OAO NOVATEK

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

31 MARCH 2005

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(in millions of Russian roubles)

	Notes	31 March 2005	31 December 2004
ASSETS			
Non-current assets			
Property, plant and equipment, net	6	63,181	62,449
Other non-current assets		1,702	1,090
Investments in associates		2,023	1,945
Long-term loans receivable		7,761	7,832
Total non-current assets		**74,667**	**73,316**
Current assets			
Prepayments and other current assets		1,224	1,039
Inventories		980	929
Trade and other receivables		3,695	3,456
Short-term loans receivable		794	707
Cash and cash equivalents		1,725	3,003
Total current assets		**8,418**	**9,134**
Total assets		**83,085**	**82,450**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	8	12,898	13,232
Deferred income tax liability		8,987	8,855
Other non-current liabilities		1,239	1,188
Total non-current liabilities		**23,124**	**23,275**
Current liabilities			
Short-term debt	7	6,952	10,768
Other taxes payable		1,598	1,280
Income taxes payable		393	228
Trade payables and accrued liabilities		3,016	1,963
Total current liabilities		**11,959**	**14,239**
Total liabilities		**35,083**	**37,514**
Equity attributable to Group shareholders			
Ordinary share capital		393	393
Additional paid-in capital		29,797	29,797
Asset revaluation surplus		5,345	5,345
Retained earnings		12,029	8,952
Total equity attributable to shareholders of the Group		**47,564**	**44,487**
Minority interest		**438**	**449**
Total equity		**48,002**	**44,936**
Total liabilities and equity		**83,085**	**82,450**

The accompanying notes are an integral part of this consolidated interim condensed financial information.

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

L. Mikhelson
General Director

M. Gyetvay
Financial Director

OAO NOVATEK
Consolidated Interim Condensed Statement of Income (unaudited)
(in millions of Russian roubles, except share and per share amounts)

	Notes	Three months ended 31 March: 2005	2004
Revenues			
Oil and gas sales	4	8,693	5,238
Oil and gas construction services		-	1,067
Sales of polymer and insulation tape		212	159
Other revenues		99	203
Total revenues		**9,004**	**6,667**
Net loss on disposals		-	(43)
Other income (expense)		(4)	2
Total revenues and other income		**9,000**	**6,626**
Operating expenses			
Materials, services and other		(867)	(1,710)
Purchases of oil, gas condensate and natural gas		(611)	(1,485)
Transportation expenses	5	(1,740)	(1,040)
Taxes other than income tax	9	(1,301)	(392)
General and administrative expenses		(228)	(235)
Depreciation, depletion and amortization		(814)	(149)
Net impairment expense		(42)	(33)
Exploration expenses		(149)	(63)
Total operating expenses		**(5,752)**	**(5,107)**
Income from operations		**3,248**	**1,519**
Finance income (expense)			
Foreign exchange gain (loss)		(127)	44
Interest income		227	93
Interest expense		(341)	(126)
Total finance income (expense)		**(241)**	**11**
Share of net income of associates		77	374
Profit before income tax and minority interest		**3,084**	**1,904**
Income tax expense			
Current income tax expense		(866)	(435)
Deferred income tax benefit (expense)		90	(44)
Total income tax expense		**(776)**	**(479)**
Profit before minority interest		**2,308**	**1,425**
Minority interest		7	9
Net income		**2,315**	**1,434**
Basic and diluted earnings per share (in Russian roubles)		762	638
Weighted average shares outstanding		3,036,306	2,247,030

The accompanying notes are an integral part of this consolidated interim condensed financial information.

OAO NOVATEK
Consolidated Interim Condensed Statement of Cash Flows (unaudited)
(in millions of Russian roubles)

	Three months ended 31 March:	
	2005	**2004**
Net income before income tax and minority interest	**3,084**	**1,904**
Adjustments to income before income tax and minority interest:		
Depreciation, depletion and amortization	814	149
Net impairment loss	42	33
Net unrealized foreign exchange loss (gain)	127	(44)
Net loss on disposals	-	43
Interest expense	341	126
Interest income	(227)	(93)
Share of income from associates	(77)	(374)
Working capital changes		
Increase in trade and other receivables, prepayments and other current assets	(86)	(811)
Increase in inventories	(51)	(39)
Increase in trade payables and accrued liabilities	752	985
Increase in other taxes payable	651	164
Total effect of working capital changes	**1,266**	**299**
Income taxes paid	(689)	(828)
Net cash provided by operating activities	**4,681**	**1,215**
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,148)	(1,668)
Acquisition of additional shares in subsidiaries	(25)	-
Proceeds from disposal of property, plant and equipment and other non-current assets	14	4
Interest paid and capitalized	(233)	(84)
Short and long-term loans provided	(167)	(66)
Repayment of short and long-term loans	173	152
Non-banking interest received	44	88
Net cash used in investing activities	**(1,342)**	**(1,574)**
Cash flows from financing activities		
Proceeds from long-term borrowings	1,557	155
Proceeds from short-term borrowings	755	487
Repayments of long-term borrowings	(3,428)	(167)
Repayments of short-term borrowings	(3,338)	(169)
Non-banking interest paid	(156)	(133)
Net cash from financing activities	**(4,610)**	**173**
Net effect of exchange rate on cash and cash equivalents	3	(6)
Net movements in restricted cash accounts	(10)	(12)
Net decrease in cash and cash equivalents	**(1,278)**	**(204)**
Cash and cash equivalents at the beginning of the reporting period	3,003	1,618
Cash and cash equivalents at the end of the reporting period	**1,725**	**1,414**

The accompanying notes are an integral part of this consolidated interim condensed financial information.

(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
For the three months ended 31 March 2004								
31 December 2003	**2,247,030**	**314**	**5,963**	**-**	**5,268**	**11,545**	**468**	**12,013**
Profit (loss) for the period	-	-	-	-	1,434	1,434	(9)	1,425
31 March 2004	**2,247,030**	**314**	**5,963**	**-**	**6,702**	**12,979**	**459**	**13,438**
For the three months ended 31 March 2005								
31 December 2004	**3,036,306**	**393**	**29,797**	**5,345**	**8,952**	**44,487**	**449**	**44,936**
Cumulative effect of adoption of IFRS 3, *Business Combinations* (Note 3)	-	-	-	-	762	762	-	762
31 December 2004, as restated for adoption of IFRS 3, *Business Combinations*	**3,036,306**	**393**	**29,797**	**5,345**	**9,714**	**45,249**	**449**	**45,698**
Profit (loss) for the period	-	-	-	-	2,315	2,315	(11)	2,304
31 March 2005	**3,036,306**	**393**	**29,797**	**5,345**	**12,029**	**47,564**	**438**	**48,002**

The accompanying notes are an integral part of this consolidated interim condensed financial information.

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

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

In June 2004, the Group disposed of its oil and gas construction services segment (the "disposed segment") to focus its activities on oil and gas exploration and production. The disposed segment's activities primarily consisted of drilling services and construction of oil and gas infrastructure and facilities for related and external parties within the Russian Federation.

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 was 100 percent.

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 three months ended 31 March 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 previously purchased by the Group and then sold 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 all intragroup transactions were eliminated.

Conversely, 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 includes 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 appropriate.

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

This unaudited consolidated interim condensed financial information reflects the financial position and results of operations of the principal subsidiaries listed below, all of which are incorporated in the Russia Federation:

	Percentage of total share capital at:			
Subsidiary	**31 March 2005**	**31 December 2004**	**31 March 2004**	**31 December 2003**
Oil and gas exploration and production				
Tarkosaleneftegas	100.0%	100.0%	32.2%	32.2%
OOO Yurkharovneftegas	100.0%	100.0%	100.0%	100.0%
Khancheyneftegas	100.0%	100.0%	43.0%	43.0%
OAO Purneftegasgeologiya	78.0%	78.0%	79.6%	79.6%
Construction services				
OAO SNP NOVA	-	-	74.3%	74.3%
OOO Novafininvest	-	-	99.0%	99.0%
Banking				
ZAO NOVA Bank	62.0%	62.0%	88.6%	88.6%
Pipeline insulation production				
OAO NOVATEK-Polymer	97.9%	97.9%	52.2%	52.2%

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

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

1 ORGANISATION AND PRINCIPAL ACTIVITIES (CONTINUED)

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

	Percentage of total share capital at:			
Associate	**31 March 2005**	**31 December 2004**	**31 March 2004**	**31 December 2003**
OOO Geoilbent ("Geoilbent")	66.0%	66.0%	66.0%	66.0%
OOO Tambeyneftegas	25.1%	25.1%	25.1%	25.1%

In June 2005, the Group disposed of its 66 percent participation interest in Geoilbent (see Note 13).

2 BASIS OF PRESENTATION

The consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting* ("IAS 34"). This consolidated interim condensed financial information should be read in conjunction with NOVATEK's consolidated financial statements as of and for the year ended 31 December 2004 prepared in accordance with International Financial Reporting Standards ("IFRS"). The 31 December 2004 consolidated balance sheet data has been derived from audited financial statements.

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

Exchange rates, restrictions and controls. The official rate of exchange of the Russian rouble to the US dollar ("USD") at 31 March 2005, and 31 December 2004 was 27.83 and 27.75 Russian roubles to USD 1.00, respectively. 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.

3 ACCOUNTING POLICIES

Except as discussed below, the principal accounting policies followed by the Group are consistent with those disclosed in the financial statements for the year ended 31 December 2004.

New accounting developments. In December 2003, the International Accounting Standards Board ("IASB") released 15 revised International Accounting Standards ("IAS"s) and withdrew one IAS standard. In 2004, the IASB published five new standards, two revisions and two amendments to existing standards. In addition, the IFRIC issued six new interpretations in 2004. Significant changes relevant to the Group are discussed below.

The revisions to IAS 1, *Presentation of Financial Statements*, clarify certain presentation requirements. Most significantly, the revised standard requires that minority interest be presented within equity. The Company has retroactively reflected the revised presentation standard for equity in the consolidated interim condensed financial information.

IAS 24, *Related Party Disclosures*, as revised, requires the disclosure of compensation of key management personnel and clarifies that such personnel include non-executive directors.

3 ACCOUNTING POLICIES (CONTINUED)

Other revised and amended standards effective on 1 January 2005 are as follows: IAS 2, *Inventories*; IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; IAS 10, *Events after the Balance Sheet Date*; IAS 16, *Property, Plant and Equipment*; IAS 17, *Leases*; IAS 19, *Employee Benefits*; IAS 21, *The Effects of Changes in Foreign Exchange Rates*; IAS 27, *Consolidated and Separate Financial Statements*; IAS 28, *Investments in Associates*; IAS 31, *Investments in Joint Ventures*; *IAS* 32, *Financial Instruments: Disclosure and Presentation*; IAS 33, *Earnings per Share*; IAS 36, *Impairment of Assets*; IAS 38, *Intangible Assets*: and IAS 39, *Financial Instruments: Recognition and Measurement*. The adoption of these revised and amended standards has not had a material effect on the Group's financial position, statements of income or of cash flows.

Other new standards and interpretations early adopted by the group on 1 January 2005 are as follows: IAS 19 (amended), *Employee Benefits,* IFRS 4, *Insurance Contracts*; IFRIC 3, *Emission Rights*; IFRIC 4, *Determining whether an Arrangement contains a Lease*; IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* and IFRIC Amendment to SIC-12. The adoption of these standards did not have a material impact on the Group's financial position, statements of income or of cash flows.

Accounting policies significant to the Group that were adopted or modified on 1 January 2005 are discussed below.

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 recognised 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 share premium when the options 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. The adoption of IFRS 2 did not have a material effect on the Group as the Group had no outstanding share-based awards at 1 January 2005.

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.

Business combinations. The Group accounts for business combinations in accordance with the provisions of IFRS 3, *Business Combinations* ("IFRS 3"). IFRS 3 applies to accounting for business combinations where the agreement date is on or after 31 March 2004. Upon acquisition, the Group initially measures both its share and the share of any minority shareholders in the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values as at the acquisition date. For business combinations where the agreement date is on or after 31 March 2004, goodwill is not amortized but rather tested for impairment annually at the cash generating unit level unless an event occurs during the year which requires the goodwill to be tested more frequently. Intangibles with indefinite useful lives acquired in those business combinations are not amortized and are tested annually for impairment to ensure the carrying value does not exceed the recoverable amount regardless of whether an indicator of impairment is present.

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. Consequently, beginning 1 January 2005, previously recognized goodwill was no longer amortized and will be tested for impairment in accordance with IAS 36, *Impairment of Assets*, and, on 1 January 2005, previously recognized negative goodwill of RR 762 million was derecognized with a corresponding adjustment to the opening balance of retained earnings.

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 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 and fair value less costs to sell. Additionally, the results of discontinued operations are shown separately on the face of statement of income. The adoption of IFRS 5 did not have a material effect on the Group.

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

3 ACCOUNTING POLICIES (CONTINUED)

On 1 January 2005, the Group early adopted IFRS 6, *Exploration for and Evaluation of Mineral Resources.* This standard provides guidance on accounting for costs incurred in the exploration for and evaluation of mineral resources. Adoption of the standard did not have a material effect on the Group and did not result in changes of the Group's accounting policies.

4 OIL AND GAS SALES

	Three months ended 31 March:	
	2005	**2004**
Gas sales	5,938	3,476
Oil and gas condensate sales	1,560	1,497
Oil product sales	1,195	265
Total oil and gas sales	**8,693**	**5,238**

5 TRANSPORTATION EXPENSES

	Three months ended 31 March:	
	2005	**2004**
Gas transportation to customers	1,281	709
Crude oil transportation to customers	163	149
Insurance expense	115	124
Oil products transported by railroad	100	19
Other internal transportation costs	81	39
Total transportation expenses	**1,740**	**1,040**

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

6 PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	Total
Cost	54,765	8,596	63,361
Accumulated depreciation, depletion and amortization	(912)	-	(912)
Net book value at 31 December 2004	53,853	8,596	62,449
Additions	257	1,320	1,577
Transfers	222	(222)	-
Disposals and impairments, net	(18)	(6)	(24)
Depreciation, depletion and amortization	(821)	-	(821)
Cost	55,226	9,688	64,914
Accumulated depreciation, depletion and amortization	(1,733)	-	(1,733)
Net book value at 31 March 2005	**53,493**	**9,688**	**63,181**

Included in additions to property, plant and equipment for the three months ended 31 March 2005 and 2004 is capitalized interest of RR 233 million and RR 84 million, respectively.

7 SHORT-TERM DEBT

	31 March 2005	31 December 2004
Russian rouble denominated loans	1,230	3,680
US dollar denominated loans	705	-
Loans from related parties	-	425
Promissory notes issued	991	1,275
Add: current portion of long-term debt	4,026	5,388
Total short-term debt and current portion of long-term debt	**6,952**	**10,768**

Russian rouble denominated loans. Short-term Russian rouble denominated loans had a weighted average interest rate of 11.2 percent (interest ranging from 9 to 12 percent) and 10.5 percent (interest ranging from 8.8 to 12 percent) at 31 March 2005 and 31 December 2004, respectively. During the three months ended 31 March 2005, the Group repaid loans to Sberbank in the amount of RR 2,450 million.

US dollar denominated loans. Short-term US dollar denominated loans had a weighted average interest rate of 6.3 percent (interest ranging from 6.1 percent to 6.8 percent) at 31 March 2005. In February 2005, the Group borrowed RR 196 million (USD 7 million) from International Moscow Bank. The loan bears interest of LIBOR plus 4.25 percent. Additionally, in February 2005, the Group obtained a loan from BNP Paribas in the amount of RR 559 million (USD 20 million) of which RR 46 million (USD 1.7 million) were repaid in the March 2005. The loan bears interest of LIBOR plus 3.5 percent.

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

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

7 SHORT-TERM DEBT (CONTINUED)

Promissory notes. At 31 March 2005 and 31 December 2004, promissory notes consist of Tarkosaleneftegas promissory notes which are denominated in Russian roubles and repayable within one year of issuance. Subsequent to 31 March 2005, the Group repaid an additional RR 678 million of these promissory notes.

8 LONG -TERM DEBT

	31 March 2005	31 December 2004
Russian rouble denominated loans	3,300	4,537
US dollar denominated loans	11,469	11,586
Loans from related parties	1,155	1,497
Russian rouble denominated bonds	1,000	1,000
Total	16,924	18,620
Less: current portion of long-term debt	(4,026)	(5,388)
Total long-term debt	**12,898**	**13,232**

At 31 March 2005 and 31 December 2004, long-term debt by facility is outlined below.

	31 March 2005	31 December 2004
C.R.R. B.V.	8,348	8,324
Sberbank	2,160	3,354
Vneshtorgbank	2,569	2,775
Yamal Regional Fund of Development	1,155	1,126
Finance Department of YNAO	1,130	1,130
Russian rouble denominated bonds	1,000	1,000
Other Russian rouble denominated loans	10	424
Other	552	487
Total	16,924	18,620
Less: current portion of long-term debt	(4,026)	(5,388)
Total long-term debt	**12,898**	**13,232**

Sberbank. During the three months ended 31 March 2005, the Group repaid loans in amount of RR 1,741 million and obtained additional loans for RR 547 million. The new loans bear interest of 12 percent and mature in 2009. A portion of these payments were ahead of schedule. As a result of the early repayment, the Group was released from a corresponding pledge of 2.5 percent of its shares in Tarkosaleneftegas.

Yamal Regional Fund of Development. In March 2005, the Group repaid the US dollar denominated loan of RR 1,053 million (USD 35 million) and the Group's 31 percent participation interest in Yurkharovneftegas has been released from the pledge.

In February 2005, the Group received an additional five-year loan for one billion roubles with a stated interest rate of 10 percent. The proceeds from the loan will be used for the construction of the Purovsky Gas Condensate Plant.

Other Russian rouble denominated loans. In January 2005, RR 371 million of loans from Pur-Land, a subsidiary of a significant shareholder, were repaid.

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

8 LONG -TERM DEBT (CONTINUED)

Other loans. At 31 March 2005 and 31 December 2004, other loans included US dollar denominated loans totalling RR 552 million (USD 20 million) and RR 487 million (USD 17.6 million), respectively. At 31 March 2005 and 31 December 2004, other loans had a weighted average interest rate of 8.8 and 8.3 percent, respectively. The loans mature between 2005 and 2010.

Scheduled maturities of long-term debt at 31 March 2005 were as follows:

Twelve months ended 31 March:	
2007	7,837
2008	1,446
2009	1,681
2010	1,934
Total long-term debt	**12,898**

9 TAXES

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

	Three months ended 31 March:	
	2005	**2004**
Unified natural resources production tax	1,151	350
Property tax	76	18
Excise tax	51	15
Other taxes	23	9
Total taxes other than income tax	**1,301**	**392**

Unified natural resources production tax. Taxes other than income tax for the three months ended 31 March 2005 include RR 743 million of unified natural resources production tax attributable to the Group's subsidiaries Tarkosaleneftegas and Khancheyneftegas that were acquired in December 2004.

Effective income tax rate. For the three months ended 31 March 2005 and 2004, respectively, the Group's effective tax rate was 25.7 percent and 16.1 percent, respectively. The rate for the three months ended 31 March 2005 approximates the enacted tax rate in the Russian Federation. The effective tax rate of 16.1 percent for the three months ended 31 March 2004 is lower than the enacted tax rate primarily due to income tax concessions obtained by certain Group subsidiaries and associates that are no longer effective in 2005.

10 RELATED PARTY TRANSACTIONS

During 2004, the Group had significant activities with companies related to its shareholders in connection with purchases and sales of crude oil, natural gas, gas condensate, construction and other related services, and purchases and sales of equity securities. The Group's reported results of operations, financial position and cash flows would have been 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.

10 RELATED PARTY TRANSACTIONS (CONTINUED)

Subsequent to the acquisition of Tarkosaleneftegas and Khancheyneftegas in December 2004 (see Note 1), the acquired subsidiaries' activities were consolidated into the Group's financial position and results of operations. Accordingly, all purchases from, sales to and balances with the acquired subsidiaries have been eliminated in the Group's consolidated balance sheets at 31 March 2005 and 31 December 2004 and in the Group's consolidated statement of income for the three months ended 31 March 2005. Such activities are presented on a gross basis in the Group's consolidated statement of income for the three months ended 31 March 2004.

Purchases and sales of crude oil and gas condensate:

	Three months ended 31 March:			
	2005		2004	
Name of related party	Sales volumes (tons)	Russian roubles (millions)	Sales volumes (tons)	Russian roubles (millions)
Sales to Kerden Trading Limited	33,500	187	144,303	684
Sales to TNG Energy	54,900	304	-	-
Purchases from Tarkosaleneftegas	-	-	77,204	124
Purchases from Khancheyneftegas	-	-	106,749	171
Purchases from Geoilbent	109,289	288	98,000	266

Purchases of natural gas:

	Three months ended 31 March:			
	2005		2004	
Name of related party	Sales volumes (m^3 000s)	Russian roubles (millions)	Sales volumes (m^3 000s)	Russian roubles (millions)
Purchases from Tarkosaleneftegas	-	-	1,701,879	509
Purchases from Khancheyneftegas	-	-	425,312	177

Balances with related parties:

	31 March 2005	31 December 2004
Trade and other receivables	525	606
Short-term loans receivable	171	251
Prepayments and advances	200	30
Prepayments and advances (for construction)	232	235
Long-term loans receivable	7,676	7,694
Other non-current assets	278	70
Short-term debt	-	425
Long-term debt	1,155	1,497
Trade payables	106	147
Interest receivable	17	42

Long-term loans receivable. At 31 March 2005 and 31 December 2004, long-term loans receivable include US dollar denominated loans to Levit, a Group shareholder, of USD 270 million (RR 7,513 million). The loan is unsecured, bears interest of 10 percent and is repayable by 30 June 2006.

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

10 RELATED PARTY TRANSACTIONS (CONTINUED)

Other transactions with related parties:

	Three months ended 31 March:	
	2005	**2004**
Sales of inventory and oil products	7	99
Interest expense	41	10
Interest income	196	83
Construction service sales	-	135
Construction services rendered	201	-

11 SEGMENT INFORMATION

The Group operates principally in the oil and gas industry in the Russian Federation. The Group evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Group as a whole. However, the Group's activities are considered by management to comprise one geographic segment and, for the period to March 2005 (Note 1), the following business segments:

- Exploration and production – 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 from 30 June 2004 - Note 1);
- Corporate and other – other activities, including head office services, banking and telecommunications.

Segment information for the three months ended 31 March 2005 was as follows:

	Exploration and production	**Other**	**Total**
Segment revenues			
External revenues and other income	8,713	287	9,000
Inter-segment sales	4	-	4
Total segment revenues	**8,717**	**287**	**9,004**
Segment result	**3,453**	**47**	**3,500**

Segment information for the three months ended 31 March 2004 was as follows:

	Oil and gas construction services	**Exploration and production**	**Other**	**Total**
Segment revenues				
External revenues and other income	1,067	5,280	322	6,669
Inter-segment sales	409	-	-	409
Total segment revenues	**1,476**	**5,280**	**322**	**7,078**
Segment result	**47**	**1,780**	**27**	**1,854**

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

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

12 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 March 2005, the Group pledged 29.7 percent of Tarkosaleneftegas as collateral for long-term borrowings. Additionally, the Group's 66 percent participation interest in Geoilbent was pledged to the EBRD as collateral for a long-term loan received by Geoilbent from the EBRD. The total amount payable by Geoilbent to the EBRD under the loan facility was USD 30 million.

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

At 31 March 2005, the Group had pledged property, plant and equipment aggregating approximately RR 4,500 million.

Commitments. The Group had entered into commitments aggregating approximately RR 1,954 million to complete the construction of the Purovsky Gas Condensate Plant in 2005.

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.

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

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

Field	License holder		License expiry date
Yurkharovskoye	Yurkharovneftegas	Subsidiary	2034
Khancheyskoye	Khancheyneftegas	Subsidiary	2019
East-Tarkosalinskoye	Tarkosaleneftegas	Subsidiary	2018
North Gubkinskoye	Geoilbent	Associate	2018

12 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 was preparing its application for the extension of the terms of the licenses for its two other core fields, East Tarkosalinskoye and Khancheyskoye.

Environmental liabilities. The Group and its predecessor entities have operated in the oil and gas industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations and, as obligations are determined, they are recognized immediately, if no current or future benefit is discernible. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation, cannot be estimated. Under existing legislation, management believes that there are no probable liabilities which will have a material adverse effect on the Group's financial position, statements of income or of cash flows.

Legal contingencies. During the period, 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 the consolidated interim condensed financial information.

13 SUBSEQUENT EVENTS

In May 2005, the Group merged Khancheyneftegas into Tarkosaleneftegas.

In May 2005, the Group disposed of its equity stake in NOVA Bank to Levit, a Group shareholder for RR 156 million, recognizing a gain on sale of RR 12 million net of associated income tax of RR 8 million. NOVA Bank recognized net income of RR 2 million and RR 1 million for the three months ended 31 March 2005 and 2004, respectively. NOVA Bank's net assets at 31 March 2005 and 31 December 2004 were RR 220 million and RR 218 million, respectively. The results of the disposal will be reflected in the Group's consolidated statement of income during the second quarter of 2005. NOVA Bank's financial position and results of operations were included within "other" in the Group's segment information.

In June 2005, the Group sold its 66 percent participation interest in Geoilbent to a subsidiary of OAO Lukoil for gross proceeds of approximately RR 5.1 billion plus other commitments. The Group includes its investment in Geoilbent within "exploration and production" in the Group's segment information.

At the Annual General Meeting of Shareholders on 10 June 2005, the Group's shareholders approved a dividend of RR 777 million (RR 256 per share). The dividend is to be paid to shareholders of record as of 25 April 2005.

Subsequent to 31 March 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. Management's preliminary estimate of the maximum fair value of the award is approximately RR 900 million. The fair value of the awards will be recognized as compensation expense evenly over their five year vesting period beginning the second quarter of 2005. A corresponding increase will be recorded to additional paid in capital as expense is recorded to reflect the shareholders contribution in providing the award.

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