OAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

CONTENTS **Page**

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (095) 967 60 00
Facsimile +7 (095) 967 60 01

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 2003 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 38 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. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Moscow, Russian Federation
23 June 2004

The firm is an authorized licensee of the tradename and logo of PricewaterhouseCoopers.

OAO NOVATEK
Consolidated Balance Sheet
(in thousands of Russian roubles)

	Notes	At 31 December 2003	At 31 December 2002
ASSETS			
Non-current assets			
Property, plant and equipment	18	10,056,960	5,625,847
Intangible balances	15	59,452	(297,452)
Investments in associates	14	5,291,321	4,187,348
Loans receivable	17	2,932,546	157,124
Other non-current assets	16	388,901	623,563
Total non-current assets		**18,729,180**	**10,296,430**
Current assets			
Inventories	12	1,372,041	1,428,031
Trade and other receivables	10	3,011,637	3,106,114
Prepayments and advances	11	1,199,386	542,182
Loans receivable	17	552,357	254,038
Other current assets		11,289	9,613
Cash and cash equivalents		1,617,887	306,158
Total current assets		**7,764,597**	**5,646,136**
Total assets		**26,493,777**	**15,942,566**
EQUITY AND LIABILITIES			
Non-current liabilities			
Long-term debt	20	5,751,633	3,278,935
Deferred income tax liability	22	1,698,853	1,182,737
Asset retirement obligations	26	153,890	143,592
Other non-current liabilities		47,445	64,822
Total non-current liabilities		**7,651,821**	**4,670,086**
Current liabilities			
Accounts payable and accrued liabilities	13	3,325,490	2,273,808
Short-term debt	19	2,069,286	1,717,493
Income taxes payable		567,436	162,488
Other taxes payable	23	866,838	894,253
Total current liabilities		**6,829,050**	**5,048,042**
Total liabilities		**14,480,871**	**9,718,128**
Minority interest	27	**468,384**	**780,522**
Shareholders' equity			
Ordinary share capital		314,103	248,768
Share premium		5,962,622	3,173,476
Retained earnings		5,267,797	2,021,672
Total shareholders' equity	21	**11,544,522**	**5,443,916**
Total shareholders' equity and liabilities		**26,493,777**	**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

OAO NOVATEK
Consolidated Statement of Income
(in thousands of Russian roubles)

	Notes	Year ended 31 December 2003	Year ended 31 December 2002
Revenues			
Oil and gas sales	5	12,024,217	2,302,275
Oil and gas construction services		3,250,006	2,211,664
Total revenues		15,274,223	4,513,939
Gain on disposal of investments in oil and gas producing subsidiaries and associates	14	1,010,783	78,635
Other income	6	891,660	1,060,919
Total revenues and other income		**17,176,666**	**5,653,493**
Operating expenses			
Materials, services and other	7	(5,794,045)	(3,002,369)
Purchases of oil, gas condensate and natural gas	24	(3,309,944)	(607,470)
Transportation expenses	8	(1,890,876)	(321,469)
Taxes other than income tax	23	(847,012)	(295,636)
General and administrative expenses		(484,696)	(400,915)
Depreciation, depletion and amortisation	15, 18	(425,481)	(150,786)
Net impairment expense	9	(177,357)	(282,795)
Exploration expenses		(122,325)	(56,169)
Total operating expenses		**(13,051,736)**	**(5,117,609)**
Profit from operations		**4,124,930**	**535,884**
Finance income (expense)			
Foreign exchange gain (loss)		206,118	(74,779)
Interest income		222,861	21,354
Interest expense		(538,249)	(174,566)
Monetary gain		-	295,899
Total finance income (expense)		**(109,270)**	**67,908**
Share of income from associates	14	523,661	736,766
Profit before income tax and minority interest		**4,539,321**	**1,340,558**
Income tax expense			
Current income tax expense		(1,434,145)	(405,453)
Deferred income tax benefit (expense)		191,429	(146,073)
Share of income tax of associates	14	(87,720)	(197,806)
Total income tax expense	22	**(1,330,436)**	**(749,332)**
Profit before minority interest		**3,208,885**	**591,226**
Minority interest	27	72,131	52,564
Net profit		**3,281,016**	**643,790**

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

OAO NOVATEK
Consolidated Statement of Cash Flows
(in thousands of Russian roubles)

	Year ended 31 December 2003	Year ended 31 December 2002
Net income before income tax and minority interest	4,539,321	1,340,558
Adjustments to income before income tax and minority interest:		
Depreciation, depletion and amortisation	425,481	150,786
Net charge for impairment provisions	177,357	282,795
Net unrealised foreign exchange loss (gain)	(206,118)	74,779
Net gain on disposal of investments in associates, property, plant and equipment, and inventory	(996,764)	(180,921)
Monetary effects on non-operating balances	-	(201,136)
Accretion expense	19,971	30,527
Interest expense	503,230	144,039
Interest income	(174,679)	(21,354)
Share of income from associates	(523,661)	(736,766)
Working capital changes		
Decrease (increase) in accounts receivable and prepayments	6,897	(1,487,468)
Decrease (increase) in inventories	98,836	(392,285)
Decrease (increase) in other current assets	(1,677)	196,075
Increase in accounts payable and accrued liabilities, excluding interest and dividends	1,175,162	82,978
Increase (decrease) in taxes payable, other than income tax	(57,230)	235,880
Total effect of working capital changes	1,221,988	(1,364,820)
Income taxes paid	(1,173,753)	(306,174)
Net cash provided by (used in) operating activities	3,812,373	(787,687)
Cash flows from investing activities		
Purchases of property, plant and equipment	(3,117,110)	(2,667,380)
Acquisition of subsidiaries	(22,445)	(17,021)
Acquisition of associated companies	(195,542)	(33,600)
Proceeds from disposals of subsidiaries and associates	1,298,497	153,500
Proceeds from sales of property, plant and equipment and other long-term assets	64,297	75,268
Interest paid and capitalised	(259,861)	(153,143)
Short and long-term loans provided	(4,127,219)	(314,084)
Repayments of short-term loans	976,100	94,979
Interest received - non banking	72,395	21,354
Dividends received	-	43,869
Net cash used in investing activities	(5,310,888)	(2,796,258)
Cash flows from financing activities		
Proceeds from long-term borrowings	5,079,521	2,509,692
Proceeds from short-term borrowings	3,880,317	1,717,493
Repayments of long-term borrowings	(1,605,178)	-
Repayments of short-term borrowings	(3,522,223)	(1,307,943)
Proceeds from issuance of additional shares	-	319,130
Interest paid - non banking	(597,117)	(147,029)
Dividends paid	(34,891)	(8,105)
Other distributions to shareholders	(336,111)	-
Net cash from financing activities	2,864,318	3,083,238
Effect of inflation and exchange rate on cash and cash equivalents	(13,717)	(85,047)
Net change in restricted cash	(40,357)	(23,567)
Net increase (decrease) in cash and cash equivalents	1,311,729	(609,321)
Cash and cash equivalents at beginning of the year	306,158	915,479
Cash and cash equivalents at end of the year	1,617,887	306,158

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, 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 (Note 21)	1,000,000	106,370	212,760	-	319,130
Dividends (Note 21)		-	-	(8,105)	(8,105)
Contribution from shareholders (Note 21)		-	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**
Issuance of shares (Note 21)	653,348	65,335	2,655,782	-	2,721,117
Dividends (Note 21)		-	-	(34,891)	(34,891)
Contribution from shareholders (Note 21)		-	524,301	-	524,301
Distribution to shareholders (Note 21)		-	(390,937)	-	(390,937)
Net income for the period		-	-	3,281,016	3,281,016
Balance at 31 December 2003	**2,247,030**	**314,103**	**5,962,622**	**5,267,797**	**11,544,522**

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

(in thousands of Russian roubles, unless otherwise stated)

1 ORGANISATION AND PRINCIPAL ACTIVITIES

OAO NOVATEK (hereinafter referred to as "NOVATEK") and its subsidiaries (hereinafter jointly referred to as the "Group") is an independent oil and gas company engaged in the acquisition, exploration, development, production, and operation of oil and gas properties located in the Yamalo-Nenetsky Autonomous Region ("YNAO").

The Group's 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 2003, 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 represent 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, all of which are incorporated in the Russia Federation, as at 31 December:

		2003		2002	
Subsidiary	**Nature of operations**	**% of ordinary and preferred share capital**	**% of ordinary share capital**	**% of ordinary and preferred share capital**	**% of ordinary share capital**
OAO Purneftegasgeologiya ("PNGG")	Oil and gas exploration and production	79.6%	88.7%	75.3%	83.9%
OAO Minlay ("Minlay")	Holding company	100.0%	100.0%	89.0%	89.0%
OOO Yurkharovneftegas ("Yurkharovneftegas")	Gas exploration and production	100.0%	100.0%	100.0%	100.0%
OAO SNP NOVA ("SNP NOVA")	Construction services	74.3%	74.5%	74.3%	74.5%
ZAO NOVA Bank	Banking	88.6%	88.6%	60.1%	60.1%
OOO Yutneftegas	Holding company	100.0%	100.0%	100.0%	100.0%
OAO Truboizolyatsia	Pipeline insulation production	52.2%	52.2%	17.1%	17.1%
OOO Novafininvest	Construction contractor and holding company	99.0%	99.0%	100.0%	100.0%

As at 31 December 2003, the Group's respective interest in its principal associates were as follows:

			2003	2002
Associate	**Country of incorporation**	**Nature of operations**	**% of share capital**	**% of share capital**
OAO NK Tarkosaleneftegas ("Tarkosaleneftegas")	Russia	Oil and gas exploration and production	32.2%	27.6%
OOO Geoilbent ("Geoilbent")	Russia	Oil and gas exploration and production	66.0%	66.0%
OOO Khancheyneftegas ("Khancheyneftegas")	Russia	Oil and gas exploration and production	43.0%	43.0%

1 ORGANISATION AND PRINCIPAL ACTIVITIES (CONTINUED)

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. Accordingly, the Group's equity interest in Geoilbent has been accounted for on a one quarter lag.

As at 31 December 2003, 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 which are proportionally consolidated. 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. Additionally, the Group has 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 share of production from the joint ventures associated with the West-Tarkosalinsk field was approximately 1.88 billion cubic meters of natural gas and 58 thousand tons of gas condensate during 2003. Such amounts represent approximately 14 percent and 6 percent of the Group's production of natural gas and gas condensate, respectively, during 2003. The Group's share of operating expenses for the joint ventures totalled RR 227 million during 2003.

In February 2004, the Group decided to dispose of the exploration and production license for the West-Tarkosalinsk field. However, the Group will retain the right to a 10 percent interest in the hydrocarbon production from the Cenomanian gas deposit of the field and a 100 percent interest in the hydrocarbon production from the Neocomian gas and gas condensate deposits of the West-Tarkosalinsk field (Note 31).

The Group's oil and gas construction services activities primarily consist of drilling services 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. In June 2004, NOVATEK's board of directors approved the sale of substantially all of the Group's oil and gas construction services business (Note 30).

The Group had approximately 6,800 (2002 - 7,600) employees as at 31 December 2003.

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 the International Accounting Standards Board's International Financial Reporting Interpretations Committee ("IFRIC"). 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").

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 2003 and 2002 was 29.45 and 31.78 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 2003, however, the Russian rouble appreciated by 7.3 percent against the US dollar (2002 - depreciated 5.7 percent), while official Russian rouble inflation was 12 percent (2002 - 15.1 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 (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.

2 BASIS OF PRESENTATION (CONTINUED)

Accounting for the effects of inflation. Prior to 1 January 2003, the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian rouble in accordance with International Accounting Standard No. 29, Financial Reporting in Hyperinflationary Economies ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflationary has ceased, effective from 1 January 2003, the Company no longer applies the provisions of IAS 29. Accordingly, no adjustments for the effects of changes in general purchasing power have been made for the year ended 31 December 2003.

Reclassifications. Certain reclassifications have been made to prior year balances to conform to the current year presentation.

Changes in accounting policies. The Group has early adopted IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities. The effect of the adoption was immaterial to the Group's financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents. Cash and cash equivalents comprises cash on hand, cash deposits held with banks, and 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 and other receivables are presented at recoverable amounts 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.

Construction due from customers are the net amount of costs incurred, plus recognised profits, less progress billings and recognised losses, on construction contracts at the end of the reporting period.

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 and is recorded at average cost. 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 represents costs incurred related to future contract activity.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, amortisation and impairment.

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 management 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 recognised when the obligation is incurred and 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.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 or 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 received or provided are recognised initially at cost, which is the fair value of the consideration received or provided, 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 received or provided that are originated by the Group are subsequently measured at amortised cost and, for borrowings provided, net of any unrecoverable amounts.

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 delivered 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.

Provisions. Provisions 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 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 or changes in the discount rates, are treated as a change in an accounting estimate in the period of the change and, with the exception of asset retirement obligations, reflected in the statement of income. Such changes in estimated asset retirement obligations are reflected as adjustments to the carrying value of property, plant and equipment.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Value added tax. Value added taxes ("VAT") related to sales are 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 that have not been settled at the balance sheet date 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 liability is maintained until the debtor is written off for tax purposes.

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 more than one year following the balance sheet date.

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. 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 at inception 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 controlled companies 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. Subsidiaries are consolidated from the date on which control is obtained unless the acquisition occurred between entities under common control, which are accounted for from the beginning of the earliest period presented, 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. Additional interests in existing subsidiaries and associates are recognised at the fair value of the interest acquired at the time of the purchase. Previously held interests in subsidiaries and associates are not restated to fair value.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, that 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.

New accounting developments. In December 2003, the IASB issued amendments to 15 existing IFRS standards that are effective 1 January 2005. The Group has not adopted these revised standards and has not yet assessed the effect the adoption of these standards will have on the Group's results of operations and financial position.

4 SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions during 2003 were as follows; during the year, the Group issued 170,244 ordinary shares to the Yamal Regional Fund of Development in order to pay for shares acquired in Minlay, Tambeyneftegas, and Yamalneftegasdobycha (Note 21); outstanding loan obligations to Lukoil West Siberia in the amount of RR 821 million were settled as a part of the consideration for the sale of shares in Nakhodkaneftegas to Lukoil West Siberia (Note 14).

Significant non-cash transactions during 2002 were as follows; during the year, short-term loans of RR 276 million provided by Tarkosaleneftegas, a related party, were repaid in full using Tarkosaleneftegas' own promissory notes; Kanwal Trading Limited, a related party, contributed equipment with a cost of RR 64 million to SNP NOVA, a company subsidiary, and Shareholders made non-cash contributions of capital in the amount of RR 510 million (Note 21).

(in thousands of Russian roubles, unless otherwise stated)

5 OIL AND GAS SALES

	Year ended 31 December 2003	Year ended 31 December 2002
Gas sales	7,611,945	985,376
Oil and gas condensate sales	3,067,965	1,050,322
Oil product sales	1,344,307	266,577
Total oil and gas sales	**12,024,217**	**2,302,275**

6 OTHER INCOME

	Year ended 31 December 2003	Year ended 31 December 2002
Sales of polymer and insulation tape	285,390	-
Oil and gas transportation and handling services	61,074	163,987
Telecommunication services	158,515	87,733
Exploration services	97,384	153,852
Sales of materials	70,248	213,300
Gain (loss) on disposal of property, plant and equipment	(14,019)	102,286
Other revenues	233,068	339,761
Total other income	**891,660**	**1,060,919**

7 MATERIALS, SERVICES AND OTHER

	Year ended 31 December 2003	Year ended 31 December 2002
Materials and supplies	1,932,144	1,039,308
Employee compensation	972,015	736,062
Construction services	747,082	462,375
Insurance expense	515,225	-
Tolling fees	456,934	-
Electricity and fuel	173,446	20,645
Maintenance of social infrastructure /social expenses	147,716	167,847
Extraction services	103,511	62,054
Rent expenses	49,984	52,311
Other	695,988	461,767
Total materials, services and other	**5,794,045**	**3,002,369**

During 2003, the Group obtained insurance coverage for oil, gas, and gas condensate being transported via pipelines and commenced tolling of unstable condensate and oil and gas mix extracted and acquired from Group associates.

(in thousands of Russian roubles, unless otherwise stated)

8 TRANSPORTATION EXPENSES

	Year ended 31 December 2003	Year ended 31 December 2002
Gas transportation to customers	1,338,163	62,226
Crude oil transportation to customers	248,547	55,675
Railroad services	82,270	-
Transportation costs incurred in operations	221,896	203,568
Total transportation expenses	**1,890,876**	**321,469**

9 IMPAIRMENT EXPENSES

	Year ended 31 December 2003	Year ended 31 December 2002
Impairment of accounts and loans receivable (Notes 10, 17)	226,849	6,068
Impairment (reversal) of property, plant and equipment (Note 18)	(40,522)	83,019
Impairment (reversal) of inventory (Note 12)	(11,011)	96,716
Impairments of investments (Note 14)	2,041	96,992
Net impairment expense	**177,357**	**282,795**

Net impairment expense includes gross impairment charges for inventory of RR 35 million and RR 209 million for 2003 and 2002, respectively, and RR 116 million for property, plant and equipment during 2002.

10 TRADE AND OTHER RECEIVABLES

	31 December 2003	31 December 2002
Trade accounts receivable (net of provision of RR 18,431 thousand and nil at 31 December 2003 and 2002, respectively)	749,077	543,055
Trade and other accounts receivable - related parties	329,032	959,566
Construction balances due from customers (net of provision of RR 4,588 thousand and nil at 31 December 2003 and 2002, respectively)	48,163	87,118
Construction due from related parties	54,280	766,066
Recoverable value added tax	1,317,298	535,746
Interest on loans receivable	95,984	2,811
Other receivables (net of provision of RR 28,310 thousand and RR 6,068 thousand at 31 December 2003 and 2002, respectively)	417,803	211,752
Total trade and other receivables	**3,011,637**	**3,106,114**

During 2003, the Group wrote off its receivable balance and interest receivable from OOO Yangpur, an associate until 2002, in the amount of RR 76 million.

(in thousands of Russian roubles, unless otherwise stated)

11 PREPAYMENTS AND ADVANCES

	31 December 2003	31 December 2002
Prepayments and advances to suppliers (net of provision of RR 6,456 thousand and nil at 31 December 2003 and 2002, respectively)	888,336	538,910
Prepayments and advances to related parties	19,022	-
Prepaid taxes	292,028	3,272
Total prepayments and advances	**1,199,386**	**542,182**

12 INVENTORIES

	31 December 2003	31 December 2002
Materials and supplies at net realisable value (net of provisions of RR 136 million and RR 147 million at 31 December 2003 and 31 December 2002, respectively)	643,285	-
Materials and supplies at cost	275,134	1,155,260
Materials and supplies - custody of contractors	252,364	36,543
Construction contract work-in-progress	113,054	137,318
Crude oil and oil products	65,978	28,476
Apartments available-for-sale	22,226	70,434
Total inventories	**1,372,041**	**1,428,031**

At 31 December 2003, certain materials and supplies inventories were pledged as collateral for short- and long-term bank borrowings (Notes 19, 20).

13 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December 2003	31 December 2002
Trade accounts payable	1,102,575	891,396
Trade and other accounts payable - related parties	532,228	364,526
Construction advances	560,848	320,432
Bank customer deposits	311,275	263,936
Trade advances from customers	269,400	69,929
Salaries payable	110,909	108,360
Interest payable	67,358	-
Interest payable - related parties	-	111,755
Other payables	370,897	143,474
Total accounts payable and accrued liabilities	**3,325,490**	**2,273,808**

(in thousands of Russian roubles, unless otherwise stated)

14 INVESTMENTS IN ASSOCIATES

	31 December 2003	31 December 2002
OAO NK Tarkosaleneftegas	3,841,320	3,171,083
OOO Geoilbent	1,246,681	889,528
OOO Khancheyneftegas	74,649	64,058
OAO Tambeyneftegas	113,554	-
OOO NGK ITERA	-	31,915
Other	15,117	30,764
Total investments in associates	**5,291,321**	**4,187,348**

Movement in the carrying value of investment in associates.

	Year ended 31 December 2003	Year ended 31 December 2002
Balance at the beginning of the year	**4,187,348**	**3,788,654**
Share of income before tax	523,661	736,766
Share of income tax expense	(87,720)	(197,806)
Net income from associates	435,941	538,960
Dividends received from associates	-	(43,869)
Impairment of investment in associates	(2,041)	(96,992)
Share of other net equity movements	-	58,437
Unrealised gains on sales to associates	(710)	(52,698)
Additions of associates	2,044,789	33,600
Goodwill recognised on acquisition	247,339	-
Goodwill derecognised on disposal	(190,436)	-
Negative goodwill recognised on acquisition	(509,067)	-
Disposals of associates	(921,842)	(38,744)
Balance at the end of year	**5,291,321**	**4,187,348**

During 2003, the Group continued the process of consolidation of core assets and increased its interests in Tarkosaleneftegas and Khancheyneftegas. The Group's investment in Tarkosaleneftegas increased in the amount of RR 411 million through additional acquisitions and contributions from shareholders totalling 4.7 percent of Tarkosaleneftegas' share capital (Note 21). In addition, the Group's investments in Tarkosaleneftegas and Khancheyneftegas increased through internal transfers of investments in these companies to the parent company, NOVATEK, resulting in the total reduction of minority interests of RR 173 million, increases in the Group's carrying values for Tarkosaleneftegas and Khancheyneftegas in the amount of RR 364 million and RR 134 million, respectively, and recognition of negative goodwill on acquisition of associates totalling RR 509 million. Total cash payments for the above transactions were RR 195 million.

(in thousands of Russian roubles, unless otherwise stated)

14 INVESTMENTS IN ASSOCIATES (CONTINUED)

In October 2003, NOVATEK acquired from the Yamal Regional Fund of Development 25.1 percent, 40 percent, and an additional 11 percent, of the total outstanding shares of OAO Tambeyneftegas, OAO Yamalneftegasdobycha, and Minlay, respectively, for 170,244 shares in NOVATEK with an estimated total fair value of RR 2,721 million (Note 21). The additional shares in Minlay, a Group subsidiary, resulted in an increase in the Group's effective interest in existing Group associates, Geoilbent and Nakhodkaneftegas, being increased, and the acquisition of additional unproved oil and gas properties of Yurkharovneftegas, a Minlay subsidiary. The Group applied purchase accounting for these transactions, and as a result, the Group estimated fair values for the acquired assets and liabilities as follows:

	RR millions
Fair value of acquired interest in Tambeyneftegas	93
Fair value of acquired additional interest in Nakhodkaneftegas	99
Fair value of acquired additional interest in Geoilbent	159
Fair value of acquired interest in Yamalneftegasdobycha	783
Goodwill on acquisition of associates	247
Unproved oil and gas properties of Yurkharovneftegas	1,462
Goodwill on acquisition of subsidiary	341
Reduction in carrying value of minority interest	125
Deferred tax liabilities recognised	(588)
Fair value of consideration provided	**2,721**

In November 2003, the Group sold its 40 percent stake in Nakhodkaneftegas and 40 percent in Yamalneftegasdobycha to Lukoil West Siberia for RR 1,331 million (USD 44.6 million) and RR 759 million (USD 25.4 million), respectively, which included the full settlement of outstanding loan obligations to Lukoil West Siberia. As a result of the sales, the Group recognised a total gain, net of taxes, of RR 1,011 million.

During 2002, 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.

During 2002, 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 2002, 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.

(in thousands of Russian roubles, unless otherwise stated)

15 INTANGIBLE BALANCES

	Year ended 31 December 2003		Year ended 31 December 2002	
	Goodwill	**Negative goodwill**	**Goodwill**	**Negative goodwill**
Gross balance	-	(320,986)	-	(315,446)
Accumulated amortisation	-	23,534	-	10,672
Intangibles balances at 1 January	-	(297,452)	-	(304,774)
Additional (negative) goodwill recognised	341,113	-	-	(5,540)
Income recognised in statement of income within depreciation, depletion and amortisation	-	15,791	-	12,862
Gross balance	341,113	(320,986)	-	(320,986)
Accumulated amortisation	-	39,325	-	23,534
Intangibles balances at 31 December	341,113	(281,661)	-	(297,452)
Net intangibles balances at 31 December	**59,452**	**-**	**-**	**(297,452)**

16 OTHER NON-CURRENT ASSETS

	31 December 2003	**31 December 2002**
Non-current VAT receivable	106,154	493,872
Restricted cash	63,924	23,567
Non-current deferred tax asset (Note 22)	205,994	86,640
Other non-current assets	12,829	19,484
Total other non-current assets	**388,901**	**623,563**

Restricted cash. Restricted cash balance represents cash held with the Central Bank of the Russian Federation by NOVA Bank as a mandatory deposit.

(in thousands of Russian roubles, unless otherwise stated)

17 LOANS RECEIVABLE

Short-term loans receivable.

	31 December 2003	31 December 2002
US dollar denominated loans	91,619	-
US dollar denominated loans to related parties	147,273	-
Russian rouble denominated loans	23,901	10,797
Russian rouble denominated loans to related parties	18,000	145,000
Banking loans receivable (net of provision of RR 35 million and RR 9 million at 31 December 2003 and 2002, respectively)	271,564	98,241
Total short-term loans receivable	**552,357**	**254,038**

At 31 December 2003, US dollar denominated loans receivable includes a loan to Geoilbent of RR 147,273 thousand (USD 5 million). Repayment of the loan is conditional upon the agreement of the European Bank for Reconstruction and Development ("EBRD") (Note 24), however, management expects the balance to be repaid during 2004. The loan is unsecured and bears interest of 2 percent. Also included is a loan in the amount of RR 91,551 thousand (USD 3.1 million) to Trade House Truboizolyatsia. The loan is unsecured and bears interest of 7.1 percent.

At 31 December 2003, banking loans receivable represents Russian rouble denominated loans issued by Nova Bank to various customers. The loans are generally collateralised by equipment and bear interest from 14 to 25 percent. Such loans include loans to Khancheyneftegas of RR 32,800 thousand at 31 December 2003.

At 31 December 2002, short-term loans to related parties included a Russian rouble denominated loan to OOO Levit of RR 85 million. During 2003 the loan was repaid.

At 31 December 2002, short-term loans to related parties included a Russian rouble loan to OOO Yangpur in the amount of RR 63 million. During 2003, the Group wrote off this receivable.

Long-term loans receivable.

	31 December 2003	31 December 2002
US dollar denominated loans to related parties	1,972,446	157,124
Russian rouble denominated loans to related parties	878,800	-
Banking loans receivable	73,940	-
Russian rouble denominated loans	7,360	-
Total long-term loans receivable	**2,932,546**	**157,124**

At 31 December 2003, US dollar denominated loans to related parties included a loan in the amount of RR 794 million (USD 27 million) to Tarkosaleneftegas. The loan is unsecured, bears interest of 10 percent, and is repayable in January to February 2008.

At 31 December 2003, US dollar denominated loans to related parties included loans in the amount of RR 1,178 million (USD 40 million) to Khancheyneftegas. The loans are unsecured, bear interest of 10 percent, and are repayable in April 2008. Subsequent to the balance sheet date, the Group provided additional USD denominated loans to Khancheyneftegas in the aggregate amount of USD 45 million with the same terms.

At 31 December 2003, Russian rouble denominated loans to related parties included loans in the aggregate amount of RR 879 million to Khancheyneftegas. The loans are unsecured, bear interest of 16 percent, and are repayable February 2005.

At 31 December 2002, US dollar denominated loans to related parties included the loan to Geoilbent described within short-term loans receivable above.

(in thousands of Russian roubles, unless otherwise stated)

18 PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Assets under construction	Machinery & equipment	Other	Total
Cost					
At 1 January 2002	1,314,570	646,717	1,122,118	149,834	3,233,239
Additions	9,494	3,333,456	-	108,306	3,451,256
Transfers	21,706	(183,260)	148,130	13,424	-
Disposals and impairment	(4,861)	(17,303)	(101,617)	(88,595)	(212,376)
At 31 December 2002	1,340,909	3,779,610	1,168,631	182,969	6,472,119
Additions	1,517,803	3,259,656	224,617	232,243	5,234,319
Transfers	4,012,482	(4,404,867)	218,805	173,580	-
Disposals and impairments	(54,998)	(82,106)	(211,888)	(134,687)	(483,679)
At 31 December 2003	6,816,196	2,552,293	1,400,165	454,105	11,222,759
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)
Depreciation, depletion and amortisation	(285,920)	-	(110,245)	(55,107)	(451,272)
Disposals and impairments	33,285	-	97,749	711	131,745
At 31 December 2003	(430,040)	-	(676,323)	(59,436)	(1,165,799)
Net book value at 31 December 2002	**1,163,504**	**3,779,610**	**504,804**	**177,929**	**5,625,847**
Net book value at 31 December 2003	**6,386,156**	**2,552,293**	**723,842**	**394,669**	**10,056,960**

Included within oil and gas properties at 31 December 2003 are property acquisition costs of RR 2,262 million (2002 - RR 826 million), of which RR 1,691 million (2002 - RR 229 million) are unproved properties, net of accumulated amortisation and impairment of RR 66 million (2002 - RR 39 million), 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.

(in thousands of Russian roubles, unless otherwise stated)

18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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	Subsidiary	2020
West-Tarkosalinsk	PNGG	Subsidiary	2021
Khancheyskoye	Khancheyneftegas	Associate	2019
East-Tarkosalinsk	Tarkosaleneftegas	Associate	2018
North Gubkinskoye	Geoilbent	Associate	2018

The licenses expire between 2018 and 2021, however, management intends to extend its licenses beyond the initial expiration date.

Estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, amounting to RR 33 million at 31 December 2003 (2002 - RR 38 million), 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 2029. Asset retirement obligations recognised at 31 December 2003 have been discounted using a rate from 11.2 to 15.4 percent (2002 - 15.7 percent) and capitalised within property, plant and equipment. As is further described in Note 28, 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 2003 is capitalised interest of RR 322 million (2002 - RR 265 million).

During 2003, depreciation of RR 10 million (2002 - RR 11 million) relating to machinery and equipment used in construction has been capitalised within assets under construction.

At 31 December 2003, certain property, plant and equipment were pledged as collateral for short- and long-term bank borrowings (Notes 19, 20).

(in thousands of Russian roubles, unless otherwise stated)

19 SHORT-TERM DEBT

	31 December 2003	31 December 2002
US dollar denominated loans	660,091	158,922
US dollar denominated loans from related parties	-	127,137
Russian rouble denominated loans	1,276,245	1,420,124
Other short-term debt	132,950	11,310
Total short-term debt	**2,069,286**	**1,717,493**

At 31 December 2003, US dollar denominated loans included loans from International Moscow Bank, in the amount of RR 274 million (USD 9.3 million) and from Standard Bank in the amount of RR 295 million (USD 10 million). The International Moscow Bank loan bears interest of 7 percent and is collateralised by the Group's property, plant, and equipment in the amount of RR 444 million. The Standard Bank loan is unsecured and bears interest of 10 percent per annum. Also included in US dollar denominated loans is a loan in the amount of RR 91.6 million (USD 3.1 million) from Trade House Truboizolyatsia. The loan is unsecured and bears interest of 7.1 percent.

At 31 December 2003, Russian rouble denominated loans includes loans from Sberbank in the aggregated amount of RR 848 million. These loans are collateralised by the Group's inventory and property, plant, and equipment in the amount of RR 1,284 million, and bear interest of 15 to 16 percent. Also included are 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 405 million. These unsecured loans bear interest of 12 percent per annum and are repayable on demand with a one-month notification.

At 31 December 2003, other short-term debt consists of Nova Bank promissory notes that are repayable within one year.

At 31 December 2002, loans outstanding 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 were collateralised by the Group's and Tarkosaleneftegas' property, plant, equipment, and inventory in the amount of RR 1,938 million, and bore interest of 18 to 20 percent for the Russian rouble denominated loans, and 10 percent for the US dollar denominated loan. The Zapsibcombank loan bore interest of 19 percent and was collateralised by the Group's property, plant, equipment, and inventory in the amount of RR 81 million. During 2003, these loans were repaid in full.

At 31 December 2002, US dollar denominated loans payable to related parties consisted of a loan from SWGI Growth Fund in the amount of RR 127 million (USD 4 million). The loans were unsecured and bore interest from nil to 10 percent. During 2003, these loans were repaid in full.

(in thousands of Russian roubles, unless otherwise stated)

20 LONG-TERM DEBT

	31 December 2003	31 December 2002
US dollar denominated loans	2,945,450	2,065,986
US dollar denominated loans from related parties	1,178,180	1,208,986
Russian rouble denominated loans	1,621,821	-
Other long-term debt	6,182	3,963
Total long-term debt	**5,751,633**	**3,278,935**

At 31 December 2003, US dollar denominated loans consist of a loan from Vneshtorgbank in the amount of RR 2,945 million (USD 100 million). The loan is collateralised by shares of Tarkosaleneftegas (25 percent plus one share), and guaranteed by Yurkharovneftegas and Khancheyneftegas. The loan bears interest of 9.75 percent, and matures in April 2008.

At 31 December 2002, US dollar denominated loans included a loan from the Yamal Regional Fund of Development in the amount of RR 1,271 million (USD 40 million). The loan was secured by 100 percent stake in Yurkharovneftegas, bore interest of 10 percent, and matured in December 2006. During 2003, 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 participation interest in Yurkharovneftegas. In October 2003, the Yamal Regional Fund of Development acquired an 7.6 percent stake in the Group (Note 21) and, accordingly, as of 31 December 2003, the loan in the amount of RR 1,178 million was classified as a US dollar denominated loan from related parties.

At 31 December 2003, included in Russian rouble denominated loans are loans from Sberbank in the amount of RR 459 million and a loan from the Finance Department of YNAO in the amount of RR 1,130 million. The Sberbank loans are collateralised by the Group's and Khancheyneftegas property, plant, equipment, and inventory, bear interest of 15.5 percent, and mature in February to April 2005. The Finance Department of YNAO loan is collateralised by the shares of Tarkosaleneftegas (4.7 percent), bears interest of 12.75 percent per annum, and matures in July 2008.

At 31 December 2002, US dollar denominated loans included a loan from Lukoil West Siberia in the amount of RR 795 million (USD 25 million). The loan was secured by 34,400 (40 percent) shares in Nakhodkaneftegas, a Group associate, bore interest of 10 percent, and matured in April 2007. In November 2003, the Group sold its 40 percent stake in Nakhodkaneftegas to Lukoil West Siberia (Note 14), which included the full settlement of this loan obligation.

At 31 December 2002, US dollar denominated loans from related parties included loans from SWGI Growth Fund in the amount of RR 1,209 million (USD 38 million). The SWGI Growth Fund loans were unsecured and bore interest of 12 to 15 percent. During 2003, these loans were settled in full.

Aggregate maturities of long-term debt outstanding at 31 December 2003 are as follows:

Between 1 and 2 years	950,139
Between 2 and 3 years	2,159,997
Between 3 and 4 years	981,817
Between 4 and 5 years	1,659,680
Total long-term debt	**5,751,633**

21 SHAREHOLDERS' EQUITY

Dividends. In March 2003, a dividend was declared in respect of the year ended 31 December 2002 by the Board of Directors of NOVATEK and approved by shareholders in the amount of RR 35 million or RR 22 per ordinary share. Subsequent to the balance sheet date, in May 2004, a dividend was declared in respect of the year ended 31 December 2003 by the Board of Directors of NOVATEK and approved by shareholders in the amount of RR 565 million or RR 251.45 per ordinary share.

Increases in ordinary share capital. In October 2003, NOVATEK acquired from the Yamal Regional Fund of Development 25.1 percent, 40 percent, and an additional 11 percent, of the total outstanding shares of OAO Tambeyneftegas, OAO Yamalneftegasdobycha, and Minlay, respectively (Note 14). In return, NOVATEK issued 170,244 new ordinary shares with a par value of RR 100 per share, and an estimated total fair value of RR 15.983 thousand per share. The total consideration provided of RR 2,721 million consisted of RR 17 million in share capital and RR 2,704 million in share premium.

In conjunction with the Yamal Regional Fund of Development transaction, the shareholders continued the reorganisation of the Shareholders' controlling interests by legally transferring 75 percent of OAO Minlay to NOVATEK. As a result, NOVATEK issued 483,104 new ordinary shares to companies representing the Shareholders. As the Shareholders' equity in Minlay was previously included into the consolidated financial statements of the Group, this transaction resulted in a reclassification of RR 48 million from share premium to ordinary share capital, representing the par value of the issued shares, in the statement of changes in shareholders' equity during 2003.

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, and 466,670 shares were issued to SWGI Growth Fund (Cyprus) Limited.

Other contributed capital to and from shareholders. During 2003, as part of the reorganisation of the Shareholders' controlling interests into NOVATEK, the Shareholders transferred their 100 percent interest in Yurkharovneftegas to OAO Minlay. As the Shareholders' equity in Yurkharovneftegas was previously included into the consolidated financial statements of the Group, the purchase price of RR 368 million payable by Minlay to the Shareholders has been recorded as a distribution to shareholders in the consolidated statement of consolidated changes in shareholders' equity.

During 2003, the Group acquired an additional 3.7 percent stake in Tarkosaleneftegas from third parties for which the consideration provided was interests in other companies owned by the Shareholders. In addition, the Shareholders contributed an additional 1 percent of Tarkosaleneftegas to the Group. As a result of these transactions, net contributions from Shareholders in the gross amount of RR 411 million have been recorded in the consolidated statements of changes in shareholders' equity during 2003.

During 2003, the Shareholders contributed to the Group an additional 35 percent of OAO Truboizolyatsia. The contributed equity in OAO Truboizolyatsia of RR 94 million has been recorded in the consolidated statement of changes in shareholders' equity during 2003.

During 2003, the Group acquired an additional 4.3 percent in PNGG for which net consideration provided by the Group's shareholders in the amount of RR 19 million has been recorded in the consolidated statements of changes in shareholders' equity during 2003.

As a result of transfers of certain investments in associates (Note 14) between shareholder and Group companies, net distributions to shareholders of RR 23 million have been recorded in the consolidated statements of changes in shareholders' equity during 2003.

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.

(in thousands of Russian roubles, unless otherwise stated)

21 SHAREHOLDERS' EQUITY (CONTINUED)

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 2003, NOVATEK had a statutory net profit of RR 3,037 million (2002 - RR 524 million), as reported in NOVATEK's statutory accounting reports.

22 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 2003	**Year ended 31 December 2002**
Profit before income tax and minority interest	4,539,321	1,340,558
Theoretical income tax expense at statutory rate of 24 percent	1,089,437	321,734
Increase (decrease) due to:		
Non-deductible expenses	199,695	112,989
Non-temporary elements of monetary gains and losses	-	190,170
Associates' taxation at higher (lower) effective rate	(37,959)	20,982
Net deductible temporary differences not recognised as assets	3,800	61,673
Inflation effect on deferred tax balance at beginning of year	-	(13,327)
Other non-temporary differences	75,463	55,111
Total income tax expense	**1,330,436**	**749,332**

Total income tax expense for the year ended 31 December 2003 represents 29.3 percent (2002 - 55.9 percent) of profit before income tax and minority interest for the year.

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.

(in thousands of Russian roubles, unless otherwise stated)

22 INCOME TAXES (CONTINUED)

Movements in deferred tax assets and liabilities during the period.

	31 December 2003	Income statement effect 2003	Effects of acquisitions during 2003	31 December 2002	Income statement effect 2002	31 December 2001
Tax effects of taxable temporary differences:						
Carrying value of property, plant and equipment in excess of tax base	(618,549)	(12,864)	(341,113)	(264,572)	(84,425)	(180,147)
Carrying value of investments in excess of tax base	(1,032,520)	47,963	(247,078)	(833,405)	(40,758)	(792,647)
Carrying value of inventories in excess of tax base	(11,408)	38,652	-	(50,060)	(29,610)	(20,450)
Accrued interest and other liabilities	(46,943)	(12,243)	-	(34,700)	(34,700)	-
Deferred income tax liabilities	(1,709,420)	61,508	(588,191)	(1,182,737)	(189,493)	(993,244)
Tax effects of deductible temporary differences:						
Provisions on inventories	75,531	50,701	-	24,830	15,800	9,030
Provision on receivables	68,368	66,912	-	1,456	-	1,456
Accrued interest and other liabilities	16,156	(13,217)	-	29,373	552	28,821
Other temporary differences	56,506	25,525	-	30,981	27,068	3,913
Deferred income tax assets	216,561	129,921	-	86,640	43,420	43,220
Net deferred tax asset (liability)	**(1,492,859)**	**191,429**	**(588,191)**	**(1,096,097)**	**(146,073)**	**(950,024)**

At 31 December 2003, deductible temporary differences, relating to certain property, plant and equipment with carrying values less than their respective tax bases, of RR 306 million (2002 - RR 370 million) have not been recognised as management does not believe that it is probable that these temporary differences will result in future economic benefits to the Group in the foreseeable future.

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

	31 December 2003	31 December 2002
Long-term deferred tax asset (other non-current assets)	205,994	86,640
Long-term deferred income tax liability	(1,698,853)	(1,182,737)
Net deferred liability at the end of the year	**(1,492,859)**	**(1,096,097)**

Deferred tax assets and liabilities expected to be recovered within 12 months are RR 145 million (2002 - RR 61 million) and RR 17 million (2002 - RR 50 million), respectively.

(in thousands of Russian roubles, unless otherwise stated)

23 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 2003	Year ended 31 December 2002
Unified natural resources production tax	538,005	153,699
Property tax	95,369	31,165
Excise	71,712	-
Tax penalties and interest	25,377	11,529
Value added tax	25,478	-
Road users tax	-	53,065
Other	91,071	46,178
Total taxes other than income tax	**847,012**	**295,636**

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, and is adjusted depending on the market price of the Urals blend and the RR/USD exchange rate similar to that for crude oil. 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.

Current taxes payable, other than income taxes, at 31 December 2003 are as follows:

	31 December 2003	31 December 2002
Value added tax	303,051	533,765
Tax penalties and interest	153,133	123,505
Social security and other social taxes	128,414	113,155
Unified natural resources production tax	81,988	17,092
Property tax	51,348	29,668
Road users tax	19,980	42,621
Other	179,376	87,181
Less long-term portion of restructured tax liabilities	(50,452)	(52,734)
Total other taxes payable	**866,838**	**894,253**

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 2005 through 2006. Subsequent to the balance sheet date, the Group paid the principal amount of the restructured taxes.

(in thousands of Russian roubles, unless otherwise stated)

24 RELATED PARTY TRANSACTIONS

In 2003 and 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. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group's shareholders and their respective ownership interests in NOVATEK's ordinary shares issued and outstanding as of 31 December 2003 are as follows:

Name of shareholder	Percentage	Ordinary shares at 31 December 2003
OOO Levit	49.2%	1,106,184
SWGI Growth Fund (Cyprus) Limited	37.5%	843,466
Yamal Regional Fund of Development	7.6%	170,244
Other	5.7%	127,136
	100%	**2,247,030**

The Group had transactions with the following related parties during 2003 and 2002:

Name of related party	Nature of relationship	Nature of transactions
OOO Levit	Shareholder	Provision of loans, emission of shares, purchases and sales of shares of Group companies
SWGI Growth Fund (Cyprus) Limited	Shareholder	Receipt of loans, emission of shares, sales of shares in subsidiary
Yamal Regional Fund of Development	Shareholder	Receipt of loans, emission of shares
OOO IK Mega	Shareholder	Purchases and sales of shares of Group companies
Khancheyneftegas	Associate	Provision of construction services, provision of loans and guarantees
OOO NGK ITERA	Associate (until February 2003)	Sales of natural gas
Tarkosaleneftegas	Associate	Purchases of natural gas and gas condensate, provision of construction and well services, provision of loans and guarantees, settlement of receivables and loan payable, sales of inventory
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 (2002)
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
OAO Purland	Subject to significant influence of shareholders	Sales of crude oil and gas condensate
OAO Nordpipes	Subsidiary of associate	Construction services (2002)
OOO Yangpur	Former associate	Provision of loans and construction services (2002)
OAO Selkupneftegas	Associate	Provision of exploration services
Kerden Trading Limited	Subject to common control of shareholders	Sales of oil and oil products
OAO Tambeyneftegas	Associate	Provision of exploration services

24 RELATED PARTY TRANSACTIONS (CONTINUED)

Purchases and sales of crude oil and gas condensate:

	Year ended 31 December 2003		Year ended 31 December 2002	
Name of related party	Volumes (tonnes)	Russian roubles (000s)	Volumes (tonnes)	Russian roubles (000s)
Sales to Kerden Trading Limited	33,201	190,470	-	-
Sales to Purland	-	-	195,106	414,898
Purchases from Khancheyneftegas	335,683	674,283	-	-
Purchases from Tarkosaleneftegas	306,192	596,728	86,395	163,806

Purchases and sales of natural gas:

	Year ended 31 December 2003		Year ended 31 December 2002	
Name of related party	Volumes (m^3 000s)	Russian roubles (000s)	Volumes (m^3 000s)	Russian roubles (000s)
Sales to NGK ITERA (until February 2003)	348,220	720,989	2,314,002	629,407
Purchases from Tarkosaleneftegas	5,222,756	1,049,516	1,978,404	222,050
Purchases from Khancheyneftegas	587,640	244,850	-	-
Purchases from Purland	2,873,407	466,929	-	-

Other balances and transactions with related parties:

	As at and for the year ended 31 December 2003	31 December 2002
Balances		
Trade and other receivables	383,312	1,725,632
Short-term loans receivable	198,073	145,000
Prepayments and advances	19,022	-
Long-term loans receivable	2,851,246	157,124
Short-term debt	-	130,447
Long-term debt	1,178,180	1,208,986
Accounts payable	532,228	364,526
Interest payable	-	111,755
Interest receivable	95,984	-
Transactions		
Purchases of inventory	17,787	44,939
Sales of inventory and oil products	1,464,988	41,696
Interest expense	265,904	65,099
Interest income	157,027	21,354
Construction sales	1,446,879	917,388
Other (Notes 4, 14, 21, 28)		

24 RELATED PARTY TRANSACTIONS (CONTINUED)

During 2003 and 2002, 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.

The Group operates primarily in the YNAO and has other transactions with the Yamal Regional Administration in the ordinary course of business.

During 2003, the Group paid to executive management, consisting of 11 (2002 - 3) persons, some of whom have also direct and indirect interests in the Group, the total of RR 62 million (2002 - RR 5 million) in compensation, directors' fees, and dividends.

During 2003, PNGG, a Group subsidiary, sold its interest in Tarkosaleneftegas to NOVATEK. The net effect of these transactions was a reduction in minority interests of RR 160 million.

During 2003, OOO Yutneftegas, a Group subsidiary, sold its interest in Khancheyneftegas to NOVATEK. The net effect of these transactions was a reduction in minority interests of RR 13 million.

During 2002, PNGG contributed its interest in Khancheyneftegas into OOO Yutneftegas, a newly formed Group subsidiary. Also during 2002, 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.

As at 31 December 2003, the Group guaranteed the bank debt and interest obligations of Khancheyneftegas totalling RR 999 million (2002 - 627 RR million).

As at 31 December 2003, 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 (2002 - RR 600 million) borrowed by Tarkosaleneftegas.

As at 31 December 2003, the Groups' 66 percent ownership interest in Geoilbent was pledged to the EBRD as collateral for a long-term loan received by Geoilbent from the EBRD. At 31 December 2003, the amount payable by Geoilbent to the EBRD under the loan facility was USD 30 million, payable on demand, or if not called, in the period from January 2005 through July 2006.

(in thousands of Russian roubles, unless otherwise stated)

25 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 construction services – drilling and construction of oil and gas infrastructure and facilities;
- Other – other activities, including head office services, banking and telecommunications.

As at 31 December 2003	Exploration and production	Oil and gas construction services	Other	Total
Segment assets	14,201,357	2,460,328	2,555,451	19,217,136
Associated companies	5,267,183	-	24,138	5,291,321
Unallocated assets	-	-	2,039,135	2,039,135
Inter-segment eliminations	(53,815)	-	-	(53,815)
Total assets	19,414,725	2,460,328	4,618,724	26,493,777
Segment liabilities	(1,850,994)	(1,335,738)	(729,824)	(3,916,556)
Unallocated liabilities	-	-	(10,564,315)	(10,564,315)
Total liabilities	(1,850,994)	(1,335,738)	(11,294,139)	(14,480,871)
Capital expenditures for the period	3,602,353	474,197	1,157,769	5,234,319
Depreciation, depletion, amortisation for the period	285,920	110,245	55,107	451,272
Charges for impairment during the period	85,744	(59,329)	150,942	177,357

As at 31 December 2002	Exploration and production	Oil and gas construction services	Other	Total
Segment assets	6,840,234	3,184,441	1,620,158	11,644,833
Associated companies	4,065,570	4,606	117,172	4,187,348
Unallocated assets	-	-	185,605	185,605
Inter-segment eliminations	(75,220)	-	-	(75,220)
Total assets	10,830,584	3,189,047	1,922,935	15,942,566
Segment liabilities	(693,772)	(977,280)	(614,813)	(2,285,865)
Unallocated liabilities	-	-	(7,432,263)	(7,432,263)
Total liabilities	(693,772)	(977,280)	(8,047,076)	(9,718,128)
Capital expenditures for the period	3,280,640	149,434	108,306	3,538,380
Depreciation, depletion, amortisation for the period	78,904	93,870	2,100	174,874
Charges for impairment during 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 above include impairment provisions for accounts and loans receivable, assets under construction, inventory, and other long-term assets.

(in thousands of Russian roubles, unless otherwise stated)

25 SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2003	Exploration and production	Oil and gas construction services	Other	Total
Segment revenues				
External revenues and other income	13,027,105	3,283,970	865,591	17,176,666
Inter-segment sales	-	720,271	41,949	762,220
Total segment revenues	13,027,105	4,004,241	907,540	17,938,886
Segment expenses				
External expenses	(8,374,609)	(3,124,060)	(916,065)	(12,414,734)
Inter-segment expenses	-	(708,405)	-	(708,405)
Total segment expenses	(8,374,609)	(3,832,465)	(916,065)	(13,123,139)
Segment result	4,652,496	171,776	(8,525)	4,815,747
Unallocated operating expenses				(637,002)
Unrealised margin in segment assets				(53,815)
Profit from operations				4,124,930
Income of associated companies	523,661	-	-	523,661

Year ended 31 December 2002	Exploration and production	Oil and gas construction services	Other	Total
Segment revenues				
External revenues and other income	2,483,196	2,365,516	804,781	5,653,493
Inter-segment sales	-	1,489,215	23,278	1,512,493
Total segment revenues	2,483,196	3,854,731	828,059	7,165,986
Segment expenses				
External expenses	(1,967,837)	(1,811,414)	(742,291)	(4,521,542)
Inter-segment expenses	-	(1,437,273)	-	(1,437,273)
Total segment expenses	(1,967,837)	(3,248,687)	(742,291)	(5,958,815)
Segment result	515,359	606,044	85,768	1,207,171
Unallocated operating expenses				(596,067)
Unrealised margin in segment assets				(75,220)
Profit from operations				535,884
Income of associated companies	732,244	1,867	2,655	736,766

The inter-segment revenues mainly consist of:

- Oil and gas construction services – rendering drilling and construction services to the exploration and production segment, for which prices are determined on a cost plus basis; and
- Other – provision of telecommunication and banking services to the other segments, for which prices are based on market prices.

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.

(in thousands of Russian roubles, unless otherwise stated)

26 ASSET RETIREMENT OBLIGATIONS

	Year ended 31 December 2003	Year ended 31 December 2002
Asset retirement obligations at the beginning of the year	143,592	118,613
Additional obligations recognised during the period	1,781	5,240
Accretion expense	15,355	19,739
Change in estimates during the period	(6,838)	-
Asset retirement obligations at the end of year	**153,890**	**143,592**

27 MINORITY INTEREST

	Year ended 31 December 2003	Year ended 31 December 2002
Minority interest at the beginning of the year	780,522	829,426
Minority interest share of net profit (loss)	(72,131)	(52,564)
Net change in minority interest as a result of disposals and acquisitions	(240,007)	3,660
Minority interest at the end of year	**468,384**	**780,522**

28 CONTINGENCIES AND COMMITMENTS

Operating environment. The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

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

Guarantees. The Group has guaranteed bank debt and interest obligations of related parties totalling RR 999 million at 31 December 2003 (2002 - RR 682 million) and the carrying value of shares pledged in favour of Group associates totalled RR 299 million (2002 - 288 million) (Note 24). The guaranteed debt and interest obligations are due on various dates in 2004 through 2009. In addition, the Group has pledged its property, plant and equipment, inventory, and shares in associates as disclosed in Notes 19 and 20.

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, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

(in thousands of Russian roubles, unless otherwise stated)

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

As at 31 December 2003 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

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.

Commitments. 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 Gas Condensate 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 RR 1,716 million (Euros 46.6 million) and RR 627 million (USD 21.3 million). Such assets had not been received by the Group as of the balance sheet date. Lease payments are payable during the period beginning 2004 through 2009.

The Group had entered into commitments to finance the construction works in the Gas Condensate Plant in the amount of RR 2,111 million for the period until July 2005, and the development of the Yurkharovskoye field in the amount of RR 143 million until July 2004.

As at balance sheet date, the Group had entered into commitments to buy crude oil, gas condensate and natural gas from Group associates during 2004, and subsequent to balance sheet date, signed agreements relating to 2004, as follows:

Commitments to buy crude oil and gas condensate:

Name of related party	thousand tons	Roubles (millions, incl. VAT)
Purchases from Tarkosaleneftegas	352	665
Purchases from Khancheyneftegas	682	

Commitments to buy natural gas:

Name of related party	million cubic metres	Roubles (millions, incl. VAT)
Purchases from Tarkosaleneftegas	8,016	2,834
Purchases from Khancheyneftegas	2,342	1,074

Prices for purchases of crude oil and gas condensate from Khancheyneftegas are to be determined by agreement of the parties at the time of the transaction.

(in thousands of Russian roubles, unless otherwise stated)

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Also the Group has entered into agreements to buy natural gas from Group associates for the period 2005 through 2008, as follows:

	million cubic metres			
Name of related party	**2005**	**2006**	**2007**	**2008**
Purchases from Tarkosaleneftegas	8,347	8,359	8,404	8,690
Purchases from Khancheyneftegas	3,388	5,140	5,200	5,200

Prices for purchases of natural gas from Tarkosaleneftegas and Khancheyneftegas are to be determined by agreement of the parties at the time of the transaction. Contract terms are subject to change.

Commitments for purchases of oil, gas condensate, natural gas and capital commitments as at 31 December 2002 totalled RR 4,430 million and RR 5,963 million, relating to 2003 and 2004, respectively,

29 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 2003, cash, accounts receivable, short-term loans receivable, long-term loans receivable, short-term debt, long-term debt, bank payables on customers deposits, and accrued interest liabilities denominated in US dollars amounted to RR 13 million, RR 266 million, RR 268 million, RR 1,972 million, RR 568 million, RR 4,124 million, RR 33 million, and RR 15 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.

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 2003, the fair values, where determinable, of financial instruments held by the Group did not materially differ from their carrying values.

30 DISCONTINUING OPERATIONS

On 8 June 2004, the board of directors approved the sale of 99 percent of the share capital of OOO Novafininvest to SWGI Growth Fund (Cyprus) Limited (40.9 percent) and OOO Levit (53.6 percent), shareholders of the Group, for total cash consideration of RR 229 million, and to OOO Kopitek (4.5 percent) for RR 11 million. The disposal is consistent with the Group's long-term strategy to focus its activities in the areas on oil and gas exploration and production, and to divest non-core activities. Management expects the transactions to be completed during June 2004.

During 2003, OOO Novafininvest ("NFI") acted as general contractor for the construction of the Khancheyskoye and Yurkharovskoye oil and gas fields. As of 8 June 2004, NFI also held the Group's interests in certain companies, including OAO SNP Nova, which is the primary provider of construction services to Group companies. Such activities (the "NFI discontinuing operations") represent substantially all of the activities of the oil and gas construction services segment, as disclosed in Note 25, of the Group. The Group expects to continue existing contractual relationships, and may enter into additional contracts, with NFI and its subsidiaries in the future.

At 31 December 2003, the carrying amount of the assets of the NFI discontinuing operations was RR 3,375 million and its liabilities were RR 2,267 million. During 2003, the NFI discontinuing operations earned revenue of RR 3,117 million, incurred expenses of RR 3,229 million, and incurred a pre-tax operating loss of RR 112 million, with a related income tax expense of RR 8 million. During 2003, the NFI discontinuing operations' cash inflow from operating activities was RR 49 million, cash outflow from investing activities was RR 969 million, and cash inflow from financing activities was RR 1,090 million.

31 SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the Group transferred its license for the West-Tarkosalinsk field to a newly formed company, OOO Purgasdobycha. On 20 February 2004, the board of directors of PNGG resolved to dispose of OOO Purgasdobycha, and has since entered into an agreement in principle to sell the company, subject to agreement of terms and necessary approvals. The joint venture associated with the Neocomian gas of the West-Tarkosalinsk field has been dissolved. The Group's participation in the remaining two joint ventures associated with the exploration and production of the West-Tarkosalinsk field will cease at the time of the disposal of OOO Purgasdobycha, however, the Group, according to the agreement in principle, will retain the right to a 10 percent interest in the hydrocarbon production from the Cenomanian gas deposit of the field and a 100 percent interest in the hydrocarbon production from the Neocomian gas and gas condensate deposits of the West-Tarkosalinsk field (Note 1).

In February 2004, the Group received Russian rouble-denominated credit loan facilities from Sberbank in the aggregate principal amount of RR 350 million. In April 2004, the Group amended the terms of this facility and increased the aggregate principal amount from RR 350 million to RR 500 million. As of June 2004, the Group had received RR 124 million under these loan facilities. The loan is collateralised by property, plant and equipment of Yurkharovneftegas of equivalent market value, and bears annual interest of 12 percent.

In April 2004, the Group placed unsecured USD 100 million, 18-months term, credit linked notes with an annual coupon rate of 9.125 percent, payable semi-annually. The funds are to be used towards developing the Group's oil and gas fields and the Gas Condensate Plant. Yurkharovneftegas and Tarkosaleneftegas have guaranteed the issue.

In April 2004, the board of directors approved the issue of 1 million Rouble denominated non-convertible bonds with a nominal value RR 1,000, payable in 728 days.

The Group's registered office is:

OAO NOVATEK
Ulitsa Pobedy 22a
629850 Posyolok Tarkosale
Yamalo-Nenetsky Autonomous Okrug
Russian Federation

Telephone: 7 (095) 730-60-20
Fax: 7 (095) 721-22-48

www.novatek.ru