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## Second Quarter 2007 Operational and Financial Results Conference Call

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*Mark A. Gyetvay, Chief Financial Officer and Member of the Board of Directors*

*28 August 2007*

# Disclaimer

## FORWARD-LOOKING STATEMENTS

Matters discussed in this presentation may constitute forward-looking statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words "believe," "expect," "anticipate," "intends," "estimate," "forecast," "project," "will," "may," "should" and similar expressions identify forward-looking statements. Forward-looking statements include statements regarding: strategies, outlook and growth prospects; future plans and potential for future growth; liquidity, capital resources and capital expenditures; growth in demand for our products; economic outlook and industry trends; developments of our markets; the impact of regulatory initiatives; and the strength of our competitors.

The forward-looking statements in this presentation are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. In addition, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in the balance of oil and gas supply and demand in Russia and Europe;
- the effects of domestic and international oil and gas price volatility and changes in regulatory conditions, including prices and taxes;
- the effects of competition in the domestic and export oil and gas markets;
- our ability to successfully implement any of our business strategies;
- the impact of our expansion on our revenue potential, cost basis and margins;
- our ability to produce target volumes in the face of restrictions on our access to transportation infrastructure;
- the effects of changes to our capital expenditure projections on the growth of our production;
- inherent uncertainties in interpreting geophysical data;
- commercial negotiations regarding oil and gas sales contracts;
- changes to project schedules and estimated completion dates;
- potentially lower production levels in the future than currently estimated by our management and/or independent petroleum reservoir engineers;
- our ability to service our existing indebtedness;
- our ability to fund our future operations and capital needs through borrowing or otherwise;
- our success in identifying and managing risks to our businesses;
- our ability to obtain necessary regulatory approvals for our businesses;
- the effects of changes to the Russian legal framework concerning currently held and any newly acquired oil and gas production licenses;
- changes in political, social, legal or economic conditions in Russia and the CIS;
- the effects of, and changes in, the policies of the government of the Russian Federation, including the President and his administration, the Prime Minister, the Cabinet and the Prosecutor General and his office;
- the effects of international political events;
- the effects of technological changes;
- the effects of changes in accounting standards or practices; and
- inflation, interest rate and exchange rate fluctuations.

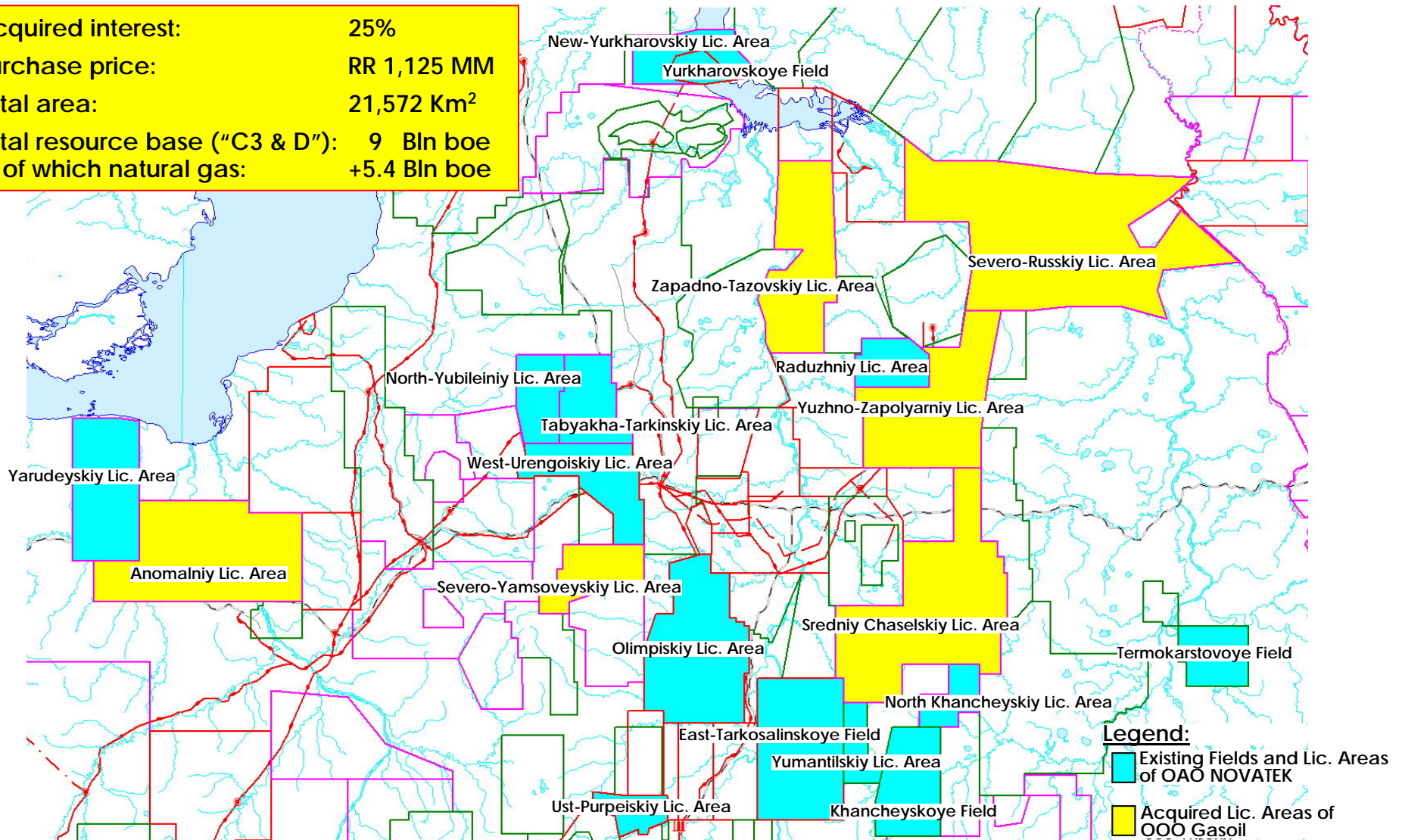
This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

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# Acquisition of Exploration License Areas

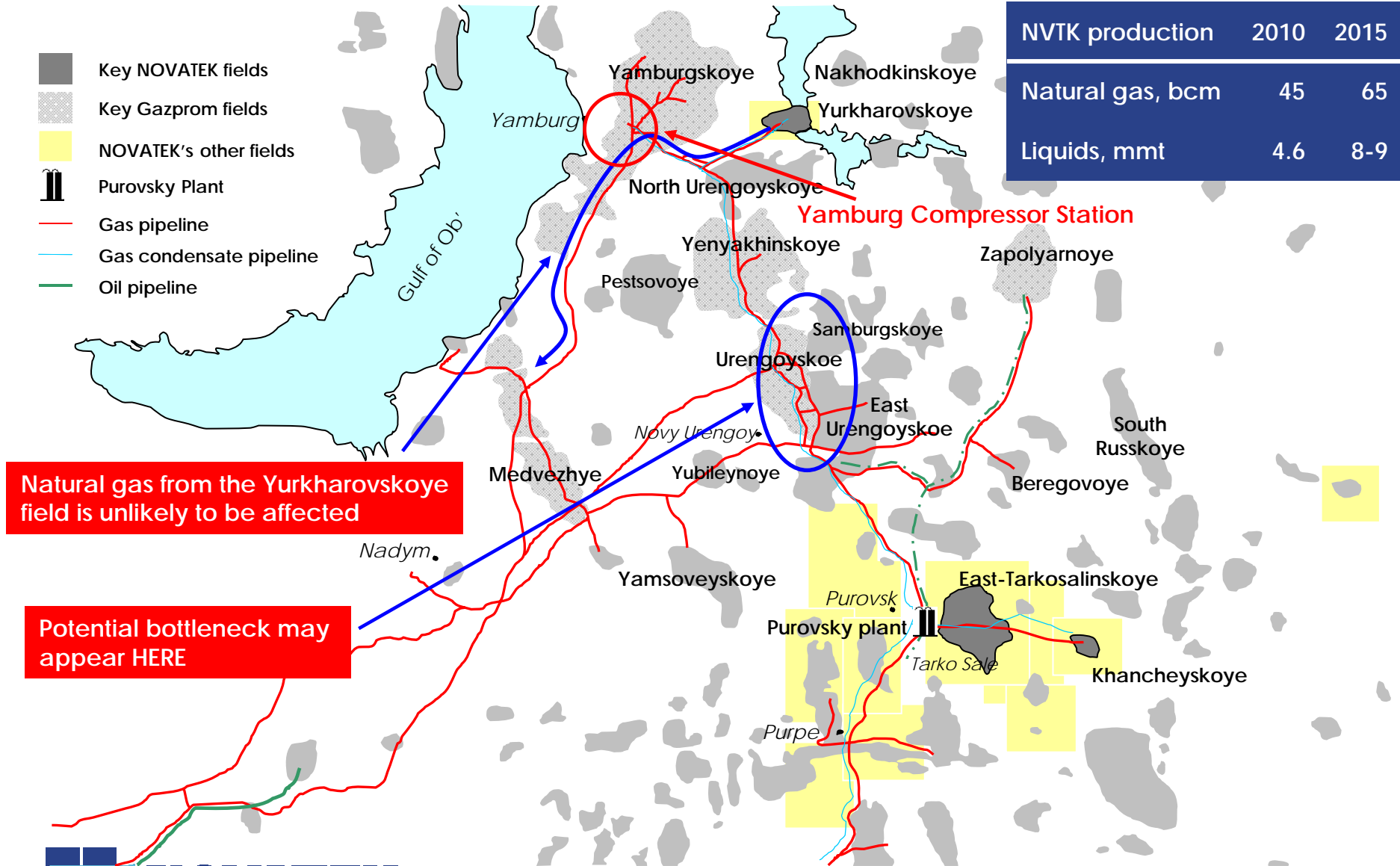
Acquired interest:	25%
Purchase price:	RR 1,125 MM
Total area:	21,572 Km <sup>2</sup>
Total resource base ("C3 & D"):	9 Bln boe
of which natural gas:	+5.4 Bln boe



# Potential UGSS Bottlenecks

-  Key NOVATEK fields
-  Key Gazprom fields
-  NOVATEK's other fields
-  Purovsky Plant
-  Gas pipeline
-  Gas condensate pipeline
-  Oil pipeline

NVTK production	2010	2015
Natural gas, bcm	45	65
Liquids, mmt	4.6	8-9



Natural gas from the Yurkharovskoye field is unlikely to be affected

Potential bottleneck may appear HERE





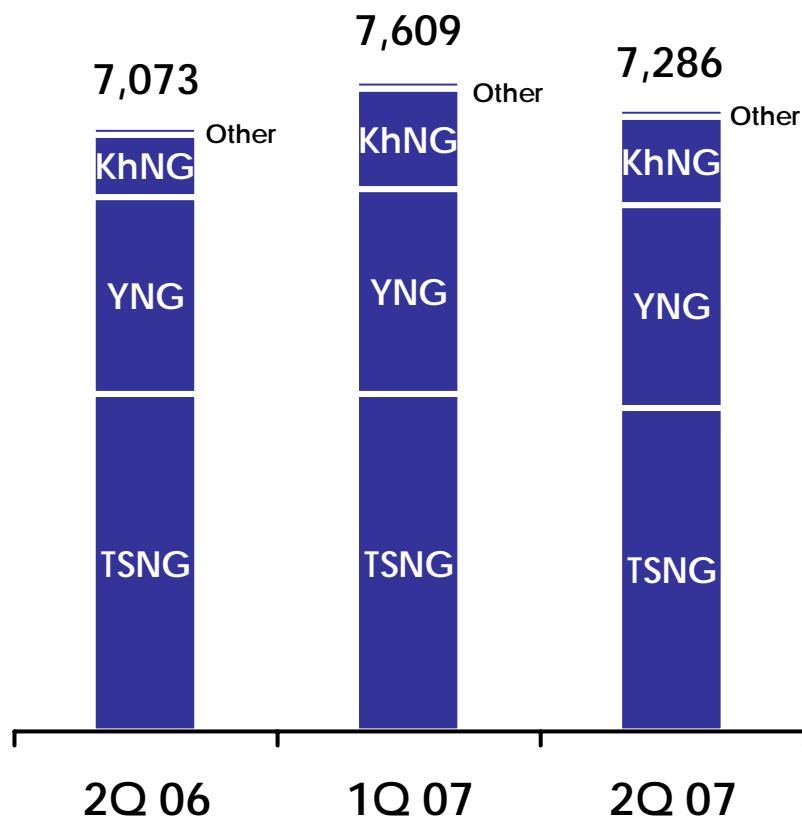
## Summary Highlights from 2Q 2007

- ❑ **Continued growth in revenues and earnings** driven by sales volume growth and higher gas and liquids prices
  - Natural gas sales increased by 21.2% Y-o-Y
  - Liquids sales increased by 12.8% Y-o-Y
- ❑ **Significant increase in 2Q 2007 net profit** and EPS
- ❑ **Net cash positive** – net cash position (cash & cash equivalents less long and short-term debt) increased by 133.5% to RR 5,977 million from RR 2,560 million as of 31 December 2006
- ❑ **Cash flow from operations** increased by 39.4% Y-o-Y, to RR 4,453 million from RR 3,194 million
- ❑ **Capital expenditures** related to exploration and production increased by 183.6% Y-o-Y to RR 2,862 million

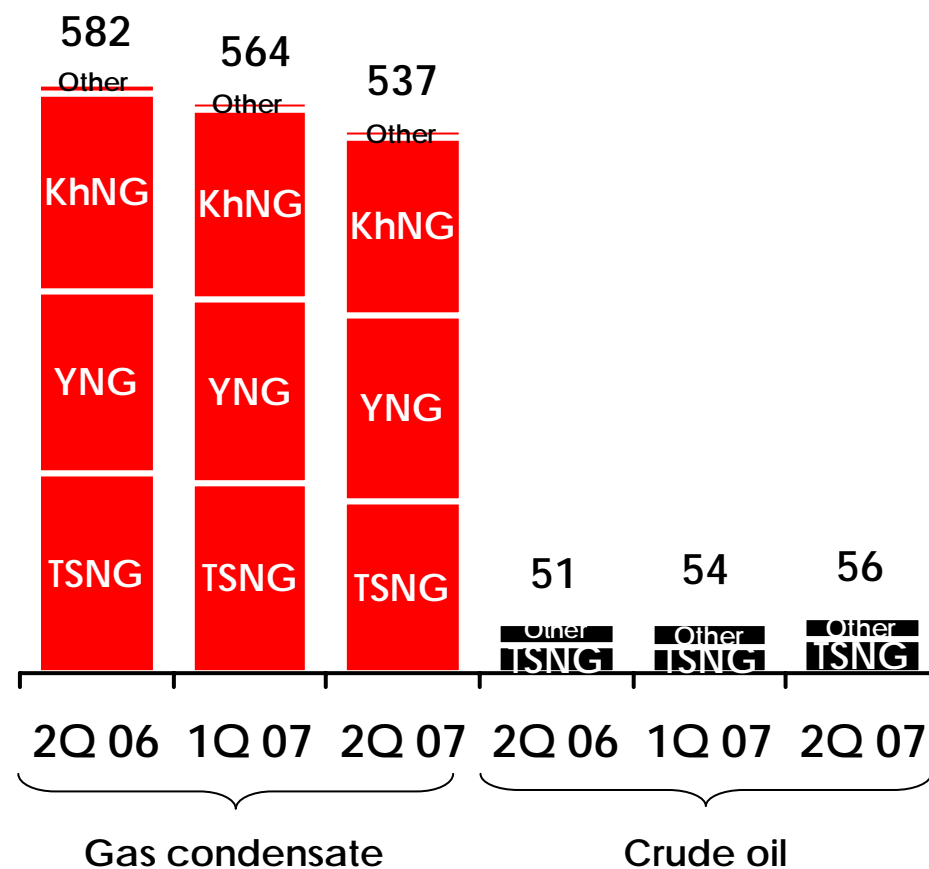
# Operational Overview

# Gross hydrocarbon production<sup>1</sup>

Natural gas production, mmcm



Liquids production, '000 tons

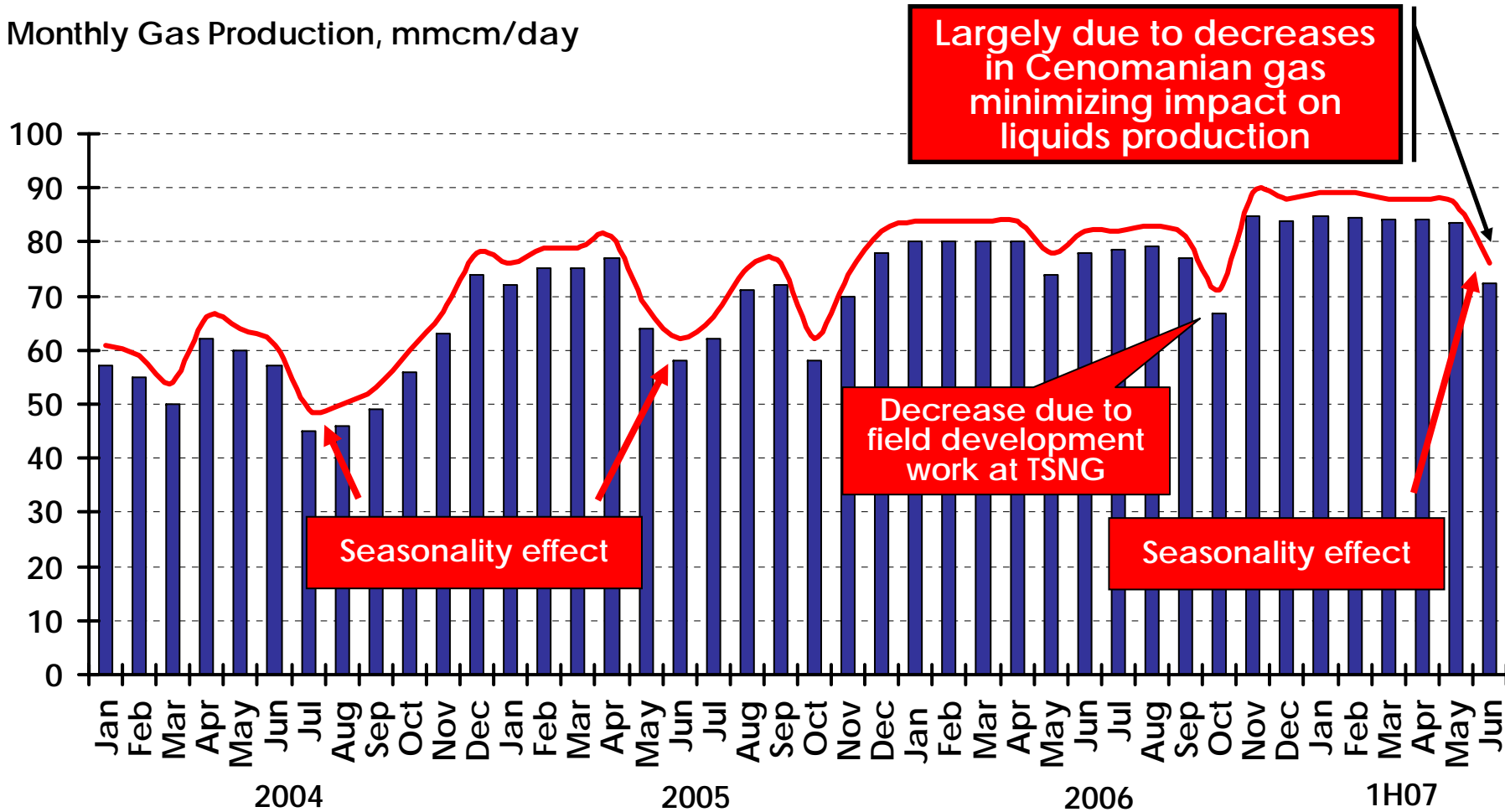


Note:

1. 100% of current Novatek subsidiaries for 2Q 2007 and 2Q 2006, Including associated gas, own consumption, technological and other losses

# Increasing gas production

Monthly Gas Production, mmcm/day



2004 Avg.  
56 mmcm/day  
1,976 bcf/day

2005 Avg.  
69 mmcm/day  
2,436 bcf/day

2006 Avg.  
79 mmcm/day  
2,789 bcf/day

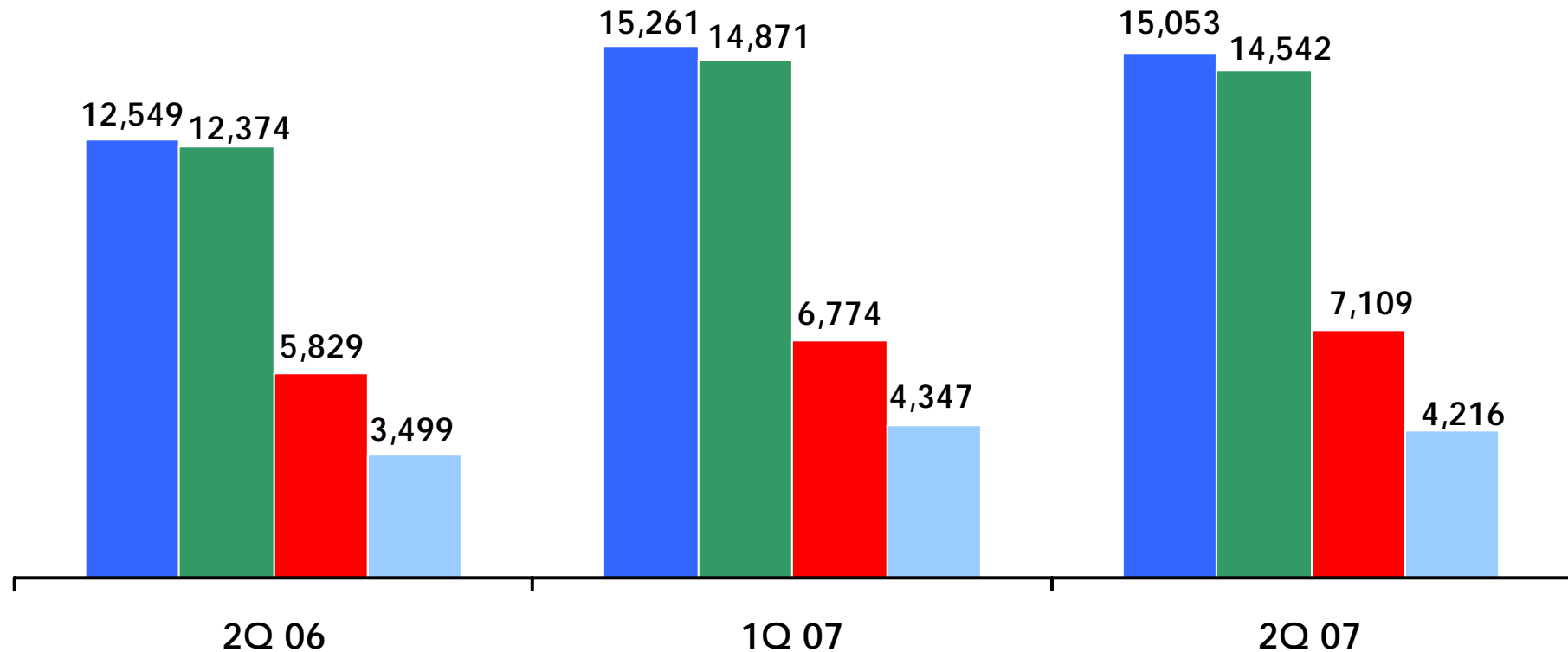
1H 07 Avg.  
82 mmcm/day  
2,906 bcf/day





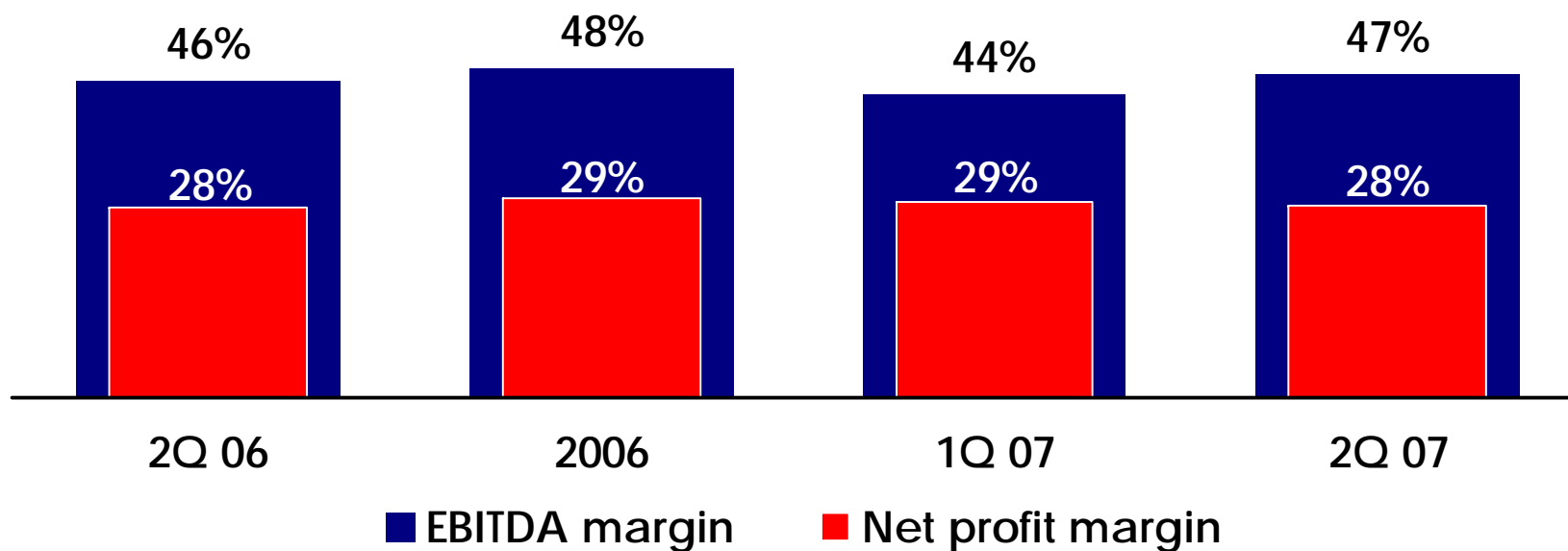
# Financial Overview

## Summary financial results (RR million)



■ Total revenues and other income ■ Oil & gas sales ■ EBITDA ■ Net income

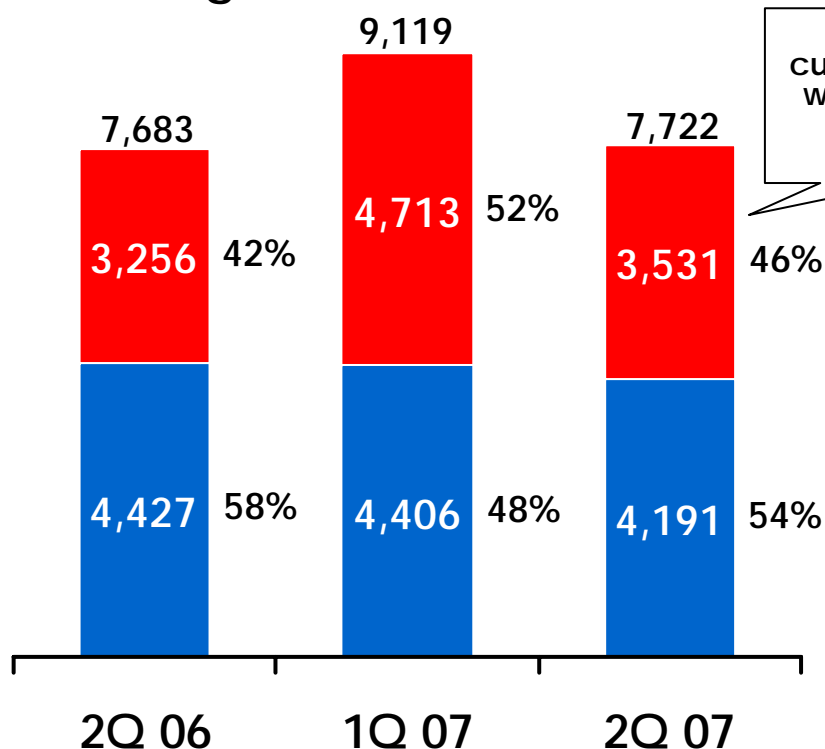
## Maintaining margins (% of total revenue & other income)



- ❑ 2Q 2007 Margins consistent with management guidance
- ❑ Strong natural gas pricing environment on domestic market
- ❑ Significant change in liquids pricing in international and domestic markets
- ❑ Effect of higher income tax due to one-time increase in deferred taxes

# Market distribution – sales volumes

## Natural gas, mmcm

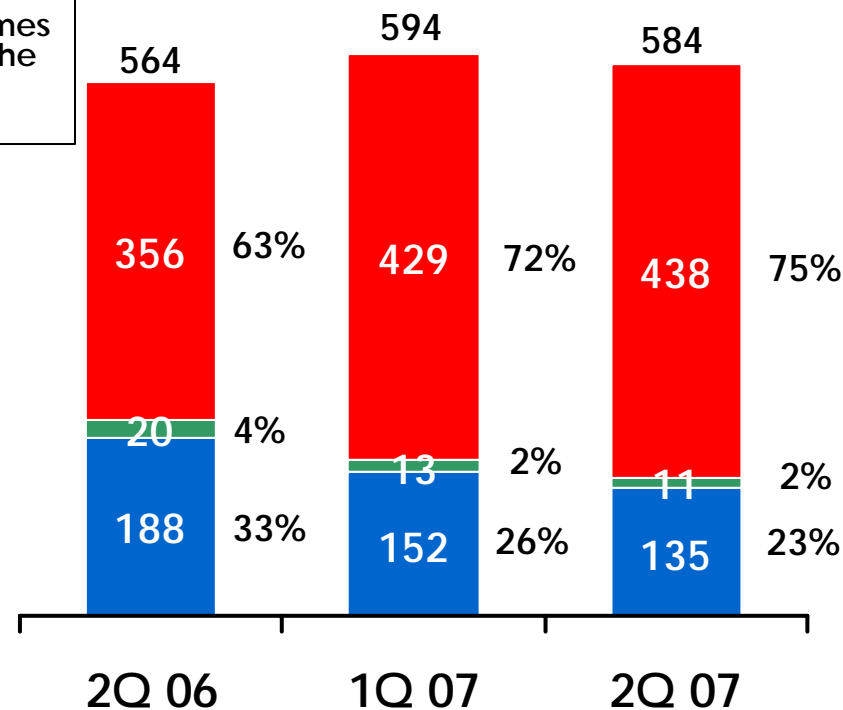


7.5% of End customer volumes were sold on the electronic exchange

■ Ex-field ■ End customer

- Y-o-Y increase in proportion of End-customer sales to Ex-field sales
- Q-o-Q decrease in sales volumes due to warm winter & seasonality effect

## Liquids, '000 tons

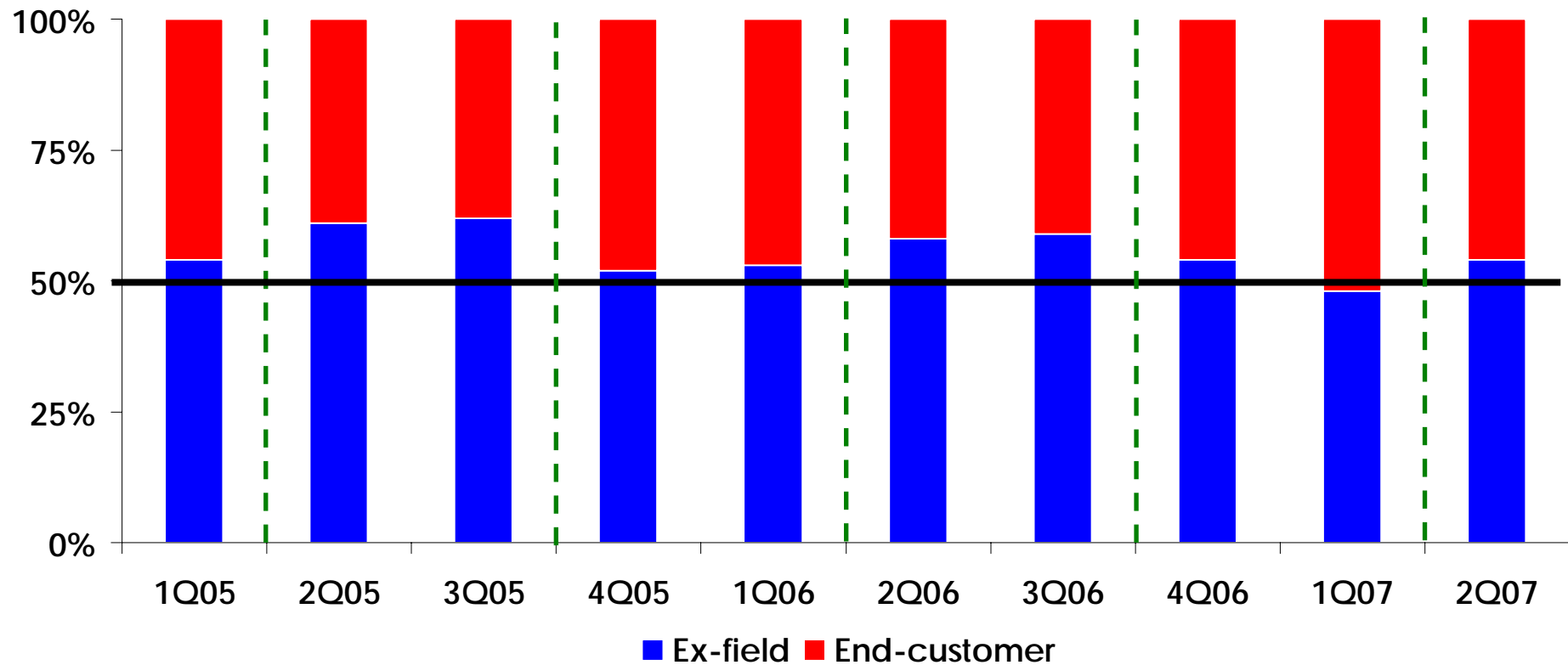


■ Domestic ■ CIS ■ Export

- Growth in export sales in 2Q 07 due to reduction in stable gas condensate inventory and an increase in crude oil export volumes

# Improving natural gas sales volumes mix

- Due to seasonality of demand, NOVATEK has historically sold a higher proportion of natural gas to End-customers during the 1<sup>st</sup> and 4<sup>th</sup> quarters.
- NOVATEK has successfully increased the volumes sold to End-customers during the 2<sup>nd</sup> and 3<sup>rd</sup> quarters as it increases total natural gas sales volumes



# Purovsky processing plant & Vitino Sea Port Terminal

- ❑ **Total volumes delivered: 500 mt**
  - East Tarkosalinskoye and Khancheyenskoye fields: 345 mt (100% of net production)
  - Yurkharovskoye: 155 mt (90% of net production)
- ❑ **Total plant output 497 mt**
  - stable gas condensate: 373 mt
  - LPG: 124 mt
- ❑ **Plant capacity**
  - Approximately 100%
- ❑ **7 Tankers from Vitino Sea Port Terminal (Stable Gas Cond.)**
  - 6 to US markets
  - 1 to European markets
- ❑ **Inventory reconciliation**
  - 2 tankers in transit – 110 mt
  - Rail road cisterns and port storage facilities – 58 mt
- ❑ **Majority of LPG volumes sold on the domestic market (75.2%)**





# Another strong quarter

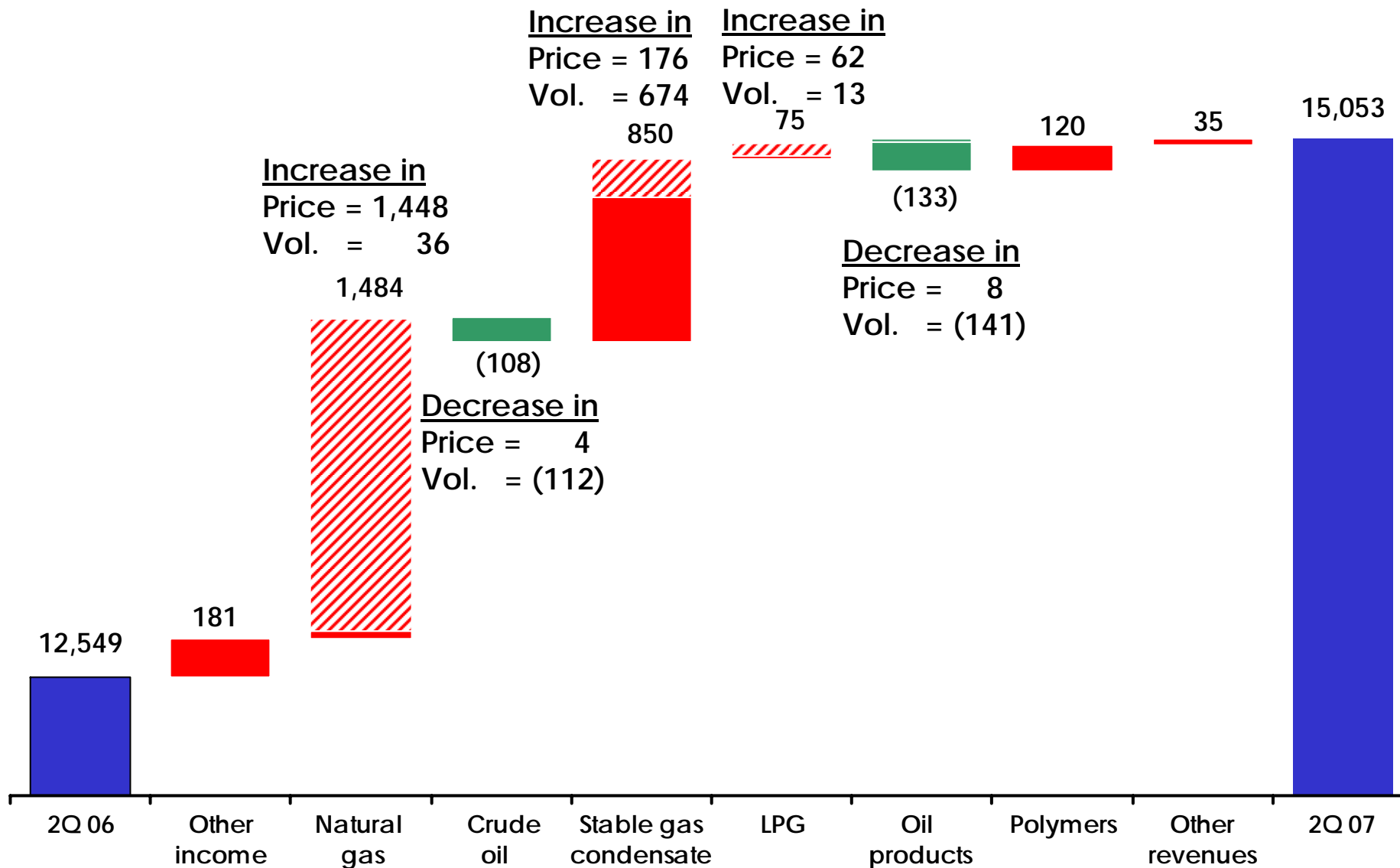
1Q 07	2Q 07	+ /(-)%	RR million	2Q 06	2Q 07	+ /(-)%
14,871	14,542	(2%)	<b>Oil &amp; gas sales</b>	12,374	14,542	18%
15,261	15,053	(1%)	<b>Total revenues &amp; other income</b>	12,549	15,053	20%
9,565	9,002	(6%)	<b>Operating expense</b>	7,840	9,002	15%
6,774	7,109	5%	<b>EBITDA<sup>(1)</sup></b>	5,829	7,109	22%
44%	47%		<b>EBITDA margin</b>	46%	47%	
24%	31%		<b>Effective Tax Rate</b>	26%	31%	
4,347	4,216	(3%)	<b>Profit attributable to Novatek</b>	3,499	4,216	21%
1.43	1.39	(3%)	<b>Earnings Per Share</b>	1.15	1.39	21%
3,811	3,003	(21%)	<b>Capex</b>	1,035	3,003	190%
(5,737)	(5,977)	4%	<b>Net debt (Cash)<sup>(2)</sup></b>	(2,560) <sup>(3)</sup>	(5,977)	134%

**Notes:**

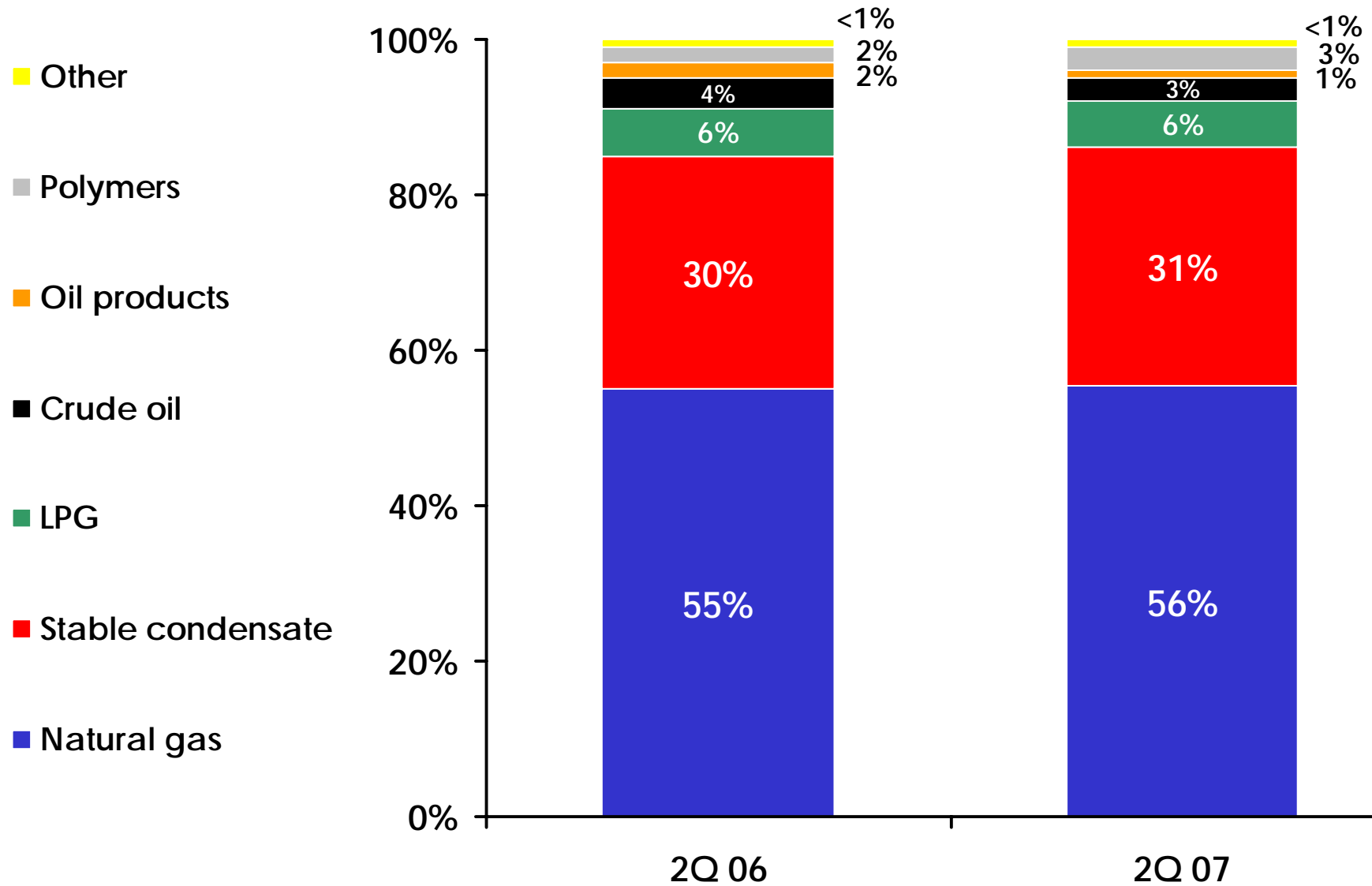
1. EBITDA represents net income before finance income (expense) and income taxes from the Statements of Income, and depreciation, depletion and amortization and Share-based compensation from the Statements of Cash Flows
2. Net debt calculated as long-term debt plus short-term debt less cash and cash equivalents
3. As of 12/31/2006



# Revenue & other income reconciliation (RR million)



# Total revenue breakdown



## Realized prices (net of VAT and export duties)

1Q 07	2Q 07	+ /(-)	+ /(-)%	Hydrocarbon prices	2Q 06	2Q 07	+ /(-)	+ /(-)%
<u>Domestic market</u>								
1,455	1,483	28	2%	Natural gas end-user, RR/mcm	1,244	1,483	239	19%
793	777	(16)	(2%)	Natural gas ex-field, RR/mcm	669	777	108	16%
na	8,464	na	na	Stable gas condensate, RR/ton	8,182	8,464	282	3%
4,466	5,818	1,532	30%	Crude oil, RR/ton <sup>1</sup>	6,499	5,818	(681)	(11%)
6,516	6,317	(199)	(3%)	LPG, RR/ton	6,120	6,317	197	3%
6,503	7,084	581	9%	Oil products, RR/ton	6,534	7,084	550	8%
<u>CIS market</u>								
6,944	8,076	1,132	16%	LPG, RR/ton	7,497	8,076	579	8%
<u>Export market</u>								
8,393	12,097	3,704	44%	Stable gas condensate, RR/ton	11,636	12,097	461	4%
5,112	7,504	2,392	47%	Crude oil, RR/ton	7,177	7,504	327	5%
9,026	9,573	547	6%	LPG, RR/ton	8,865	9,573	708	8%

Note  
1. Net of transportation costs

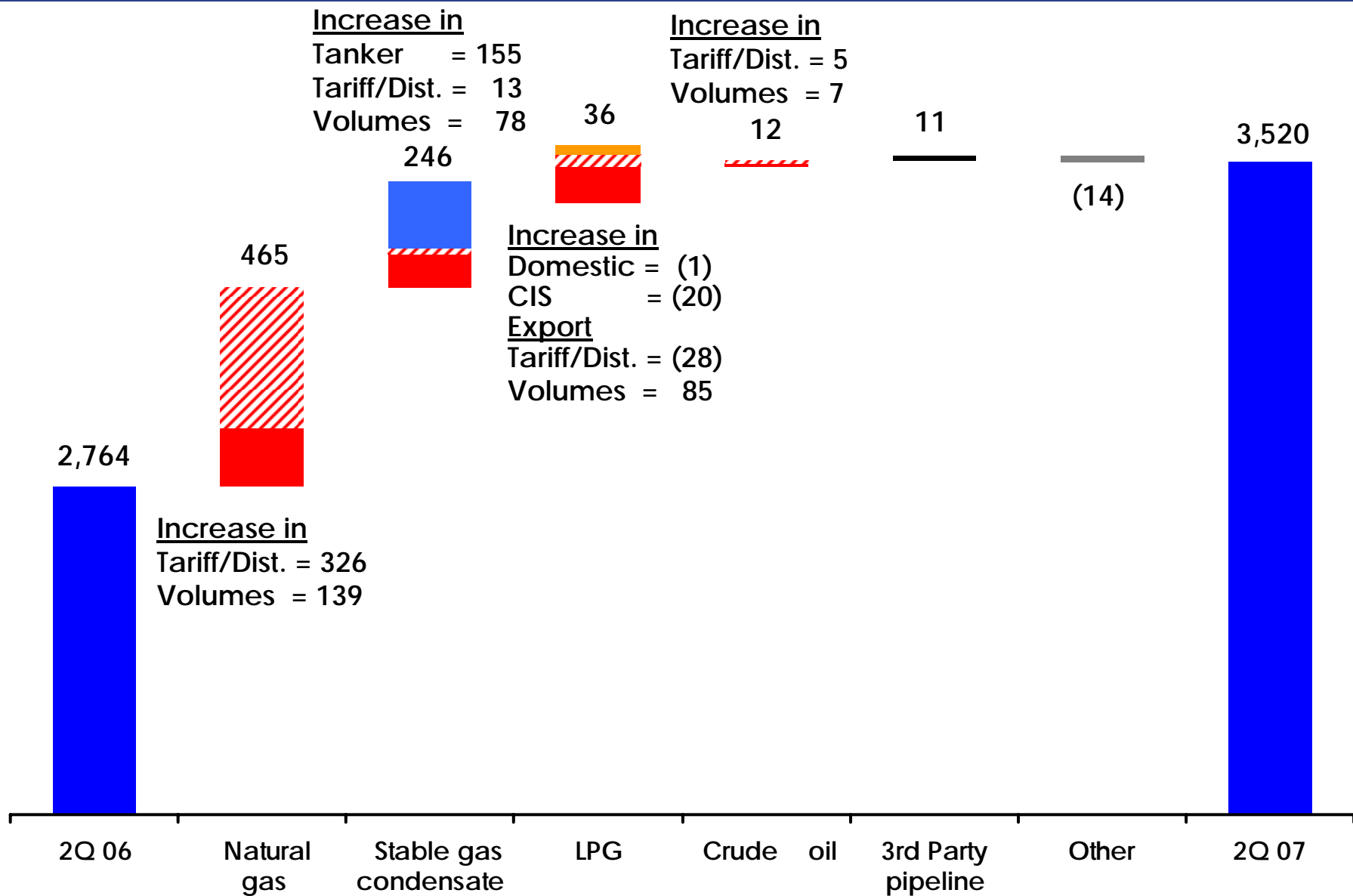


## Operating expenses breakdown (% of Total revenue (TR))

1Q 07	% of TR	2Q 07	% of TR	Operating Expenses, RR million	2Q 06	% of TR	2Q 07	% of TR
4,079	27%	3,520	23%	Transportation expense	2,764	22%	3,520	23%
1,609	11%	1,615	11%	Taxes other than income	1,566	12%	1,615	11%
1,069	7%	1,141	8%	Materials, services & other	943	7%	1,141	8%
713	5%	1,109	7%	General and administrative	860	7%	1,109	7%
1,018	7%	992	7%	Depreciation and amortization	996	8%	992	7%
202	1%	207	1%	Exploration expense	115	1%	207	1%
37	0%	16	0%	Net impairment expense	18	0%	16	0%
275	2%	(21)	(0%)	Change in inventory	117	1%	(21)	(0%)
9,002	59%	8,579	57%	<b>Subtotal operating expenses</b>	7,379	58%	8,579	57%
563	4%	423	3%	Cost of purchased oil, condensate and natural gas	461	4%	423	3%
9,565	63%	9,002	60%	<b>Total operating expense</b>	7,840	62%	9,002	60%

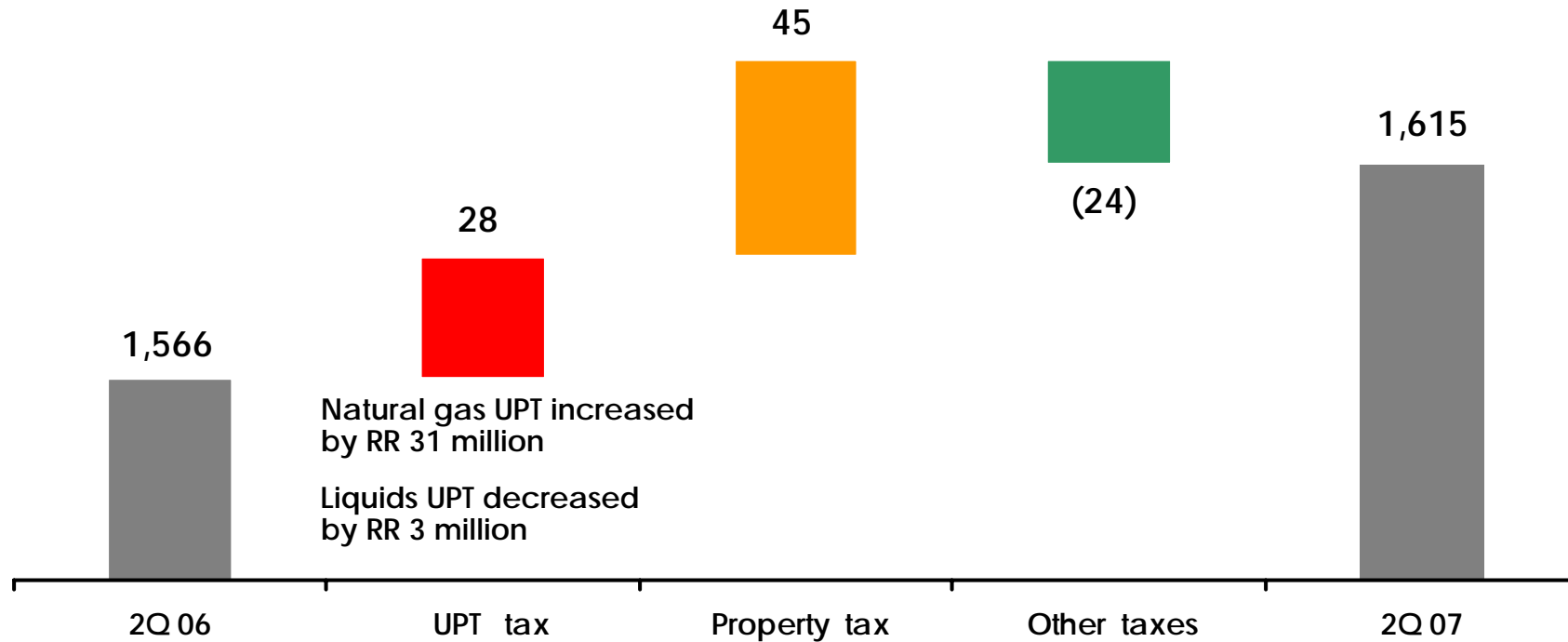
- ❑ Y-o-Y total operating expenses decreased by 2%, as percentage of total revenues, and increased by RR 1,162 million in absolute terms
- ❑ Y-o-Y non-controllable expenses increased as a percentage of total operating expenses to 57% from 55%
- ❑ Y-o-Y G & A expense increased by RR 249 million, or 29%, due to higher wages and semi-annual bonus payments, and an increase in consulting services
- ❑ Y-o-Y change in inventory expense decreased by RR 138 million due to net increases in inventory balances in the 2Q 2007

# Transportation expense (RR million)



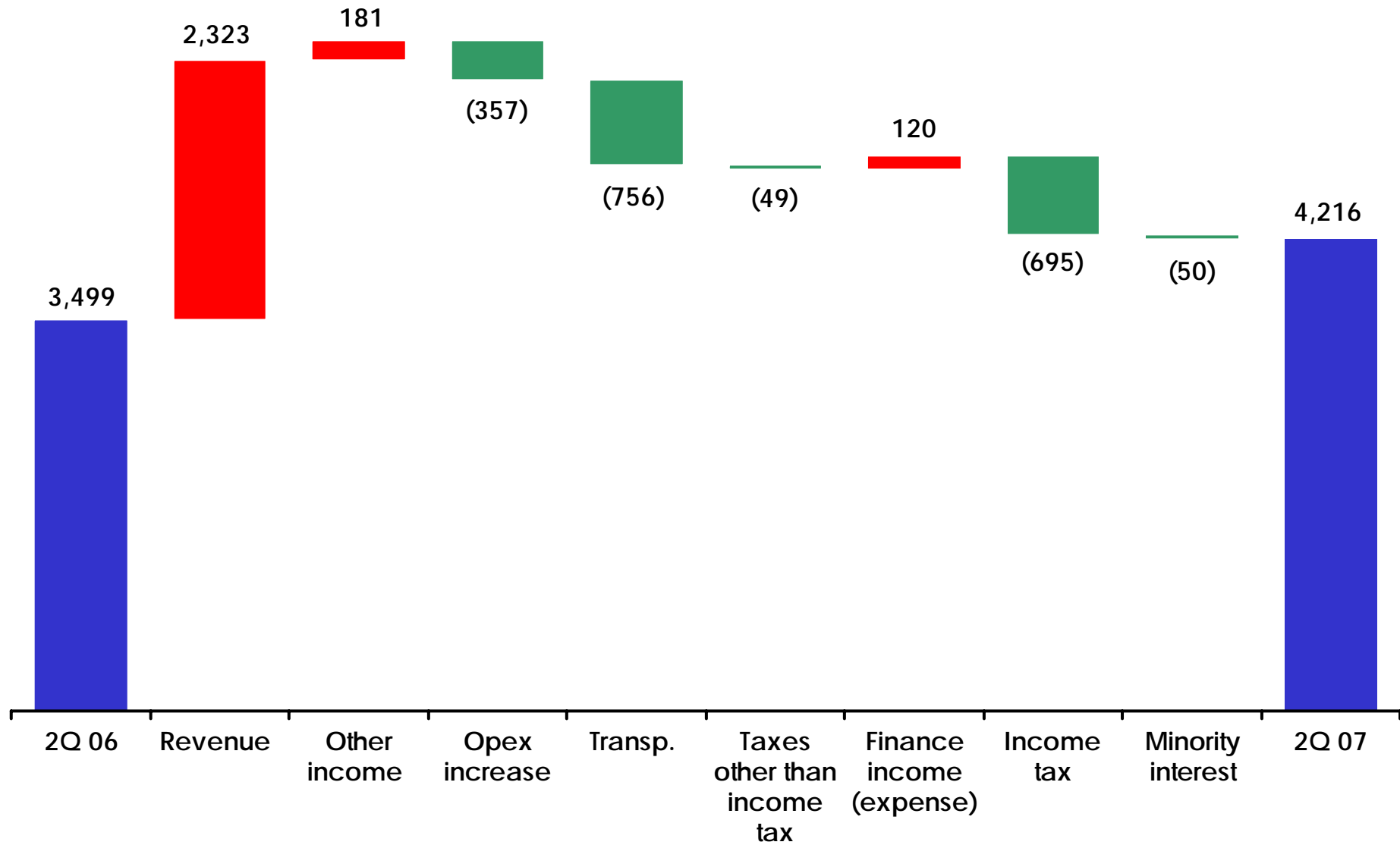


# Taxes other than income (RR million)



- ❑ Increase in “taxes other than income” of 3.1% due to UPT tax increase of 2.0%, primarily due to a 2.8% increase in natural gas production and a 4% decrease in the crude oil production tax rate
- ❑ Natural gas accounted for RR 1,065 million of UPT tax while liquids accounted for RR 356 million
- ❑ Property tax increase due to additions of PPE at Purovsky plant and other production subsidiaries

# Profit attributable to Novatek reconciliation (RR million)



## Condensed balance sheet (RR million)

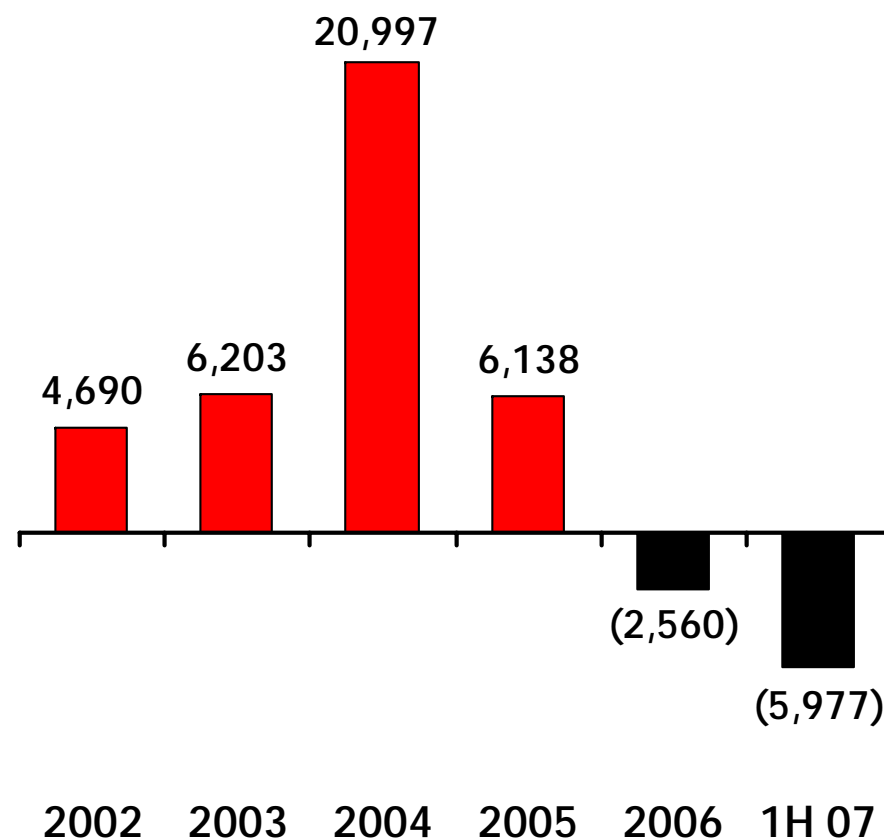
RR million	2006	1H 07	+ / (-)	+ / (-)%
<b>Total current assets</b>	<b>15,818</b>	<b>17,494</b>	<b>1,676</b>	<b>11%</b>
<i>Incl. Cash &amp; cash equivalents</i>	<i>5,668</i>	<i>7,671</i>	<i>2,003</i>	<i>35%</i>
<b>Total non-current assets</b>	<b>68,508</b>	<b>72,879</b>	<b>4,371</b>	<b>6%</b>
<i>Incl. Net PP&amp;E</i>	<i>66,734</i>	<i>71,494</i>	<i>4,760</i>	<i>7%</i>
<b>Total assets</b>	<b>84,326</b>	<b>90,373</b>	<b>6,047</b>	<b>7%</b>
<b>Total current liabilities</b>	<b>5,098</b>	<b>6,132</b>	<b>1,034</b>	<b>20%</b>
<i>Incl. ST Debt</i>	<i>2,565</i>	<i>1,519</i>	<i>(1,046)</i>	<i>(41%)</i>
<b>Total non-current liabilities</b>	<b>10,552</b>	<b>10,265</b>	<b>(287)</b>	<b>(3%)</b>
<i>Incl. Deferred income tax liability</i>	<i>8,412</i>	<i>8,448</i>	<i>36</i>	<i>0%</i>
<i>Incl. LT Debt</i>	<i>543</i>	<i>175</i>	<i>(368)</i>	<i>(68%)</i>
<b>Total Liabilities</b>	<b>15,650</b>	<b>16,397</b>	<b>747</b>	<b>5%</b>
<b>Total equity</b>	<b>68,676</b>	<b>73,976</b>	<b>5,300</b>	<b>8%</b>
<b>Total liabilities &amp; equity</b>	<b>84,326</b>	<b>90,373</b>	<b>6,047</b>	<b>7%</b>

# Debt structure

## Debt structure and maturities

RR million	1H 07	2006
<b>Short-term debt</b>	<b>1,519</b>	<b>2,565</b>
<i>Including current portion of long-term debt</i>	<i>1,406</i>	<i>2,117</i>
<b>Long-term debt</b>	<b>175</b>	<b>543</b>
Scheduled maturities		
2008	-	501
2009	173	42
2010	2	-
<b>Total debt</b>	<b>1,694</b>	<b>3,108</b>
<b>Cash and equivalents</b>	<b>7,671</b>	<b>5,668</b>
<b>Net debt (Net cash)</b>	<b>(5,977)</b>	<b>(2,560)</b>

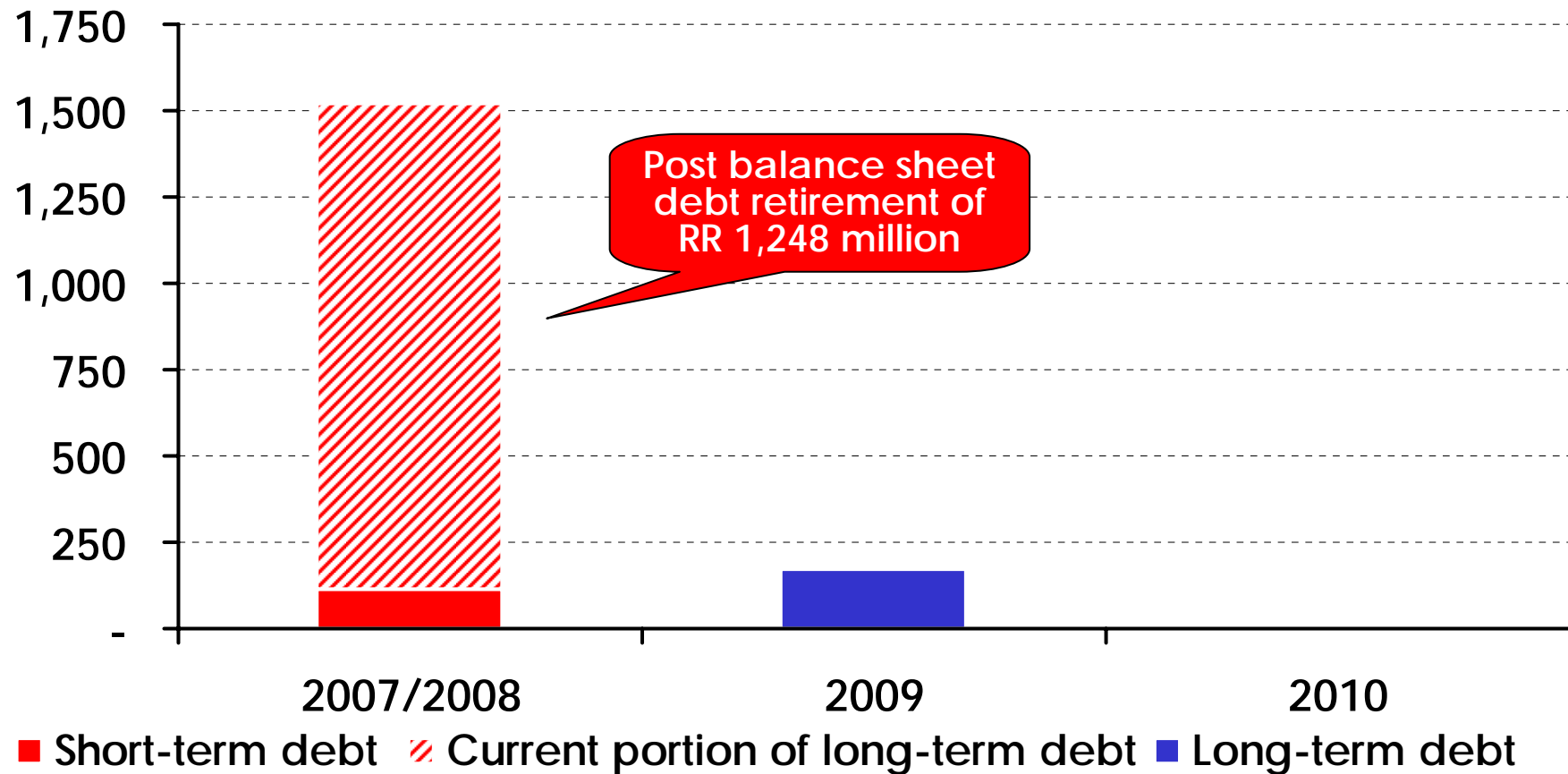
## Net Debt (Net cash) evolution, RR million



**Continued growth in net cash position**

# Total debt maturity profile (RR million)

Current debt maturity profile as at 30 June 2007



# Questions and Answers