OAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

AND AUDITORS’ REPORT

FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

CONTENTS | **Page**

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AUDITORS' REPORT

To the shareholders and directors of OAO NOVATEK

1 We have audited the accompanying consolidated balance sheet of OAO NOVATEK and its subsidiaries (the “Group”) as at 31 December 2005 and the related consolidated statement of income, of cash flows and of changes in shareholders’ equity for the year then ended. These financial statements as set out on pages 4 to 34 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
14 April 2006

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OAO NOVATEK
Consolidated Balance Sheets
(in millions of Russian roubles)

	Notes	At 31 December: 2005	2004
ASSETS			
Non-current assets			
Property, plant and equipment, net	6	65,675	62,683
Other non-current assets		1,063	1,090
Investments in associates	7	-	1,945
Long-term loans receivable	20	102	7,832
Total non-current assets		**66,840**	**73,550**
Current assets			
Prepayments and other current assets		2,426	1,039
Inventories	8	1,524	929
Trade and other receivables	9	4,849	3,456
Short-term loans receivable		167	707
Cash and cash equivalents		2,956	3,003
Total current assets		**11,922**	**9,134**
Total assets		**78,762**	**82,684**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	10	892	13,232
Deferred income tax liability	17	8,396	8,953
Other non-current liabilities		1,493	1,188
Total non-current liabilities		**10,781**	**23,373**
Current liabilities			
Short-term debt and current portion of long-term debt	11	8,202	10,768
Other taxes payable		923	1,280
Income taxes payable		46	228
Trade payables and accrued liabilities		1,261	1,963
Total current liabilities		**10,432**	**14,239**
Total liabilities		**21,213**	**37,612**
Equity attributable to Group shareholders			
Ordinary share capital		393	393
Additional paid-in capital		29,905	29,797
Asset revaluation surplus		5,481	5,481
Retained earnings		21,489	8,952
Total equity attributable to Group shareholders	12	**57,268**	**44,623**
Minority interest		**281**	**449**
Total equity		**57,549**	**45,072**
Total liabilities and equity		**78,762**	**82,684**

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

Approved and authorized for issue on 14 April 2006:

L. Mikhelson
General Director

M. Gyetvay
Financial Director

OAO NOVATEK
Consolidated Statements of Income
(in millions of Russian roubles)

	Notes	Year ended 31 December: 2005	2004
Revenues			
Oil and gas sales	13	37,246	21,018
Oil and gas construction services		-	2,053
Sales of polymer and insulation tape		964	617
Other revenues		313	456
Total revenues		**38,523**	**24,144**
Net gain (loss) on disposal of investments in oil and gas producing subsidiaries and associates		3,611	(12)
Net gain on disposal of construction services and other subsidiaries		20	210
Other income		33	385
Total revenues and other income		**42,187**	**24,727**
Operating expenses			
Materials, services and other	14	(3,473)	(3,795)
Purchases of oil, gas condensate and natural gas		(2,065)	(5,708)
Transportation expenses	15	(6,605)	(3,690)
Taxes other than income tax	16	(4,494)	(1,569)
General and administrative expenses		(2,417)	(1,605)
Depreciation, depletion and amortization	6	(3,372)	(681)
Net impairment (expense) reversal		(87)	118
Exploration expenses		(348)	(183)
Total operating expenses		**(22,861)**	**(17,113)**
Profit from operations		**19,326**	**7,614**
Finance income (expense)			
Foreign exchange (loss) gain		(280)	109
Interest income		672	462
Interest expense		(1,121)	(863)
Total finance expense		**(729)**	**(292)**
Profit before income tax and share of income from associates		**18,597**	**7,322**
Share of income from associates, net of income tax	7	143	764
Profit before income tax		**18,740**	**8,086**
Income tax expense			
Current income tax expense		(5,615)	(1,906)
Deferred income tax benefit (expense)		537	(212)
Total income tax expense	17	**(5,078)**	**(2,118)**
Profit for the period		**13,662**	**5,968**
Profit (loss) attributable to:			
Minority interest		(35)	274
Shareholders of OAO NOVATEK		**13,697**	**5,694**
Basic and diluted earnings per share (in Russian roubles)	22	4,511	2,510
Weighted average shares outstanding		*3,036,306*	*2,268,654*

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

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2005	2004
Profit before income tax		**18,740**	**8,086**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		3,410	699
Net impairment loss (reversal of impairment)		87	(118)
Net foreign exchange loss (gain)		280	(109)
Net gain on disposal of assets, subsidiaries and associates		(3,664)	(586)
Share-based compensation	20	108	-
Interest expense		1,121	863
Interest income		(672)	(462)
Share of income from associates, net of income tax		(143)	(764)
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(2,667)	(479)
Decrease (increase) in inventories		(610)	171
Decrease (increase) in trade payables and accrued liabilities, excluding interest and dividends		196	(603)
Increase (decrease) in other taxes payable		467	336
Total effect of working capital changes		**(2,614)**	**(575)**
Income taxes paid		(6,407)	(2,217)
Net cash provided by operating activities		**10,246**	**4,817**
Cash flows from investing activities			
Purchases of property, plant and equipment		(4,433)	(5,362)
Acquisition of subsidiaries and associated companies, net of cash acquired		(52)	298
Proceeds from disposals of subsidiaries and associates	5, 7	5,565	361
Interest paid and capitalized		(608)	(305)
Loans provided		(260)	(11,661)
Repayments of loans provided		8,085	3,289
Dividends and non banking interest received		686	488
Net cash provided by (used in) investing activities		**8,983**	**(12,892)**
Cash flows from financing activities			
Proceeds from long-term borrowings		2,058	11,493
Proceeds from short-term borrowings		2,755	5,633
Repayments of long-term borrowings		(14,102)	(624)
Repayments of short-term borrowings		(7,110)	(4,350)
Interest paid: non-banking		(992)	(709)
Dividends paid	12	(1,889)	(2,010)
Net cash provided by (used in) financing activities		**(19,280)**	**9,433**
Effect of exchange rate on cash and cash equivalents		(12)	(21)
Net change in restricted cash		16	48
Net increase (decrease) in cash and cash equivalents		(47)	1,385
Cash and cash equivalents at beginning of the year		3,003	1,618
Cash and cash equivalents at end of the year		**2,956**	**3,003**

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	Equity attributable to Group shareholders	Minority interest	Total equity
At 31 December 2003	***2,247,030***	**314**	**5,963**	**-**	**5,268**	**11,545**	**468**	**12,013**
Acquisition (see Note 4)	*789,276*	79	23,849	5,481	-	29,409	-	29,409
Profit for the period	-	-	-	-	5,694	5,694	274	5,968
Dividends	-	-	-	-	(2,010)	(2,010)	-	(2,010)
Distribution to shareholders	-	-	(15)	-	-	(15)	-	(15)
Impact of disposals and acquisitions on minority interest	-	-	-	-	-	-	(293)	(293)
At 31 December 2004	***3,036,306***	**393**	**29,797**	**5,481**	**8,952**	**44,623**	**449**	**45,072**
Cumulative effect of adoption of IFRS 3, *Business Combinations* (Note 3)	-	-	-	-	762	762	-	762
At 31 December 2004, as restated for adoption of IFRS 3, *Business Combinations*	***3,036,306***	**393**	**29,797**	**5,481**	**9,714**	**45,385**	**449**	**45,834**
Profit (loss) for the period	-	-	-	-	13,697	13,697	(35)	13,662
Dividends	-	-	-	-	(1,922)	(1,922)	-	(1,922)
Share-based compensation funded by shareholders	-	-	108	-	-	108	-	108
Impact of disposals and acquisitions on minority interest	-	-	-	-	-	-	(133)	(133)
At 31 December 2005	***3,036,306***	**393**	**29,905**	**5,481**	**21,489**	**57,268**	**281**	**57,549**

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

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

In June 2004, the Group sold its subsidiaries that represented substantially all of it's oil and gas construction services segment (the "disposed segment") to focus its activities on oil and gas exploration, production and processing of hydrocarbons (see Note 22).

In December 2004, the Group acquired controlling stakes in two of its primary equity affiliates, OAO NK Tarkosaleneftegas ("Tarkosaleneftegas") and OOO Khancheyneftegas ("Khancheyneftegas") (collectively the "acquired subsidiaries"). Following the acquisition, the Group's ownership in these subsidiaries increased to 100 percent. Prior to December 2004, Tarkosaleneftegas and Khancheyneftegas were accounted for as equity associates (see Note 4).

As a result of the sale of the disposed segment and the purchase of the acquired subsidiaries, the Group's results of operations for the year ended 31 December 2005 differ significantly from those of prior periods. Most notably, prior to the acquisition, a significant proportion of the hydrocarbon production of Tarkosaleneftegas and all of the production of Khancheyneftegas was purchased by the Group and then resold on to third parties. Accordingly, in prior periods, the Group's statements of income included purchases from the acquired subsidiaries. Following the acquisition, the Group consolidated the activities of the acquired subsidiaries and, accordingly, all intragroup transactions have been eliminated.

Moreover, in prior periods, the Group included those activities of the disposed segment to the extent the disposed segment provided services to third parties. Beginning in July 2004, the Group no longer included such operations and any oil and gas drilling and construction services purchased from third parties are either capitalized to property, plant and equipment or expensed within materials, services and other, as deemed appropriate.

In May 2005, the Group disposed of its equity stake in ZAO NOVA Bank, a Group subsidiary, to ZAO Levit ("Levit"), a Group shareholder (see Note 5), and merged Khancheyneftegas into Tarkosaleneftegas, after converting Tarkosaleneftegas from an open joint stock company to a limited liability company.

In June 2005, the Group disposed of its 66 percent participation interest in OOO Geoilbent, its 34 percent interest in OAO Selkupneftegas, and its 25.1 percent interest in OAO Tambeyneftegas, Group associates (see Note 7).

In November and December 2005, the Group established Novatek Overseas AG and Runitek GmbH (both registered in Switzerland) to manage the administration, marketing and trading of crude oil, stable gas condensate, liquefied petroleum gas, and other oil products to international markets.

The Group's natural gas sales fluctuate on a seasonal basis due mostly to Russian weather conditions, with sales peaking in the winter months of December and January and dipping in the summer months of July and August.

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.

(in millions of Russian roubles, unless otherwise stated)

2 BASIS OF PRESENTATION (CONTINUED)

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, and (5) 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, oil and gas reserves and deferred income taxes. Actual results may differ from such estimates.

Exchange rates, restrictions and controls. The official rate of exchange of the Russian rouble to the US dollar ("USD") at 31 December 2005 and 2004 was 28.78 and 27.75 Russian roubles to USD 1.00, respectively. The official Russian inflation rates as per Goskomstat, a Russian official statistical agency, were 10.9 percent and 11.7 percent in 2005 and 2004, 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 in most countries outside of the Russian Federation and, further, the Group is required to convert 10 percent (25 percent from July 2003 through December 2004) of its hard currency proceeds 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.

Reclassifications. The Group previously disclosed transportation expenses rechargeable to customers with no margin and associated revenue within transportation expenses and oil and gas sales, respectively. Management believes that their presentation on a net basis more appropriately reflects the substance of the transactions. Additionally, certain expenses incurred by the Group's headquarters and administrative functions of the production subsidiaries previously reported within materials, services and other have been reclassified to general and administrative expenses to more appropriately reflect their nature. Comparative amounts for the year ended 31 December 2004 have been adjusted as follows:

	As originally reported	**Reclassifications**	**After reclassifications**
Oil and gas sales	21,489	(471)	21,018
Materials, services and other	(4,175)	380	(3,795)
Transportation expenses	(4,234)	544	(3,690)
General and administrative expenses	(1,152)	(453)	(1,605)

Management believes that the current year presentation more accurately represents the Group's activities.

(in millions of Russian roubles, unless otherwise stated)

2 BASIS OF PRESENTATION (CONTINUED)

Additionally, certain adjustments were made to 2004 amounts related to the finalization of the Group's purchase accounting for its 2004 acquisitions (see Note 4). The table below discloses the amounts before and after the adjustments.

	As originally reported	Adjustment	After finalization
Property, plant and equipment	62,449	234	62,683
Deferred income tax liability	8,855	98	8,953
Asset revaluation surplus	5,345	136	5,481

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. The effect of revaluing previously held interests to current fair values is recorded within asset revaluation surplus in the consolidated statement of shareholders' equity.

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 applied 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. 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. Beginning 1 January 2005, previously recognized goodwill is no longer amortized and is now tested for impairment in accordance with IAS 36, *Impairment of Assets*. 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 was derecognized in accordance with IFRS 3 and retained earnings were increased by the same amount.

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

Property, plant and equipment. Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation, depletion, amortization 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 millions of Russian roubles, unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation, depletion and amortization of oil and gas properties and equipment (except for processing facilities) is calculated using the unit-of-production method for each field based upon proved developed reserves for development costs, and total proved reserves 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 current 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 Group’s principal reserves have been independently estimated by internationally recognized petroleum engineers. Other 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. 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, subject to depletion 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.

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 capability.

Property, plant and equipment, other than oil and gas properties and equipment, are depreciated on a straight-line basis over their estimated useful lives. 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
Processing facilities	20-30
Buildings	25-50

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade and other receivables. Trade receivables are represented by amounts due from regular customers in the ordinary course of business (production and marketing of natural gas, gas condensate, crude oil, and associated products; production and marketing of polymer and insulation tape products). 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 provided for during the year in which they are identified.

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.

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.

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.

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 recognized. 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.

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 (deferred VAT) 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 yet put into operation. VAT recoverable is reclaimable against VAT payable upon payment for the purchases and putting property, plant and equipment into operation.

In July 2005, new amendments to the Tax Code of the Russian Federation were adopted changing the tax rules with respect to VAT. Effective 1 January 2006, VAT balances become payable or eligible for recovery on an accrual basis subject to certain transitional provisions. Additionally, the requirement to defer the recovery of VAT recoverable on capital expenditures was withdrawn.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 oil and gas sales and sales of polymer and insulation tape 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 were based on the stage of completion determined by reference to services performed to date as a percentage of total services to be performed.

General and administrative expenses. General and administrative expenses represent overall corporate management and other expenses related to the general management and administration of the business unit as a whole. They include management and administrative compensation, certain legal and other advisory expenses, insurance of properties, social expenses and other expenses necessary for the administration of the Group.

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 accounts and the amount of the loss is included in the consolidated statement of income for the period.

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.

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 at each reporting date and changes in the provisions resulting from the passage of time are reflected in the consolidated statement of income 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 consolidated statement of income. Changes in estimated asset retirement obligations are reflected as adjustments to the carrying value of property, plant and equipment.

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.

Share based payments. The Group accounts for share-based payments in accordance with IFRS 2, *Share-based Payment* ("IFRS 2"). The fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and additional paid in capital when awards are exercised. For transactions with parties other than employees, the Group accounts for the transaction based upon the fair value of goods or services provided, unless the fair values are not reliably estimable.

For share-based payments made to employees by shareholders, an increase to additional paid in capital is recorded equal to the associated compensation expense each period.

Non-current assets held for sale and discontinued operations. The Group accounts for non-current assets held for sale and discontinued operations in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* ("IFRS 5"). IFRS 5 replaced IAS 35, *Discontinuing Operations*. Assets or disposal groups that are classified as held for sale are presented separately on the balance sheet and are carried at the lower of the carrying amount or fair value less costs to sell. Additionally, the results of discontinued operations are shown separately on the face of the consolidated statement of income.

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 five new interpretations in 2004 and two in 2005. Significant changes relevant to the Group as a result of the new effective or early adopted IFRSs are:

IAS 1 (revised 2003), *Presentation of Financial Statements* ("IAS 1 (revised")). IAS 1 (revised) requires the classification as current all financial liabilities for which the Group does not have an unconditional right to defer their settlement for at least twelve months after the balance sheet date. Additionally, IAS 1 (revised) requires that minority interest be presented within total equity and that profit or loss for the period is allocated between profit or loss attributable to minority interest and profit or loss attributable to shareholders of the reporting entity on the face of the consolidated statements of income. The revised standard is applied retrospectively in accordance with IAS 8.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 8 (revised 2003), ***Accounting Policies, Changes in Accounting Estimates and Errors*** **("IAS 8 (revised)").** The Group now applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are now corrected retrospectively in the first set of financial statements after their discovery.

IAS 21 (revised 2003), ***The Effects of Changes in Foreign Exchange Rates*** **("IAS 21 (revised")).** IAS 21 (revised) clarifies the method of translation of foreign currencies to the functional and presentation currency and clarifies that goodwill and fair value adjustments to assets and liabilities resulting from acquisitions are treated as part of the assets and liabilities of the acquired entity and translated at the exchange rate on the balance sheet date.

IAS 24 (revised 2003), ***Related Party Disclosures.*** The definition of related parties was extended and additional disclosures required by the revised standard were made in these financial statements. The revised standard is applied retrospectively in accordance with IAS 8 (revised).

IAS 36 (revised 2004), ***Impairment of Assets*** **("IAS 36 (revised)").** The Group now performs impairment tests of goodwill, intangible assets not yet available for use and intangible assets with indefinite useful life at least annually. The 'bottom-up/top-down' approach to testing goodwill was replaced by a simpler method. As applicable, the goodwill is, from the acquisition date, allocated to each of the acquirer's cash-generating units ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the business combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level at which the goodwill is monitored and is not larger than a segment. Reversals of impairment losses of goodwill are prohibited. Management assesses the reasonableness of the assumptions on which the Group's current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. The IAS 36 (revised) is applied in accordance with the Standard's transitional provisions to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other assets prospectively from 1 January 2005.

IAS 38 (revised 2004), ***Intangible Assets*** **("IAS 38 (revised)").** The IAS 38 (revised) is applied prospectively in accordance with its transitional provisions. The amended accounting policies apply to intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other intangible assets acquired on or after 1 January 2005. Intangible assets now include assets that arise from contractual or other legal rights, regardless of whether those rights are transferable or separable. The probability of inflow of economic benefits recognition criterion is now deemed to be always met for intangibles that are acquired separately or in a business combination. The Group's policies were amended to introduce the concept of indefinite life intangible assets which exist when, based on an analysis of all of the relevant factors, management concludes that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Such intangibles are not amortized but tested for impairment at least annually. The Group has reassessed the useful lives of its intangible assets in accordance with the transitional provisions of IAS 38 (revised). No adjustment resulted from this reassessment.

IFRS 3, ***Business Combinations.*** IFRS 3 requires accounting for all business combinations by applying the purchase method and separate recognition, at the acquisition date, of the acquiree's contingent liabilities if their fair values can be measured reliably. It also requires that the identifiable assets, liabilities and contingent liabilities are measured at their fair values irrespective of the extent of any minority interest. Any resulting goodwill is tested for impairment annually, or when there are indications of impairment. The excess of the Group's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost ("negative goodwill") is recognized immediately in the consolidated statement of income. The Group applied transitional provisions of IFRS 3 and applies it to all business combinations for which the agreement date is on or after 31 March 2004.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 5 (issued 2005), ***Non-current Assets Held for Sale and Discontinued Operations*** **("IFRS 5").** The Group applies IFRS 5 prospectively in accordance with its transitional provisions to non-current assets (or disposal groups) that meet the criteria to be classified as 'held for sale' and operations that meet the criteria to be classified as 'discontinued' after 1 January 2005. The Group's accounting policies now describe assets 'held for sale' as those that will be recovered principally through a sales transaction rather than through continuing use. Subject to certain exceptions, assets or disposal groups that are classified as 'held for sale' are measured at the lower of carrying amount and fair value less costs to sell. Such assets cease to be depreciated and are presented separately on the face of the balance sheet.

IFRS 6, ***Exploration for and Evaluation of Mineral Resources*** **("IFRS 6").** IFRS 6 was early adopted by the Group. IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements. Adoption of the standard did not require changes of the Group's accounting policies.

IAS 21 (Amendment), ***Net Investment in a Foreign Operation.*** The amendment to IAS 21 was early adopted by the Group. It clarifies treatment of foreign exchange differences on intercompany loans that form part of a net investment in a foreign operation.

Other than the effect of adoption of IFRS 3 discussed above, the adoption of these standards as well as all the other new or revised standards that are effective for 2005 did not have a material impact on the Group's financial position, consolidated statement of income or of cash flows.

New or revised standards not yet effective. Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the Group has not early adopted:

IFRIC 4, *Determining whether an Arrangement contains a Lease* (effective from 1 January 2006); IAS 39 (Amendment), *The Fair Value Option* (effective from 1 January 2006); IAS 39 (Amendment), *Cash Flow Hedge Accounting of Forecast Intragroup Transactions* (effective from 1 January 2006); IAS 39 (Amendment), *Financial Guarantee Contracts* (effective from 1 January 2006); IFRS 7, *Financial Instruments*: Disclosures and a Complementary Amendment to IAS 1 *Presentation of Financial Statements - Capital Disclosures* (effective from 1 January 2007); IAS 19 (Amendment), *Employee Benefits* (effective from 1 January 2006); IFRS 1 (Amendment), *First-time Adoption of International Financial Reporting Standards* and IFRS 6 (Amendment), *Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006); IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from 1 January 2006); IFRIC 6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* (effective for periods beginning on or after 1 December 2005); IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006); IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006); and IFRIC 9 *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006).

These new standards and interpretations are not expected to significantly affect the Group's financial statements when adopted on 1 January 2006 or later.

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 10, 20). 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.

(in millions of Russian roubles, unless otherwise stated)

4 ACQUISITION OF TARKOSALENEFTEGAS AND KHANCHEYNEFTEGAS (CONTINUED)

The value of the ordinary shares was determined by the market price of OAO NOVATEK shares on the date the transaction was entered into. 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 natural gas sales contract	701
Total purchase price	**25,207**

At 31 December 2004, management's purchase accounting was preliminary and resulted in no goodwill being recognized. During 2005, management engaged an independent appraiser to assess the fair value of assets and liabilities of the acquired companies, which results are presented in the table below. The net fair values 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. Such stakes were also revalued to their fair values at the acquisition date. The results of the preliminary valuation totaled RR 5,345 million, which were recorded as asset revaluation surplus in the consolidated statement of shareholders' equity. This asset revaluation surplus was increased by RR 136 million to RR 5,481 million as a result of the final purchase accounting. There was no goodwill recorded as a result of the acquisition. 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.

The table below provides information on IFRS carrying values of the identifiable assets and liabilities of the acquirees immediately before the acquisition in their respective IFRS accounts, and the assessed fair values following purchase accounting adjustments.

	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	2,220	654	654
Oil and gas properties and equipment	14,137	35,578	3,166	13,084
Other non-current assets	174	203	25	25
Current liabilities	(4,783)	(4,743)	(1,863)	(1,863)
Non-current liabilities	(722)	(5,990)	(1,297)	(3,675)

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 and Khancheyneftegas 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 Tarkosaleneftegas and Khancheyneftegas	Tarkosaleneftegas	Khancheyneftegas	Summary combined
Total revenues	24,144	4,680	2,749	31,573
Net income (loss)	5,513	(104)	421	5,830

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.

(in millions of Russian roubles, unless otherwise stated)

5 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, a Group subsidiary, from a third party for RR 67 million in cash, and, in August 2004, another 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 OOO Purgazdobycha, a wholly-owned subsidiary of Purneftegasgeologiya (hereinafter “PNGG”), a Group subsidiary, 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 2018). 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. In June 2004, the Group disposed of substantially all of its oil and gas construction services segment (see Note 22). Also 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; and sold 10 percent of its interest of PNGG for RR 12 million, recognizing a loss of RR 29 million.

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

In May 2005, the Group disposed of its equity stake in NOVA Bank to Levit, a Group shareholder, for RR 156 million, recognizing a gain on the sale of RR 12 million, net of associated income tax of RR 8 million. The disposal of NOVA Bank did not have a material effect on the Group’s financial position and results of operations. NOVA Bank’s financial position and results of operations were included within “Other” in the Group’s segment information.

6 PROPERTY, PLANT AND EQUIPMENT

	At 31 December:	
	2005	**2004**
Cost		
Oil and gas properties and equipment	62,341	53,708
Assets under construction	4,174	8,728
Other	3,482	1,159
	69,997	63,595
Accumulated depreciation, depletion and amortization		
Oil and gas properties and equipment	(4,065)	(806)
Other	(257)	(106)
	(4,322)	(912)
Property, plant and equipment, net	**65,675**	**62,683**

(in millions of Russian roubles, unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movements in property, plant and equipment, for the years ended 31 December 2005 and 2004 were as follows:

	Oil and gas properties and equipment	Assets under construction	Other	Total
At 31 December 2003	**6,462**	**2,553**	**1,042**	**10,057**
Acquisitions	44,677	2,342	431	47,450
Additions	1,062	6,220	130	7,412
Transfers	1,909	(2,105)	196	-
Depreciation, depletion and amortization	(584)	-	(115)	(699)
Disposals, net	(687)	(282)	(680)	(1,649)
Impairments	63	-	49	112
At 31 December 2004	**52,902**	**8,728**	**1,053**	**62,683**
Additions	1,144	4,346	970	6,460
Transfers	7,491	(8,894)	1,403	-
Depreciation, depletion and amortization	(3,255)	-	(155)	(3,410)
Disposals, net	(36)	(6)	(85)	(127)
Impairments	30	-	39	69
At 31 December 2005	**58,276**	**4,174**	**3,225**	**65,675**

Included within oil and gas properties and equipment balance at 31 December 2005 and 2004 are proved properties of RR 29,125 million and RR 30,583 million, net of accumulated depreciation, depletion and amortization and impairment expense of RR 1,527 million and RR 69 million, respectively.

Included within general and administrative expenses are RR 38 million and RR 18 million of depreciation of administrative buildings for the years ended 31 December 2005 and 2004, respectively.

Estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, amounting to RR 398 million and RR 268 million at 31 December 2005 and 2004, 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 2038. 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 2005 and 2004 was capitalized interest of RR 608 million and RR 446 million, respectively. The interest capitalization rates for 2005 and 2004 used for additions were 9.14 percent and 10.25 percent, respectively.

During 2005, the transfers and additions to oil and gas property and equipment included the completion of the Purovsky Gas Condensate Plant in the amount of RR 4,862 million. The Group also completed the BOP Plant (Biaxial-Oriented Polypropylene Plant) for RR 1,047 million recorded within other.

(in millions of Russian roubles, unless otherwise stated)

7 INVESTMENTS IN ASSOCIATES

	Year ended 31 December:	
	2005	**2004**
Balance at the beginning of year	**1,945**	**5,291**
Share of income before tax	159	721
Share of income tax (expense) benefit	(16)	43
Net income from associates	143	764
Acquisition of associates	-	35
Disposals of associates	(2,088)	(37)
Acquisition of controlling stakes in associates	-	(4,106)
Other movements	-	(2)
Balance at the end of year	**-**	**1,945**

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).

Disposals. In June 2005, the Group sold its 66 percent participation interest in Geoilbent to OAO LUKOIL and its subsidiary for RR 5,108 million, recognizing a gain on sale of RR 2,234 million, net of associated income tax of RR 793 million. The Group included its investment in Geoilbent within exploration and production in the Group's segment information.

In June 2005, the Group sold its 34 percent interest in Selkupneftegas, a Group associate, to OAO NK Rosneft for RR 573 million, recognizing a gain on sale of RR 436 million, net of associated income tax of RR 137 million. As the Group's carrying value for its investment in Selkupneftegas was nil, the full amount of the sales proceeds was recognized as a gain.

In June 2005, the Group disposed of its 25.1 percent interest in Tambeyneftegas to OOO Gazprombank-Invest for RR 120 million, recognizing a gain on sales of RR 4 million, net of associated income tax of RR 7 million. The Group included its investment in Tambeyneftegas within exploration and production in the Group's segment information.

8 INVENTORIES

	At 31 December:	
	2005	**2004**
Materials and supplies at net realizable value (net of provisions of RR 91 million and RR 87 million at 31 December 2005 and 2004, respectively)	565	479
Materials and supplies at cost	416	252
Natural gas and hydrocarbon liquids	284	105
Polymer and insulation tape products	243	66
Other inventories	16	27
Total inventories	**1,524**	**929**

(in millions of Russian roubles, unless otherwise stated)

9 TRADE AND OTHER RECEIVABLES

	At 31 December:	
	2005	**2004**
Trade receivables (net of provision of nil and RR 21 million at 31 December 2005 and 2004, respectively)	654	669
Trade and other receivables – related parties (net of provision of RR 59 million and nil at 31 December 2005 and 2004, respectively)	1,628	606
Recoverable value-added tax	2,415	1,740
Interest on loans receivable – related parties	29	42
Other receivables (net of provision of RR 62 million and RR 47 million at 31 December 2005 and 2004, respectively)	123	399
Total trade and other receivables	**4,849**	**3,456**

10 LONG-TERM DEBT

	At 31 December:	
	2005	**2004**
US dollar denominated loans	6,116	11,586
Euro denominated loans	786	-
Russian rouble denominated bonds	1,000	1,000
Russian rouble denominated loans	-	4,537
Loans from related parties	-	1,497
Total	7,902	18,620
Less: current portion of long-term debt	(7,010)	(5,388)
Total long-term debt	**892**	**13,232**

At 31 December 2005 and 2004, the Group's long-term debt by facility is as follows:

	At 31 December:	
	2005	**2004**
C.R.R. B.V.	5,757	8,324
Russian rouble denominated bonds	1,000	1,000
Sberbank	-	3,354
Vneshtorgbank	-	2,775
Finance Department of YNAO	-	1,130
Yamal Regional Fund of Development	-	1,126
Other Russian rouble denominated loans	-	424
Other loans	1,145	487
Total	7,902	18,620
Less: current portion of long-term debt	(7,010)	(5,388)
Total long-term debt	**892**	**13,232**

C.R.R. B.V. At 31 December 2005 and 2004, US dollar denominated loans included a USD 200 million loan (RR 5,757 million and RR 5,549 million, respectively) 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 guaranteed by Group subsidiaries, Yurkharovneftegas and Tarkosaleneftegas, and repayable in June 2006.

(in millions of Russian roubles, unless otherwise stated)

10 LONG-TERM DEBT (CONTINUED)

At 31 December 2004, US dollar denominated loans also included a USD 100 million loan (RR 2,775 million) from C.R.R. B.V. backed by unsecured, 18-month credit-linked notes with an annual coupon rate of 9.125 percent. The loan was repaid in October 2005.

Russian rouble denominated bonds. In December 2004, the Group issued one million non-convertible Russian rouble denominated bonds, each with a nominal value of RR 1,000 and an annual coupon rate of 9.4 percent, payable semi-annually. The bonds are guaranteed by Yurkharovneftegas and mature in November 2006.

Sberbank. At 31 December 2004, Russian rouble denominated loans included loans from Sberbank in the aggregated amount of RR 3,354 million with annual interest rates between 10.5 and 13 percent. A portion of these loans in the amount of RR 600 million was collateralized by the Group's 2.5 percent share in Tarkosaleneftegas. During 2005, the loans were fully repaid and the shares pledged were released.

Vneshtorgbank. At 31 December 2004, US dollar denominated loans included a USD 100 million loan (RR 2,775 million) from Vneshtorgbank with annual interest rate of 9.75 percent. The loan was collateralized by 26 percent of the Group's participation interest in Tarkosaleneftegas. In August 2005, the Group fully repaid the loan ahead of its maturity schedule and the participation interest pledged was released.

Finance Department of YNAO. At 31 December 2004, Russian rouble denominated loans included a loan from the Finance Department of YNAO in the amount of RR 1,130 million. The loan bore interest of 11.75 percent per annum and was collateralized by 4.7 percent of the Group's participation interest in Tarkosaleneftegas. In August 2005, the Group fully repaid the loan ahead of its maturity schedule and the participation interest pledged was released.

Yamal Regional Fund of Development. At 31 December 2004, loans from related parties included loans from the Yamal Regional Fund of Development in the aggregated amount of RR 1,126 million with annual interest rates between 10 and 12 percent. A portion of these loans in the amount of RR 971 million was collateralized by 31 percent of the Group's participation interest in Yurkharovneftegas. During 2005, the loans were fully repaid ahead of its maturity schedule and the participation interest pledged was released.

Other Russian rouble denominated loans. At 31 December 2004, loans from related parties included interest free loans from Pur-Land in the total amount of RR 371 million. The loans were fully repaid in January 2005.

Other loans. At 31 December 2005 and 2004, other loans included US dollar denominated loans totaling RR 359 million (USD 12 million) and RR 487 million (USD 17.6 million), respectively, with a weighted average interest rate of 9.6 and 8.3 percent, respectively. The loans mature between 2006 and 2010. At 31 December 2005, other loans also included Euro denominated loans totaling RR 786 million (Euro 23 million) with an implied weighted average interest rate of 12 percent. The loans mature between 2006 and 2009.

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

	Scheduled maturities at 31 December:	
Year ended 31 December	**2005**	**2004**
2006	-	7,920
2007	375	2,697
2008	360	2,093
2009	141	515
Thereafter	16	7
Total long-term debt	**892**	**13,232**

(in millions of Russian roubles, unless otherwise stated)

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

	At 31 December:	
	2005	**2004**
US dollar denominated loans	1,192	-
Russian rouble denominated loans	-	3,680
Promissory notes	-	1,275
Loans from related parties	-	425
Total	1,192	5,380
Add: current portion of long-term debt	7,010	5,388
Total short-term debt and current portion of long-term debt	**8,202**	**10,768**

US dollar denominated loans. Short-term US dollar denominated loans had a weighted average interest rate of 7.8 percent (interest ranging from 7.6 percent to 7.9 percent) at 31 December 2005.

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) at 31 December 2004.

Promissory notes. At 31 December 2004, promissory notes included Tarkosaleneftegas Russian rouble denominated promissory notes repayable within one year of the balance sheet date. During 2005, the promissory notes, which were non interest-bearing, were fully repaid.

Loans from related parties. At 31 December 2004, loans from related parties included US dollar denominated loan from the Yamal Regional Fund of Development, at that time a Group shareholder, in the amount of RR 425 million (USD 15.3 million). The loan bore interest of 10 percent per annum and was fully repaid in February 2005.

12 SHAREHOLDERS' EQUITY

Ordinary share capital. Share capital issued and outstanding consisted of 3,036,306 ordinary shares at 31 December 2005 and 2004 with a par value of RR 100 each. The total authorized number of ordinary shares was 10,593,682 shares at 31 December 2005 and 2004.

Dividends. On 10 June 2005, the Group's shareholders approved final dividends for 2004 totaling RR 777 million (RR 256 per share). On 14 December 2005, the Group's shareholders approved interim dividends for 2005 of RR 1,145 million (RR 377 per share), of which RR 33 million were still payable at the year end.

Share-based compensation. In 2005, 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. The fair value of the awards of RR 879 million is being recognized as compensation expense evenly over their five year vesting period beginning the second quarter of 2005. A corresponding increase is recorded to additional paid in capital as expense is recognized to reflect the shareholders contribution in providing the award. The fair value of the awards was determined by reference to the fair value of the limited liability company's net assets estimated by its owners.

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 2005 and 2004, NOVATEK had a statutory net income of RR 15,179 million and RR 5,182 million, respectively, as reported in NOVATEK's statutory accounting reports.

(in millions of Russian roubles, unless otherwise stated)

13 OIL AND GAS SALES

	Year ended 31 December:	
	2005	**2004**
Natural gas	22,729	12,943
Stable gas condensate	6,349	-
Crude oil	3,899	6,025
Oil products	2,797	2,050
Liquefied petroleum gas	1,472	-
Total oil and gas sales	**37,246**	**21,018**

14 MATERIALS, SERVICES AND OTHER

	Year ended 31 December:	
	2005	**2004**
Materials and supplies	1,212	1,594
Employee compensation	1,161	675
Tolling and processing fees	507	481
Repair and maintenance services	268	110
Electricity and fuel	135	137
Rent expense	30	95
Construction services	-	415
Extraction services	-	140
Other	160	148
Total materials, services and other	**3,473**	**3,795**

15 TRANSPORTATION EXPENSES

	Year ended 31 December:	
	2005	**2004**
Natural gas transportation to customers	5,052	2,938
Stable gas condensate, liquefied petroleum gas and oil products transported by railroad	943	9
Transportation of unstable gas condensate from the fields to the processing facilities through third party pipelines	163	144
Crude oil transportation to customers	133	277
Insurance expense	290	304
Other transportation costs	24	18
Total transportation expenses	**6,605**	**3,690**

(in millions of Russian roubles, unless otherwise stated)

16 TAXES OTHER THAN INCOME

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

	Year ended 31 December:	
	2005	**2004**
Unified natural resources production tax	4,367	1,293
Property tax	327	106
Excise tax	102	93
Other taxes	125	77
Subtotal	4,921	1,569
Less: reversal of provision for additional taxes	(427)	-
Total taxes other than income tax	**4,494**	**1,569**

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 production was fixed at a rate of RR 135 per thousand cubic meters. Beginning 1 January 2006, the unified natural resources production tax for natural gas production was fixed at a rate of RR 147 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 is RR 419 per metric ton of crude oil. From 1 January 2007, the tax rate will be 16.5 percent of crude oil revenues recognized by the Group.

Reversal of provision for additional taxes. During 2004, the Russian tax authorities' position on calculating the tax basis for unified natural resources production tax on gas condensate differed from how the Group calculated the tax. As a result, through 31 March 2005, the Group recorded provisions for additional taxes in excess of its declarations submitted to the tax authorities. In July 2005, a revised methodology on calculating the unified natural resources production tax on gas condensate was enacted. The revision supported the Group's methodology and was retroactively effective from 1 January 2004. Accordingly, the Group reversed its previously recorded provisions of RR 427 million as of 1 April 2005.

17 INCOME TAX

At 31 December 2005 and 2004, RR 732 million and RR 109 million of prepaid income tax were included within prepayments and other current assets, respectively.

(in millions of Russian roubles, unless otherwise stated)

17 INCOME TAX (CONTINUED)

Reconciliation of income tax. The table below reconciles actual income tax expense and theoretical income tax, determined by applying the statutory tax rate to profit before income tax and share of income in associates.

	Year ended 31 December:	
	2005	**2004**
Profit before income tax and share of income in associates	18,597	7,322
Theoretical income tax expense at statutory rate of 24 percent	4,463	1,757
Increase (decrease) due to:		
Non-deductible expenses	439	156
Tax losses carried forward	(76)	-
Other non-temporary differences	252	205
Total income tax expense	**5,078**	**2,118**

Effective income tax rate. The Group's statutory income tax rate in 2005 and 2004 was 24 percent. For the years ended 31 December 2005 and 2004, the Group's effective income tax rate was 27.3 percent and 28.9 percent, respectively.

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.

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

	At 31 December:	
	2005	**2004**
Long-term deferred income tax asset (other non-current assets)	21	41
Long-term deferred income tax liability	(8,396)	(8,953)
Net deferred income tax liability	**(8,375)**	**(8,912)**

Deferred income tax assets expected to be recovered within twelve months of 31 December 2005 and 2004 were RR 275 million and RR 224 million, respectively. Deferred tax liabilities expected to be recovered within twelve months of 31 December 2005 and 2004 were RR 45 million and RR 178 million, respectively.

Movements in deferred income tax assets and liabilities during the years ended 31 December 2005 and 2004 were as follows:

	At 31 December 2005	Income statement effect	At 31 December 2004	Income statement effect	Acquisitions and disposals	At 31 December 2003
Liabilities						
Property, plant and equipment	(9,262)	(187)	(9,075)	(202)	(8,245)	(628)
Investments in associates	-	347	(347)	(175)	859	(1,031)
Inventories	(24)	(18)	(6)	11	-	(17)
Trade payables and accrued liabilities	(10)	168	(178)	(86)	(16)	(76)
Total deferred income tax liabilities	(9,296)	310	(9,606)	(452)	(7,402)	(1,752)

(in millions of Russian roubles, unless otherwise stated)

17 INCOME TAX (CONTINUED)

	At 31 December 2005	Income statement effect	At 31 December 2004	Income statement effect	Acquisitions and disposals	At 31 December 2003
Assets						
Inventories	153	46	107	(4)	26	85
Trade and other receivables	36	(132)	168	89	10	69
Trade payables and accrued liabilities	600	218	382	148	190	44
Tax losses carried forward	76	76	-	-	-	-
Other	56	19	37	7	(31)	61
Total deferred income tax assets	921	227	694	240	195	259
Net deferred income tax liabilities	**(8,375)**	**537**	**(8,912)**	**(212)**	**(7,207)**	**(1,493)**

At 31 December 2005 and 2004, the Group had recognized deferred income tax assets of RR 76 million and nil in respect of unused tax loss carry forwards of RR 317 million and RR 337 million, respectively. Tax losses can be carried forward for relief against taxable profits for 10 year after they are incurred, subject to certain limitations.

At 31 December 2005 and 2004, the Group had not recorded a deferred tax liability in respect of taxable temporary differences of RR 7,084 million and RR 7,040 million, respectively, associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

18 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 2005, cash, trade and other receivables, short-term and long-term debt denominated in US dollars amounted to RR 1,289 million, RR 1,507 million, RR 1,192 million, RR 6,116 million, respectively, translated at the official Russian rouble to US dollar exchange rate used by the Central Bank of the Russian Federation.

Interest rates. The Group obtains funds from and deposits surpluses with banks at current market interest rates, and does not use any hedging instruments to manage its exposure to changes in interest rates. 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. Although collection of accounts receivable could be influenced by economic factors affecting these customers, 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 2005, the fair values, where determinable, of financial instruments held by the Group did not materially differ from their carrying values.

19 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 had pledged 32.2 percent of its share in Tarkosaleneftegas and 31 percent of its participation interest in Yurkharovneftegas as collateral for long-term borrowings. During 2005, the respective loans were repaid and the associated pledges were released (see Note 10).

At 31 December 2005 and 2004, the Group had pledged property, plant and equipment of nil and approximately RR 7,839 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 2005, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

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

(in millions of Russian roubles, unless otherwise stated)

19 CONTINGENCIES AND COMMITMENTS (CONTINUED)

The Group's oil and gas fields are situated on land belonging to the Regional Administration of Yamal-Nenets. Licenses are issued by the Ministry of Natural Resources and the Group pays unified natural resources production tax to explore and produce oil and gas from these fields. The principal licenses of the Group, including its subsidiaries, and their expiry dates are:

Field	License holder	License expiry date
Yurkharovskoye	Yurkharovneftegas	2034
Khancheyskoye	Tarkosaleneftegas	2019
East-Tarkosalinskoye	Tarkosaleneftegas	2018
Sterkhovoye	Purneftegasgeologiya	2026
Termokarstovoye	Terneftegas	2021

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. The Group plans to extend 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 1,010 million to complete the facilities and begin phase two of construction of the Purovsky Gas Condensate Plant in 2006.

20 RELATED PARTY TRANSACTIONS

In 2005 and 2004, 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.

The Group had transactions with the following related parties during 2005 and 2004:

Name of related party	Nature of transactions
Shareholders	
Levit	Provision of loans, transactions in shares of Group companies (see Notes 1, 4, 5, 22)
SWGI Growth Fund (Cyprus) Limited	Transactions in shares of Group companies (see Notes 4, 22)
Yamal Regional Fund of Development (through June 2005)	Receipt of loans, transactions in shares of Group companies (see Note 10)
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
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 payables
Geoilbent (through June 2005)	Purchases of crude oil

(in millions of Russian roubles, unless otherwise stated)

20 RELATED PARTY TRANSACTIONS (CONTINUED)

Name of related party	Nature of transactions
Subject to control by significant shareholders	
Kerden Trading Limited (**)	Sales of crude oil and oil products
OOO Novafininvest (from July 2004)	Provision of construction services (see Note 22)
OAO SNP NOVA (from July 2004)	Provision of construction services (see Note 22)
OOO NOVA Energy Services (from July 2004)	Provision of construction services (see Note 22)
OAO Pur-Land (*) (through January 2005)	Receipt of loans

(*) 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.

(**) Beginning January 2006, the Group commenced export sales through its newly established foreign subsidiaries (see Note 1).

Purchases and sales of crude oil:

	Year ended 31 December:			
	2005		2004	
Name of related party	Sales volumes (thousands of tons)	Russian roubles (millions)	Sales volumes (thousands of tons)	Russian roubles (millions)
Sales to Kerden Trading Limited	97	622	389	1,772
Sales to TNG Energy	86	492	73	395
Purchases from Tarkosaleneftegas	-	-	348	557
Purchases from Khancheyneftegas	-	-	520	832
Purchases from Geoilbent (until June 2005)	219	562	358	920

Purchases of natural gas:

	Year ended 31 December:			
	2005		2004	
Name of related party	Sales volumes (millions of m^3)	Russian roubles (millions)	Sales volumes (millions of m^3)	Russian roubles (millions)
Purchases from Tarkosaleneftegas	-	-	5,738	1,727
Purchases from Khancheyneftegas	-	-	2,297	958

Sales of stable gas condensate and liquefied petroleum gas:

During 2005, the Group sold 760 thousand tons of stable gas condensate and 28 thousand tons of liquefied petroleum gas to Kerden Trading Limited for RR 6,342 million and RR 271 million, respectively. Beginning January 2006, the Group commenced export sales through its newly established foreign subsidiaries (see Note 1).

(in millions of Russian roubles, unless otherwise stated)

20 RELATED PARTY TRANSACTIONS (CONTINUED)

Other balances and transactions with related parties:

	As at and for the year ended 31 December:	
	2005	**2004**
Balances		
Prepayments and advances (for construction)	95	235
Other non-current assets	57	70
Long-term loans receivable	102	7,694
Prepayments and advances	15	30
Trade and other receivables	1,628	606
Interest receivable	29	42
Short-term loans receivable	165	251
Cash and cash equivalents	179	-
Long-term debt	-	640
Short-term debt and current portion of long-term debt	-	1,281
Trade and other payables	49	147
Transactions		
Sales of inventory and oil products	40	151
Interest expense	64	85
Interest income	467	425
Construction services sales	-	209
Purchases of construction services	791	486
Other (Notes 4, 22)		

Long-term loans receivable. At 31 December 2004, long-term loans receivable included a US dollar denominated loan to Levit, a Group shareholder, in the amount of USD 270 million (RR 7,492 million). The loan was unsecured, bore annual interest rate of 10 percent and was fully repaid in July 2005 ahead of its maturity schedule.

Key management compensation. During 2005 and 2004, the Group paid to the members of the Board of Directors and the Management Board, some of whom have also direct and indirect interests in the Group, the total of RR 153 million and RR 100 million, respectively, in compensation and directors' fees, excluding dividends. In addition, during 2005, RR 108 million were accrued as part of the share-based compensation scheme and included in general and administrative expense.

21 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 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, polymer and tape insulation, banking and telecommunications.

(in millions of Russian roubles, unless otherwise stated)

21 SEGMENT INFORMATION (CONTINUED)

Segment information as at 31 December 2005 and 2004 was as follows:

At 31 December 2005	Exploration and production	Other	Total
Segment assets	72,246	2,505	74,751
Unallocated assets			4,011
Total assets	**72,246**	**2,505**	**78,762**
Segment liabilities	(3,470)	(142)	(3,612)
Unallocated liabilities			(17,601)
Total liabilities	**(3,470)**	**(142)**	**(21,213)**

At 31 December 2004	Exploration and production	Other	Total
Segment assets	68,154	856	69,010
Associated companies	1,945	-	1,945
Unallocated assets			11,729
Total assets	**70,099**	**856**	**82,684**
Segment liabilities	(3,531)	(65)	(3,596)
Unallocated liabilities			(34,016)
Total liabilities	**(3,531)**	**(65)**	**(37,612)**

Segment information for the years ended 31 December 2005 and 2004 was as follows:

Year ended 31 December 2005	Exploration and production	Other	Total
Segment revenues			
External revenues and other income	37,442	1,114	38,556
Inter-segment sales	8	3	11
Total segment revenues	**37,450**	**1,117**	**38,567**
Segment expenses			
External expenses	(19,525)	(918)	(20,443)
Inter-segment expenses	(3)	(8)	(11)
Total segment expenses	**(19,528)**	**(926)**	**(20,454)**
Segment result	**17,922**	**191**	**18,113**
Unallocated gains on sales of investments			3,631
Unallocated operating expenses			(2,418)
Profit from operations			**19,326**
Export revenues	7,732	30	7,762
Income of associated companies, net	143	-	143
Capital expenditures	5,183	1,277	6,460
Depreciation, depletion and amortization	(3,358)	(14)	(3,372)
Charges for impairment	(52)	(35)	(87)

(in millions of Russian roubles, unless otherwise stated)

21 SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2004	Oil and gas construction services	Exploration and production	Other	Total
Segment revenues				
External revenues and other income	2,005	21,250	1,274	24,529
Inter-segment sales	915	12	8	935
Total segment revenues	**2,920**	**21,262**	**1,282**	**25,464**
Segment expenses				
External expenses	(2,773)	(12,736)	(743)	(16,252)
Inter-segment expenses	(16)	-	-	(16)
Total segment expenses	**(2,789)**	**(12,736)**	**(743)**	**(16,268)**
Segment result	**131**	**8,526**	**539**	**9,196**
Unallocated gains on sales of investments				198
Unallocated operating expenses				(1,773)
Unrealized margin in segment assets				(7)
Profit from operations				**7,614**
Export revenues	-	2,480	119	2,599
Income of associated companies, net	-	764	-	764
Acquisitions	-	47,450	-	47,450
Capital expenditures	-	7,212	200	7,412
Depreciation, depletion and amortization	(79)	(594)	(26)	(699)
Charges for impairment	1	184	(67)	118

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

At 31 December 2004, external expenses of the oil and gas construction services segment included RR 912 million of costs capitalized by 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.

The Group's segment revenues are generated from sales on domestic and international markets.

(in millions of Russian roubles, unless otherwise stated)

22 DISCONTINUED OPERATIONS

In June 2004, NOVATEK's board of directors approved the sale of substantially all of the Group's oil and gas construction services business. The disposal is consistent with the Group's long-term strategy to focus its activities on oil and gas exploration, production, processing and marketing of hydrocarbons, and to divest non-core activities.

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.

In June 2004, the Group sold its 99 percent participation interest investment in the share capital of OOO Novafininvest ("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.

During 2004, Novafininvest acted as general contractor for the construction of the Khancheyskoye and Yurkharovskoye fields. As of the date of disposal, Novafininvest also held interests in certain companies, including OAO SNP NOVA, which was the primary provider of construction services to the Group. Such activities 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 Novafininvest and its subsidiaries in the future at market terms and conditions.

The table below summarizes the effect of the discontinued operations on the Group's results of operations and of cash flows for the year ended 31 December 2004.

Total revenues and other income	2,186
Total operating expenses	(2,194)
Loss before income tax	(8)
Income tax expense	(31)
Loss after tax	(39)
Loss on disposal, net of tax of nil	(296)
Loss for discontinued operations	(335)
Net cash provided by operating activities	29
Net cash used in investing activities	(701)
Net cash provided by financing activities	1,078
Basic and diluted earnings per share from continuing operations (in Russian roubles)	2,658
Basic and diluted loss per share for discontinued operations (in Russian roubles)	(148)
Basic and diluted earnings per share (in Russian roubles)	2,510
Weighted average shares outstanding	*2,268,654*

As of the date of disposal, total assets and total liabilities of the disposed operations were RR 2,569 million and RR 1,419 million, respectively.

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 Group 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 Group'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 Group operates through various oil and gas production subsidiaries. The Group also owned interest in oil and gas producing entities, referred to as Associates that were 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 2005 and 2004 (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2005	**2004**
Costs incurred in property acquisition, exploration and development activities		
Acquisition costs	-	47,019
Exploration costs	348	183
Development costs	5,086	6,391
Total costs incurred in property acquisition, exploration and development activities	**5,434**	**53,593**

	At 31 December:	
	2005	**2004**
Capitalized costs relating to oil and gas producing activities		
Wells and related equipment and facilities	55,371	47,494
Support equipment and facilities	6,328	5,740
Uncompleted wells, equipment and facilities	3,940	8,331
Total capitalized costs relating to oil and gas producing activities	65,639	61,565
Accumulated depreciation, depletion and amortization	(4,065)	(806)
Net capitalized costs relating to oil and gas producing activities	**61,574**	**60,759**

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Results of Operations for Oil and Gas Producing Activities

The Group'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 (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2005	2004
Revenues from oil and gas sales	37,246	21,018
Production costs	(2,342)	(1,103)
Long-term supply purchases	(2,065)	(5,632)
Transportation expenses	(6,291)	(3,368)
Taxes other than income tax	(4,336)	(1,393)
Depreciation, depletion and amortization	(3,255)	(584)
Exploration expenses	(348)	(183)
Results of operations for oil and gas producing activities before income tax	18,609	8,755
Related income tax expense	(4,466)	(2,101)
Results of operations for oil and gas producing activities	**14,143**	**6,654**
Share in associates' results of operations for oil and gas producing activities	**143**	**845**

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 the Group's primary fields – Yurkharovskoye, East-Tarkosalinskoye, Khancheyskoye, Sterkhovoye, and Termokarstovoye – as well as other oil and gas producing fields, North Gubkinskoye and South Tarasovskoye, that were appraised by independent consulting firm, Ryder Scott Co. LP as of 31 December 2004. 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 2005 and 2004.

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. The Group plans to extend the terms of the licenses for its two other core fields, East-Tarkosalinskoye and Khancheyskoye.

The Group 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 Group’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.

Additions represent two more fields, Sterkhovoye and Termokarstovoye, appraised by D&M in 2005. 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 meters*	*Billions of cubic feet*	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*
Reserves at 31 December 2003	**7,356**	**208**	**-**	**-**	**7,356**	**208**
Changes attributable to:						
Revisions of previous estimates	1,178	34	-	-	1,178	34
Acquisitions	8,614	244	3,787	107	12,401	351
Production	(343)	(10)	-	-	(343)	(10)
Reserves at 31 December 2004	**16,805**	**476**	**3,787**	**107**	**20,592**	**583**
Changes attributable to:						
Revisions of previous estimates	2,418	69	(315)	(9)	2,103	60
Additions	609	17	213	6	822	23
Production	(883)	(25)	-	-	(883)	(25)
Reserves at 31 December 2005	**18,949**	**537**	**3,685**	**104**	**22,634**	**641**
Net proved developed (included above)						
At 31 December 2003	736	21	-	-	736	21
At 31 December 2004	11,016	312	2,728	77	13,744	389
At 31 December 2005	10,513	298	2,925	83	13,438	381

The Group'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 2003	3,498	99	849	24	4,347	123
At 31 December 2004	-	-	-	-	-	-
At 31 December 2005	-	-	-	-	-	-

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

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 2003	**106**	**12**	**-**	**-**	**106**	**12**
Changes attributable to:						
Revisions of previous estimates	(8)	(1)	1	1	(7)	-
Acquisitions	151	19	52	6	203	25
Production	(7)	(1)	-	-	(7)	(1)
Reserves at 31 December 2004	**242**	**29**	**53**	**7**	**295**	**36**
Changes attributable to:						
Revisions of previous estimates	46	5	(11)	(1)	35	4
Additions	54	7	14	1	68	8
Production	(17)	(2)	-	-	(17)	(2)
Reserves at 31 December 2005	**325**	**39**	**56**	**7**	**381**	**46**
Net proved developed (included above)						
At 31 December 2003	14	2	-	-	14	2
At 31 December 2004	130	15	8	1	138	16
At 31 December 2005	123	15	10	1	133	16

The Group'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 2003	113	14	16	2	129	16
At 31 December 2004	51	6	2	-	53	6
At 31 December 2005	-	-	-	-	-	-

OAO NOVATEK was incorporated as a joint stock company in accordance with the Russian law and is domiciled in the Russian Federation. The Group's registered office is:

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