OAO NOVATEK
IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

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AUDITORS' REPORT

To the shareholders and directors of OAO NOVATEK

1. We have audited the accompanying consolidated balance sheet of OAO NOVATEK and its subsidiaries (the "Group") as at 31 December 2002 and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These financial statements as set out on pages 4 to 32 are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The Group did not prepare financial information in accordance with International Financial Reporting Standards for the year ended 31 December 2001, as this is the first time the Group has prepared financial information in accordance with International Financial Reporting Standards. As a result, the financial statements for the year ended 31 December 2002 do not comply with International Accounting Standards No. 1 'Presentation of Financial Statements', as corresponding figures have not been presented.

4. In our opinion, except for the omission of information discussed in paragraph 3 above, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
18 December 2003

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

	Notes	As at 31 December 2002
Assets		
Cash and cash equivalents		329,725
Trade and other receivables, net	7	3,204,356
Prepayments and advances		605,939
Inventories, net	8	1,428,031
Other current assets		165,409
Total current assets		5,733,460
Investments in associates, net	10	4,187,348
Intangible balances	11	(297,452)
Other long-term assets	12, 16	757,120
Property, plant and equipment, net	13	5,562,090
Total long-term assets		10,209,106
Total assets		15,942,566
Liabilities and shareholders' equity		
Accounts payable and accrued liabilities	9	2,386,963
Short-term debt	14	1,717,493
Taxes payable	17	943,586
Total current liabilities		5,048,042
Long-term debt	14	3,278,935
Deferred income tax liability	16	1,182,737
Asset retirement obligations	20	143,592
Other long-term liabilities		64,822
Total long-term liabilities		4,670,086
Total liabilities		9,718,128
Minority interest	21	780,522
Shareholders' equity		
Ordinary share capital		248,768
Share premium		3,173,476
Retained earnings		2,021,672
Total shareholders' equity	15	5,443,916
Total liabilities and shareholders' equity		15,942,566

The accompanying notes are an integral part of these consolidated financial statements.

Approved and authorised for issue on behalf of the Board of Directors:

L. Mikhelson
General Director

M. Gyetvay
Financial Director

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

	Notes	Year ended 31 December 2002
Total operating revenues	5	5,414,261
Operating expenses and other deductions		
Purchases, services and other	6	(3,761,319)
General and administrative		(400,915)
Taxes other than income tax	17	(295,636)
Maintenance of social infrastructure		(167,847)
Depreciation, depletion and amortisation, net	11, 13	(150,786)
Impairment of investments, net	10	(96,992)
Impairment of inventories, net		(96,716)
Impairments of property, plant and equipment	13	(83,019)
Impairment of accounts receivables		(6,068)
Gain on disposal of investments, net	10	78,635
Gain on disposal of property, plant and equipment, net		102,286
Total operating expenses		(4,878,377)
Income from operations		535,884
Share of income of associates	10	736,766
Non-operating income (expense)		
Monetary gain		295,899
Foreign exchange loss		(74,779)
Interest income		21,354
Interest expense		(174,566)
Total non-operating expense, net		67,908
Income before income tax		1,340,558
Income tax expense		
Current income tax expense		(405,453)
Deferred income tax expense		(146,073)
Share of income tax of associates	10	(197,806)
Total income tax expense	16	(749,332)
Income before minority interest		591,226
Minority interest	21	52,564
Net income		643,790

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

	Year ended 31 December 2002
Net income before income tax and minority interest	1,340,558
Adjustments to income before income tax and minority interest:	
Depreciation, depletion and amortisation	150,786
Net charge for impairment provisions for accounts receivable, investments, property plant and equipment, and inventories	282,795
Net unrealised foreign exchange losses	74,779
Gain on disposal of assets	(180,921)
Monetary effects on non-operating balances	(201,136)
Accretion expense	30,527
Interest expense	144,039
Interest income	(21,354)
Share of net income from associates	(736,766)
Working capital changes	
Increase in accounts receivable and prepayments	(1,354,353)
Increase in inventories	(392,285)
Decrease in other current assets	86,327
Increase in accounts payable and accrued liabilities, excluding interest and dividends	82,978
Increase in taxes payable, other than income tax	235,880
Total effect of working capital changes	(1,341,453)
Income taxes paid	(306,174)
Net cash used in operating activities	(764,320)
Cash flows from investing activities	
Purchases of property, plant and equipment	(2,690,747)
Acquisition of subsidiaries	(17,021)
Acquisition of associated companies	(33,600)
Proceeds from disposals of subsidiaries and associates	153,500
Proceeds from sales of property, plant and equipment and other long-term assets	75,268
Interest paid and capitalised	(153,143)
Short-term loans given	(314,084)
Repayments of short-term loans	94,979
Interest received – non banking	21,354
Dividends received	43,869
Net cash used in investing activities	(2,819,625)
Cash flows from financing activities	
Proceeds from long-term borrowings	2,509,692
Proceeds from short-term borrowings	1,717,493
Payments on short-term borrowings	(1,307,943)
Proceeds from issuance of additional shares	319,130
Interest paid – non banking	(147,029)
Dividends paid	(8,105)
Net cash from financing activities	3,083,238
Effect of inflation and exchange rate changes on cash and cash equivalents	(85,047)
Net decrease in cash and cash equivalents	(585,754)
Cash and cash equivalents at beginning of the year	915,479
Cash and cash equivalents at end of the year	329,725

Significant non-cash transactions are disclosed in Note 4.

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

	Number of ordinary shares	Ordinary share capital	Share premium	Retained earnings	Shareholders' equity
Balance at 31 December 2001	593,682	142,398	2,450,706	1,327,550	3,920,654
Issuance of shares	1,000,000	106,370	212,760	-	319,130
Dividends (Note 15)	-	-	-	(8,105)	(8,105)
Other contributed capital from shareholders (Note 15)	-	-	510,010	-	510,010
Share of associates' other equity	-	-	-	58,437	58,437
Net income for the period	-	-	-	643,790	643,790
Balance at 31 December 2002	1,593,682	248,768	3,173,476	2,021,672	5,443,916

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

1 ORGANISATION AND PRINCIPAL ACTIVITIES

OAO NOVATEK (hereinafter referred to as "NOVATEK", formerly known as "OAO Novafininvest") 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 operation of oil and gas properties located in the Yamalo-Nenetsky Autonomous Region ("YNAO").

Established in August 1994, the Group has main offices located in Tarkosale, Novy Urengoi, Samara, and Moscow. Its primary activities are the exploration, development, production and marketing of natural gas, gas condensate, crude oil and related petroleum products, together with the provision of construction and other services to the oil and gas industry, primarily in the YNAO.

During 2002 and subsequently, the ultimate controlling shareholders of NOVATEK (the "Shareholders") have been restructuring their shareholding interests in various companies to place all entities controlled by NOVATEK formally under the legal ownership of NOVATEK. The transfers of controlling interests to NOVATEK represents a reorganisation of assets under common control and, accordingly, have been accounted for at their predecessor book value in a manner similar to a pooling of interests.

These consolidated financial statements reflect the financial position and results of operations of the principal subsidiaries listed below.

Subsidiary	Country of incorporation	Nature of operations	% of ordinary and preferred share capital	% of ordinary share capital
OAO Purneftegasgeologiya ("PNGG")	Russia	Oil and gas exploration and production	59.0%[1]	65.9%
OAO Minlay ("Minlay")	Russia	Holding company	89.0%	89.0%
OOO Yurkharovneftegas ("Yurkharovneftegas")	Russia	Gas exploration and production	100.0%	100.0%
OAO SNP NOVA ("SNP NOVA")	Russia	Construction services	74.3%	74.5%
ZAO NOVA Bank	Russia	Banking	60.1%	60.1%
OOO Yutneftegas	Russia	Holding company	100.0%	100.0%

As at 31 December 2002, the Group's respective interest in its principal associates were as follows:

Associate	Country of incorporation	Nature of operations	% of share capital
OAO Tarkosaleneftegas	Russia	Oil and gas exploration and production[2]	27.6%
OOO Geoilbent	Russia	Oil and gas exploration and production	66.0%
OOO NGK ITERA	Russia	Gas sales	50.0%
OOO Khancheyneftegas	Russia	Oil and gas exploration and production[3]	43.0%

(1) Excluding other consolidated beneficial interests of 16.3 percent of ordinary and preferred share capital and 18.0 percent of ordinary share capital.
(2) As at balance sheet date, the Group has entered into agreements to purchase from Tarkosaleneftegas 57.7 percent of the estimated total natural gas, gas condensate and crude oil production volumes produced during 2003, and subsequent to balance sheet date, the Group has entered into agreements to purchase from Tarkosaleneftegas 56.1 percent of the estimated total natural gas, gas condensate and crude oil production volumes produced during 2004 (Note 22).
(3) As at balance sheet date, for 2003, and subsequent to balance sheet date for 2004, the Group has entered into agreements to purchase from Khancheyneftegas 100 percent of the estimated total natural gas and gas condensate production volumes during 2003 and 2004 (see Note 22) subject to the other shareholder retaining the right to purchase its proportionate share of the production volumes upon payment of its pro-rata share of the capital expenditures and/or issuance of a loan facility.

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

1 ORGANISATION AND PRINCIPAL ACTIVITIES (CONTINUED)

At 31 December 2002, the reorganisation of the Shareholders' controlling interests into NOVATEK was incomplete. The following ownership interests, reported in the above tables, have been included in the consolidated financial statements because they are integral to the operations of NOVATEK, are controlled and managed on a unified basis by NOVATEK, and the Shareholders were in the process of contributing their interest in these companies to NOVATEK. The Shareholders have completed the process of contributing their interest in these companies to NOVATEK during 2003.

Company	Country of incorporation	Nature of operations	% of beneficial interest at 31 December 2002 (acquired legally during 2003)
OAO Purneftegasgeologiya	Russia	Oil and gas exploration and production	9.6%
OAO Minlay	Russia	Holding company [(1)]	75.0%
OOO Yurkharovneftegas	Russia	Gas exploration and production	100.0%

The Group's 66 percent participation interest in Geoilbent has been accounted for under the equity method and not consolidated as all significant operating and financing decisions require the consent of the other shareholder, and thus the Group is not able to control Geoilbent.

Geoilbent prepares its financial statements using a 30 September financial reporting year-end. The Group's interest in Geoilbent has been accounted for based on Geoilbent's financial statements without adjustment for the subsequent period through 31 December 2002, as it is not practicable for the Group to do so.

As at 31 December 2002, the Group was the exploration and production license holder for the West-Tarkosalinsk field and participated in three joint ventures associated with the development of the field. The Group holds a 10 percent interest in the hydrocarbons produced and operating costs of a joint venture associated with production from the Cenomanian gas deposit of the field, and holds 50 percent interests in the hydrocarbons produced, including the development and operating costs of the joint ventures associated with the development and production from the Neocomian gas, and gas condensate deposits of the West Tarkosalinsk field.

The Group's construction activities primarily consist of drilling and construction of oil and gas infrastructure and facilities for related and external parties within the Russian Federation. Contracts are typically signed with customers that allow for, on a monthly basis, the determination of agreed construction schedules, estimated costs, including a margin over the cost of materials and supplies, customer approval of deliverables, and invoicing.

The Group had approximately 7,600 employees as at 31 December 2002.

2 BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS"), and Interpretations issued by the International Accounting Standards Board ("IASB"), and in the absence of specific IFRS guidance for oil and gas producing companies, the Group has developed accounting policies in accordance with other generally accepted accounting principles for oil and gas producing companies insofar as they do not conflict with IFRS principles. The financial statements have been prepared under the historical cost convention, except as described in Note 3. The Group's functional currency is the Russian rouble ("RR").

[(1)] Including Minlay's 66 percent interest in OOO Geoilbent and 40 percent of Nakhodkaneftegas.

2 BASIS OF PRESENTATION (CONTINUED)

First time adoption of IFRS. In preparing these IFRS financial statements for the first time, the Group has applied the provisions of IFRS 1, *First Time Adoption of International Financial Reporting Standards*, which was issued by the IASB during June 2003. In accordance with IFRS 1, the date from which the Group has applied IFRS (the "date of transition") was 1 January 2001. On the date of transition, the Group adopted accounting policies consistent with IFRS and made adjustments to the carrying values and classifications of its balance sheet items in accordance with the provisions of IFRS. Such adjustments included adjustments to the assets and liabilities of subsidiaries acquired in past business combinations to the amounts that IFRS would require in the subsidiaries' separate balance sheets, and adjustments to the carrying value of investments in associates acquired in past business combinations to the Group's share of their net shareholders' equity, as recorded in the associates' separate IFRS balance sheets. The differences between the Group's interest in the adjusted carrying amounts of investments in associates and the cost of its investments were credited directly to equity.

Previously, the Group prepared financial statements under Russian statutory accounting regulations. Such financial statements were not consolidated, and as such, they did not reflect the results of the Group's significant subsidiaries and affiliates. IFRS 1 requires that schedules be provided to reconcile shareholders' equity and net income as reported under prior reporting standards to amounts reported under IFRS. Due to the significant extent of the differences between these IFRS consolidated financial statements and the non-consolidated Russian statutory financial statements of OAO NOVATEK, management believes that such reconciliations are not useful to the users of these consolidated IFRS financial statements and has therefore not provided such reconciliations.

Use of estimates. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from such estimates.

Exchange rates, restrictions and controls. The official rate of exchange of the Russian rouble to the US dollar ("USD") at 31 December 2002 and 2001 was 31.78 and 30.14 Russian roubles to USD 1.00, respectively. The Russian rouble has historically been devaluing against the US dollar due to significant inflation in the Russian Federation as well as other factors. During 2002, for instance, the Russian rouble devalued by 5.7 percent against the US dollar (2001 – 7.2 percent) while official Russian rouble inflation was 15.1 percent (2001 - 18.8 percent). Additionally, exchange restrictions and controls exist relating to converting Russian roubles into other currencies. At present, the Russian rouble is not a convertible currency outside of the Russian Federation and, further, the Group is required to convert 25 percent (75 percent from March 1999 through August 2001, and 50 percent from August 2001 through July 2003) of its hard currency earnings into Russian roubles. Any translation of Russian rouble amounts to US dollars or any other hard currency should not be construed as a representation that such Russian rouble amounts have been, could be, or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

Inflation accounting. The adjustments and reclassifications made to the statutory records for the purpose of IFRS reporting include the restatement for the changes in the general purchasing power of the Russian rouble in accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies*. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index, published by the Russian State Committee on Statistics and from indices obtained from other sources for years prior to 1992, which management believes represents the most appropriate measure of inflation in the economy.

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

2 BASIS OF PRESENTATION (CONTINUED)

The indices and the respective conversion factors used to restate the financial statements, based on 1988 prices (1988=100) for the five years ended 31 December 2002 are:

Year	Indices	Conversion Factor
1998	1,216,401	2.24
1999	1,661,481	1.64
2000	1,995,937	1.37
2001	2,371,572	1.15
2002	2,730,154	1.00

The significant guidelines followed in restating the financial statements are:

- all amounts, including corresponding figures, are stated in terms of the measuring unit current at 31 December 2002;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2002;
- non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 31 December 2002) and shareholders' equity components are restated by applying the relevant conversion factors based on the age of the underlying asset, liability or component of shareholders' equity;
- all items in the statements of income and cash flows are restated by applying the conversion factors for the period between the approximate date of the transaction and the balance sheet date. Depreciation, depletion, amortisation, and loss on disposal of property, plant and equipment are restated based on the restated balances of property, plant and equipment at each year-end. Provision for impairment of receivables represents the movement between the indexed opening and closing provision adjusted for amounts written off during the year. The statement of cash flows contain an adjustment to reflect the effect of inflation on holding cash; and
- the effect of inflation on the Group's net monetary position is included in the statement of income as a monetary gain or loss.

As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003, the Group will no longer apply the provisions of IAS 29.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents. Cash and cash equivalents comprises cash on hand, cash deposits held with banks, and liquid investments which are readily convertible to known amounts of cash and which are not subject to significant risk of change in value and have an original maturity of three months or less.

Trade and other receivables. Trade, construction contract, and other receivables are presented at net realisable value and include value-added and excise taxes, which are payable to tax authorities upon collection of such receivables. An estimate is made for impairment of receivables based on a review of all outstanding amounts at year end, and the movement in the estimate is charged or credited to the statement of income. Bad debts are written off during the year in which they are identified.

Inventories. Crude oil inventories are valued at the lower of cost or net realisable value. The cost of crude oil inventory includes applicable purchase costs of raw materials, direct operating costs, and related overhead expenses. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

Materials and supplies inventories are recorded at average cost and are carried at amounts which do not exceed their respective amounts recoverable in the normal course of business.

Construction contract work-in-progress is recorded as costs incurred, plus recognised profits, less progress billings and recognised losses, on construction contracts at the end of the reporting period

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments. The Group classifies its investments into the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with fixed maturity that the management of the Group has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in fair value, are classified as available-for-sale. These are included in non-current assets unless management has expressed the intention of holding these investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the financial asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently re-measured to fair value. Available-for-sale investments principally comprise non-marketable equity securities, for which it is not possible to obtain current market quotes. For these investments, fair value is estimated based on the market price of similar financial assets or estimated future discounted cash flows. For other investments traded in active markets, fair value is determined by reference to the current market value at the close of business on the reporting date.

Realised gains and losses arising from sale and unrealised gains and losses arising from changes in the fair value of trading and available-for-sale investments are included in the statement of income in the period in which they arise. Changes in the fair value of trading and available-for-sale investments are recorded in the statement of income within operating expenses and gains and losses on available-for-sale investments, respectively.

In the statement of cash flow, purchases and sales of trading investments are classified as operating activities.

Property, plant and equipment. Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation, depletion and amortisation.

The Group follows the successful efforts method of accounting for its oil and gas properties whereby property acquisitions, successful exploratory wells, all development costs and support equipment and facilities are capitalised. Unsuccessful exploratory wells are charged to expense at the time the wells are determined to be non-productive. Production costs, overheads and all exploration costs other than exploratory drilling are charged to expense as incurred. Acquisition costs of unproved properties are evaluated periodically and any impairment assessed is charged to expense.

Depreciation, depletion and amortisation of capitalised costs of oil and gas properties is calculated using the unit-of-production method for each field based upon proved developed reserves for exploration and development costs, and total proved reserves for acquisitions of proved properties. For this purpose, the oil and gas reserves of the Group have been determined based on estimates of mineral reserves prepared by the Group and for certain Group subsidiaries and associates, reserves have been determined in accordance with internationally recognised definitions and were independently estimated by internationally recognised petroleum engineers. The present value of the estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, are included within the carrying value of property, plant and equipment, and therefore subject to amortisation thereon using the unit-of-production method.

The Group capitalizes borrowing costs related to loans received to finance the development of the Group's property, plant and equipment, except, while in an hyperinflationary environment, loans denominated in Russian roubles are capitalised in the amount by which the interest rate exceeds the inflation rate for the period. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Gains or losses from retirements or sales are included in the determination of net income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major renewals and improvements are capitalised. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of the asset beyond its original capability.

Property, plant and equipment, other than oil and gas properties, are depreciated on a straight-line basis. Assets under construction are not depreciated.

The estimated useful lives of the Group's other assets are as follows:

	Years
Machinery and equipment	5-15
Buildings	25-50

Impairment of long-lived assets. Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use.

Deferred income taxes. Deferred tax assets and liabilities are calculated in respect of temporary differences in accordance with IAS 12, *Income Taxes.*

The Group uses the balance sheet liability method for financial reporting and accounting for deferred income taxes. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Borrowings. Borrowings are recognised initially at fair value, where this can be estimated with reliability, or otherwise at the proceeds received, net of transaction costs incurred, if any. Borrowings denominated in foreign currencies are remeasured at each period end at the prevailing period end foreign exchange rate. Borrowings provided or received that are originated by the Group are subsequently measured at amortised cost.

Environmental liabilities. Liabilities for environmental remediation are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated.

Dividends. Dividends are recognised as a liability and deducted from shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date.

Revenue recognition. Revenues from the production and sale of crude oil, natural gas and gas condensate are recognised when such products are dispatched to customers and title has transferred. Revenues from non-cash sales are recognised at the fair value of the products sold which is equivalent to the fair value of the goods or services received in exchange. Revenues are stated net of value added tax, excise tax and customs duties.

Revenues from construction contracts are recognised in accordance with contract terms after provision of the contractual goods and services and acceptance by customers.

Pension and post-employment benefits. The Group's mandatory contributions to the governmental pension scheme in the Russian Federation are expensed when incurred. Discretionary pension and other post-employment benefits are not material.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions. Provisions, including asset retirement obligations, are recognised when the Group has a present legal or constructive obligation as a result of past events and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reassessed annually and changes in the provisions resulting from the passage of time or changes in the discount rates are reflected in the statement of income each year within non-operating income and expenses. Other changes in provisions, related to a change in the expected pattern of settlement of the obligation or in the estimated amount of the obligation, are treated as a change in an accounting estimate in the period of the change and reflected in the statement of income.

Value added tax. Value added taxes related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases, except for assets under construction, which are reclaimable when the assets are put into use. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases, which have not been settled at the balance sheet date (VAT deferred), are recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

Foreign currency transactions. The Russian rouble is the Group's functional currency. Transactions denominated in foreign currencies are converted into Russian roubles at the exchange rates prevailing on the date of transactions. Prior years' balance sheet items denominated in foreign currencies have been remeasured using the exchange rate at the respective balance sheet date, prior to restatement to 31 December 2002 purchasing power. Exchange gains and losses resulting from foreign currency translation are included in the determination of net income.

Financial instruments. Financial instruments carried on the balance sheet include cash and cash equivalents, investments, accounts and certain other receivables, accounts payable, long-term investments and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The difference, where material, between the fair value of the financial instruments, where these can be estimated with reliability, and the nominal amount of financial instruments at their inception are recognised in the consolidated statement of income, balance sheet, or statement of changes in movements in equity in accordance with the underlying nature of such differences.

Principles of consolidation. The accompanying consolidated financial statements include the operations of all subsidiaries in which NOVATEK directly or indirectly owns more than 50 percent of the voting stock or otherwise has the power to govern the financial and operating policies. The accompanying consolidated financial statements include certain subsidiaries legally acquired by NOVATEK in 2003 (Note 1). Subsidiaries are consolidated from the date on which control is obtained unless the acquisition occurred between entities under common control (Note 1) and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries.

Business combinations between the Group and entities subject to the control of the same ultimate controlling shareholders ("transactions under common control") are accounted for such that acquisitions are accounted for at their historical predecessor bases and the difference between the Group's share of net assets in the acquired entity and the consideration provided is accounted for as contributions from or distributions to shareholders in the consolidated statement of changes in shareholders' equity, and gains or losses on disposals are recorded in the consolidated statement of income for the period.

Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the combination.

Investments in associates. Associated companies are entities over which the Group has significant influence, but which it does not control. Generally, significant influence exists when the Group has between 20 percent and 50 percent of the voting rights. Associated companies are accounted for using the equity method.

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group's interest in each associated company is carried in the balance sheet at an amount that reflects cost, including goodwill or negative goodwill at acquisition, plus its share of profit and losses and other equity movements during the year. Provisions are recorded for any impairment in value. Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Intangible balances. Any excess or deficiency of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary or associated company at the date of acquisition is recorded as goodwill or negative goodwill, respectively. Goodwill and negative goodwill on acquisition of subsidiaries are included in intangible balances. Goodwill and negative goodwill on acquisition of associated companies are included in investments in associated companies. Goodwill and negative goodwill are amortised over the estimated useful life of the future economic benefits to the Group.

Joint ventures. Joint ventures are contractual agreements whereby two or more parties undertake economic activity, which is subject to joint control. The Group combines its share of the joint ventures' individual income, expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

4 SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions during 2002 were as follows:

During the year, short-term loans provided by Tarkosaleneftegas, a related party, during 2001 were repaid in full during 2002 using promissory notes issued by Tarkosaleneftegas to the Group during 2001 in the nominal amount of RR 275,625 thousand, and Kanwal Trading Limited, a related party, contributed equipment into the charter capital of SNP NOVA, a company subsidiary, in the amount of RR 64 million. Also, during the year, the Shareholders made non-cash contributions of capital in the amount of RR 510 million (Note 15).

5 OPERATING REVENUES

	Year ended 31 December 2002
Construction services	2,211,664
Oil and gas condensate sales	1,050,322
Gas sales	985,376
Oil product sales	266,577
Sales of materials	213,300
Oil and gas transportation and handling services	163,987
Exploration services	153,852
Other revenues	369,183
Total operating revenues	5,414,261

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

6 PURCHASES, SERVICES AND OTHER

	Year ended 31 December 2002
Materials and supplies	1,646,778
Employee compensation	736,062
Construction services	462,375
Selling and transportation	321,469
Exploration expenses	56,169
Rent expenses	52,311
Well services	21,328
Electricity and fuel	20,645
Other	444,182
Total purchases, services and other expenses	3,761,319

7 TRADE AND OTHER RECEIVABLES

	31 December 2002
Trade accounts receivable	543,055
Trade and other accounts receivable – related parties	959,566
Construction contract receivables	87,118
Construction contract receivables – related parties	766,066
Recoverable value added tax	535,746
Banking loans receivable	98,241
Receivables from employees	4,494
Other receivables (net of provision of RR 6,068 thousand at 31 December 2002)	210,070
Total trade receivables and other receivables, net	3,204,356

8 INVENTORIES

	31 December 2002
Materials and supplies (net of provisions of RR 147 million at 31 December 2002)	1,150,260
Materials and supplies – custody of contractors	36,543
Construction contract work-in-progress	137,318
Apartments available-for-sale	70,434
Crude oil	28,476
Total inventories, net	1,428,031

At 31 December 2002, certain materials and supplies inventories were pledged as collateral for short-term bank borrowings (Note 14).

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December 2002
Trade accounts payable	891,396
Trade accounts payable - related parties	364,526
Construction advances	320,432
Bank customer deposits	263,936
Social security and other taxes	113,155
Interest payable – related parties	111,755
Salaries payable	108,360
Trade advances from customers	69,929
Dividends payable	943
Other payables	142,531
Total accounts payable and accrued liabilities	2,386,963

10 INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

	31 December 2002
OAO Tarkosaleneftegas	3,171,083
OOO Geoilbent	889,528
OOO Khancheyneftegas	64,058
OOO NGK ITERA	31,915
Other	30,764
Total investments in associates	4,187,348

Movement in carrying value of investment in associates.

	Year ended 31 December 2002
Balance at the beginning of the reporting period	3,788,654
Share of income before tax	736,766
Share of income tax expense	(197,806)
Share of net income	538,960
Dividends received from associated companies	(43,869)
Impairment of investment in associates	(96,992)
Share of other net equity movements	58,437
Unrealised gains on sales to associates	(52,698)
Acquisitions of associates	33,600
Disposals of associates	(38,744)
Balance at the end of the reporting period	4,187,348

During the year, the Group decided not to proceed with a proposed merger with the ITERA group of companies which resulted in an impairment of its interest in NGK ITERA, an entity that was formed as a result of the proposed merger, in the amount of RR 97 million. Subsequent to 31 December 2002, the Group's interest in NGK ITERA was sold to the ITERA group of companies for its carrying value of RR 32 million.

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

10 INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES (CONTINUED)

During the year, the Group sold its 32 percent interest in OOO Yangpur to ZAO Deport for RR 58 million, realising a gain on disposal of RR 49 million. Subsequent to balance sheet date, the Group has recorded impairments of receivables and loans due from OOO Yangpur in the amount of RR 136 million due to a loss in value of the collateral held in respect of the receivable balances. Also, subsequent to balance sheet date, the Group has filed claims against OOO Yangpur regarding the recovery of outstanding loans and accounts receivable of RR 76 million and RR 85 million, respectively. The courts approved the Group's claims related to outstanding loans in the first instance, however, the case is subject to appeal.

During the year, the Group sold 6 percent of Khancheyneftegas, with a carrying value of RR 5 million, to a related party, for RR 60 thousand, sold 20 percent of the shares of Selkupneftegas, a Group associate, with a carrying value of nil, to a related party, for RR 20 thousand, sold 100 percent of the shares of Komsomolsky NGDU, a Group subsidiary, with a carrying value of nil, to a Group shareholder, for RR 200 thousand, sold through several transactions 61 percent of the shares of Meretoyakhaneftegas, a Group subsidiary, with a carrying value of RR 45 million, for RR 60 million, including sale of 13 percent to a Group shareholder for RR 13 million.

During the year, Minlay sold 60 percent of its interest in Nakhodkaneftegas, with a carrying value of RR 3 million, for RR 30 million to a Group shareholder.

11 INTANGIBLE BALANCES

Movements in intangible balances during the period.

	Negative goodwill
Gross balance	(315,446)
Accumulated amortisation	10,672
Net balance at 1 January 2002	(304,774)
Additional negative goodwill recognised	(5,540)
Income recognised in statement of income within depreciation, depletion and amortisation	12,862
Gross balance	(320,986)
Accumulated amortisation	23,534
Net balance at 31 December 2002	(297,452)

Negative goodwill is being amortised on a straight-line basis over 20 years from the date of acquisition.

12 OTHER LONG-TERM ASSETS

	31 December 2002
Long-term loans receivable	157,124
Long-term deferred tax asset	86,640
Long-term VAT receivable	493,872
Other long-term assets	19,484
Other long-term assets, net	757,120

Long-term loans receivable. During 2002, the Group provided a US dollar denominated subordinated loan totaling RR 157 million (USD 5 million) to Geoilbent, a Group associate, for general working capital purposes. The loan is unsecured, carries interest of 2 percent, and is repayable commencing January 2004, subject to Geoilbent satisfying its other priority debt obligations.

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

12 OTHER LONG-TERM ASSETS (CONTINUED)

Long-term VAT receivable. Long-term VAT receivables principally relate to the Group's oil and gas construction and development activities and represent the portion of total VAT receivables expected to be recovered after the year following the balance sheet date.

13 PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Assets under construction	Machinery and Equipment	Other	Total
Cost					
At 1 January 2002	1,314,570	559,593	1,122,118	149,834	3,146,115
Additions	9,494	3,356,823	-	108,306	3,474,623
Transfers	21,706	(183,260)	148,130	13,424	-
Disposals and impairments	(4,861)	(17,303)	(101,617)	(88,595)	(212,376)
At 31 December 2002	1,340,909	3,715,853	1,168,631	182,969	6,408,362
Accumulated depreciation, depletion and amortisation					
At 1 January 2002	(98,501)	-	(661,674)	(3,727)	(763,902)
Depreciation, depletion and amortisation	(78,904)	-	(93,870)	(2,100)	(174,874)
Disposals and impairments	-	-	91,717	787	92,504
At 31 December 2002	(177,405)	-	(663,827)	(5,040)	(846,272)
Net book value at 31 December 2001	1,216,069	559,593	460,444	146,107	2,382,213
Net book value at 31 December 2002	1,163,504	3,715,853	504,804	177,929	5,562,090

Included within oil and gas properties are property acquisition costs of RR 230 million, net of accumulated amortisation and impairment of nil, which represents acquired mineral resource exploration and production license rights. Certain interpretations of generally accepted accounting principles in the oil and gas industry would require that oil and gas mineral rights held under lease and other contractual arrangements be reported separately from oil and gas properties.

The Group's oil and gas fields are situated on land belonging to the Yamalo-Nenetsky regional administration. Licenses are issued by the administration and the Group pays unified production tax to explore and produce oil and gas from these fields. The principal licenses of the Group, including its subsidiaries and associates, and their expiry dates are:

Field	License holder	License expiry date
Yurkharovskoye	Yurkharovneftegas	2020
Khancheyskoye	Khancheyneftegas	2019
West Tarkosalinsk	PNGG	2021
East Tarkosalinsk	Tarkosaleneftegas	2018
North Gubkinskoye	Geoilbent	2018

The licenses expire between 2018 and 2021, however, management believes that they may be extended at the initiative of the Group. Management intends to extend its licenses beyond the initial expiration date.

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, amounting to RR 38 million at 31 December 2002, are included in the cost of oil and gas properties. The Group has estimated its liability based on current environmental legislation using estimated costs when the expenses are expected to be incurred beginning 2004 through 2028. Obligations arising during the year ended 31 December 2002 have been discounted using a rate of 15.7 percent and capitalised within property, plant and equipment. As is further described in Note 22, Governmental authorities are continually considering environmental regulations and their enforcement. Consequently, the Group's ultimate environmental liabilities may differ from the recorded amounts.

Included in additions to property, plant and equipment for 2002 is capitalised interest of RR 265 million.

During the year, depreciation of RR 11 million relating to machinery and equipment used in construction has been capitalised within assets under construction.

At 31 December 2002, certain property, plant and equipment were pledged as collateral for short-term bank borrowings (Note 14).

14 SHORT-TERM AND LONG-TERM DEBT

Short term debt.

	31 December 2002
Short-term bank borrowings	1,568,995
Short-term loans payable – related parties	138,447
Other short-term debt	10,051
Total short-term debt	1,717,493

At 31 December 2002, short-term bank borrowings included Russian rouble denominated loans from Sberbank, in the amount of RR 1,363 million, a US dollar denominated loan from Sberbank in the amount of RR 159 million (USD 5 million), and a Russian rouble denominated loan from Zapsibcombank, in the amount of RR 47 million. The Sberbank loans are collateralised by the Group’s and Tarkosaleneftegas’ property, plant, equipment, and inventory in the amount of RR 1,938 million, and bear interest of 18-20 percent for the Russian rouble denominated loans, and 10 percent for the US dollar denominated loan. The Zapsibcombank loan bears interest of 19 percent and is collateralised by the Group’s property, plant, equipment, and inventory in the amount of RR 81 million.

At 31 December 2002, short-term loans payable to related parties included US dollar denominated loans from SWGI Growth Fund in the amount of RR 127 million (USD 4 million). The loans are unsecured and bear interest from nil to 10 percent.

Long-term debt.

	31 December 2002
Long-term loans payable – related parties	1,208,986
Long-term loans payable	2,065,986
Other long-term debt	3,963
Less current portion of long-term debt	-
Total long-term debt	3,278,935

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

14 SHORT-TERM AND LONG-TERM DEBT (CONTINUED)

At 31 December 2002, long-term loans payable to related parties included US dollar denominated loans from SWGI Growth Fund in the amount of RR 1,209 million (USD 38 million) and US dollar denominated loans from Lukoil West Siberia in the amount of RR 795 million (USD 25 million). The SWGI Growth Fund loans are unsecured and bear interest of 12 to 15 percent, and mature between July and December 2005. The Lukoil West Siberia loan is secured by 34,400 (40 percent) shares in Nakhodkaneftegas, a Group associate, bears interest of 10 percent, and matures in April 2007. Subsequent to the balance sheet date, the Group sold its remaining 40 percent to Lukoil West Siberia for USD 44.6 million, which included the full settlement of this loan obligation.

At 31 December 2002, long-term loans payable included US dollar denominated loans from the Yamal Regional Fund of Development in the amount of RR 1,271 million (USD 40 million). The loan is secured by 100 percent of the shares of Yurkharovneftegas, bears interest of 10 percent, and matures in December 2006. Subsequent to the balance sheet date, the Group and the Yamal Regional Fund of Development re-negotiated the collateral requirements of the loan, reducing the security from 100 percent to 31 percent of the shares in Yurkharovneftegas.

Aggregate maturities of long-term debt outstanding at 31 December 2002 are as follows:

Between 1 and 2 years	3,963
Between 2 and 5 years	1,208,986
Over 5 years	2,065,986
Total long-term debt	3,278,935

15 SHAREHOLDERS' EQUITY

Increase in ordinary share capital. During 2002, NOVATEK issued 1 million new ordinary shares for RR 319 (nominal RR 300) per share in cash, consisting of ordinary share capital of RR 100 (nominal) per share, and RR 200 (nominal) per share in additional share premium. Of these new shares, 533,330 shares were issued to OOO Levit ("Levit"), and 466,670 shares were issued to SWGI Growth Fund (Cyprus) Limited.

Dividends. During 2002, a dividend was declared in respect of the year ended 31 December 2001 by the Board of Directors of NOVATEK and approved by shareholders in the amount of RR 8,105 thousand (nominal RR 7,470 thousand) or RR 11 per ordinary share (nominal RR 10 per ordinary share). Dividends in respect of the year ended 31 December 2002 were declared subsequent to balance date in March 2003, in the amount of RR 35 million or RR 21 per ordinary share.

Other contributed capital from shareholders. During 2002, the Shareholders acquired an additional 19 percent of Minlay from third parties for which the consideration provided was interests in several other companies owned by the Shareholders. The fair value of the consideration provided by the Shareholders was RR 108 million. In addition, the Shareholders contributed to the Group property, plant and equipment in the amount of RR 402 million during the year. The contributions from Shareholders have been recorded in the consolidated statements of changes in shareholders' equity for 2002.

Distributable retained earnings. The statutory accounting reports of NOVATEK are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit calculated in accordance with Russian accounting regulations. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation. For the year ended 31 December 2002, NOVATEK had a statutory net profit of RR 524,271 thousand (nominal), as reported in NOVATEK's statutory accounting reports.

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

16 INCOME TAXES

Reconciliation of income tax. Presented below is a reconciliation between actual income tax expense and theoretical income tax, determined by applying the statutory tax rate to income before income tax and minority interest.

	Year ended 31 December 2002
Income before income tax and minority interest	1,340,558
Theoretical income tax expense at statutory rate of 24 percent	321,734
Increase (decrease) due to:	
Non-deductible expenses	112,989
Non-temporary elements of monetary gains and losses	190,170
Associates' taxation at higher effective rate	20,982
Deductible temporary differences not recognised as assets	61,673
Inflation effect on deferred tax balance at beginning of year	(13,327)
Other non-temporary differences	55,111
Income tax expense	749,332

The non-temporary impact of monetary gains and losses reflects the tax charges and benefits arising from the restatement for the effects of inflation of non-monetary assets and liabilities.

Deferred income tax. Differences between IFRS and Russian statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes.

Movements in deferred tax assets and liabilities during the period.

	31 December 2002	Change 2002	31 December 2001
Tax effects of taxable temporary differences:			
Carrying value of property, plant and equipment in excess of tax base	(264,572)	(84,425)	(180,147)
Carrying value of investments in excess of tax base	(833,405)	(40,758)	(792,647)
Carrying value of inventories in excess of tax base	(50,060)	(29,610)	(20,450)
Accrued interest and other liabilities	(34,700)	(34,700)	-
Deferred income tax liabilities	(1,182,737)	(189,493)	(993,244)
Tax effects of deductible temporary differences:			
Provisions on inventories	24,830	15,800	9,030
Accrued interest and other liabilities	29,373	552	28,821
Other temporary differences	32,437	27,068	5,369
Deferred income tax assets	86,640	43,420	43,220
Net deferred tax liability	(1,096,097)	(146,073)	(950,024)

At 31 December 2002, deductible temporary differences, relating to certain property, plant and equipment with carrying values less than their respective tax bases, of RR 370 million have not been recognised as management does not believe that it is probable that these timing differences will result in future economic benefits to the Group in the foreseeable future.

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16 INCOME TAXES (CONTINUED)

Deferred tax balances are presented in the consolidated balance sheet as follows:

	31 December 2002
Long-term deferred tax asset (other long-term assets)	86,640
Long-term deferred income tax liability	(1,182,737)
Net deferred liability at the end of the year	(1,096,097)

17 TAXES OTHER THAN INCOME TAX

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

	Year ended 31 December 2002
Unified natural resources production tax	153,699
Road users tax	53,065
Property tax	31,165
Tax penalties and interest	11,529
Other	46,178
Total taxes other than income tax	295,636

Beginning 1 January 2002, mineral restoration tax and royalty tax on crude oil, gas condensate and natural gas production and excise on crude oil were abolished and replaced by the unified natural resources production tax.

For crude oil, through 31 December 2003, the base rate for the unified natural resources production tax is set at RR 340 per metric ton of crude oil produced, and is adjusted depending on the market price of the Russian reference crude oil (referred to as “Urals blend”) and the RR/USD exchange rate. The tax becomes nil if the Urals blend price falls to or below USD 8.00 per barrel. Between 1 January 2004 and 31 December 2006 the base rate is increased to RR 347 per metric ton of crude oil. From 1 January 2007, the tax rate is set by law at 16.5 percent of crude oil revenues recognised by the Group based on the Tax Code of Russian Federation.

For gas condensate, through 31 December 2003, the base rate for the unified natural resources production tax on gas condensate production is set at RR 340 per metric ton. From 1 January 2004, the tax rate is set by law at 17.5 percent of gas condensate revenues recognised by the Group based on the Tax Code of Russian Federation.

For natural gas, through 31 December 2003, the base rate for the unified natural resources production tax on natural gas production is set by law at 16.5 percent of natural gas revenues recognised by the Group based on the Tax Code of the Russian Federation. From 1 January 2004, the tax rate is set at RR 107 per thousand cubic meters.

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17 TAXES OTHER THAN INCOME TAX

Current taxes payable at 31 December 2002 are as follows:

	31 December 2002
Value added tax (VAT)	533,765
Income tax	162,488
Tax penalties and interest	123,505
Road users tax	42,621
Property tax	29,668
Unified natural resources production tax	17,092
Other	87,181
Less long-term portion of restructured tax liabilities	(52,734)
Total current taxes payable	943,586

The long-term portion of restructured tax liabilities comprise various taxes, penalties and interest payable to federal and regional governments that were deferred during 2000, 2001 and 2002, and recognised at their fair value. Failure to pay the restructured taxes as they become due would result in reinstatement of the original liability, net of payments to date, of approximately RR 103 million. The long-term portion of restructured tax liabilities are payable during the period from 2004 through 2006.

18 RELATED PARTY TRANSACTIONS

In 2002, the Group had significant activities with companies related to its shareholders in connection with purchases and sales of crude oil, natural gas, gas condensate, construction and other related services, and purchases and sales of equity securities. The Group's reported results of operations, financial position and cashflows would be different had such transactions been carried out amongst unrelated parties. The financial condition of the Group and its future operations may be affected by continued transactions with related parties.

The Group's shareholders and their respective ownership interests in NOVATEK's ordinary shares issued and outstanding as of 31 December 2002 are as follows:

Name of shareholder	Percentage	Ordinary shares 31 December 2002
OOO Levit	51.7%	823,330
SWGI Growth Fund (Cyprus) Limited	47.5%	756,670
Other	0.9%	13,682

Levit is able to exercise control over the Group.

19 RELATED PARTY TRANSACTIONS (CONTINUED)

The Group had transactions with the following related parties during 2002:

Name of related party	Nature of relationship	Nature of transactions
OOO Levit	Shareholder	Provision of loans, emission of shares
SWGI Growth Fund (Cyprus) Limited	Shareholder	Receipt of loans, emission of shares, sales of shares in subsidiary
OOO Khancheyneftegas (“Khancheyneftegas”)	Associate	Provision of construction services, provision of loans, provision of guarantees
OOO NGK ITERA	Associate (until February 2003)	Sales of natural gas
OAO Tarkosaleneftegas (“Tarkosaleneftegas”)	Associate	Purchases of natural gas and gas condensate, provision of construction and well services, provision of guarantee, settlement of receivables and loan payable, sales of inventory
OOO Geoilbent	Associate	Provision of loan, sales of construction materials and services, settlement of promissory notes held
Kanwal Trading Limited	Subject to common control of shareholders	Emission of shares in subsidiary
ZAO Natas	Subject to common control of shareholders	Agent for sales of shares in Group companies
TNG Energy AG	Subject to significant influence of shareholders	Crude oil and gas condensate sales
White Bay Limited	Subject to common control of shareholders	Contribution of assets to the share capital of subsidiary, receipt of guarantees
OOO IK Mega	Subject to common control of shareholders	Purchases and sales of shares of Group companies
OAO Purland	Subject to significant influence of shareholders	Sales of crude oil and gas condensate
OAO Nordpipes	Subsidiary of associate	Construction services
OOO Yangpur	Former associate	Provision of loans and construction services

Purchases and sales of crude oil and gas condensate:

	Year ended 31 December 2002	
Name of related party	Sales volumes (tonnes)	Russian roubles (000s)
Sales to Purland	195,106	414,898
Purchases from Tarkosaleneftegas	86,395	163,806

Purchases and sales of natural gas:

	Year ended 31 December 2002	
Name of related party	Sales volumes (m^3 000s)	Russian roubles (000s)
Sales to NGK ITERA	2,314,002	629,407
Purchases from Tarkosaleneftegas	1,978,404	222,050

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

18 RELATED PARTY TRANSACTIONS (CONTINUED)

Other balances and transactions with related parties:

	As at and for the year ended 31 December 2002
Balances	
Trade and other receivables	1,725,632
Short-term loans receivable	92,706
Long-term loans receivable	157,124
Short-term debt	138,447
Long-term debt	1,208,986
Accounts payable	364,526
Interest payable	111,755
Transactions	
Purchases of inventory	44,939
Sales of inventory	41,696
Interest expense	65,099
Construction sales	917,388
Other (refer Notes 4, 10, 14, 15, 22)	

During the year, NOVATEK acted as general contractor for the development of the Khancheyskoye field for Khancheyneftegas. The Group also provided certain administrative, geological, financial and legal support for associated companies at minimal or no consideration.

Recorded within other current assets is a short-term Russian rouble-denominated loan provided to Levit in the amount of RR 85 million, bearing 17.5 percent and repayable during 2003.

During the year, PNGG, a Group subsidiary, contributed its interest in Khancheyneftegas into OOO Yutneftegas, a newly formed Group subsidiary. Also during the year, PNGG transferred its interest in Minlay to NOVATEK, and shareholders of the Group contributed property, plant, and equipment assets as additional capital to Yurkharovneftegas. The net effect of these transactions was a reduction in minority interests of RR 156 million.

During the year, the Group paid to executive management, consisting of 3 persons, some of whom have also direct and indirect interests in the Group, the total of RR 5 million in compensation, directors' fees, and dividends.

As at 31 December 2002, the Group guaranteed bank debt and interest obligations of Khancheyneftegas totalling RR 627 million.

As at 31 December 2002, the Group pledged shares representing 2.5 percent of the total share capital of Tarkosaleneftegas as a guarantee for bank loans in the amount of RR 600 million borrowed by Tarkosaleneftegas.

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19 SEGMENT INFORMATION

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

- Exploration and production – exploration, production, marketing and transportation of oil and gas;
- Oil and gas services – drilling and construction of oil and gas infrastructure and facilities;
- Corporate and other – other activities, including head office services, banking and telecommunications.

As at 31 December 2002	Exploration and production	Oil and gas services	Corporate and other	Total
Segment assets	6,683,211	3,184,441	1,351,535	11,219,187
Associated companies	4,065,570	4,606	131,656	4,201,832
Unallocated assets	-	-	596,767	596,767
Inter-segment eliminations	(75,220)	-	-	(75,220)
Total assets	10,673,561	3,189,047	2,079,958	15,942,566
Segment liabilities	(3,972,707)	(977,280)	(614,813)	(5,564,800)
Unallocated liabilities	-	-	(4,153,328)	(4,153,328)
Total liabilities	(3,972,707)	(977,280)	(4,768,141)	(9,718,128)
Capital expenditures for the period	3,216,883	149,434	108,306	3,474,623
Depreciation, depletion, and amortisation for the period	78,904	93,870	2,100	174,874
Charges for impairment and provisions for the period	90,643	152,359	39,793	282,795

Segment assets consist primarily of property, plant and equipment and current assets. Unallocated assets include other investments and deferred tax assets. Segment liabilities comprise operating liabilities, excluding items such as taxes payable, borrowings, and deferred tax liabilities.

Capital expenditures include purchases of property, plant, and equipment, and acquisitions of subsidiaries and associates. Charges for impairment and provisions above include impairment provisions for accounts receivable, assets under construction, inventory and other long-term assets and provisions for liabilities and charges.

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

19 SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2002	Exploration and production	Oil and gas services	Corporate and other	Total
Segment revenues				
Total segment revenues	2,302,275	3,854,731	769,748	6,926,754
Inter-segment sales	-	(1,489,215)	(23,278)	(1,512,493)
Total segment revenues	2,302,275	2,365,516	746,470	5,414,261
Segment expenses				
Total segment expenses	(1,786,916)	(3,248,687)	(683,981)	(5,719,583)
Inter-segment expenses	-	1,437,273	-	1,437,273
Segment expenses	(1,786,916)	(1,811,414)	(683,981)	(4,282,310)
Segment result	515,359	606,044	85,768	1,207,171
Unallocated operating expenses				(596,067)
Unrealised margin in segment assets				(75,220)
Operating profit				535,884
Share of net income of associated companies	732,244	1,867	2,655	736,766

The inter-segment revenues mainly consist of:

- Oil and gas services – rendering drilling and construction services to the exploration and production segment; and
- Other – provision of telecommunication and banking services to the other segments.

Included within unallocated operating expenses are corporate expenses, including provision for the impairment of other investments.

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

20 ASSET RETIREMENT OBLIGATIONS

	Year ended 31 December 2002
Asset retirement obligations at the beginning of the year	118,613
Additional obligations recognised during the period	5,240
Accretion expense	19,739
Asset retirement obligations at the end of year	143,592

(in thousands of Russian roubles in terms of the equivalent purchasing power of the rouble as of 31 December 2002, unless otherwise stated)

21 MINORITY INTEREST

	Year ended 31 December 2002
Minority interest at the beginning of the year	829,426
Minority interest share of net profit (loss)	(52,564)
Net change in minority interest as a result of disposals and acquisitions	3,660
Minority interest at the end of year	780,522

22 CONTINGENCIES AND COMMITMENTS

Operating environment. While there have been notable improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, currency controls, and relatively high inflation.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

Guarantees. The Group has guaranteed bank debt and interest obligations of related and other parties totalling RR 1,227 million at 31 December 2002. The guaranteed debt and interest obligations are due on various dates in 2003 through 2004.

Due to the absence of any market for these financial instruments, it is not practicable to estimate the fair value of the above guarantees. However, the Group does not expect to incur losses as a result of these guarantees.

Taxation. Russian tax legislation is subject to varying interpretations and frequent changes. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which may be significant. The tax returns remain open for review by the tax and customs authorities for three years. In the opinion of management, the ultimate outcome of these claims should not have a material adverse effect on the result of operations or financial position of the Group.

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 recognised immediately, if no current or future benefit is discernible. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation, cannot be estimated. Under existing legislation, management believes that there are no probable liabilities which will have a material adverse effect on the financial position or the operation results of the Group.

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

22 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Commitments. As at 31 December 2002, the Group has capital commitments to finance its pro-rata share of the costs related to joint ventures in the aggregated amount of approximately RR 211 million for 2003.

As at balance sheet date, the Group had entered into commitments to buy crude oil, gas condensate and natural gas from Group associates during 2003, and subsequent to balance sheet date, signed agreements relating to 2004, as follows (amounts in thousands of Russian roubles):

Commitments to buy crude oil and gas condensate:

Name of related party	2003	2004
Purchases from Tarkosaleneftegas	1,804,695	664,708
Purchases from Khancheyneftegas	669,916	1,288,305

Commitments to buy natural gas:

Name of related party	2003	2004
Purchases from Tarkosaleneftegas	1,330,912	2,936,188
Purchases from Khancheyneftegas	413,500	1,073,557

23 FINANCIAL INSTRUMENTS

Foreign exchange. The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble or the US dollar, and it does not use foreign exchange or forward contracts. At 31 December 2002, cash, short-term debt, long-term debt, long-term loans receivable, and accrued interest liabilities denominated in US dollars amounted to RR 6,814 thousand, RR 286 million, RR 3,197 million, RR 157 million, and RR 107 million, respectively, translated at the official rouble to US dollar exchange rate used by the Central Bank of the Russian Federation.

Interest rates. The Group obtains funds from and deposits surpluses with banks at current market interest rates, and does not use any hedging instruments to manage its exposure to changes in interest rates. The Group also obtains funds from related parties at interest rates that can differ from current market interest rates. The Group does not believe that it has significant exposure to interest rate risk as the majority of its borrowings are at fixed interest rates.

Credit risks. Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to have minimal risk of default. The Group does not require collateral or other security to support receivables from customers or related parties. A significant portion of the Group's accounts receivable is from shareholders and related parties. Although collection of accounts receivable could be influenced by economic factors affecting these entities, management believes there is no significant risk of loss to the Group beyond the provisions already recorded, provided that economic difficulties in the Russian Federation do not worsen.

Fair values. The fair value of financial instruments is determined with reference to various market information and other valuation methods as considered appropriate. At 31 December 2002, the fair values, where determinable, of financial instruments held by the Group did not materially differ from their carrying values. Management does not believe it is practicable to estimate the fair value of all its investments as several of the Group’s financial instruments are not traded in the Russian financial market and an objective estimate of fair value is not, therefore, available.

24 SUBSEQUENT EVENTS

In addition to the interest in Minlay received from entities under common control subsequent to the balance sheet date as discussed in Note 1, NOVATEK received 25.1 percent, 40 percent, and an additional 11 percent, of the total outstanding shares of OAO Tambeyneftegas, OAO Yamalneftegasdobycha, and Minlay, respectively, from the Yamal Regional Fund of Development. In return, NOVATEK issued 653,348 additional ordinary shares at a price of RR 825 per share, with a par value of RR 100 per share, to the contributing companies, of which, 170,244 were issued to the Yamal Regional Fund of Development, and 483,104 to companies representing the Shareholders of NOVATEK. Subsequent to the balance sheet date, the Group has acquired additional shares in PNGG for consideration of RR 18 million, increasing its total interest in PNGG from 75.3 percent to 79.6 percent. In addition, the Group increased its interest in Tarkosaleneftegas from 27.6 percent to 32.3 percent through several sales and purchase agreements for consideration amounting to approximately RR 183 million.

Subsequent to balance sheet date, the Group sold its remaining 40 percent interest in the shares of Nakhodkaneftegas, with a carrying value of RR 2 million, for USD 44.6 million to Lukoil West Siberia, including settlement of outstanding borrowings from Lukoil West Siberia.

In January 2003, the Group commenced natural gas production at the Yurkharovskoye field.

In February 2003, the Group completed the purchase of an additional shareholding interest in ZAO NOVA Bank through a share emission. The Group has increased its shareholding interest from 60.1 percent to 88.6 percent for consideration amounting to approximately RR 100 million.

In March 2003, the Group's associate, OOO Khancheyneftegas, received a 5-year, US dollar-denominated loan from Raiffeisen Bank (Budapest) and the Magyar Export-Import Bank in the aggregate principle amount of USD 5 million. The loan is guaranteed by NOVATEK, collateralised by the equipment purchased, and bears total interest of 7.0 percent per annum.

In April 2003, the Group received a 5-year, 9.75 percent credit loan facility from Vneshtorgbank in the aggregate principle amount of USD 100 million to fund the development of the Yurkharovskoye and Khancheyskoye fields. The loan facility is collateralised by shares of Tarkosaleneftegas (25 percent plus one share) and guaranteed by Yurkharovneftegas and Khancheyneftegas. As of the date of these financial statements, the Group had received USD 100 million under this credit loan facility.

During 2003, the Group’s associate, OAO Tarkosaleneftegas, received additional Russian rouble-denominated credit loans from Sberbank in the aggregate principle amount, net of repayments during the year, of RR 498 million, to finance its operating activities. These credit loans are collateralised by the associates’ oil and gas properties and 2.5 percent of its shares held by NOVATEK, and bear annual interest of 18 percent per annum (from August 2003 the interest rate changed to 13 percent).

In April 2003, the Group’s subsidiary, OOO Yurkharovneftegas, received a series of unsecured Russian rouble-denominated credit loan facilities from Sodbiznesbank (Moscow), bank AKB Peresvet (Moscow), and Meritbank (Moscow) in the aggregate principle amount of RR 700 million to finance its operating activities. As of the date of these financial statements, OOO Yurkharovneftegas had received RR 504.5 million, and had repaid RR 100 million, under these credit loan facilities. These unsecured loans bear interest of 12 percent per annum and are repayable on demand with a one-month notification.

In May 2003, the Group increased its shareholding interest in OAO Truboizoliatziya, a pipe insulation company, from 17.1 percent to 52.2 percent through several sales and purchases contracts with related parties for consideration amounting to approximately RR 5 million. In December 2003, OAO Truboizoliatziya received a short-term US dollar-denominated loan from the International Moscow Bank in the aggregate principle amount of USD 9.3 million bearing interest of 6 percent per annum to fund the construction of the proposed BOPP (biaxial stretching equipment) Plant in Samara.

In June 2003, the Group received a short-term loan from Standard Bank of London Limited in the amount of USD 10 million with interest of 10 percent per annum.

24 SUBSEQUENT EVENTS (CONTINUED)

In August 2003, the Group received a 5-year Russian rouble-denominated loan from the Finance Department of YNAO in the principle amount of RR 1,130 million to fund the construction of the proposed Purovsky Gas Condensate Stabilization and Liquid Processing Plant. The loan is collateralised by the shares of Tarkosaleneftegas (4.7 percent), and bears interest of 12.75 percent per annum.

In September 2003, the Group's subsidiary, OOO Novafininvest, received short-term, Russian rouble-denominated credit loan facilities from Sberbank in the aggregate principle amount of RR 1,500 million to finance its operating activities. As of the date of these financial statements, OOO Novafininvest had received RR 1,123 million under these loan facilities. The loans are guaranteed by OAO NOVATEK, collateralised by equipment and materials of Khancheyneftegas and the Group, and bear annual interest of 15 to 15.5 percent.

In September 2003, the Group provided a 16 percent Russian rouble-denominated loan to its associate, Khancheyneftegas, in the amount of RR 879 million to fund development of the Khancheyskoye field.

In November 2003, the Group sold its 40 percent interest in OAO Yamalneftegasdobycha to Lukoil West Siberia for USD 25.4 million.

During 2003, the Group provided a 4-year US dollar-denominated 10 percent loan to its associate, Tarkosaleneftegas, in the amount of RR 786 million.

During 2003, the Group entered into a series of 5-year finance lease agreements to finance purchases of equipment for the proposed Purovsky Gas Condensate Stabilisation and Liquid Processing Plant, the proposed BOPP Plant in Samara, a Gas Condensate Preparation Unit for the Yurkharovskoye field, and rolling stock for hydrocarbon liquids, in the total amounts of Euros 46.6 million and USD 21.3 million.

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