OAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002

CONTENTS

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AUDITORS' REPORT

To the shareholders and directors of OAO NOVATEK

1 We have audited the accompanying consolidated balance sheets of OAO NOVATEK and its subsidiaries (the "Group") as at 31 December 2004, 2003 and 2002 and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the years then ended. These financial statements as set out on pages 4 to 44 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 2004, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
27 May 2005

(in millions of Russian roubles)

	Notes	At 31 December: 2004	2003	2002
ASSETS				
Non-current assets				
Property, plant and equipment, net	16	62,449	10,057	5,626
Other non-current assets		1,090	340	239
Investments in associates	13	1,945	5,291	4,187
Long-term loans receivable	15	7,832	2,933	157
Total non-current assets		**73,316**	**18,621**	**10,209**
Current assets				
Prepayments and other current assets	10	1,039	1,284	578
Inventories	11	929	1,372	1,428
Trade and other receivables	9	3,456	2,939	3,080
Short-term loans receivable		707	552	254
Cash and cash equivalents		3,003	1,618	306
Total current assets		**9,134**	**7,765**	**5,646**
Total assets		**82,450**	**26,386**	**15,855**
EQUITY AND LIABILITIES				
Non-current liabilities				
Long-term debt	18	13,232	5,752	3,279
Deferred income tax liability	20	8,855	1,591	1,096
Other non-current liabilities		1,188	202	208
Total non-current liabilities		**23,275**	**7,545**	**4,583**
Current liabilities				
Short-term debt	17	10,768	2,069	1,717
Other taxes payable	20	1,280	867	894
Income taxes payable		228	567	162
Trade payables and accrued liabilities	12	1,963	3,325	2,274
Total current liabilities		**14,239**	**6,828**	**5,047**
Total liabilities		**37,514**	**14,373**	**9,630**
Minority interest	23	**449**	**468**	**781**
Shareholders' equity				
Ordinary share capital		393	314	249
Additional paid-in capital		29,797	5,963	3,173
Asset revaluation surplus		5,345	-	-
Retained earnings		8,952	5,268	2,022
Total shareholders' equity	19	**44,487**	**11,545**	**5,444**
Total shareholders' equity, minority interest and liabilities		**82,450**	**26,386**	**15,855**

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

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

L. Mikhelson
General Director

M. Gyetvay
Financial Director

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2004	2003	2002
Revenues				
Oil and gas sales	6	21,489	12,024	2,302
Oil and gas construction services		2,053	3,258	2,212
Sales of polymer and insulation tape		617	286	-
Other revenues		456	490	771
Total revenues		**24,615**	**16,058**	**5,285**
Net gain (loss) on disposal of investments in oil and gas producing subsidiaries and associates		(12)	1,015	88
Net gain (loss) on disposal of construction services and other subsidiaries		210	(4)	(9)
Other income		385	187	315
Total revenues and other income		**25,198**	**17,256**	**5,679**
Operating expenses				
Materials, services and other	7	(4,175)	(4,982)	(2,844)
Purchases of oil, gas condensate and natural gas		(5,708)	(3,310)	(607)
Transportation expenses	8	(4,234)	(2,390)	(321)
Taxes other than income tax	20	(1,569)	(847)	(296)
General and administrative expenses		(1,152)	(700)	(584)
Depreciation, depletion and amortization	16	(681)	(425)	(151)
Net impairment reversal (expense)		118	(308)	(283)
Exploration expenses		(183)	(122)	(56)
Total operating expenses		**(17,584)**	**(13,084)**	**(5,142)**
Income from operations		**7,614**	**4,172**	**537**
Finance income (expense)				
Foreign exchange gain (loss)		109	192	(75)
Interest income		462	175	21
Interest expense		(863)	(523)	(175)
Monetary gain		-	-	296
Total finance income (expense)		**(292)**	**(156)**	**67**
Share of income from associates	13	721	524	737
Income before income tax and minority interest		**8,043**	**4,540**	**1,341**
Income tax expense				
Current income tax expense		(1,906)	(1,434)	(405)
Deferred income tax benefit (expense)		(212)	191	(146)
Share of income tax benefit (expense) of associates	13	43	(88)	(198)
Total income tax expense	20	**(2,075)**	**(1,331)**	**(749)**
Income before minority interest		**5,968**	**3,209**	**592**
Minority interest	23	(274)	72	52
Net income		**5,694**	**3,281**	**644**
Basic and diluted earnings per share (in Russian roubles)	26	2,510	1,895	565
Weighted average shares outstanding		2,268,654	1,731,512	1,139,636

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

(in millions of Russian roubles)

	Year ended 31 December:		
	2004	**2003**	**2002**
Net income before income tax and minority interest	**8,043**	**4,540**	**1,341**
Adjustments to income before income tax and minority interest:			
Depreciation, depletion and amortization	681	425	151
Net impairment loss (reversal of impairment)	(118)	308	283
Net unrealized foreign exchange loss (gain)	(109)	(192)	75
Net gain on disposal of assets, subsidiaries and associates	(586)	(1,127)	(181)
Monetary effects on non-operating balances	-	-	(201)
Interest expense	863	523	175
Interest income	(462)	(175)	(21)
Share of income from associates	(721)	(524)	(737)
Working capital changes			
Decrease (increase) in trade and other receivables	989	80	(1,488)
Decrease (increase) in inventories	171	99	(392)
Decrease (increase) in prepayments and other current assets	11	(75)	196
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends	(1,535)	1,161	83
Increase (decrease) in other taxes payable	(211)	(57)	236
Total effect of working capital changes	**(575)**	**1,208**	**(1,365)**
Income taxes paid	(2,217)	(1,174)	(307)
Net cash provided by (used in) operating activities	**4,799**	**3,812**	**(787)**
Cash flows from investing activities			
Purchases of property, plant and equipment	(5,424)	(3,117)	(2,667)
Acquisition of subsidiaries and associated companies, net of cash acquired	298	(218)	(51)
Proceeds from disposals of subsidiaries and associates	361	1,298	154
Proceeds from sales of property, plant and equipment and other long-term assets	80	64	75
Interest paid and capitalized	(305)	(259)	(153)
Loans provided	(11,661)	(4,127)	(314)
Repayments of loans provided	3,289	976	95
Dividends and non banking interest received	488	72	65
Net cash used in investing activities	**(12,874)**	**(5,311)**	**(2,796)**
Cash flows from financing activities			
Proceeds from long-term borrowings	11,493	5,080	2,510
Proceeds from short-term borrowings	5,633	3,880	1,717
Repayments of long-term borrowings	(624)	(1,605)	-
Repayments of short-term borrowings	(4,350)	(3,522)	(1,308)
Proceeds from issuance of additional shares	-	-	319
Interest paid: non-banking	(709)	(597)	(147)
Dividends paid	(2,010)	(35)	(8)
Other distributions to shareholders	-	(336)	-
Net cash from financing activities	**9,433**	**2,865**	**3,083**
Effect of inflation and exchange rate on cash and cash equivalents	(21)	(14)	(85)
Net change in restricted cash	48	(40)	(24)
Net increase (decrease) in cash and cash equivalents	1,385	1,312	(609)
Cash and cash equivalents at beginning of the year	1,618	306	915
Cash and cash equivalents at end of the year	**3,003**	**1,618**	**306**

Significant non-cash transactions are disclosed in Note 5.

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

OAO NOVATEK
Consolidated Statements of Changes in Shareholders' Equity
(in millions of Russian roubles, unless otherwise stated)

	Number of ordinary shares	Ordinary share capital	Additional paid in capital	Asset revaluation surplus	Retained earnings	Shareholders' equity
31 December 2001	**593,682**	**142**	**2,451**	**-**	**1,328**	**3,921**
Issuance of shares (Note 19)	1,000,000	107	212	-	-	319
Dividends	-	-	-	-	(8)	(8)
Contribution from Shareholders (Note 19)	-	-	510	-	-	510
Share of associates' other equity	-	-	-	-	58	58
Net income	-	-	-	-	644	644
31 December 2002	**1,593,682**	**249**	**3,173**	**-**	**2,022**	**5,444**
Acquisition (Note 19)	653,348	65	2,656	-	-	2,721
Dividends	-	-	-	-	(35)	(35)
Contribution from Shareholders (Note 19)	-	-	524	-	-	524
Distribution to shareholders (Note 19)	-	-	(390)	-	-	(390)
Net income	-	-	-	-	3,281	3,281
31 December 2003	**2,247,030**	**314**	**5,963**	**-**	**5,268**	**11,545**
Acquisition (Note 4)	789,276	79	23,849	5,345	-	29,273
Dividends	-	-	-	-	(2,010)	(2,010)
Distribution to shareholders	-	-	(15)	-	-	(15)
Net income	-	-	-	-	5,694	5,694
31 December 2004	**3,036,306**	**393**	**29,797**	**5,345**	**8,952**	**44,487**

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

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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 Russian Federation.

		Percentage of total share capital at 31 December:		
Subsidiary	**Nature of operations**	**2004**	**2003**	**2002**
OAO NK Tarkosaleneftegas ("Tarkosaleneftegas")	Oil and gas exploration and production	100.0%	32.2%	27.6%
OOO Yurkharovneftegas ("Yurkharovneftegas")	Oil and gas exploration and production	100.0%	100.0%	89.0%
OOO Khancheyneftegas ("Khancheyneftegas")	Oil and gas exploration and production	100.0%	43.0%	43.0%
OAO Purneftegasgeologiya ("PNGG")	Oil and gas exploration and production	78.0%	79.6%	75.3%
OAO Minlay ("Minlay")	Holding company	-	100.0%	89.0%
OAO SNP NOVA ("SNP NOVA")	Construction services	-	74.3%	74.3%
ZAO NOVA Bank	Banking	62.0%	88.6%	60.1%
OAO NOVATEK-Polymer ("NOVATEK-Polymer", formerly OAO Truboizolyatsia)	Pipeline insulation production	97.9%	52.2%	17.1%
OOO Novafininvest ("Novafininvest")	Construction contractor and holding company	-	99.0%	100.0%
OOO Yutneftegas ("Yutneftegas")	Holding company	-	100.0%	100.0%

In May 2005, the Group disposed of its equity stake in NOVA Bank to ZAO Levit ("Levit"), a Group shareholder.

In December 2004, the Group completed an acquisition of two key operating subsidiaries, Tarkosaleneftegas and Khancheyneftegas, resulting in 100 percent ownership of both entities. Prior to December 2004, Tarkosaleneftegas and Khancheyneftegas were accounted for as equity associates (see Note 4).

In June 2004, the Group sold its subsidiaries that represent substantially all of the Group's oil and gas construction services segment to focus its activities on oil and gas exploration, production and processing of hydrocarbons (see Note 26).

During 2003, the ultimate controlling shareholders of NOVATEK (the "Shareholders") restructured 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 represented a reorganization of enterprises under common control and, accordingly, were accounted for at their predecessor book value in a manner similar to a pooling of interests.

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)

The Group's respective interests in its principal associates were as follows:

		Percentage of total share capital at 31 December:		
Associate	**Nature of operations**	**2004**	**2003**	**2002**
OOO Geoilbent ("Geoilbent")	Oil and gas exploration and production	66.0%	66.0%	66.0%
OAO Tambeyneftegas ("Tambeyneftegas")	Oil and gas exploration and production	25.1%	25.1%	-
OOO NGK Itera	Gas sales	-	-	50.0%

During 2002 and through November 2003, the Group was controlled by the Chairman of the Company's Management Board, Leonid V. Mikhelson. In December 2003, such control ceased (see Note 21).

The Group had approximately 3,600, 6,800 and 6,900 employees as at 31 December 2004, 2003 and 2002, respectively. In June 2004, the Group sold substantially all of its oil and gas construction services business, which caused the majority of the decrease in employees between 2004 and 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 Group maintained their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The Group's financial statements are based on the statutory records with adjustments and reclassifications recorded in the financial statements for the fair presentation in accordance with IFRS. The principal adjustments primarily relate to (1) depreciation, depletion and amortization, and valuation of property, plant and equipment, (2) consolidation of subsidiaries, (3) business combinations, (4) accounting for income taxes, (5) restatement of financial statements to reflect the effect of hyperinflation through 31 December 2002, and (6) valuation of unrecoverable assets, expense recognition and other provisions.

The consolidated financial statements have been prepared under the historical cost convention. The Group's functional currency is the Russian rouble ("RR").

Use of estimates. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. Estimates have principally been made in respect to fair values of assets and liabilities, impairment provisions and deferred income taxes. Actual results may differ from such estimates.

2 BASIS OF PRESENTATION (CONTINUED)

Exchange rates, restrictions and controls. The official rate of exchange of the Russian rouble to the US dollar ("USD") at 31 December 2004, 2003 and 2002 was 27.75, 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. However, the Russian rouble appreciated by 5.8 percent and 7.3 percent in 2004 and 2003, respectively, and depreciated 5.7 percent against the US dollar in 2002. The official Russian inflation rates were 11.7 percent, 12.0 percent and 15.1 percent in 2004, 2003 and 2002, respectively. 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 10 percent (25 percent from July 2003 through December 2004 and 50 percent prior to 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.

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 years ended 31 December 2004 and 2003.

Reclassifications. The Group previously disclosed sales of polymer and insulation tape, oil and gas transportation and handling services, telecommunication services and exploration services within other income in the consolidated statements of income. Management believes that their inclusion within revenue is a more appropriate presentation. Comparative amounts for the years ended 31 December 2003 and 2002 have been adjusted accordingly. As a result, the following significant reclassifications were made: revenues totaling RR 776 million and RR 771 million, respectively, have been reclassified from other income to other revenues and polymer sales for the years ended 31 December 2003 and 2002; revenues totaling RR 900 million for light distillate product formerly included in oil and gas condensate sales was reclassified to oil product sales to more appropriately reflect its nature; and in 2002, RR 143 million of revenues relating to dry gas and gas condensate formerly included in oil products sales have been reclassified to more appropriately reflect their nature. Certain other reclassifications not detailed here have been made to prior year balances to conform to the current year presentation. Management believes that the current year presentations more accurately represent the Group's activities.

Changes in accounting policies. During 2003, the Group early adopted IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The effect of adoption was immaterial.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Except for the acquisition of entities under common control, the purchase method of accounting is used to account for the acquisition of subsidiaries.

Upon achieving a controlling interest in an entity in which the Group previously held a non-controlling interest, the acquiree's identifiable assets, liabilities and contingent liabilities are restated to their fair values as of the date of achieving control and then upon each subsequent step acquisition. The effect of revaluing previously held interests to current fair values is recorded within asset revaluation surplus in the consolidated statement of shareholders' equity.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Purchases of subsidiaries from entities under common control are accounted for using the pooling of interest method. The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the ‘‘Predecessor’’). Related goodwill inherent in the Predecessor’s original acquisition is also recorded in these financial statements. Any difference between the total book value of net assets, including the Predecessor’s goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders’ equity.

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 income and losses and other equity movements during the year. Provisions are recorded for any impairment in value. Unrealized gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealized 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.

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 consolidated statement of income. Bad debts are written off during the year in which they are identified.

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

Inventories. Natural gas, crude oil, gas condensate and natural gas liquids inventories are valued at the lower of cost or net realizable value. The cost of inventories includes applicable purchase costs of raw materials, direct operating costs, and related overhead expenses and is recorded at average cost. Net realizable 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.

Property, plant and equipment. Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation, depletion, and impairment.

The Group follows the successful efforts method of accounting for its oil and gas properties and equipment whereby property acquisitions, successful exploratory wells, all development costs and support equipment and facilities are capitalized. 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.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation, depletion and amortization of capitalized costs of oil and gas properties and equipment is calculated using the unit-of-production method for each field based upon proved developed reserves for development costs, and total proved reserves for capitalized costs from acquisitions of proved properties. Reserve amounts used for depreciation, depletion and amortization calculations include reserves expected to be produced beyond license expiry dates. Management believes that there is requisite legislation to extend mineral licenses at the initiative of the Group and, as such, intends to extend its licenses for properties expected to produce beyond the license expiry dates. In February 2005, the Group successfully extended its license on Yurkharovskoye field from 2020 through 2034, which year represents the expected end of the economic life of the field. The cost of license extension was not material.

The oil and gas reserves of the Group have been determined based on estimates of mineral reserves prepared by management in accordance with internationally recognized definitions and, at 31 December 2004, 2003 and 2002, the Group's principal reserves have been independently estimated by internationally recognized petroleum engineers. The present value of the estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs are recognized when the obligation is incurred and are included within the carrying value of property, plant and equipment, and therefore subject to depletion thereon using the unit-of-production method.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

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

Major renewals and improvements are capitalized. 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 and equipment, are depreciated on a straight-line basis. Assets under construction are not depreciated.

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

	Years
Machinery and equipment	5-15
Buildings	25-50

Impairment of assets. An assessment is made at each balance sheet date to determine whether there is objective evidence that an asset or a group of assets may be impaired. When there is an indication that an asset may be impaired, the asset is measured at its estimated recoverable amount, which is the higher of the net selling price and value in use.

Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment loss is recognized for the difference between the estimated recoverable amount and the carrying value. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the consolidated statement of income for the period.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An impairment loss is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Deferred income taxes. Deferred income 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. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income nor loss, it is not accounted for. A deferred income tax asset is recorded only to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized 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 recognized 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 re-measured at each period end at the foreign exchange rate as of the balance sheet date. Borrowings received or provided that are originated by the Group are subsequently measured at amortized cost and, for borrowings provided, net of any impairment losses.

Dividends. Dividends are recognized 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.

Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are issued.

Revenue recognition. Revenues from the production and sale of natural gas, crude oil and gas condensate are recognized when such products are delivered to customers and title has transferred. Revenues are stated net of value-added tax, excise tax and export duties.

Revenues from rendering construction services are based on the stage of completion determined by reference to services performed to date as a percentage of total services to be performed.

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 recognized 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An asset retirement obligation is recognized when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation, determined using pre-tax risk free discount rates adjusted for risks specific to the obligation. Changes in the obligation resulting from the passage of time are recognized as interest expense. Changes in the obligation, reassessed at each balance sheet date, related to a change in the expected pattern of settlement of the obligation, or in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the period. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability.

Value-added tax. The tax authorities permit the settlement of sales and purchases value added tax (‘‘VAT’’) on a net basis.

VAT payable represents VAT related to sales payable to tax authorities upon collection of receivables from customers net of VAT on purchases which have been settled at the balance sheet date. In addition, VAT related to sales which have not been settled at the balance sheet date (VAT deferred) is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

VAT recoverable relates to purchases which have not been settled at the balance sheet date and property, plant and equipment not put into operation. VAT recoverable is reclaimable against sales VAT upon payment for the purchases and putting property, plant and equipment into operation.

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, receivables, trade payables and debt. The particular recognition methods adopted are disclosed in the individual policies related to each item. Except for long-term debt, the difference, where material, between the fair value at inception of the financial instruments, where these can be estimated reliably, and the nominal amount of financial instruments at their inception are recognized in the consolidated statement of income, consolidated balance sheet, or consolidated statement of changes in shareholders’ equity in accordance with the underlying nature of such differences.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in other non-current assets. Goodwill on an acquisition of an associate is included in investments in associates.

The Group applies the transitional rules of IFRS 3, *Business Combinations,* in respect of goodwill and negative goodwill arising from business combinations for which the agreement date was before 31 March 2004. Consequently, on 1 January 2005, previously recognized goodwill will no longer be amortized and will be tested for impairment in accordance with IAS 36, *Impairment of Assets*, and previously recognized negative goodwill will be derecognized with a corresponding adjustment to the opening balance of retained earnings. At 31 December 2004, the Group had negative goodwill of RR 762 million recorded within other long-term assets in its consolidated balance sheet. On 1 January 2005, this negative goodwill will be derecognized in accordance with IFRS 3 and retained earnings will be increased by the same amount.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. Negative goodwill is presented in the same balance sheet category as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognized in the consolidated statement of income when the future losses and expenses are recognized. For acquisitions prior to 31 March 2004, any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, was recognized in the consolidated statement of income over the remaining weighted average useful life of depreciable and amortizable assets acquired.

In accordance with IFRS 3, goodwill arising from business combinations for which the agreement date is on or after 31 March 2004 is tested annually for impairment and carried at cost less accumulated impairment losses. Negative goodwill arising from a business combination for which the agreement is on or after 31 March 2004 is recognized directly in the consolidated statement of income.

The gain or loss on disposal of an entity includes the unamortized balance of goodwill relating to the disposed entity.

New accounting developments. In December 2003, the IASB released 15 revised International Accounting Standards and withdrew one IAS standard. The revised standards are all mandatory for periods starting on or after 1 January 2005. In 2004, the IASB published five new standards, two revisions and two amendments to existing standards. In addition, the IFRIC issued six new interpretations in 2004.

The revised and amended standards are as follows: IAS 1, *Presentation of Financial Statements*; IAS 2, *Inventories*; IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; IAS 10, *Events after the Balance Sheet Date*; IAS 16, *Property, Plant and Equipment*; IAS 17, *Leases*; IAS 19, *Employee Benefits*; IAS 21, *The Effects of Changes in Foreign Exchange Rates*; IAS 24, *Related Party Disclosures*; IAS 27, *Consolidated and Separate Financial Statements*; IAS 28, *Investments in Associates*; IAS 32, *Financial Instruments: Disclosure and Presentation*; IAS 33, *Earnings per Share*; IAS 39, *Financial Instruments: Recognition and Measurement*; IAS 36, *Impairment of Assets* and IAS 38, *Intangible Assets*.

The new standards and interpretations are as follows: IFRS 2, *Share-based Payment*; IFRS 3, *Business Combinations*; IFRS 4, *Insurance Contracts*; IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*; IFRS 6, *Exploration for and Evaluation of Mineral Resources*; IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*; IFRIC 2, *Members' Shares in Co-operative Entities and Similar Instruments*; IFRIC 3, *Emission Rights*; IFRIC 4, *Determining whether an Arrangement contains a Lease*; IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* and IFRIC Amendment to SIC-12.

The Group expects to adopt all relevant new, revised and amended standards and the new IFRIC interpretations from their respective effective date, the majority of which are effective as of 1 January 2005.

Other than the effect of adoption of IFRS 3 discussed above, management does not believe the adoption of these standards will have a material impact on the Group's financial position, statements of income or of cash flows.

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

4 ACQUISITION OF TARKOSALENEFTEGAS AND KHANCHEYNEFTEGAS

Description of the transaction. In December 2004, the Group's interest in Tarkosaleneftegas and Khancheyneftegas was increased to 100 percent as a result of its purchase of an additional 67.7 percent interest in Tarkosaleneftegas and 57.0 percent in Khancheyneftegas. The Group purchased these stakes from its significant shareholders, SWGI Growth Fund (Cyprus) Limited and Levit, by issuing 789,276 new ordinary shares in NOVATEK. Immediately prior to the acquisition, SWGI Growth Fund (Cyprus) Limited and Levit purchased 43.9 percent of Tarkosaleneftegas and 26.8 percent of Khancheyneftegas from the ITERA Group. Also prior to the acquisition, Levit purchased six percent of Khancheneftegas from individuals. The shareholder purchases from the ITERA Group were partially funded through loans from the Group (see Notes 15, 18 and 21). As part of the acquisition, the Group agreed to the early repayment of loans from Tarkosaleneftegas to the ITERA Group and entered into a five-year commitment to sell gas to the ITERA Group at negotiated market prices.

Accordingly, the total purchase price for 67.7 percent of Tarkosaleneftegas and 57.0 percent of Khancheyneftegas comprises the following:

Issuance of 789,276 new ordinary shares of NOVATEK	23,928
Cost of early repayment of long-term debt by Tarkosaleneftegas	578
Value of five-year gas sales contract	701
Total purchase price	**25,207**

Management's purchase accounting allocation is preliminary and resulted in no goodwill being recognized. The excess of purchase price over identifiable assets excluding oil and gas properties and equipment was allocated to oil and gas properties and equipment. The resulting tax effect was recorded within deferred tax liabilities in the consolidated balance sheet. The preliminary net fair values disclosed below comprise 100 percent of the assets and liabilities of the acquirees, including the stakes in Tarkosaleneftegas and Khancheyneftegas held by the Group prior to the acquisition. The IFRS carrying values before the acquisition reported below relate to the IFRS carrying values in the separate accounts of the acquirees. Such stakes were also revalued to their fair values at the acquisition date. The results of such revaluation totaled RR 5,345 million and were recorded in the consolidated statement of shareholders' equity. Other differences between the fair values of the acquirees' total net assets and the purchase price include the cost of the early repayment of long-term debt and the value of the five-year gas sales contract.

	Tarkosaleneftegas		**Khancheyneftegas**	
	IFRS carrying amounts before the acquisition	**Fair values at the acquisition date**	**IFRS carrying amounts before the acquisition**	**Fair values at the acquisition date**
Current assets	2,165	2,165	654	654
Oil and gas properties and equipment	14,137	34,732	3,166	12,425
Other non-current assets	174	174	25	25
Current liabilities	(4,783)	(4,783)	(1,863)	(1,863)
Non-current liabilities	(722)	(5,664)	(1,297)	(3,519)

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

4 ACQUISITION OF TARKOSALENEFTEGAS AND KHANCHEYNEFTEGAS (CONTINUED)

Summary combined financial information. The following table sets forth summary combined financial information for the year ended 31 December 2004 that is presented to provide information to evaluate the financial effects of the acquisition of Tarkosaleneftegas ("TSNG") and Khancheyneftegas ("KhNG") as if it had occurred on 1 January 2004. The following information comprises financial data for the full financial year ended 31 December 2004.

	Group results excluding its share of income from TSNG and KhNG	TSNG	KhNG	Summary combined
Total revenues	24,615	4,680	2,749	32,044
Net income (loss)	5,694	(104)	421	6,011

The summary combined financial information should not be construed to represent consolidated financial information. Specifically, no adjustments have been made for the following: (a) revenues were not adjusted to conform with the terms of the five-year gas sales contract with the ITERA Group; (b) depreciation, depletion and amortization was not increased to reflect the higher carrying values of property, plant and equipment following fair value adjustments; (c) intercompany eliminations; and (d) income taxes.

5 SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions during 2004 were as follows: the Group issued 789,276 new ordinary shares as consideration for the acquisition of its 67.7 percent of Tarkosaleneftegas and 57.0 percent of Khancheyneftegas (See Note 4).

Significant non-cash transactions during 2003 were as follows: during the year, the Group issued 170,244 new ordinary shares to the Yamal Regional Fund of Development, a Group shareholder, as consideration for shares acquired in Minlay, Tambeyneftegas, and Yamalneftegasdobycha (See Note 19); 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 (See Note 13).

Significant non-cash transactions during 2002 were as follows: Kanwal Trading Limited, a related party (see Note 21), 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.

6 OIL AND GAS SALES

	Year ended 31 December:		
	2004	2003	2002
Natural gas sales	12,943	7,612	1,094
Crude oil and gas condensate sales	6,387	2,268	1,084
Oil product sales	2,159	2,144	124
Total oil and gas sales	**21,489**	**12,024**	**2,302**

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

7 MATERIALS, SERVICES AND OTHER

	Year ended 31 December:		
	2004	**2003**	**2002**
Materials and supplies	1,606	1,932	1,040
Employee compensation	756	946	736
Construction services	415	679	462
Tolling fees	365	457	-
Electricity and fuel	138	173	21
Extraction services	247	156	62
Rent expense	158	65	52
Repair and maintenance services	124	88	64
Other	366	486	407
Total materials, services and other	**4,175**	**4,982**	**2,844**

Included within total materials, services and other was RR 711 million and RR 436 million of expenses directly related to the extraction of natural gas, crude oil an gas condensate by our primary operating subsidiaries for the years ended 31 December 2004 and 2003, respectively.

In 2003, the Group commenced tolling of unstable condensate and oil and gas mix for processing into natural gas liquids and oil products

8 TRANSPORTATION EXPENSES

	Year ended 31 December:		
	2004	**2003**	**2002**
Natural gas transportation to customers	2,938	1,338	62
Crude oil and gas condensate transportation to customers	555	249	56
Oil products transported by railroad	131	82	-
Insurance expense	357	499	-
Other internal transportation costs	253	222	203
Total transportation expenses	**4,234**	**2,390**	**321**

In 2003, the Group obtained insurance coverage for the transportation, via pipeline, of its natural gas, crude oil and gas condensate.

Other internal transportation costs comprise transport costs associated with gathering and delivering hydrocarbons at the field level to third party transportation networks. Additionally, for the years ended 31 December 2004 and 2003, respectively, other internal transportation costs include RR 44 million and RR 62 million of transportation costs from the Group's oil and gas construction services segment that was disposed of during 2004.

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

9 TRADE AND OTHER RECEIVABLES

	31 December:		
	2004	**2003**	**2002**
Trade receivables (net of provision of RR 21 million, RR 18 million and nil at 31 December 2004, 2003 and 2002, respectively)	825	747	543
Trade and other receivables - related parties	606	341	960
Construction balances due from customers (net of provision of nil, RR 5 million and nil at 31 December 2004, 2003 and 2002, respectively)	-	48	87
Construction receivables due from related parties	-	54	766
Recoverable value added tax	1,740	1,317	536
Interest on loans receivable – related parties	42	96	3
Other receivables (net of provision of RR 47 million, RR 28 million and RR 6 million at 31 December 2004, 2003 and 2002, respectively)	243	336	185
Total trade and other receivables	**3,456**	**2,939**	**3,080**

During 2003, the Group wrote off trade receivables and interest on loans receivable of RR 76 million from OOO Yangpur, an associate until 2002.

10 PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December:		
	2004	**2003**	**2002**
Prepayments and advances to suppliers (net of provision of RR 1 million, RR 6 million and nil at 31 December 2004, 2003 and 2002, respectively)	361	961	565
Prepayments and advances to related parties	30	19	-
Prepaid taxes	609	292	3
Other current assets	39	12	10
Total prepayments and other current assets	**1,039**	**1,284**	**578**

11 INVENTORIES

	31 December:		
	2004	**2003**	**2002**
Materials and supplies at net realizable value (net of provisions of RR 87 million, RR 136 million and RR 147 million at 31 December 2004, 2003 and 2002, respectively)	479	644	-
Materials and supplies at cost	252	275	1,155
Materials and supplies held by contractors	25	252	37
Construction contract work-in-progress	-	97	137
Natural gas and hydrocarbon liquids	105	60	28
Polymer and insulation tape products	66	22	-
Apartments available-for-sale	2	22	71
Total inventories	**929**	**1,372**	**1,428**

At 31 December 2004, certain materials and supplies inventories were pledged as collateral for short- and long-term bank borrowings (see Notes 17 and 18).

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

12 TRADE PAYABLES AND ACCRUED LIABILITIES

	31 December:		
	2004	2003	2002
Trade payables	532	1,103	891
Trade and other payables - related parties	63	532	365
Construction advances	-	714	320
Bank customer deposits	462	206	157
Bank customer deposits – related parties	84	106	107
Trade advances from customers	572	269	70
Salaries payable	76	111	108
Interest payable	143	67	112
Other payables	31	217	144
Total trade payables and accrued liabilities	**1,963**	**3,325**	**2,274**

In June 2004, the Group sold its subsidiaries that represent substantially all of the Group's oil and gas construction services (see Note 26).

13 INVESTMENTS IN ASSOCIATES

	31 December:		
	2004	2003	2002
Tarkosaleneftegas	-	3,840	3,170
Geoilbent	1,835	1,247	890
Khancheyneftegas	-	75	64
Tambeyneftegas	109	114	-
Other	1	15	63
Total investments in associates	**1,945**	**5,291**	**4,187**

Acquisition of stakes in Tarkosaleneftegas and Khancheyneftegas. In December 2004, the Group completed an acquisition of two key operating subsidiaries, Tarkosaleneftegas and Khancheyneftegas, resulting in 100 percent ownership of both entities (see Note 4).

Tarkosaleneftegas. During 2003, the Group acquired an additional 4.7 percent of Tarkosaleneftegas' outstanding shares: 3.7 percent from third parties for RR 102 million and one percent from Group shareholders for RR 15 million. The 3.7 percent acquired from third parties was valued at its estimated fair value of RR 432 million, resulting in negative goodwill of RR 330 million. The one percent acquired from Group shareholders was valued at its predecessor basis of RR 98 million. The excess of carrying value over the purchase price of RR 15 million was recorded as contributions from shareholders within the Group's consolidated statement of shareholders' equity. Additionally, the Group transferred a portion of its holdings in Tarkosaleneftegas from PNGG to NOVATEK, resulting in a reduction of minority interest of RR 160 million.

Khancheyneftegas. During 2002, the Group sold six percent of its holdings in Khancheyneftegas for RR 60 thousand. The difference between the sales proceeds and the Group's carrying value in the investment of RR 5 million was recorded as a loss in the Group's consolidated statement of income.

Geoilbent. During 2004, Geoilbent was successful in its legal claim for recovery of RR 344 million of overpaid income taxes relating to prior fiscal periods and, accordingly, recorded an income tax benefit during the period.

In November 2004, the Group resolved to sell its 66 percent participation interest in Geoilbent.

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

13 INVESTMENTS IN ASSOCIATES (CONTINUED)

Acquisition from Yamal Regional Fund of Development. 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 new ordinary shares of Tambeyneftegas, OAO Yamalneftegasdobycha, and Minlay, respectively, for 170,244 new ordinary shares in NOVATEK with an estimated total fair value of RR 2,721 million (see Note 19). The acquisition of the additional shares in Minlay, a Group subsidiary, increased the Group's effective interest in its associates, Geoilbent and Nakhodkaneftegas. Through the acquisition, the Group acquired an additional equity stake in Yurkharovneftegas, a Minlay subsidiary. The fair values for the acquired assets and liabilities were as follows:

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
Additional stake in Yurkharovneftegas	1,803
Reduction in carrying value of minority interest	125
Deferred tax liabilities recognized	(588)
Fair value of consideration provided	**2,721**

During 2002, the Group sold 60 percent of its interest in Nakhodkaneftegas, with a carrying value of RR 3 million, for RR 30 million to a Group shareholder. The resulting gain of RR 27 million was recorded within gain on disposal of investments in oil and gas producing subsidiaries and associates in the 2002 consolidated statement of income.

In November 2003, the Group sold its remaining 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 totaling RR 821 million to Lukoil West Siberia. As a result of the sales, the Group recognized gains of RR 1,015 million.

Disposal of Yangpur. During 2002, the Group sold its 32 percent interest in OOO Yangpur to ZAO Deport for RR 58 million, realizing a gain on disposal of RR 49 million.

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

13 INVESTMENTS IN ASSOCIATES (CONTINUED)

Movement in the carrying value of investment in associates.

	Year ended 31 December:		
	2004	2003	2002
Balance at the beginning of the year	**5,291**	**4,187**	**3,789**
Share of income before tax	721	524	737
Share of income tax benefit (expense)	43	(88)	(198)
Net income from associates	764	436	539
Goodwill recognized on acquisition	-	247	-
Goodwill derecognized on disposal	-	(190)	-
Negative goodwill recognized on acquisition	-	(509)	-
Acquisition of associates	35	2,045	34
Disposals of associates	(37)	(922)	(39)
Acquisition of controlling stakes in associates (see Note 4)	(4,106)	-	-
Other movements	(2)	(3)	(136)
Balance at the end of year	**1,945**	**5,291**	**4,187**

14 INVESTMENTS IN SUBSIDIARIES

Acquisition of stakes in NOVATEK-Polymer. In May 2004, the Group acquired an additional 19 percent of the total outstanding shares of NOVATEK-Polymer from a third party for RR 67 million in cash, and, in August 2004, an additional 25.5 percent of the total outstanding shares of NOVATEK-Polymer in an auction from the Russian Federal Property Fund for RR 61 million in cash. In addition, in August 2004, the Group also purchased an additional 1.25 percent for RR 4 million.

Acquisition of additional stake in PNGG. During 2004, the Group entered into an agreement with OAO Gazprom, the Russian gas monopoly, whereby the Group exchanged its title to the mineral license in the West-Tarkosalinskoye field, held by PNGG's wholly-owned subsidiary OOO Purgazdobycha, for an 8.34 percent interest in PNGG. The acquisition increased the Group's effective interest in PNGG to 78.0 percent. Within the framework of this agreement, the Group retained its rights to 10 percent of the natural gas extracted from the Cenomanian reservoir and 50 percent of the hydrocarbon liquids from the Neocomian reservoir from the West-Tarkosalinskoye field for the whole period of the license (which expires in 2021). At the same time, the Group leased the gas production assets from the field to OAO Gazprom under a long-term finance lease. The Group recognized a gain of RR 278 million, net of tax of RR 88 million, on the disposal.

Disposals. During 2004, the Group disposed of its interest in various non-core business entities to both third and related parties realizing a net gain of RR 480 million. Additionally, during 2004, the Group sold 10 percent interest of PNGG, with a carrying value of RR 41 million for RR 12 million.

In June 2004, the Group disposed of substantially all of its oil and gas construction services segment (see Note 26).

In December 2004, the Group disposed of its 66.7 percent interest in OAO Yamaltelecom, a telecommunication company for total consideration of RR 19 million, recognizing a gain of RR 6 million on the transaction.

In September 2004, NOVA Bank issued an additional six million shares to Levit, a Group shareholder, for total consideration of RR 60 million. As a result, the Group's interest in NOVA Bank decreased from 88.6 percent to 62 percent, and correspondingly, the Group recognized a loss on the transaction of RR 6 million.

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

15 LONG-TERM LOANS RECEIVABLE

	31 December:		
	2004	**2003**	**2002**
US dollar denominated loans to related parties	7,492	1,972	157
Russian rouble denominated loans to related parties	165	879	-
Banking loans receivable	138	74	-
Banking loans receivable from related parties	37	-	-
Russian rouble denominated loans	-	8	-
Total long-term loans receivable	**7,832**	**2,933**	**157**

US Dollar denominated loans to related parties. In December 2004, the Group provided a 10 percent loan in the amount of USD 290 million (RR 8,094 million) to Levit, a Group shareholder. Levit repaid USD 20 million (RR 558 million) of this loan in December 2004. The loan was originally repayable in December 2005. However, in March 2005, the loan maturity date was extended to 30 June 2006. Accordingly, the outstanding balance of USD 270 million (RR 7,492 million) was reclassified from short-term to long-term loans receivable at 31 December 2004.

At 31 December 2003, US dollar denominated loans to related parties included unsecured, 10 percent loans in the amount of RR 794 million (USD 27 million) and RR 1,178 million (USD 40 million) to Tarkosaleneftegas and Khancheyneftegas, respectively. Following the acquisitions of Tarkosaleneftegas and Khancheyneftegas, these loans were eliminated in consolidation.

Russian rouble denominated loans to related parties. At 31 December 2004, the weighted average interest rate on Russian rouble denominated loans to related parties was 11.5 percent. These related party loans are unsecured, repayable between 2006 and 2008 and are receivables from former subsidiaries that were disposed of in 2004.

At 31 December 2003, Russian rouble denominated loans to related parties included loans of RR 879 million to Khancheyneftegas. The loans are unsecured and bore interest of 16 percent. In April 2004, the loans were repaid.

16 PROPERTY, PLANT AND EQUIPMENT

	31 December:		
	2004	**2003**	**2002**
Cost			
Oil and gas properties and equipment	53,749	6,893	1,341
Assets under construction	8,596	2,553	3,780
Machinery and equipment	-	1,281	1,168
Other	1,016	496	183
	63,361	11,223	6,472
Accumulated depreciation, depletion and amortization			
Oil and gas properties and equipment	(806)	(431)	(177)
Assets under construction	-	-	-
Machinery and equipment	-	(674)	(664)
Other	(106)	(61)	(5)
	(912)	(1,166)	(846)
Property, plant and equipment, net	**62,449**	**10,057**	**5,626**

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

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The net movement in property, plant and equipment, for the year ended 31 December 2004 was as follows:

	Oil and gas properties and equipment	Assets under construction	Machinery and equipment	Other	Total
31 December 2003	6,462	2,553	607	435	10,057
Acquisitions	44,718	2,210	-	288	47,216
Additions	1,062	6,220	-	130	7,412
Transfers	1,909	(2,105)	-	196	-
Disposals	(687)	(282)	(557)	(123)	(1,649)
Depreciation, depletion and amortization	(584)	-	(50)	(65)	(699)
Impairments	63	-	-	49	(112)
31 December 2004	**52,943**	**8,596**	**-**	**910**	**62,449**

The net movement in property, plant and equipment for the year ended 31 December 2003 was as follows:

	Oil and gas properties and equipment	Assets under construction	Machinery and equipment	Other	Total
31 December 2002	1,164	3,780	504	178	5,626
Acquisitions	-	6	-	189	195
Additions	1,518	3,216	159	109	5,002
Transfers	4,089	(4,405)	131	185	-
Disposals	(22)	(20)	(79)	(103)	(224)
Depreciation, depletion and amortization	(287)	-	(108)	(57)	(452)
Impairments	-	(24)	-	(66)	(90)
31 December 2003	**6,462**	**2,553**	**607**	**435**	**10,057**

The net movement in property, plant and equipment for the year ended 31 December 2002 was as follows:

	Oil and gas properties and equipment	Assets under construction	Machinery and equipment	Other	Total
31 December 2001	1,217	647	460	145	2,469
Additions	9	3,333	-	109	3,451
Transfers	22	(183)	148	13	
Disposals	(5)	(17)	(10)	(4)	(36)
Depreciation, depletion and amortization	(79)	-	(94)	(2)	(175)
Impairments	-	-	-	(83)	(83)
31 December 2002	**1,164**	**3,780**	**504**	**178**	**5,626**

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

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included within oil and gas properties and equipment at 31 December 2004, 2003 and 2002 are property acquisition costs of RR 32,102 million, RR 2,262 million and RR 826 million, net of accumulated depreciation, depletion and amortization and impairment expense of RR 69 million, RR 66 million and RR 39 million, respectively.

Estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, amounting to RR 268 million, RR 33 million and 38 million at 31 December 2004, 2003 and 2002, respectively, are included in the cost of oil and gas properties and equipment. The Group has estimated its liability based on current environmental legislation using estimated costs when the expenses are expected to be incurred through 2045. The corresponding obligation is recorded within other non-current liabilities in the Group's consolidated balance sheets. 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 the years ending 31 December 2004, 2003 and 2002 was capitalized interest of RR 446 million, RR 322 million and RR 265 million, respectively.

At 31 December 2004, certain property, plant and equipment were pledged as collateral for short- and long-term bank borrowings (see Notes 17 and 18).

17 SHORT-TERM DEBT

	31 December:		
	2004	**2003**	**2002**
Russian rouble denominated loans	3,680	1,276	1,420
US dollar denominated loans	-	660	159
Loans from related parties	425	-	127
Promissory notes	1,275	133	11
Add: current portion of long-term debt	5,388	-	-
Total short-term debt and current portion of long-term debt	**10,768**	**2,069**	**1,717**

Russian rouble denominated loans. Short-term Russian rouble denominated loans had a weighted average interest rate of 10.5 percent (interest ranging from 8.8 to 12 percent) and 14.4 percent (interest ranging from 12 to 16 percent), at 31 December 2004 and 2003, respectively. At 31 December 2002, Russian rouble denominated loans had an interest range between 18 to 20 percent.

US dollar denominated loans. Short-term US dollar denominated loans had a weighted average interest rate of 7.9 percent (interest ranging from 6 percent to 10 percent) and 10.0 percent at 31 December 2003 and 2002, respectively.

Loans from related parties. At 31 December 2004, loans from related parties included US dollar denominated loans from the Yamal Regional Fund of Development, a Group shareholder, in the amount of RR 425 million (USD 15.3 million). The loan was obtained by Khancheyneftegas and was consolidated after the acquisition of Khancheyneftegas (see Note 4). The loan bears interest of 10 percent per annum and is repayable in February 2005. Subsequent to 31 December 2004, the loan was repaid.

At 31 December 2002, short-term loans payable to related parties included US dollar denominated loans from SWGI Growth Fund (Cyprus) Limited, a Group shareholder, in the amount of approximately RR 127 million (USD 4 million). The loans were unsecured and bear interest from nil to 10 percent. During 2003, these loans were repaid.

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

17 SHORT-TERM DEBT (CONTINUED)

Promissory notes. At 31 December 2004, promissory notes consist of Tarkosaleneftegas promissory notes which are denominated in Russian roubles and repayable within one year of the balance sheet date. Subsequent to the balance sheet date, RR 712 million of these promissory notes were repaid. At 31 December 2003, promissory notes consisted of NOVA Bank promissory notes which were denominated in Russian roubles and repayable within one year of the respective balance sheet date.

18 LONG-TERM DEBT

	31 December:		
	2004	**2003**	**2002**
Russian rouble denominated loans	4,537	1,628	4
US dollar denominated loans	11,586	2,946	2,066
Loans from related parties	1,497	1,178	1,209
Russian rouble denominated bonds	1,000	-	-
Total	18,620	5,752	3,279
Less: current portion of long-term debt	(5,388)	-	-
Total long-term debt	**13,232**	**5,752**	**3,279**

At 31 December 2004, 2003 and 2002, long-term debt by facility is outlined below.

	31 December:		
	2004	**2003**	**2002**
C.R.R. B.V.	8,324	-	-
Sberbank	3,354	459	-
Vneshtorgbank	2,775	2,945	-
Yamal Regional Fund of Development	1,126	1,178	1,271
Finance Department of YNAO	1,130	1,130	-
Russian rouble denominated bonds	1,000	-	-
Other Russian rouble denominated loans	424	40	4
SWGI Growth Fund (Cyprus) Limited	-	-	1,209
Other loans	487	-	795
Total	18,620	5,752	3,279
Less: current portion of long-term debt	(5,388)	-	-
Total long-term debt	**13,232**	**5,752**	**3,279**

C.R.R. B.V. In December 2004, the Group received a loan for general commercial purposes in the amount of USD 200 million (RR 5,549 million) from C.R.R. B.V. backed by unsecured, 18-month credit-linked notes with an annual coupon rate of 7.75 percent, payable semi-annually. The loan is repayable in June 2006 and was guaranteed by Yurkharovneftegas in full. Subsequent to 31 December 2004, an additional guarantee was provided by Tarkosaleneftegas to comply with the terms of the loan agreement.

18 LONG-TERM DEBT (CONTINUED)

In April 2004, the Group received a loan in the amount of USD 100 million (RR 2,775 million) from ING Bank N.V. backed by unsecured, 18-month credit-linked notes with an annual coupon rate of 9.125 percent, payable semi-annually. The proceeds of the loan were used toward developing the Group's oil and gas fields and the construction of the Purovsky Gas Condensate Plant. The loan is payable in October 2005 and was guaranteed by Yurkharovneftegas and Tarkosaleneftegas for USD 100 million and USD 50 million, respectively. In April 2004, ING Bank N.V. transferred the loan to C.R.R. B.V.

Sberbank. During 2004, the Group received additional loans from Sberbank in the amounts of RR 900 million at 12 percent per annum payable between 2008 and 2009, RR 495 million at interest rates between 12 and 13 percent per annum payable in 2007, and RR 499 million at 10.5 percent per annum payable in 2005. The loans are collateralized by the Group's property, plant and equipment. During 2004, RR 459 million of outstanding loans at the beginning of the year were repaid.

The Group also consolidated Tarkosaleneftegas' outstanding RR 1,460 million Sberbank debt after the date of acquisition (see Note 4). These borrowings are collateralized by the Group's property, plant and equipment, bear annual interest rates ranging between 10.5 percent and 12 percent and are repayable between 2005 and 2007. A portion of these loans in the amount of RR 600 million was secured by the Group's 2.5 percent share in Tarkosaleneftegas. Subsequent to the balance sheet date, that portion of the loan amounting to RR 600 million was repaid ahead of schedule and the shares pledged were released.

Vneshtorgbank. At 31 December 2004 and 2003, US dollar denominated loans consisted of a USD 100 million loan from Vneshtorgbank in the amounts of RR 2,775 million and RR 2,945 million, respectively. The loan is collateralized by the Group's share in Tarkosaleneftegas (25 percent plus one share), and is guaranteed by Yurkharovneftegas and Khancheyneftegas. The loan bears annual interest of 9.75 percent and is repayable between 2005 and 2008. As described in Note 27, along with a legal re-organization of Tarkosaleneftegas to a limited liability company, the collateral of 25 percent plus one share was substituted by the 26 percent participation interest in Tarkosaleneftegas.

Yamal Regional Fund of Development. In December 2001, the Group entered into a USD 40 million loan agreement with the Yamal Regional Fund of Development, a Group shareholder. The borrowings were secured by the 100 percent participation interest in Yurkharovneftegas, bore interest of 10 percent per annum, and matured in December 2006. At 31 December 2003 and 2002, the outstanding loan amounts were RR 1,178 million and RR 1,271 million, respectively. 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.

During 2004, the Group repaid USD 5 million of its outstanding loan (RR 156 million), and subsequently obtained another Russian rouble denominated loan for RR 155 million. The new rouble-denominated loan is guaranteed by Yurkharovneftegas, bears annual interest of 12 percent and matures in March 2007. The proceeds from this loan will be used for the construction of the Purovsky Gas Condensate Plant. In April 2005, the annual interest rate was reduced to 10 percent.

Subsequent to the balance sheet date, the Group repaid the US dollar denominated loan of USD 35 million to the Yamal Regional Fund of Development, and the Group's 31 percent of the participation interest in Yurkharovneftegas has been released from the pledge.

Finance Department of YNAO. In August 2003, the Group received a Russian rouble denominated loan from the Finance Department of YNAO in the amount of RR 1,130 million for the construction of the Purovsky Gas Condensate Plant. The loan is collateralized by the Group's 4.7 percent share in Tarkosaleneftegas, bears interest of 12.75 percent per annum, and matures in July 2008. In August 2004, the annual interest rate was reduced to 11.75 percent. As described in Note 27, along with a legal re-organization of Tarkosaleneftegas to a limited liability company, the collateral of 4.7 percent share was substituted by the 4.7 percent participation interest in Tarkosaleneftegas.

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

18 LONG-TERM DEBT (CONTINUED)

Russian rouble denominated bonds. In December 2004, the Group placed one million non-convertible Russian rouble denominated bonds with a nominal value of RR 1,000, payable in 728 days and an annual coupon rate of 9.4 percent, payable semi-annually. The bond issue was guaranteed by Yurkharovneftegas.

Other Russian rouble denominated loans. At 31 December 2004, other Russian rouble denominated loans included interest free loans from Pur-Land, a related party, in the total amount of RR 371 million due to mature in December 2005 and interest free promissory notes issued by Tarkosaleneftegas in the amount of RR 53 million due to mature in June 2007. The loans were consolidated by the Group after the acquisition of Khancheyneftegas and Tarkosaleneftegas (see Note 4). In January 2005, RR 371 million of loans from Pur-Land were repaid.

At 31 December 2003, other Russian rouble denominated loans totaling RR 40 million were interest free and payable between 2004 and 2006. At 31 December 2002, other Russian rouble denominated loans total RR 4 million, were interest free and payable between 2004 and 2006.

SWGI Growth Fund (Cyprus) Limited. At 31 December 2002, loans from SWGI Growth Fund, a Group shareholder, consisted of US dollar denominated loans in the amount of USD 38 million (RR 1,209 million). These loans were unsecured and bore annual interest ranging from 12 to 15 percent. During 2003, these loans were repaid in full.

Other loans. At 31 December 2004, other loans included US dollar denominated loans totaling RR 487 million (USD 17.6 million) with a weighted average interest rate of 8.3 percent. The loans mature between 2005 and 2010. At 31 December 2002, other loans consisted of a US dollar denominated loan in the amount of RR 795 million (USD 25 million) from Lukoil Western Siberia, which was settled in full during 2003.

Scheduled maturities of long-term debt outstanding are as follows:

	Scheduled maturities as at 31 December:		
Year ended 31 December:	**2004**	**2003**	**2002**
2004	-	-	4
2005	-	950	1,209
2006	7,920	2,160	1,271
2007	2,697	982	795
2008	2,093	1,660	-
2009	515	-	-
Thereafter	7	-	-
Total long-term debt	**13,232**	**5,752**	**3,279**

19 SHAREHOLDERS' EQUITY

Dividends. In May 2005, the Board of Directors recommended a dividend of RR 256 per share to be paid to shareholders of record as of 25 April 2005. This recommended dividend totaling RR 777 million is subject to approval by shareholders at the Annual General Meeting of Shareholders.

Increases in ordinary share capital. During 2002, NOVATEK issued one 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 paid in capital. Of these new shares, 533,330 shares were issued to Levit, and 466,670 shares were issued to SWGI Growth Fund (Cyprus) Limited.

19 SHAREHOLDERS' EQUITY (CONTINUED)

During 2003, NOVATEK issued an additional 653,348 new ordinary shares. 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 Tambeyneftegas, OAO Yamalneftegasdobycha, and Minlay, respectively (see Note 13) in exchange for 170,244 new shares of NOVATEK 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 additional paid in capital.

At the same time, the Group shareholders transferred their 75 percent share in Minlay to NOVATEK in exchange for 483,104 new shares in NOVATEK. 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 additional paid in capital to ordinary share capital, representing the par value of the issued shares, in the statement of changes in shareholders' equity during 2003.

In December 2004, NOVATEK issued 789,276 new ordinary shares with a market value of RR 23,928 million to Group shareholders in exchange for 67.7 percent of Tarkosaleneftegas and 57 percent of Khancheyneftegas, bringing the Group's ownership in both entities to 100 percent (see Note 4).

Other contributed capital to and from shareholders. During 2003, as part of the re-organization of the shareholders' controlling interests into NOVATEK, the shareholders transferred their 89 percent interest in Yurkharovneftegas to Minlay. As the shareholders' equity in Yurkharovneftegas was previously included into the consolidated financial statements of the Group, the purchase price of RR 367 million payable by Minlay to the shareholders has been recorded as a distribution to shareholders in the consolidated statement of changes in shareholders' equity.

As a result of other transfers between shareholders and the Group, additional distributions to shareholders of RR 23 million were recorded in the consolidated statements of changes in shareholders' equity during 2003.

During 2003, the shareholders contributed an additional one percent stake in Tarkosaleneftegas, 35 percent of NOVATEK-Polymer and 4.3 percent of PNGG. As a result of these transactions, net contributions from shareholders in the gross amount of RR 524 million were 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 RR 402 million to the Group's property, plant and equipment during the year. The contributions from shareholders have been recorded in the consolidated statements of changes in shareholders' equity for 2002.

Distributable retained earnings. The statutory accounting reports of NOVATEK are the basis for income distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net income 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 years ended 31 December 2004, 2003 and 2002, NOVATEK had a statutory net income of RR 5,182 million, RR 3,037 million and RR 524 million, respectively, as reported in NOVATEK's statutory accounting reports.

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

20 TAXES

Reconciliation of income tax. The table below reconciles 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:		
	2004	**2003**	**2002**
Income before income tax and minority interest	8,043	4,540	1,341
Theoretical income tax expense at statutory rate of 24 percent	1,930	1,090	322
Increase (decrease) due to:			
Non-deductible expenses	156	200	113
Non-temporary elements of monetary gains and losses	-	-	190
Associates' taxation at higher (lower) effective rate	(216)	(38)	21
Net deductible temporary differences not recognized as assets	6	4	61
Inflation effect on deferred tax balance at beginning of year	-	-	(13)
Other non-temporary differences	199	75	55
Total income tax expense	**2,075**	**1,331**	**749**

Total income tax expense for the year ended 31 December 2004, 2003 and 2002 represents 25.8 percent, 29.3 percent and 55.9 percent, respectively of income before income tax and minority interest for the year.

The tax charges and benefits arising from the restatement for the effects of inflation on non-monetary assets and liabilities are recorded as non-temporary elements of monetary gains and losses.

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

Movements in deferred income tax assets and liabilities during the year ended 31 December 2004 were as follows:

	31 December 2004	**Income statement effect**	**Acquisitions and disposals**	**31 December 2003**
Liabilities				
Property, plant and equipment	(9,032)	(149)	(8,147)	(736)
Investments in associates	(347)	(175)	859	(1,031)
Inventories	-	11	-	(11)
Trade payables and accrued liabilities	(149)	(86)	(16)	(47)
Total deferred income tax liabilities	(9,528)	(399)	(7,304)	(1,825)
Assets				
Property, plant and equipment	158	41	-	117
Inventories	98	(4)	26	76
Trade and other receivables	167	89	10	68
Trade payables and accrued liabilities	260	54	190	16
Other	31	7	(31)	55
Total deferred income tax assets	714	187	195	332
Net deferred income tax liabilities	**(8,814)**	**(212)**	**(7,109)**	**(1,493)**

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

20 TAXES (CONTINUED)

Movements in deferred income tax assets and liabilities during the year ended 31 December 2003 were as follows:

	31 December 2003	Income statement effect	Acquisitions and disposals	31 December 2002
Liabilities				
Property, plant and equipment	(736)	(64)	(341)	(331)
Investments in associates	(1,031)	48	(247)	(832)
Inventories	(11)	39	-	(50)
Trade payables and accrued liabilities	(47)	(12)	-	(35)
Total deferred income tax liabilities	(1,825)	11	(588)	(1,248)
Assets				
Property, plant and equipment	117	51	-	66
Inventories	76	51	-	25
Trade and other receivables	68	67	-	1
Trade payables and accrued liabilities	16	(14)	-	30
Other	55	25	-	30
Total deferred income tax assets	332	180	-	152
Net deferred income tax liabilities	**(1,493)**	**191**	**(588)**	**(1,096)**

Movements in deferred income tax assets and liabilities during the year ended 31 December 2002 were as follows:

	31 December 2001	Income statement effect	Acquisitions and disposals	31 December 2002
Liabilities				
Property, plant and equipment	(331)	(149)	-	(182)
Investments in associates	(832)	(41)	-	(791)
Inventories	(50)	(29)	-	(21)
Trade payables and accrued liabilities	(35)	(35)	-	-
Total deferred income tax liabilities	(1,248)	(254)	-	(994)
Assets				
Property, plant and equipment	66	65	-	1
Inventories	25	16	-	9
Trade and other receivables	1	-	-	1
Trade payables and accrued liabilities	30	1	-	29
Other	30	26	-	4
Total deferred income tax assets	152	108	-	44
Net deferred income tax liabilities	**(1,096)**	**(146)**	**-**	**(950)**

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

20 TAXES (CONTINUED)

At 31 December 2004, 2003 and 2002, deductible temporary differences, relating to certain property, plant and equipment with carrying values less than their respective tax bases of nil, RR 306 million and RR 370 million, respectively, have not been recognized 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 income tax balances are presented in the consolidated balance sheets as follows:

	31 December:		
	2004	2003	2002
Long-term deferred income tax asset (other non-current assets)	41	98	-
Long-term deferred income tax liability	(8,855)	(1,591)	(1,096)
Net deferred income tax liability	**(8,814)**	**(1,493)**	**(1,096)**

Deferred income tax assets expected to be recovered within 12 months of 31 December 2004, 2003 and 2002 were RR 221 million, RR 145 million and RR 61 million, respectively. Deferred tax liabilities expected to be recovered within 12 months of 31 December 2004, 2003 and 2002 were RR 58 million, RR 17 million and RR 50 million respectively.

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

	Year ended 31 December:		
	2004	2003	2002
Unified natural resources production tax	1,293	538	154
Property tax	106	95	31
Excise tax	93	72	-
Tax penalties and interest	43	25	12
Value added tax	10	26	-
Road users tax	-	-	53
Other	24	91	46
Total taxes other than income tax	**1,569**	**847**	**296**

Under the Tax Code of the Russian Federation, the rate for the unified natural resources production tax on natural gas production was RR 107 per thousand cubic meters through 31 December 2004. Beginning 1 January 2005, the unified natural resources production tax for natural gas is changed at a fixed rate of RR 135 per thousand cubic meters.

Under the Tax Code of the Russian Federation, from 1 January 2004, the unified natural resources production tax rate for gas condensate is set at 17.5 percent of gas condensate revenues recognized by the Group.

Under the Tax Code of the Russian Federation, the base rate for the unified natural resources production tax for crude oil was set at RR 347 per metric ton of crude oil produced at 31 December 2004. The rate for crude oil is adjusted depending on the market price of Urals blend and the RR/USD exchange rate. Between 1 January 2005 and 31 December 2006 the base rate will be increased to RR 419 per metric ton of crude oil. From 1 January 2007, the tax rate was set at 16.5 percent of crude oil revenues recognized by the Group.

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

20 TAXES (CONTINUED)

Current taxes payable, other than income taxes, at 31 December 2004, 2003 and 2002 were as follows:

	31 December:		
	2004	2003	2002
Value added tax	474	303	534
Tax penalties and interest	-	153	123
Social security and other social taxes	16	129	113
Unified natural resources production tax	704	82	17
Property tax	79	51	30
Road users tax	-	20	43
Other	7	179	87
Less: long-term portion of restructured tax liabilities	-	(50)	(53)
Total other taxes payable	**1,280**	**867**	**894**

During 2004, the Group paid RR 22 million to settle previously restructured taxes with a net carrying value of RR 50 million. The remaining balance was forgiven by the tax authorities resulting in the recognition of a gain of RR 28 million that was recorded in interest income.

21 RELATED PARTY TRANSACTIONS

In 2004, 2003 and 2002, the Group had significant activities with companies related to its shareholders in connection with purchases and sales of natural gas, crude oil and gas condensate, construction and other related services, and purchases and sales of equity securities. The Group's reported statements of income, balance sheets and cash flows 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.

During 2002 and through November 2003, the Group was controlled by the Chairman of the Company's Management Board, Leonid V. Mikhelson, through his ownership of controlling stakes in two holding companies, SWGI Growth Fund (Cyprus) Limited and Levit. SWGI Growth Fund (Cyprus) Limited and Levit are direct shareholders of the Group. In December 2003, Mr. Mikhelson ceased being the controlling shareholder of the Group as a result of disposal of a portion of his holdings in Levit, bringing his total ownership in Levit to less than 50 percent.

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

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

21 RELATED PARTY TRANSACTIONS (CONTINUED)

The Group had transactions with the following related parties during 2004, 2003 and 2002:

Name of related party	Nature of transactions
Shareholders	
Levit	Provision of loans, transactions in shares of Group companies (see Note 4)
SWGI Growth Fund (Cyprus) Limited	Receipt of loans, transactions in shares of Group companies (see Note 4)
Yamal Regional Fund of Development	Receipt of loans, transactions in shares of Group companies
OOO IK Mega	Transactions in shares of shares of Group companies
TNG Energy*	Crude oil and gas condensate sales, transactions in shares of Group companies. TNG Energy was a shareholder of the Group from December 2004 through January 2005.
Associates	
Khancheyneftegas (through December 2004)	Purchases of natural gas and gas condensate, provision of construction services, provision of loans and guarantees
OOO NGK Itera (through February 2003)	Sales of natural gas
Tarkosaleneftegas (through December 2004)	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	Purchases of crude oil, provision of loan, sales of construction materials and services, settlement of promissory notes held
OAO Nordpipes (liquidated)	Construction services (2002)
OOO Yangpur (through 2002)	Provision of loans and construction services
Subject to control by significant shareholders	
Kanwal Trading Limited**	Transactions in shares of Group companies
ZAO Natas**	Agent for sales of shares in Group companies (2002)
White Bay Limited** (liquidated)	Contribution of assets to the share capital of subsidiary, receipt of guarantees
Kerden Trading Limited**	Sales of crude oil and oil products
OOO Novafininvest (from July 2004)	Provision of construction services (see Note 26)
OAO SNP NOVA (from July 2004)	Provision of construction services (see Note 26)
OOO NOVA Energy Services (from July 2004)	Provision of construction services (see Note 26)
OAO Pur-Land*	Sales of crude oil and gas condensate, purchases of oil products (2003)

* Beginning December 2004, TNG Energy and OAO Pur-Land were subsidiaries of the significant shareholders. From December 2003 to the beginning of December 2004, TNG Energy and OAO Pur-Land were associate investments of the significant shareholders. Prior to December 2003, TNG Energy and OAO Pur-Land were associate investments of a control shareholder.
** For periods up to and including November 2003, these entities were under common control with the Group.

OOO NGK Itera was established to merge the interests held by OAO FIK Novafininvest (predecessor company to NOVATEK) and the ITERA Group. In February 2003, the Group shareholders decided not to pursue the merger with the ITERA Group.

21 RELATED PARTY TRANSACTIONS (CONTINUED)

Purchases and sales of crude oil and gas condensate:

	Year ended 31 December:					
	2004		2003		2002	
Name of related party	Volumes (tons)	Russian roubles	Volumes (tons)	Russian roubles	Volumes (tons)	Russian roubles
Sales to Kerden Trading Limited	388,645	1,772	33,201	190	-	-
Sales to TNG Energy	72,700	395	-	-	-	-
Sales to Pur-Land	-	-	-	-	195,106	415
Purchases from Khancheyneftegas	519,666	832	335,683	674	-	-
Purchases from Tarkosaleneftegas	348,297	557	306,192	597	116,701	258
Purchases from Geoilbent	358,372	920	-	-	-	-

Purchases and sales of natural gas:

	Year ended 31 December:					
	2004		2003		2002	
Name of related party	Volumes (m^3 000s)	Russian roubles	Volumes (m^3 000s)	Russian roubles	Volumes (m^3 000s)	Russian roubles
Sales to NGK Itera (until February 2003)	-	-	348,220	14	2,314,002	629
Purchases from Tarkosaleneftegas	5,738,201	1,727	5,222,756	1,05	1,978,404	222
Purchases from Khancheyneftegas	2,297,180	958	587,640	24	-	-
Purchases from Pur-Land	-	-	2,873,407	46	-	-

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

21 RELATED PARTY TRANSACTIONS (CONTINUED)

Other balances and transactions with related parties:

	As at and for the year ended 31 December:		
	2004	2003	2002
Balances			
Trade and other receivables	606	395	1,726
Short-term loans receivable	251	205	148
Prepayments and advances	30	19	-
Prepayments and advances (for construction)	235	-	-
Long-term loans receivable (Note 15)	7,694	2,851	157
Other non-current assets	70	-	-
Short-term debt	425	-	127
Long-term debt	1,497	1,178	1,209
Trade and other payables	147	638	472
Interest payable	-	-	112
Interest receivable	42	96	3
Transactions			
Purchases of inventory	-	18	45
Sales of inventory and oil products	151	1,465	42
Interest expense	85	266	65
Interest income	425	157	21
Construction sales	209	1,447	917
Other (Notes 4,5,13,19,24)			

SNP NOVA, Novafininvest and NOVA Energy Services provided construction services to the Group totaling RR 486 million subsequent to their disposal.

Short-term loan receivable. At 31 December 2003, the short-term loan receivable was an unsecured, US dollar denominated loan to Geoilbent totalling RR 147 million (USD 5 million). The loan bore interest of 2 percent and was repaid in 2004.

At 31 December 2002, short-term loans receivable included unsecured, Russian rouble denominated loans to Levit totaling RR 85 million and to OOO Yangpur totaling RR 63 million. The loan to Levit was repaid in 2003, whereas the loan to OOO Yangpur was written off by the Group in 2003.

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

22 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 – acquisitions, exploration, production, processing, marketing and transportation of oil and gas;
- Oil and gas construction services – drilling and construction of oil and gas infrastructure and facilities (discontinued in June 2004);
- Other – other activities, including head office services, banking and telecommunications.

Segment information as of 31 December 2004 was as follows:

	Exploration and production	Oil and gas construction services	Other	Total
Segment assets	67,920	-	856	68,776
Associated companies	1,945	-	-	1,945
Unallocated assets				11,729
Total assets	69,865	-	856	82,450
Segment liabilities	(3,531)	-	(65)	(3,596)
Unallocated liabilities				(33,918)
Total liabilities	(3,531)	-	(65)	(37,514)

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

22 SEGMENT INFORMATION (CONTINUED)

Segment information for the year ended 31 December 2004 was as follows:

	Exploration and production	Oil and gas construction services	Other	Total
Segment revenues				
External revenues and other income	21,721	2,005	1,274	25,000
Inter-segment sales	12	915	8	935
Total segment revenues	21,733	2,920	1,282	25,935
Segment expenses				
External expenses	(13,660)	(2,773)	(743)	(17,176)
Inter-segment expenses	-	(16)	-	(16)
Total segment expenses	(13,660)	(2,789)	(743)	(17,192)
Segment result	**8,073**	**131**	**539**	**8,743**
Unallocated gains on sales of investments				198
Unallocated operating expenses				(1,320)
Unrealized margin in segment assets				(7)
Income from operations				7,614
Income of associated companies	721	-	-	721
Acquisitions	47,216	-	-	47,216
Capital expenditures	7,212	-	200	7,412
Depreciation, depletion and amortization	594	79	26	699
Charges for impairment	(184)	(1)	67	(118)

Segment information as of 31 December 2003 was as follows:

	Exploration and production	Oil and gas construction services	Other	Total
Segment assets	14,947	2,460	1,757	19,164
Associated companies	5,267	-	24	5,291
Unallocated assets				1,931
Total assets	20,214	2,460	1,781	26,386
Segment liabilities	(1,851)	(1,336)	(420)	(3,607)
Unallocated liabilities				(10,766)
Total liabilities	(1,851)	(1,336)	(420)	(14,373)

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

22 SEGMENT INFORMATION (CONTINUED)

Segment information for the year ended 31 December 2003 was as follows:

	Exploration and production	Oil and gas construction services	Other	Total
Segment revenues				
External revenues and other income	12,097	3,293	855	16,245
Inter-segment sales	-	720	42	762
Total segment revenues	12,097	4,013	897	17,007
Segment expenses				
External expenses	(8,345)	(3,765)	(840)	(12,950)
Inter-segment expenses	-	(42)	-	(42)
Total segment expenses	(8,345)	(3,807)	(840)	(12,992)
Segment result	**3,752**	**206**	**57**	**4,015**
Unallocated gains on sales of investments				1,011
Unallocated operating expenses				(800)
Unrealized margin in segment assets				(54)
Income from operations				4,172
Income of associated companies	524	-	-	524
Acquisitions	-	-	195	195
Capital expenditures	4,376	474	152	5,002
Depreciation, depletion and amortization	286	110	56	452
Charges for impairment	175	(58)	191	308

Segment information as of 31 December 2002 was as follows:

	Exploration and production	Oil and gas construction services	Other	Total
Segment assets	6,765	3,184	1,621	11,570
Associated companies	4,066	5	116	4,187
Unallocated assets				98
Total assets	10,831	3,189	1,737	15,855
Segment liabilities	(694)	(977)	(615)	(2,286)
Unallocated liabilities				(7,344)
Total liabilities	(694)	(977)	(615)	(9,630)

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

22 SEGMENT INFORMATION (CONTINUED)

Segment information for the year ended 31 December 2002 was as follows:

	Exploration and production	Oil and gas construction services	Other	Total
Segment revenues				
External revenues and other income	2,395	2,366	839	5,600
Inter-segment sales	-	1,489	23	1,512
Total segment revenues	2,395	3,855	862	7,112
Segment expenses				
External expenses	(1,785)	(3,226)	(767)	(5,778)
Inter-segment expenses	-	(23)	-	(23)
Total segment expenses	(1,785)	(3,249)	(767)	(5,801)
Segment result	**610**	**606**	**95**	**1,311**
Unallocated gains on sales of investments				79
Unallocated operating expenses				(778)
Unrealized margin in segment assets				(75)
Income from operations				537
Income of associated companies	732	2	3	737
Capital expenditures	3,194	148	109	3,451
Depreciation, depletion and amortization	79	94	2	175
Charges for impairment	91	152	40	283

At 31 December 2004, 2003 and 2002, external expenses of oil and gas construction services segment included RR 912 million, RR 666 million and RR 1,414 million, respectively, of costs capitalised be exploration and production segment.

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.

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.

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

23 MINORITY INTEREST

	Year ended 31 December:		
	2004	2003	2002
Minority interest at the beginning of the year	468	781	829
Minority interest share of net income (loss)	274	(72)	(52)
Net change in minority interest as a result of disposals and acquisitions	(293)	(241)	4
Minority interest at the end of year	**449**	**468**	**781**

24 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 and pledges. At 31 December 2004, the Group pledged 32.2 percent of Tarkosaleneftegas and 31.0 percent of Yurkharovneftegas as collateral for long-term borrowings. In March 2005, the pledges of 2.5 percent of Tarkosaleneftegas and 31.0 percent of Yurkharovneftegas were released (see Note 18). Additionally, the Group's 66 percent participation interest in Geoilbent was pledged to the EBRD as collateral for a long-term loan received by Geoilbent from the EBRD. The total amount payable by Geoilbent to the EBRD under the loan facility was USD 30 million.

Due to the absence of any market for such financial instruments, it is not practicable to estimate the fair value of the Group's commitment on behalf of Geoilbent. However, the Group does not expect to incur losses as a result of this commitment.

At 31 December 2004, the Group had pledged property, plant and equipment aggregating approximately RR 7,839 million.

At 31 December 2003 and 2002, the Group had outstanding guarantees on behalf of related parties totaling RR 999 million and RR 682 million, respectively.

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.

As at 31 December 2004, 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.

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

24 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Environmental liabilities. The Group and its predecessor entities have operated in the oil and gas industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations and, as obligations are determined, they are recognized 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 Group's financial position, statements of income or of cash flows.

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.

Oilfield licenses. The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitation, suspension or revocation. The Group's management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any materially adverse effect on the Group's financial position, statements of income or of cash flows.

The Group's oil and gas fields are situated on land belonging to the Yamal-Nenets Regional Administration. Licenses are issued by the Ministry of Natural Resources 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	2034
Khancheyskoye	Khancheyneftegas	Subsidiary	2019
East-Tarkosalinskoye	Tarkosaleneftegas	Subsidiary	2018
North Gubkinskoye	Geoilbent	Associate	2018

The licenses expire between 2018 and 2034. Management believes the Group has the right to extend its licenses beyond the initial expiration date under the existing legislation and intends to exercise this right. In February 2005, the Group was successful in extending the license for the Yurkharovskoye field from 2020 to 2034. In May 2005, the Group was preparing its application for the extension of the terms of the licenses for its two other core fields, East Tarkosalinskoye and Khancheyskoye.

Commitments. The Group had entered into commitments aggregating approximately RR 2,682 million to complete the construction of the Purovsky Gas Condensate Plant in 2005.

25 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 2004, cash, trade and other receivables, short-term and long-term loans receivable and short-term and long-term debt denominated in US dollars amounted to RR 27 million, RR 424 million, RR 78 million, RR 7,492 million, RR 425 million and RR 12,547 million, respectively, translated at the official Russian rouble to US dollar exchange rate used by the Central Bank of the Russian Federation.

25 FINANCIAL INSTRUMENTS (CONTINUED)

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. Management 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 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 2004, the fair values, where determinable, of financial instruments held by the Group did not materially differ from their carrying values.

26 DISCONTINUED OPERATIONS

The Group’s oil and gas construction services activities primarily consisted of drilling services and construction of oil and gas infrastructure and facilities for related and external parties within the Russian Federation. Contracts were typically signed with customers that allowed for the determination of agreed construction schedules, estimated costs, including a margin over the cost of materials and supplies, customer approval of deliverables, and invoicing.

During 2003 and 2004, OOO Novafininvest (“NFI”) acted as general contractor for the construction of the Khancheyskoye and Yurkharovskoye fields. As of the date of disposal, NFI also held interests in certain companies, including OAO SNP NOVA, which was the primary provider of construction services to the Group. Such activities (the “NFI discontinuing operations”) represent substantially all of the activities of the oil and gas construction services segment 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 market terms and conditions.

In June 2004, NOVATEK’s board of directors approved the sale of substantially all of the Group’s oil and gas construction services business.

In June 2004, the Group sold its 99 percent investment in the share capital of OOO Novafininvest to shareholders of the Group: SWGI Growth Fund (Cyprus) Limited (40.9 percent), a Group shareholder, Levit (53.6 percent), a Group shareholder, and OOO Kopitek (4.5 percent), for total cash consideration of RR 240 million, recognizing a loss of RR 296 million. The disposal is consistent with the Group’s long-term strategy to focus its activities on oil and gas exploration and production, and to divest non-core activities.

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

26 DISCONTINUED OPERATIONS (CONTINUED)

The financial position, results of operations and of cash flows of the discontinued operations are presented in the table below.

	2004 as of and through Disposal	Year ended 31 December: 2003	2002
Total assets	2,569	3,580	1,951
Total liabilities	1,419	2,464	944
Total revenues and other income	2,186	3,227	1,084
Total operating expenses	2,194	3,341	1,032
Income (loss) before income tax	(8)	(114)	52
Income tax expense	31	8	75
Loss after tax	(39)	(122)	(23)
Loss on disposal, net of tax of nil	(296)	-	-
Loss for discontinued operations	(335)	(122)	(23)
Net cash provided by operating activities	29	49	25
Net cash used in investing activities	(701)	(969)	(188)
Net cash provided by financing activities	1,078	1,090	(177)
Basic and diluted earnings per share from continuing operations (in Russian roubles)	2,658	1,965	585
Basic and diluted loss per share for discontinued operations (in Russian roubles)	(148)	(70)	(20)
Basic and diluted earnings per share (in Russian roubles)	2,510	1,895	565
Weighted average shares outstanding	2,268,654	1,731,512	1,139,636

27 SUBSEQUENT EVENTS

During 2005, the Group reorganized Tarkosaleneftegas into a limited liability company (“OOO”), and merged Khancheyneftegas into Tarkosaleneftegas.

In May 2005, the Group disposed of its equity stake in NOVA Bank to Levit, a Group shareholder for RR 156 million. NOVA Bank recognized net income of RR 7 million and RR 5 million for the years ended 31 December 2004 and 2002, respectively, and a net loss of RR 3 million for the year ended 31 December 2003. NOVA Bank’s net assets at 31 December 2004, 2003 and 2002 were RR 219 million, RR 152 million and RR 57 million, respectively. The results of the disposal will be reflected in the Group’s consolidated income statement during the second quarter of 2005.

Subsequent to 31 December 2004, certain shareholders provided share-based compensation to the Group’s chief financial officer and to the Group's head of exploration and production activities. The share awards comprise shares in a limited liability company that indirectly holds shares of the Group. Management's preliminary estimate of the maximum fair value of the award is approximately RR 900 million. The fair value of the awards will be recognized as compensation expense evenly over their five year vesting period beginning the second quarter of 2005. A corresponding increase will be recorded to additional paid in capital as expense is recorded to reflect the shareholders contribution in providing the award.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES

The accompanying consolidated 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 which establishes a comprehensive set of disclosures for oil and gas producing companies, the Company has reverted to other relevant disclosure standards that are consistent with norms established for the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities but excludes disclosures regarding the standardized measures of oil and gas activities.

The Company's exploration and production activities are exclusively within the Russian Federation; therefore, all of the information provided in this section pertains to this country. The Company operates through various oil and gas production subsidiaries. The Company also owns interest in oil and gas producing entities, referred to as Associates that are accounted for under the equity method.

Oil and Gas Exploration and Development Costs

The following tables set forth information regarding oil and gas acquisition, exploration and development activities. The amounts reported as costs incurred include both capitalized costs and costs charged to expense during the years ended 31 December 2004 and 2003 (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2004	**2003**
Costs incurred in property acquisition, exploration and development activities		
Acquisition costs	46,910	1,462
Exploration costs	183	122
Development costs	6,391	2,219
Total costs incurred in property acquisition, exploration and development activities	**53,484**	**3,803**

	31 December:	
	2004	**2003**
Capitalized costs relating to oil and gas producing activities		
Oil and gas properties and equipment	42,689	5,100
Support facilities and equipment	10,586	1,354
Assets under construction	8,199	2,189
Total capitalized costs relating to oil and gas producing activities	61,474	8,643
Accumulated depreciation, depletion and amortization	(806)	(431)
Net capitalized costs relating to oil and gas producing activities	**60,668**	**8,212**
Share of net capitalized costs relating to oil and gas producing activities of associates	**2,009**	**6,944**

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Results of Operations for Oil and Gas Producing Activities

The Company's results of operations for oil and gas producing activities are shown below. The results of operations for oil and gas producing activities do not include general corporate overhead or its associated tax effects. Income tax is based on statutory rates for the year adjusted for tax deductions, tax credits and allowances (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2004	**2003**
Revenues from oil and gas sales	21,489	12,024
Operating expenses	(6,735)	(4,203)
Transportation expenses	(3,833)	(1,829)
Taxes other than income tax	(1,393)	(641)
Depreciation, depletion and amortization	(584)	(287)
Exploration expenses	(183)	(122)
Results of operations for oil and gas producing activities before income tax	8,761	4,942
Related income tax expense	(2,103)	(1,186)
Results of operations for oil and gas producing activities	**6,658**	**3,756**
Share in associates' results of operations for oil and gas producing activities	**845**	**498**

Proved Oil and Gas Reserves

The Group's oil and gas reserves estimation and reporting process involves an annual independent third party reserve appraisal as well as internal technical appraisals of reserves. The Group maintains its own internal reserve estimates that are calculated by technical staff working directly with the oil and gas properties. The Group's technical staffs periodically updates reserve estimates during the year based on evaluations of new wells, performance reviews, new technical information and other studies.

The oil and gas reserve estimates reported below are determined by the Group's independent petroleum reservoir engineers, DeGolyer and MacNaughton ("D&M"), for primary producing fields – Yurkharovskoye, East Tarkosalinskoye, and Khancheyskoye – as wells as other oil and gas producing fields, North Gubkinskoye and South Tarasovskoye, that are appraised by independent consulting firm, Ryder Scott Co. LP. The Group provides D&M annually with engineering, geological and geophysical data, actual production histories and other information necessary for the reserve determination. The Group's and D&M's technical staffs meet to review and discuss the information provided, and upon completion of this process, senior management reviews and approves the final reserve estimates issued by D&M.

The following reserve estimates were prepared using standard geological and engineering methods generally accepted by the petroleum industry. The method or combination of methods used in the analysis of each reservoir is tempered by experience with similar reservoirs, stages of development, quality and completeness of basic data, and production history.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2004 and 2003.

Extensions of production licenses are assumed to be at the discretion of the Group. Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group's production licenses. The Group’s licenses expire between 2018 and 2034, with the most significant license, Yurkharovskoye field, expiring in 2034. Management believes that there is requisite legislation to extend mineral licenses at the initiative of the Group and, as such, intends to extend its licenses for properties expected to produce beyond the license expiry dates. In February 2005, the Group successfully extended its license on Yurkharovskoye field from 2020 through 2034, which year represents the expected end of the economic life of the field. The cost of license extension was not material. In May 2005, the Group was preparing its application for the extension of the terms of the licenses for its two other core fields, East Tarkosalinskoye and Khancheyskoye.

The Company has disclosed information on proved oil and gas reserve quantities for periods up to and past the license expiry dates separately.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available,

Proved developed reserves are those reserves which are expected to be recovered through existing wells with existing equipment and operating methods. Undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to re-complete existing wells and/or install facilities to collect and deliver the production.

“Net” reserves exclude quantities due to others when produced.

The below reserve quantities include 100 percent of the net proved reserve quantities attributable to the Company's consolidated subsidiaries. A portion of the Company’s total proved reserves are classified as either developed non-producing or undeveloped. Of the non-producing reserves, a portion represents existing wells which are to be returned to production at a future date.

The prices used in the forecast of future net revenues are the year-end weighted-average of the prices received for sales domestically, for exports to CIS countries and for exports to non-CIS countries. Due to the absence of a developed market for crude oil in Russia, the Company employs a “net-back” method to estimate a domestic price for crude oil.

Net proved reserves of natural gas, crude oil, condensate and natural gas liquids are presented below. For convenience, volumes are provided both in English and metric units.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Net proved reserves of natural gas are presented below.

	Net proved reserves of natural gas recoverable up to license expiry dates		Net proved reserves of natural gas recoverable past license expiry dates		Total net proved reserves of natural gas	
	Billions of cubic feet	*Billions of cubic meter*	*Billions of cubic feet*	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*
Reserves at 31 December 2002	6,573	186	-	-	6,573	186
Changes attributable to:						
Revisions	890	24	-	-	890	24
Extensions and discoveries	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Production	(107)	(3)	-	-	(107)	(3)
Reserves at 31 December 2003	7,356	207	-	-	7,356	207
Changes attributable to:						
Revisions	1,256	36	-	-	1,256	36
Extensions and discoveries	-	-	-	-	-	-
Acquisitions	9,571	272	2,830	80	12,401	352
Production	(343)	(10)	-	-	(343)	(10)
Reserves at 31 December 2004	17,840	505	2,830	80	20,670	585
Net proved developed (included above)						
At 31 December 2002	-	-	-	-	-	-
At 31 December 2003	736	21	-	-	736	21
At 31 December 2004	11,016	312	2,728	77	13,744	389

The Company’s interests in proved developed and undeveloped reserves of associates were not included in the table above and were as follows:

	Net proved reserves of natural gas recoverable up to license expiry dates		Net proved reserves of natural gas recoverable past license expiry dates		Total net proved reserves of natural gas	
	Billions of cubic feet	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*
At 31 December 2002	3,114	86	608	19	3,722	105
At 31 December 2003	3,498	99	849	24	4,347	123
At 31 December 2004	-	-	-	-	-	-

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

The tables below represent reserve quantities attributable to the Company's consolidated subsidiaries. Net proved reserves of crude oil, gas condensate and natural gas liquids are presented below.

	Net proved reserves of crude oil, gas condensate and natural gas liquids recoverable up to license expiry dates		Net proved reserves of crude oil, gas condensate and natural gas liquids recoverable past license expiry dates		Total net proved reserves of crude oil, gas condensate and natural gas liquids	
	Millions of barrels	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*
Reserves at 31 December 2002	93	11	-	-	93	11
Changes attributable to:						
Revisions	16	2	-	-	16	2
Extensions and discoveries	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Production	(3)	(1)	-	-	(3)	(1)
Reserves at 31 December 2003	106	12	-	-	106	12
Changes attributable to:						
Revisions	(4)	(1)	-	-	(4)	(1)
Extensions and discoveries	-	-	-	-	-	-
Acquisitions	167	21	36	5	203	26
Production	(7)	(1)	-	-	(7)	(1)
Reserves at 31 December 2004	262	31	36	5	298	36
Net proved developed (included above)						
At 31 December 2002	-	-	-	-	-	-
At 31 December 2003	14	2	-	-	14	2
At 31 December 2004	130	15	8	1	138	16

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

The Company's interests in proved developed and undeveloped reserves of associates were not included in the table above and were as follows:

	Net proved reserves of crude oil, gas condensate and natural gas liquids recoverable up to license expiry dates		Net proved reserves of crude oil, gas condensate and natural gas liquids recoverable past license expiry dates		Total net proved reserves of crude oil, gas condensate and natural gas liquids	
	Millions of barrels	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*
At 31 December 2002	106	13	10	1	116	14
At 31 December 2003	113	14	16	2	129	16
At 31 December 2004	51	6	2	-	53	6

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