilities are denominated in a currency other than the functional currency.

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

15 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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.

The carrying amounts of the Group's financial instruments are denominated in the following currencies:

At 30 June 2010	Russian rouble	US dollar	Other	Total
Financial assets				
Non-current				
Long-term loans receivable	-	16	-	16
Trade and other receivables	1,219	-	-	1,219
Current				
Short-term loans receivable	642	-	-	642
Trade and other receivables	4,134	2,894	114	7,142
Short-term bank deposits	3	-	14	17
Cash and cash equivalents	15,464	1,965	653	18,082
Financial liabilities				
Non-current				
Long-term debt	(17,543)	(6,222)	-	(23,765)
Other non-current liabilities	(86)	(2,799)	-	(2,885)
Current				
Current portion of long-term debt	(4,960)	(14,214)	-	(19,174)
Short-term debt	-	(2,049)	-	(2,049)
Trade and other payables	(2,827)	(351)	(54)	(3,232)
Net exposure at 30 June 2010	**(3,954)**	**(20,760)**	**727**	**(23,987)**

At 31 December 2009	Russian rouble	US dollar	Other	Total
Financial assets				
Non-current				
Trade and other receivables	933	-	-	933
Long-term deposits	20	-	-	20
Current				
Short-term loans receivable	1,477	-	-	1,477
Trade and other receivables	4,461	4,021	22	8,504
Short-term bank deposits	43	-	68	111
Cash and cash equivalents	7,390	3,128	14	10,532
Financial liabilities				
Non-current				
Long-term debt	(11,030)	(12,846)	-	(23,876)
Other non-current liabilities	-	(2,636)	-	(2,636)
Current				
Current portion of long-term debt	-	(13,827)	-	(13,827)
Trade and other payables	(4,312)	(222)	(28)	(4,562)
Net exposure at 31 December 2009	**(1,018)**	**(22,382)**	**76**	**(23,324)**

15 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

(b) Commodity price risk

The Group's overall commercial trading strategy in natural gas, stable gas condensate and crude oil and related products is centrally managed. Changes in commodity prices could negatively or positively affect the Group's results of operations. The Group manages the exposure to commodity price risk by optimizing its core activities to achieve stable price margins.

Natural gas. As an independent natural gas producer, the Group is not subject to the government's regulation of natural gas prices. Nevertheless, the Group's prices for natural gas sold are strongly influenced by the prices regulated by the Federal Tariffs Service (FTS), a governmental agency. In November 2006, the FTS approved and published a plan to liberalize the price of natural gas sold on the Russian domestic market by the year 2011. As of the date of the financial information, no new announcements regarding price liberalization have been made by the Russian government or the FTS.

The FTS increased the regulated price by 5 percent, 7 percent, 7 percent and 6.2 percent effective 1 January 2009, 1 April 2009, 1 July 2009 and 1 October 2009, respectively. In December 2009, the FTS also approved a further increase of 15 percent in the regulated price effective 1 January 2010 for the year 2010. Management believes it has limited downside commodity price risk for natural gas and does not use commodity derivative instruments for trading purposes. However, to effectively manage the margins achieved through its natural gas trading activities, management has established targets for volumes sold to wholesale traders, end-customers and the natural gas exchange.

Liquid hydrocarbons. The Group sells all its crude oil and related products and gas condensate under spot contracts. Gas condensate volumes sold to the US, European and Asian-Pacific Region (hereinafter referred to as "APR") markets are based on benchmark reference crude oil prices of WTI, Brent IPE and Dubai or Naphtha Japan, respectively, plus a margin or discount, depending on current market situation. Crude oil sold internationally is based on benchmark reference crude oil prices of Brent dated, plus a discount and on a transaction-by-transaction basis for volumes sold domestically. As a result, the Group's revenues from the sales of liquid hydrocarbons are subject to commodity price volatility based on fluctuations or changes in the crude oil benchmark reference prices. Presently, the Group utilizes limited commodity derivative instruments to mitigated risk of crude oil and gas condensate price volatility.

(c) Cash flow and fair value interest rate risk

The Group is subject to interest rate risk on financial liabilities with variable interest rates. To mitigate this risk, the Group's treasury function performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In cases where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favorable interest rate terms.

Changes in interest rates impact primarily debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new debts management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable over the expected period until maturity.

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

15 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The interest rate profiles of the Group's interest-bearing financial instruments at the reporting dates were as follows:

	At 30 June 2010	At 31 December 2009
At variable rate	22,485	26,673
At fixed rate	22,503	11,030
Total debt	**44,988**	**37,703**

The Group centralizes the cash requirements and surpluses of controlled subsidiaries and the majority of their external financing requirements, and applies, on its consolidated net debt position, a funding policy to optimize its financing costs and manage the impact of interest rate changes on its financial results in line with market conditions. In this way, the Group is able to ensure that the balance between the floating rate portion of its debt and its cash surpluses has a low level of exposure to any change in interest rates over the short term. This policy makes it possible to significantly limit the Group's sensitivity to interest rate volatility.

Credit risk. Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations.

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 trade 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 minimal risk of default.

The Group's trade and other receivables consist of a large number of customers, spread across diverse industries and geographical areas. Most of the Group's international liquid sales are made to customers with independent external ratings; however, if the customer has a credit rating below BBB, the Group requires the collateral for the trade receivable to be in the form of letters of credit from banks with an investment grade rating. All domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis. The Group also requires 100 percent prepayments from small customers for natural gas deliveries and partial advances from others. Although the Group generally does not require collateral in respect of trade and other receivables, it has developed standard credit payment terms and constantly monitors the status of trade receivables and the creditworthiness of the customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated interim condensed statement of financial position.

Liquidity risk. Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. The Group has entered into a number of short-term credit facilities. Such credit lines and overdraft facilities can be drawn down to meet short-term financing needs. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

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

15 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

All of the Group's financial liabilities represent non-derivative financial instruments. The following tables summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

At 30 June 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Debt at fixed rate				
Principal	5,000	3,803	13,803	22,606
Interest	1,137	750	750	2,637
Debt at variable rate				
Principal	16,310	3,743	2,496	22,549
Interest	535	396	62	993
Trade and other payables	3,232	2,799	-	6,031
Total financial liabilities	**26,214**	**11,491**	**17,111**	**54,816**

At 31 December 2009	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Debt at fixed rate				
Principal	-	5,000	6,106	11,106
Interest	619	77	-	696
Debt at variable rate				
Principal	13,827	6,912	6,049	26,788
Interest	570	385	209	1,164
Trade and other payables	4,562	2,636	-	7,198
Total financial liabilities	**19,578**	**15,010**	**12,364**	**46,952**

Capital management. The primary objectives of the Group's capital management policy is to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain investor, market and creditor confidence to support its business activities.

At the reporting date, the Group had investment grade credit ratings of Baa3 (stable outlook) by Moody's Investor Services, BBB- (stable outlook) by Fitch Ratings, and BBB- (stable outlook) by Standard & Poor's. To maintain its credit ratings, the Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis.

The Group manages its liquidity on a corporate-wide basis to ensure adequate funding to sufficiently meet Group operational requirements. All external debts are centralized at the Parent level, and all financing to Group entities is facilitated through inter-company loan arrangements or additional contributions to share capital.

The Group has a stated dividend policy that aims to distribute at least 30 percent of its Parent company's non-consolidated statutory net profit determined according to Russian accounting standards. However, the dividend for a specific year is determined after taking into consideration future earnings, capital expenditure requirements, future business opportunities and the Group current financial position. Dividends are recommended by the Board of Directors and approved by NOVATEK's shareholders.

The Group defines the term "capital" as equity attributable to OAO NOVATEK shareholders minus net debt (total debt less cash and cash equivalents). There were no changes to the Group's approach to capital management during the period.

16 CONTINGENCIES AND COMMITMENTS

Operating environment. The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation, and relatively high inflation. The tax, currency and customs legislation is subject to varying interpretations, frequent changes and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in 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.

The Group's business operations are primarily located in the Russian Federation and are thus exposed to the economic and financial markets of the country.

Recent volatility in global and Russian financial markets. The global liquidity crisis which commenced in the middle of 2007 has resulted in numerous stresses to the capital market system, which among other things, has resulted in a lower level of capital market raising activities, a lower level of liquidity across the international and Russian banking sector, and higher interbank lending rates. The uncertainties over the past two years in the global financial market have led to a series of bank failures and bank rescue measures in the United States, Western Europe and in the Russian Federation amongst other countries. Moreover, the US Federal Reserve and Treasury as well as primary Central Banks around the world, including the Central Bank of the Russian Federation have initiated efforts to stimulate the global financial markets and will continue to closely monitor the global markets until signs of sustainable economic recovery is observable. The impact of the ongoing or sustained financial and economic crisis is difficult to predict or anticipate at this stage of the economic business cycle.

Under the present market situation, the Group's ability to obtain new borrowings and/or re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions may be affected. Moreover, the amount of financing available on the market has been reduced since the onset of the economic and financial crisis (often referred to as the "credit crunch"). The Group's debtors may also be affected by the lower liquidity situation, which could negatively impact their ability to repay their amounts owed. Deteriorating operating and financial conditions of debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in its impairment assessments.

Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current market environment, and are significantly enabled by the effectiveness of the financial policies and treasury management practices that the Group has employed in recent years. Specifically, the Group has maintained an adequate cash and cash equivalent balance, used diversified funding sources, limited bank concentration of liquid funds, required prepayments for hydrocarbon sales and has adhered to strict liquidity and financial leverage ratios.

Despite these efforts, management acknowledges that there are signs of continued market uncertainties over the direction and duration of the current market volatility and, consequently, is unable to predict the impact of any further deterioration in the global and Russian financial markets.

Commitments. At 30 June 2010, the Group had contractual capital expenditures commitments aggregating approximately RR 9,873 million (at 31 December 2009: RR 10,974 million) for phase two development of the Yurkharovskoye field (through 2012), development of the East-Tarkosalinskoye and Khancheyskoye fields (through 2010), and for continuation of phase two construction of the Purovsky Gas Condensate Plant (through 2011) all in accordance with duly signed agreements. In addition, at 30 June 2010, the Group has capital commitments for exploration activities under the El Arish Concession Agreement aggregating approximately USD 11 million (at 31 December 2009: USD 13 million).

16 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

As at 30 June 2010, 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 in the consolidated interim condensed financial information.

Mineral licenses. The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its mineral licenses. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitation, suspension or revocation. The Group's management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any material adverse effect on the Group's financial position, results of operations or 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 crude oil, natural gas and unstable condensate 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 and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations and, as obligations are determined, they are recognized as an expense immediately if no future benefit is discernible. Potential liabilities arising as a result of a change in interpretation 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, results of operations or cash flows.

Legal contingencies. The Group is subject of, or party to 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.

17 RELATED PARTY TRANSACTIONS

Transactions between NOVATEK and its subsidiaries, which are related parties of NOVATEK, have been eliminated on consolidation and are not disclosed in this Note.

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. Management has used reasonable judgments in considering each possible related party relationship with attention directed to the substance of the relationship, not merely the legal form. 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. The Group enters into transactions with related parties based on market or regulated prices.

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

17 RELATED PARTY TRANSACTIONS (CONTINUED)

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 with OAO Gazprom, a shareholder of significant influence, from October 2006, and its subsidiaries are presented below.

	Three months ended 30 June:		Six months ended 30 June:	
Related parties – OAO Gazprom and its subsidiaries	**2010**	**2009**	**2010**	**2009**
Transactions				
OAO Gazprom:				
Natural gas sales	2,938	-	6,659	-
Natural gas transportation to customers	5,952	5,787	12,844	8,921
Other expenses	13	-	17	-
OOO Mezhregiongaz:				
Natural gas sales	-	5,073	-	6,785
Other Gazprom subsidiaries:				
Natural gas sales	1	182	1	456
Polymer product sales	15	-	18	-
Purchases of natural gas and liquid hydrocarbons	8	-	8	-
Other operating income (loss)	-	-	(8)	-
Natural gas transportation to customers (through low-pressure networks)	127	81	247	160
Processing fees	186	127	363	249
Other expenses	7	5	12	12

Related parties – OAO Gazprom and its subsidiaries	**At 30 June 2010**	**At 31 December 2009**
Balances		
OAO Gazprom:		
Trade and other receivables	1,220	-
Trade payables and accrued liabilities	505	530
OOO Mezhregiongaz:		
Trade and other receivables	-	784
Other Gazprom subsidiaries:		
Trade and other receivables	3	43
Prepayments and other current assets	3	2
Trade payables and accrued liabilities	154	157

	Three months ended 30 June:		Six months ended 30 June:	
Related parties – associates and joint ventures	**2010**	**2009**	**2010**	**2009**
Transactions				
Other revenues	2	170	2	406
Interest income	-	15	1	27

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

17 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – associates and joint ventures	At 30 June 2010	At 31 December 2009
Balances		
Long-term loans receivable	16	-
Interest on long-term loans receivable	-	108
Trade and other receivables	-	80
Short-term loans receivable	-	837
Trade payables and accrued liabilities	-	8

As discussed in Note 4, in February 2010, the Group's effective control over ZAO Terneftegas ceased; therefore, subsequent to that event, the Group's balances and transactions with this entity are disclosed as related parties – joint ventures.

As discussed in Note 4, in February 2010, the Group increased its participation interests in OOO Oiltechproduct-Invest, OOO Petra Invest-M and OOO Tailiksneftegas to 51 percent. Subsequent to the increase in the Group's participation interest, these entities are fully consolidated and are no longer accounted for as related parties.

Related parties – parties under significant influence of key management personnel	Three months ended 30 June:		Six months ended 30 June:	
	2010	2009	2010	2009
Transactions				
OOO Nova (formerly SNP NOVA):				
Purchases of construction services (capitalized within property, plant and equipment)	1,201	785	2,898	1,077
Polymer products sales	3	-	3	-
Oil products sales	8	5	17	12
Other revenues	3	-	5	-
OAO Tambeyneftegaz:				
Other operating income (loss)	(8)	-	(10)	-
Other operating expenses	(6)	-	(10)	-
Finance income (expense)	22	11	44	11

Related parties – parties under significant influence of key management personnel	At 30 June 2010	At 31 December 2009
Balances		
OOO Nova (formerly SNP NOVA):		
Trade and other receivables	5	11
Trade payables and accrued liabilities	411	188
OAO Tambeyneftegaz:		
Trade and other receivables	229	184
Prepayments and other current assets	2	14
Short-term loans receivable	640	636
Trade payables and accrued liabilities	2	2
Aldi trading Limited, Orsel consultant Limited, Innecto ventures Limited:		
Other non-current liabilities	2,799	2,636

As discussed in Note 4, in May 2009, the Group purchased a 51 percent stake in OAO Yamal LNG. Following the acquisition (but not as of the acquisition date), an individual who significantly influences the sellers of the stake became a member of the Group's Board of Directors. Consequently, the sellers are considered a related party at 31 December 2009 and thereafter. The Group included outstanding liabilities to these related parties (Aldi trading Limited, Orsel consultant Limited, Innecto ventures Limited) in other non-current liabilities.

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

17 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – party under control of key management personnel	Three months ended 30 June:		Six months ended 30 June:	
	2010	2009	2010	2009
Transactions				
OAO Pervobank:				
Other revenues	2	2	3	5
Finance income (expense)	1	(1)	-	(1)
Other expenses	-	-	1	-

Related parties – party under control of key management personnel	At 30 June 2010	At 31 December 2009
Balances		
OAO Pervobank:		
Cash and cash equivalents	695	845

As discussed in Note 4, in June 2009, the Group purchased 100 percent participation interest of OOO EkropromStroy from several members of the Group's key management. As part of this acquisition, the Group consolidated a US dollar denominated long-term debt of RR 468 million (USD 15 million) of OOO EkropromStroy to SWGI Growth Fund (Cyprus) Limited, a party under control of key management personnel. The loan bore annual interest of 5.2 percent and was fully repaid in July 2009 ahead of its maturity schedule.

Key management compensation. The Group paid to key management personnel (members of the Board of Directors and the Management Committee, some of whom have also direct and indirect interests in the Group) short-term compensation, including salary, bonuses, and excluding dividends the following amounts.

	Three months ended 30 June:		Six months ended 30 June:	
	2010	2009	2010	2009
Board of Directors	64	9	74	19
Management Committee	527	304	586	355
Total compensation	**591**	**313**	**660**	**374**

Such amounts include personal income tax and are net of unified social tax. The Board of Directors consisted of nine members. The Management Committee consisted of 11 members until 4 December 2009 and was subsequently increased to 15 members.

Such amounts include personal income tax and are net of unified social tax. The remuneration for serving on the Board of Directors is subject to approval by the General Meeting of Shareholders. Key management personnel also receive certain short-term benefits related to healthcare. In addition, RR 24 million and RR 44 million was recognized during three months ended 30 June 2010 and 2009, respectively and RR 68 million and RR 88 million during the six month ended 30 June 2010 and 2009, respectively as part of the share-based compensation scheme and included in general and administrative expenses.

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

18 SEGMENT INFORMATION

The Group's activities are considered by the chief operating decision maker (hereinafter referred to as "CODM", represented by the Management Committee of NOVATEK) to comprise the following operating segments:

- Exploration, production and marketing – acquisitions, exploration, development, production, processing, marketing and transportation of natural gas, gas condensate and related products; and
- Polymer products production and marketing – production and marketing of polymer insulation tape and other polymer products.

Segment information is provided to the CODM in accordance with management accounting based on Regulations on Accounting and Reporting of the Russian Federation ("RAR") with reconciling items largely representing adjustments and reclassifications recorded in the consolidated interim condensed financial information for the fair presentation in accordance with IFRS.

Segment information for the three months ended 30 June 2010 is as follows:

For the three months ended 30 June 2010	Exploration, production and marketing	Polymer products production and marketing	Segment information as reported to CODM	Reconciling items	Total per consolidated interim condensed financial information
External revenues	25,101	624	25,725	(19)	25,706
Operating expenses	(15,592)	(550)	(16,142)	425	(15,717)
Other operating income (loss)	(115)	8	(107)	136	29
Interest expense	(383)	-	(383)	300	(83)
Interest income	38	1	39	84	123
Foreign exchange gain (loss)	(1,212)	1	(1,211)	93	(1,118)
Segment result	**7,837**	**84**	**7,921**	**1,019**	**8,940**
Share of profit (loss) of associates, net of income tax					(9)
Profit before income tax					**8,931**
Depreciation, depletion and amortization	1,998	18	2,016	(432)	1,584
Capital expenditures	6,880	29	6,909	(857)	6,052

Reconciling items mainly related to:

- different methodology in depreciation, depletion and amortization calculation for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method) which resulted in reversal of RR 633 million in operating expenses under IFRS;
- different methodology in the classification of depreciation, depletion and amortization for operating assets, which have not completed their statutory registration, between IFRS and management accounting which resulted in reclassification of RR 148 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS; and
- different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting which resulted in additional interest capitalized of RR 532 million and reversal of capital expenditures of RR 1,389 million under IFRS.

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

18 SEGMENT INFORMATION (CONTINUED)

Segment information for the three months ended 30 June 2009 is as follows:

For the three months ended 30 June 2009	Exploration, production and marketing	Polymer products production and marketing	Segment information as reported to CODM	Reconciling items	Total per consolidated interim condensed financial information
External revenues	22,372	511	22,883	265	23,148
Operating expenses	(14,741)	(444)	(15,185)	147	(15,038)
Other operating income (loss)	(437)	(1)	(438)	280	(158)
Interest expense	(54)	2	(52)	(134)	(186)
Interest income	79	-	79	31	110
Foreign exchange gain (loss)	1,178	1	1,179	-	1,179
Segment result	**8,397**	**69**	**8,466**	**589**	**9,055**
Share of profit (loss) of associates, net of income tax					11
Profit before income tax					**9,066**
Depreciation, depletion and amortization	1,341	16	1,357	(83)	1,274
Capital expenditures	5,716	-	5,716	(922)	4,794

Reconciling items mainly related to:

- recognition of deferred natural gas revenue of RR 82 million recorded under IFRS in external revenues as a result of acquisitions of Tarkosaleneftegas and Khancheyneftegas in 2004;
- different methodology in depreciation, depletion and amortization calculation for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method) which resulted in reversal of RR 127 million in operating expenses under IFRS;
- different methodology in the classification of depreciation, depletion and amortization for operating assets, which have not completed their statutory registration, between IFRS and management accounting which resulted in reclassification of RR 69 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS; and
- different methodology in certain recognition policy differences in capital expenditures between IFRS and management accounting which resulted in reversal of capital expenditures of RR 922 million under IFRS.

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

18 SEGMENT INFORMATION (CONTINUED)

Segment information for the six months ended 30 June 2010 is as follows:

For the six months ended 30 June 2010	Exploration, production and marketing	Polymer products production and marketing	Segment information as reported to CODM	Reconciling items	Total per consolidated interim condensed financial information
External revenues	52,496	1,107	53,603	(155)	53,448
Operating expenses	(31,104)	(968)	(32,072)	408	(31,664)
Other operating income (loss)	257	12	269	1,338	1,607
Interest expense	(779)	-	(779)	547	(232)
Interest income	87	2	89	149	238
Foreign exchange gain (loss)	(549)	2	(547)	75	(472)
Segment result	**20,408**	**155**	**20,563**	**2,362**	**22,925**
Share of profit (loss) of associates, net of income tax					(10)
Profit before income tax					**22,915**
Depreciation, depletion and amortization	3,847	34	3,881	(659)	3,222
Capital expenditures	11,838	30	11,868	414	12,282

Reconciling items mainly related to:

- different methodology in depreciation, depletion and amortization calculation for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method) which resulted in reversal of RR 1,082 million in operating expenses under IFRS;
- different methodology in the classification of depreciation, depletion and amortization for operating assets, which have not completed their statutory registration, between IFRS and management accounting which resulted in reclassification of RR 370 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS;
- different methodology in recognition of expenses relating to natural gas storage services and recognition of share-based payments between IFRS and management accounting which resulted in additional transportation expenses of RR 113 million and additional payroll expenses of RR 154 million recorded in operating expenses under IFRS;
- different methodology in recognition of the gain on disposal of ownership interest in ZAO Terneftegas between IFRS and management accounting which resulted in additional gain of RR 988 million recorded in other operating income (loss) under IFRS;
- different methodology in valuation of long-term payables and asset retirement obligations between IFRS and management accounting which resulted in additional interest expense of RR 204 million charged under IFRS; and
- different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting which resulted in additional interest capitalized of RR 942 million and reversal of capital expenditures of RR 528 million under IFRS.

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

18 SEGMENT INFORMATION (CONTINUED)

Segment information for the six months ended 30 June 2009 is as follows:

For the six months ended 30 June 2009	Exploration, production and marketing	Polymer products production and marketing	Segment information as reported to CODM	Reconciling items	Total per consolidated interim condensed financial information
External revenues	38,984	921	39,905	224	40,129
Operating expenses	(25,436)	(885)	(26,321)	(96)	(26,417)
Other operating income (loss)	(964)	-	(964)	863	(101)
Interest expense	(322)	-	(322)	73	(249)
Interest income	219	-	219	71	290
Foreign exchange gain (loss)	(1,801)	1	(1,800)	(46)	(1,846)
Segment result	**10,680**	**37**	**10,717**	**1,089**	**11,806**
Share of profit (loss) of associates, net of income tax					(5)
Profit before income tax					**11,801**
Depreciation, depletion and amortization	2,481	24	2,505	(49)	2,456
Capital expenditures	10,823	-	10,823	(2,158)	8,665

Reconciling items mainly related to:

- recognition of deferred natural gas revenue of RR 166 million recorded under IFRS in external revenue as a result of acquisitions of Tarkosaleneftegas and Khancheyneftegas in 2004;
- different methodology in depreciation, depletion and amortization calculation for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method) which resulted in reversal of RR 619 million in operating expenses under IFRS;
- different methodology in the classification of depreciation, depletion and amortization for operating assets, which have not completed their statutory registration, between IFRS and management accounting which resulted in reclassification of RR 584 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS; and
- different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting which resulted in additional interest capitalized of RR 289 million and reversal of capital expenditures of RR 2,447 million under IFRS.

Geographical information. The Group’s two segments operate in four major geographical areas of the world. In the Russian Federation, its home country, the Group is mainly engaged in the exploration, development, production and sales of natural gas, crude oil, gas condensate and related products and sales of polymer and insulation tape. Activities outside the Russian Federation are conducted in the United States (sales of stable gas condensate), in Europe (sales of stable gas condensate, liquefied petroleum gas and crude oil), in Asian-Pacific region (sales of stable gas condensate) and other areas (sales of liquefied petroleum gas and sales of polymer and insulation tape). Information on the geographical location of the Group’s revenues is set out below.

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

18 SEGMENT INFORMATION (CONTINUED)

Geographical information for the three months ended 30 June 2009 and 2010 is as follows:

	Russian Federation	Outside Russian Federation						Total
		Europe	USA	APR	Other	Export duty	Subtotal	
For the three months ended 30 June 2010								
Natural gas	15,209	-	-	-	-	-	-	15,209
Stable gas condensate	26	-	4,954	3,457	2,496	(4,509)	6,398	6,424
Liquefied petroleum gas	1,193	2,026	-	-	-	(195)	1,831	3,024
Crude oil	237	248	-	-	-	(131)	117	354
Oil products	40	-	-	-	-	-	-	40
Oil and gas sales	**16,705**	**2,274**	**4,954**	**3,457**	**2,496**	**(4,835)**	**8,346**	**25,051**
Polymer products sales	491	-	-	-	120	-	120	611
Other revenues	42	2	-	-	-	-	2	44
Total external revenues	**17,238**	**2,276**	**4,954**	**3,457**	**2,616**	**(4,835)**	**8,468**	**25,706**
For the three months ended 30 June 2009								
Natural gas	12,868	-	-	-	-	-	-	12,868
Stable gas condensate	60	1,088	8,019	1,004	-	(2,671)	7,440	7,500
Liquefied petroleum gas	534	1,108	-	-	11	(4)	1,115	1,649
Crude oil	168	260	-	-	-	(87)	173	341
Oil products	18	-	-	-	-	-	-	18
Oil and gas sales	**13,648**	**2,456**	**8,019**	**1,004**	**11**	**(2,762)**	**8,728**	**22,376**
Polymer products sales	376	-	-	-	125	-	125	501
Other revenues	271	-	-	-	-	-	-	271
Total external revenues	**14,295**	**2,456**	**8,019**	**1,004**	**136**	**(2,762)**	**8,853**	**23,148**

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

18 SEGMENT INFORMATION (CONTINUED)

Geographical information for the six months ended 30 June 2010 and 2009 is as follows:

	Russian	Outside Russian Federation						
	Federation	Europe	USA	APR	Other	Export duty	Subtotal	Total
For the six months ended 30 June 2010								
Natural gas	34,123	-	-	-	-	-	-	34,123
Stable gas condensate	27	1,102	12,166	3,322	2,496	(7,756)	11,330	11,357
Liquefied petroleum gas	2,446	4,003	-	-	-	(393)	3,610	6,056
Crude oil	396	577	-	-	-	(294)	283	679
Oil products	73	-	-	-	-	-	-	73
Oil and gas sales	**37,065**	**5,682**	**12,166**	**3,322**	**2,496**	**(8,443)**	**15,223**	**52,288**
Polymer products sales	882	-	-	-	198	-	198	1,080
Other revenues	78	2	-	-	-	-	2	80
Total external revenues	**38,025**	**5,684**	**12,166**	**3,322**	**2,694**	**(8,443)**	**15,423**	**53,448**
For the six months ended 30 June 2009								
Natural gas	25,039	-	-	-	-	-	-	25,039
Stable gas condensate	351	1,088	11,717	1,004	-	(4,019)	9,790	10,141
Liquefied petroleum gas	921	1,932	-	-	55	(21)	1,966	2,887
Crude oil	318	406	-	-	-	(140)	266	584
Oil products	31	14	-	-	-	(4)	10	41
Oil and gas sales	**26,660**	**3,440**	**11,717**	**1,004**	**55**	**(4,184)**	**12,032**	**38,692**
Polymer products sales	732	-	-	-	166	-	166	898
Other revenues	539	-	-	-	-	-	-	539
Total external revenues	**27,931**	**3,440**	**11,717**	**1,004**	**221**	**(4,184)**	**12,198**	**40,129**

Revenues from external customers are based on the geographical location of customers even though all revenues are generated from assets located in the Russian Federation. Substantially all of the Group's assets are located in the Russian Federation.

Major customers. For the six months ended 30 June 2010 and 2009, the Group has 3 major customers to whom individual revenues were more than 10 percent of total external revenues. The respective total sales to these customers represent 42 percent and 29 percent of total external revenues for the six months ended 30 June 2010 and 2009, respectively.

Sales to major customers are included in the results of the Exploration, production and marketing segment.

19 SUBSEQUENT EVENTS

On 1 July 2010, the Group acquired 100 percent of the outstanding ordinary shares of OAO Tambeyneftegas, an exploration stage oil and gas company located in the southern portion of the Yamal peninsula (YNAO) for total purchase consideration of USD 10 million. Tambeyneftegas holds the license for exploration and development of the Malo-Yamalskoye field (expires in 2019) with estimated natural gas and gas condensate reserves in accordance with the Russian reserve classification (categories C1 + C2) amounting to 161 bcm and 14.4 mt, respectively.

As discussed in Note 7, in July 2010, the Group fully repaid a RR 5 billion loan from OAO Sberbank ahead of its maturity schedule.

20 NEW ACCOUNTING PRONOUNCEMENTS

Beginning 1 January 2010, in addition to that which is disclosed in Note 3, the Group has adopted the following new standards and interpretations:

- IFRS 3, *Business Combinations* (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquirer's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone;

- IAS 27, *Consolidated and Separate Financial Statements* (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value;

- Amendments to IFRS 2, *Share-based Payment. Group Cash-settled Share-based Payment Transactions*. (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard;

- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement. Eligible Hedged Items.* (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations;

- IFRIC 17, *Distribution of Non-Cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009). IFRIC 17 clarifies when and how distribution of non-cash assets as dividends to the owners should be recognized. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognized in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners;

20 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognized asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; and amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged; and

- IFRIC 18, *Transfers of Assets from Customers* (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

The adoption of these new standards and interpretations, in case of such operations, had an insignificant effect on the Group's consolidated interim condensed financial information statement.

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

- IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt;

- Amendment to IAS 32 (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives;

- Amendment to IAS 24, *Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities;

20 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- Amendment to IFRIC 14, IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. Prepayments of a Minimum Funding Requirement* (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement;

- Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Group from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits;

- IFRS 9, *Financial Instruments Part 1: Classification and Measurement* (effective for annual periods beginning on or after 1 January 2013). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument;

  - An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss;

20 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment; and

- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated interim condensed financial information.

OAO NOVATEK was incorporated as a joint stock company in accordance with the Russian law and is domiciled in the Russian Federation.

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