

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations for the three and six months ended 30 June 2005 and 2004 in conjunction with our consolidated financial statements as of and for the three and six month periods ended 30 June 2005 and 2004. The consolidated financial statements and the related notes thereto have been prepared in accordance with International Financial Reporting Standards (IFRS). All Russian rouble amounts have been stated at their nominal value for periods shown.

The financial and operating information contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" comprises information of OAO NOVATEK, its consolidated subsidiaries and its share of the results of associates. Accordingly, production volumes in the following discussion and analysis exclude volumes of Tarkosalenftegas and Khancheynftegas prior to their being consolidated in December 2004. Prior to that date, sales volumes and revenues include the volumes of Tarkosalenftegas and Khancheynftegas only to the extent OAO NOVATEK purchased such production from Tarkosalenftegas and Khancheynftegas. We have, however, been responsible for managing the development and the operations of these associates for the periods discussed.

In June 2004, we sold to our shareholders our oil and gas construction services business to focus on our core activities of oil and gas exploration and production. Our 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.

Overview

We are Russia's largest independent gas producer and the second-largest producer of natural gas in Russia after Gazprom. In terms of proved natural gas reserves, we are the third largest holder of natural gas resources in Russia after Gazprom and LUKOIL.

Our exploration, development, production, processing and marketing of natural gas, gas condensate, crude oil and related oil products have been conducted primarily within the Russian Federation and, historically, most of our revenues were derived from sales within the Russian Federation. However, with the commissioning of the Purovsky processing plant in June 2005, we plan to export the majority of our gas condensate directly to international markets, significantly increasing the share of our revenues derived from international sales.

Our business has benefited from success in expanding our production volumes, and the production volumes of our associates, as well as from increases in market prices of natural gas, gas condensate, crude oil and related oil products. Our continued efforts in funding exploration and development activities have allowed us to expand our sales volumes annually since our inception. Our sales volumes of natural gas increased to 6,760 mmcm in the three months ended 30 June 2005 from 4,239 mmcm, in the corresponding period in 2004, or 59.5%, and to 13,771 mmcm in the six months ended 30 June 2005 from 9,266 mmcm for the corresponding period in 2004, or 48.6%. Our combined sales volumes of crude oil and gas condensate, stable gas condensate and oil products increased to 663,000 tonnes in the three months ended 30 June 2005 from 506,000 tonnes in the corresponding period in 2004, or 31.0%, and to 1,271,000 tonnes in the six months ended 30 June 2005 from 1,000,000 tonnes for the corresponding period in 2004, or 27.1%. We expect to continue to increase our sales volumes, but at a more measured pace, due to continued production growth and the consolidation of production from some of our associates due to the acquisitions described below.

We also benefited from strong international and domestic prices, particularly the continued rise in the domestic natural gas tariffs regulated by the Federal Tariffs Service (FTS). Unlike Gazprom, we

are not required to sell our gas at the regulated tariff. We do, however, sell to customers eligible to purchase natural gas from Gazprom at regulated prices. Thus, the prices we can achieve for our natural gas are strongly influenced by regulated prices. The average realized prices of our natural gas sold to end-customers and natural gas sold at the entry point to the natural gas transportation system (referred to as “ex-field”) were higher by 11.7% and 5.1%, respectively, in the three months ended 30 June 2005 than compared to the same period in 2004, and were higher by 17.6% and 18.8%, respectively, in the six months ended 30 June 2005 compared to the same period in 2004. If regulated prices continue to rise, as forecast in the Russian Federation Energy Strategy 2020, we expect our average realized prices for natural gas to continue to increase.

Recent developments

Significant events occurring subsequent to period ended 30 June 2005 are as follows:

- In August 2005, the Company surrendered its right to the Tapsky license section and its wholly-owned subsidiary, Tarkosalenftegas, surrendered its right to the license for the Yuzhno-Pyreinoe deposit. The decision to surrender the licenses was due to exploration results indicating lower amounts of hydrocarbons than previously expected at both license areas; and
- In August 2005, the FTS announced plans to raise the natural gas transportation tariff per mcm per 100 km by 23% to RR 23.84 per mcm per 100 km. Currently, the natural gas transportation tariff is RR 19.37 per mcm per 100 km.

Certain Factors Affecting our Results of Operations

Consolidation of our operations

Since 2002, we have pursued a strategy of increasing our holdings in, and focusing on, our core oil and gas assets and made a number of acquisitions and disposals to further this strategy. Our three core fields are held in our subsidiaries Tarkosalenftegas and Yurkharovneftegas. With the completion of the December 2004 acquisitions discussed below, we acquired 100% of Tarkosalenftegas and Khancheyneftegas. As a result of these acquisitions and our other consolidation and restructuring initiatives over the past three years, we have simplified our holding structure, allowing us to directly manage our core assets and improving the overall transparency of our financial reporting.

Acquisitions

In December 2004, we undertook a series of transactions whereby we acquired a 67.7% interest in Tarkosalenftegas and a 57.0% interest in Khancheyneftegas in exchange for the issuance of 789,276 new ordinary shares of NOVATEK, resulting in these companies becoming fully consolidated subsidiaries as at 31 December 2004. In May 2005, Khancheyneftegas was merged into Tarkosalenftegas.

Prior to our acquisitions of additional interests in Tarkosalenftegas and Khancheyneftegas in December 2004, we purchased approximately 56% of Tarkosalenftegas’ hydrocarbon production and 100% of Khancheyneftegas’ hydrocarbon production and then resold the production to third parties. Subsequent to the acquisitions, Tarkosalenftegas’ and Khancheyneftegas’ activities were consolidated into our financial position and results of operations. Accordingly, all purchases from, sales to and balances with Tarkosalenftegas and Khancheyneftegas have been eliminated in our consolidated balance sheets at 30 June 2005 and 31 December 2004 and in our consolidated statement of income for the three months and six months ended 30 June 2005, and each line item within our total operating expenses for the three months and six months ended 30 June 2005 includes the corresponding results of Tarkosalenftegas and Khancheyneftegas for the periods. At all other balance sheet dates and in all other reporting periods, we accounted for Tarkosalenftegas and Khancheyneftegas under the equity method of accounting as investments in associates, and thus

the operating costs of the two acquired entities were effectively included (pro rata to the percentage of volumes purchased) within purchases of oil, gas condensate and natural gas in our consolidated statements of income.

From 31 December 2004 onward, we expect changes in the composition of our consolidated financial statements arising from, among other things, the consolidation of Tarkosalenftegas and Khancheynftegas, including a significant increase in operating expenses and a corresponding decrease in purchases of oil, gas condensate and natural gas.

Divestitures

Historically, our business has included various non-core business activities, including oil and gas construction services, banking and telecommunications. In June 2004, we sold to our shareholders our oil and gas construction services business to focus on our core activities of oil and gas exploration and production. Our 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.

In 2004, we sold to Gazprom a subsidiary of Purneftegasgeologiya, which held the mineral license in the West Tarkosalinskoye field, in return for an 8.34% interest in Purneftegasgeologiya. In connection with this transaction, we retained a right to 10% of the natural gas extracted from the Cenomanian horizon and 100% of the hydrocarbons extracted from the Valanginian horizon at the West Tarkosalinskoye field for the duration of the license (which expires in 2018).

In 2004, other disposals included the sale of our telecommunication business as well as other non-core businesses. In May 2005, we disposed of our equity interest in NOVA Bank to Levit. We plan to continue our efforts to divest our remaining non-core businesses as opportunities arise.

In June 2005, we disposed of our 66% participation interest in Geoilbent to LUKOIL and one of its subsidiaries for approximately RR 5.1 billion. The disposal was in line with our strategy to divest assets that do not fit our core strategy of developing our upstream natural gas and gas condensate assets. We accounted for our interest in Geoilbent under the equity method as all significant operating and financing decisions required the consent of the other shareholder, and thus we were not able to control Geoilbent.

In June 2005, we disposed of our 25.1% share interest in Tambeynftegas to Gazprombank-Invest for approximately RR 120 million. Also in June 2005, we disposed of our 34% interest in Selkupnftegas to Rosneft for approximately RR 573 million. The disposals were the result of our strategy to divest assets where we do not exercise operational control over the development of the asset or where we believe the assets are not economically feasible for us to develop.

Growth in production and prices

Growth in production

We have significantly increased our production volumes of natural gas, gas condensate and crude oil during the three and six months ended 30 June 2005. Our growth in production was achieved through the efficient exploitation of our existing producing asset base, together with increases in our holdings of core assets such that we could consolidate the production from these assets rather than report them as purchases. As discussed in the section on “Acquisitions” above, in December 2004, we began consolidating the production volumes from the fields licensed to Tarkosalenftegas and Khancheynftegas into our results.

We expect our total production volumes to continue growing, primarily as a result of the development activities at our existing producing fields and by exploring and developing other oil and gas fields in our asset portfolio.

Natural gas prices

As an independent natural gas producer, we are not subject to the government's regulation of natural gas prices. Historically, we have sold most of our natural gas at prices higher than the regulated prices set by the government for Gazprom's domestic gas sales, although the prices we can achieve are strongly influenced by the regulated prices. The terms for delivery of natural gas affect our average realized prices. Natural gas sold "ex-field" is sold primarily to wholesale gas traders, in which case the buyer is responsible for the payment of gas transportation tariffs. We generally realize higher prices and net margins for natural gas volumes sold directly to the end-customer, as the gas transportation tariff is included in the contract price and no retail margin is lost to wholesale gas traders.

The following table shows our average natural gas sales prices for the three months ended 30 June 2005 and the six months ended 30 June 2005:

Natural Gas Sales Prices	Three months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
Average natural gas price to end-customers ^{(1) (2)}	1,117	1,000	117	12%
Gas transportation expense for sales to end-customers ⁽¹⁾	419	374	45	12%
Average natural gas netback on end-customer sales ⁽¹⁾	698	626	72	12%
Average natural gas price ex-field ⁽¹⁾	609	580	29	5%

⁽¹⁾ Net of VAT, excise tax and export duties. Average RR realized per mcm.

⁽²⁾ Includes cost of transportation.

Natural Gas Sales Prices	Six months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
Average natural gas price to end-customers ^{(1) (2)}	1,100	935	165	18%
Gas transportation expense for sales to end-customers ⁽¹⁾	408	310	98	32%
Average natural gas netback on end-customer sales ⁽¹⁾	692	625	67	11%
Average natural gas price ex-field ⁽¹⁾	627	528	99	19%

⁽¹⁾ Net of VAT, excise tax and export duties. Average RR realized per mcm.

⁽²⁾ Includes cost of transportation.

Crude oil and gas condensate and oil products prices

Crude oil and gas condensate and oil products prices on international markets have historically been volatile depending on, among other things, the balance between supply and demand fundamentals, the ability of the OPEC countries to sustain production levels to meet increasing global demand and potential disruptions in global oil supplies due to war or terrorist activities. Crude oil and gas condensate prices in Russia have remained below prices in the international market primarily due to constraints on the ability of Russian oil companies to transport their crude oil, whereas certain oil products prices in Russia have more closely followed prices on international markets. This has occasionally led to crude oil surpluses in key consuming regions in Russia driving down the price in the domestic market. Moreover, there is no independent or uniform benchmark price for crude oil in Russia because the majority of all crude oil destined for sale in Russia is produced and refined by the same vertically integrated Russian oil companies. Crude oil that is not exported from Russia or refined by the producer is offered for sale in the domestic market at prices determined on a transaction-by-transaction basis. Crude oil and gas condensate that we sell bound for international markets is transported through the Transneft pipeline system where it is blended with other crude oil of varying qualities to produce an export blend commonly referred to as "Urals blend," which normally trades at a discount to the international benchmark Brent crude oil.

The following table shows our average crude oil and gas condensate and oil products sales prices for the periods indicated:

	Three months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
Liquid Hydrocarbon Sales Prices ^{(1) (2)}				
Average oil and gas condensate export price	6,438	4,673	1,766	38%
Average oil and gas condensate domestic price	5,085	3,710	1,375	37%
Average stable gas condensate export price	6,574	-	6,574	100%
Average stable gas condensate domestic price	6,272	-	6,272	100%
Average oil products export price	-	-	-	0%
Average oil products domestic price	5,176	3,965	1,211	31%

⁽¹⁾ Net of VAT, excise tax and export duties. Average RR realized per tonne.

⁽²⁾ Includes cost of transportation.

	Six months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
Liquid Hydrocarbon Sales Prices ^{(1) (2)}				
Average oil and gas condensate export price	5,951	4,714	1,237	26%
Average oil and gas condensate domestic price	4,472	3,579	894	25%
Average stable gas condensate export price	6,575	-	6,575	100%
Average stable gas condensate domestic price	6,272	-	6,272	100%
Average oil products export price	-	4,937	(4,937)	(100%)
Average oil products domestic price	5,045	2,980	2,065	69%

⁽¹⁾ Net of VAT, excise tax and export duties. Average RR realized per tonne.

⁽²⁾ Includes cost of transportation.

Prior to the commissioning of our Purovsky processing plant in June 2005, all of our gas condensate volumes were sent to a Gazprom controlled gas condensate processing facility in Surgut (Surgutsky refinery) via Gazprom controlled gas condensate trunk pipelines. The stabilized gas condensate we received from the Surgutsky refinery was sold as Urals blend crude oil transported through the Transneft pipeline network and subject to the applicable constraints on export. In addition, our oil products (including diesel fuel, light distillate and naphtha) were transported by rail for sale either domestically or on the export market. With the commissioning of our Purovsky processing plant in June 2005, we are migrating the processing of substantially all of our unstable gas condensate to that plant. We expect this migration to be complete at the end of the third quarter of 2005, by which time we expect to be able to export the majority of our stabilized gas condensate to international markets. We expect our gas condensate revenues and margins to increase since prices for stabilized gas condensate in international markets have historically exceeded prices for Urals blend crude oil.

Transportation tariffs

Transportation tariffs established by the FTS from 1 October 2004 for the transport of natural gas produced in Russia are set at RR 19.37 (excluding VAT) per mcm per 100 km for shipments to consumers located within the customs territory of the Russian Federation and the member states of the Customs Union Agreement (Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan). This represents a 17.0% increase from the tariffs of RR 16.56 (excluding VAT) per mcm per 100 km from 1 August 2003. The increases in regulated transportation tariffs are passed on to end-customers pursuant to our contracts with them. There is no set timetable for reviews or changes in transportation tariffs set by the FTS, and thus changes in transportation tariffs occur on an irregular basis.

The following table shows our average gas transportation expense per mcm for the three months ended 30 June 2005 and 2004 and for the six months ended 30 June 2005 and 2004:

	Three months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
Gas transportation expense (average realized RR per mcm sold to end-customers)	419	374	45	12%
<u>Gas transportation expense as % of end-customer sales</u>	38%	37%	1%	2%

	Six months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
Gas transportation expense (average realized RR per mcm sold to end-customers)	408	310	98	32%
<u>Gas transportation expense as % of end-customer sales</u>	37%	33%	4%	12%

Our gas transportation expense is a function of the volume of natural gas transported to end-customers, the average distance to end-customers and the transportation tariff per mcm per 100 km. As a percentage of end-customer sales, our gas transportation expense has slightly increased for the three months ended 30 June 2005 compared to the same period in 2004 due to higher transportation tariffs. In the six months ended 30 June 2005, our gas transportation expense as a percentage of end customer sales increased by 4% due to an increase in the average delivery distance to our end-customers combined with higher transportation tariffs. For the three months and six months periods ended 30 June 2005, our gas transportation expense per mcm increased by 12.1% and 31.7%, respectively, compared to the corresponding periods in 2004 as a result of the tariff increase effective from 1 October 2004 and for the six month period an increase in the average distance to end-customers.

Our unstable gas condensate has historically been transported through our own pipeline network and pipelines owned by Gazprom to the Surgutsky refinery, where it is processed into stabilized gas condensate and oil products (including diesel fuel, light distillate and naphtha). With the commissioning of our Purovsky processing plant in June 2005, we plan to begin transporting substantially all of our unstable gas condensate production volumes from our East Tarkosalinskoye and Khancheykskoye fields through our own pipeline network directly to the Purovsky processing plant. We have an agreement with Gazprom to access its gas condensate pipeline network to deliver the unstable gas condensate produced at our Yurkharovskoye field to the Purovsky processing plant through 2006, after which we will consider constructing our own pipeline if needed. The stabilized gas condensate and oil products mix that we receive from the Surgutsky refinery has historically been transported to market using a combination of the Transneft crude oil pipeline network and the Russian Railways system. With the commissioning of our Purovsky processing plant in June 2005, we plan to change our distribution channel for delivery of stabilized gas condensate to the market and export the majority of our stabilized gas condensate to international markets using our recently commissioned storage and loading facilities at the Port of Vitino.

We transport most of our crude oil through the pipeline network owned and operated by Transneft, Russia's monopoly crude oil pipeline operator. Our transportation tariffs for transportation of crude oil through Transneft's pipeline network are also set by the FTS. The overall expense per tonne for the transport of crude oil depends on the length of the transport route from the producing field to the ultimate destination.

Transactions with related parties

Historically, we have had significant transactions with our shareholders, companies related to our shareholders, our associated companies and other related parties. Such transactions have included

the purchase and sale of natural gas, gas condensate, crude oil, construction and other related services, the holding of equity securities, and the provision of and receipt of loans, guarantees and other non-cash settlements. Our reported statements of income, balance sheets and statements of cash flows would be different had such transactions been conducted amongst unrelated parties. The production volumes of natural gas, gas condensate and crude oil purchased from Tarkosaleneftegas prior to December 2004 represented a combination of our direct equity interest in the field's production volumes and volumes attributable to the equity interest held by our principal shareholders in an aggregate volume of approximately 56% of total Tarkosaleneftegas production. We have purchased 100% of the natural gas production volumes from Khancheyneftegas since it commenced commercial production in 2003. In 2004, we began purchasing volumes attributable to our equity interest in Geoilbent. Prior to that period, Geoilbent marketed its volumes independently.

With the consolidation of our key producing assets, as discussed in the "Acquisitions" section above, and the disposal of Geoilbent, as discussed in the "Divestitures" section above, we estimate that the volume of related party transactions that we will conduct in the future will be significantly reduced.

Our tax burden

We are subject to a wide range of taxes imposed at the federal, regional, and local levels, many of which are based on revenue or volumetric measures. In addition to income tax, significant taxes to which we are subject include VAT, mineral extraction tax, export duties, property tax, social taxes and contributions.

In practice the Russian tax authorities often have their own interpretation of tax laws that rarely favors taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to an inspection of their activities for a period of three calendar years which immediately precede the year in which the audit is conducted. Previous audits do not exclude subsequent claims relating to the audited period. In addition, in some instances, new tax regulations have been given retroactive effect. While under the Russian Federation tax code only laws benefiting the tax payers may have retroactive effect, tax risks in Russia nevertheless remain more significant than those typically found in countries with more developed tax systems.

We have not employed any tax minimization schemes using offshore or domestic tax zones in the Russian Federation as of and for the three and six months periods ended 30 June 2005 and 2004.

Critical accounting policies

Our financial statements reflect the selection and application of accounting policies that require management to make significant estimates and assumptions. We believe that the following are some of the most critical accounting policies that currently affect our financial position and results of operations.

Oil and gas exploration and production activities

We follow the successful efforts method of accounting for oil and gas properties which we believe is the most prudent and conservative accounting treatment for our oil and gas operations. Under the successful efforts method 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, overhead 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.

We calculate our depreciation, depletion and amortization of capitalized costs of oil and gas properties using the unit-of-production method for each field based upon proved developed reserves for exploration and development costs, and total proved reserves for acquisitions of proved properties. For this purpose, the oil and gas reserves of our fields have been determined based on estimates of mineral reserves prepared by us, and for our three core fields reserves have been determined in accordance with internationally recognized definitions and were independently appraised by internationally recognized petroleum engineers. The present value of the estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, are recognized when the obligation is incurred and are included within the carrying value of property, plant and equipment, and therefore are subject to amortization thereon using the unit-of-production method.

Revenue recognition

We recognize revenues from the production and sale of natural gas, crude oil and gas condensate when such products are delivered to customers and title has transferred. Our revenues are stated net of VAT, excise tax and export duties. Revenues from construction contracts are recognized in accordance with contract terms after provision of the contractual goods and services and acceptance by customers. A majority of the payments for the sale of natural gas, crude oil and gas condensate are pre-payments.

Related party transactions

The following are considered to be our related parties:

- our associates are entities we do not control but over which we exercise significant influence and therefore we account for them in accordance with IAS standard No. 28, Investments in Associates;
- our major shareholders and their immediate relatives;
- our directors and officers and their immediate relatives;
- enterprises in which principal shareholders, officers and directors and their immediate relatives have control or significant influence; and
- other parties with which we deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

In considering each possible related party relationship, attention is directed to the nature and substance of the relationship, and not merely to its legal form. Our reported statements of income, balance sheets and statements of cash flows would be different had such transactions been carried out amongst unrelated parties. Related parties may enter into transactions that unrelated parties might not, and transactions between related parties may not be executed on the same terms, conditions and amounts as transactions between unrelated parties.

Business combinations

On 31 March 2004, the International Accounting Standards Board (IASB) issued IFRS No. 3, *Business Combinations* (IFRS 3), on accounting for business combinations and revised Standard IAS No. 36, *Impairment of Assets* (IAS 36) and IAS No. 38, *Intangible Assets* (IAS 38). The main features of the new and revised standards are that all business combinations within the scope of IFRS 3 must be accounted for using the purchase method. The previously permitted pooling-of-interest method is prohibited. Identifiable assets acquired, liabilities, and contingent liabilities incurred or assumed must be initially measured at fair value. Intangible items acquired in a business

combination must be recognized as assets separately from goodwill if they meet the definition of an asset, are either separable or arise from contractual or other legal rights, and their fair value can be measured reliably. Amortization of goodwill and intangible assets with indefinite useful lives is prohibited. Instead, they must be tested for impairment annually or more frequently if events or changes in circumstances indicate a possible impairment. IFRS 3 allows for the use of provisional values in the initial accounting for a business combination if the fair values of assets and liabilities purchased or the cost of the combination can only be determined provisionally. Adjustments to the provisional values are expected to be finalized within 12 months of the acquisition date. These standards apply to business combinations commencing on or after 31 March 2004. We have accounted for our December 2004 acquisitions of the remaining equity interests in Tarkosaleneftegas and Khancheyneftegas that we did not previously own in accordance with provisions promulgated in IFRS 3, IAS 36 and IAS 38.

We 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 reversed with a corresponding adjustment to the opening balance of retained earnings.

New accounting developments

We prepare our financial statements in accordance with IFRS. As discussed within the Business Combinations section above, we were required to adopt the provisions of IFRS 3, *Business Combinations*, for all business combinations within the scope of IFRS 3 from 31 March 2004.

In December 2003, the International Accounting Standards Board issued amendments to 15 existing IFRS standards that became effective 1 January 2005. The application of these 15 revised IFRS standards has not had a material effect on our financial position, statements of income or cash flows. 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 us 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.

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.

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 our financial position, statements of income or of cash flows.

Other new standards and interpretations that we early adopted 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 our financial position, statements of income or of cash flows.

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

Share based payments. We account 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 share premium when the options are exercised. For transactions with parties other than employees, we account 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 us as we 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. See “**Critical accounting policies**” above. We account for business combinations in accordance with the provisions of IFRS 3, *Business Combinations* (IFRS 3).

Non-current assets held for sale and discontinued operations. We account 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 the income statement. The adoption of IFRS 5 did not have a material effect on us.

On 1 January 2005, we 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 us and did not result in changes to our accounting policies.

Results of Operations

For the three months ended 30 June 2005 compared to the three months ended 30 June 2004

The following table and discussion is a summary of our consolidated results of operations for the three months ended 30 June 2005 and 2004. Each line item is also shown as a percentage of our total revenues.

	Three months ended 30 June			
	2005		2004	
	(RR million)	(% of total revenues)	(RR million)	(% of total revenues)
Total Revenues ⁽¹⁾	9,355	100%	6,358	100%
Other income (loss)	3,628	39%	(181)	3%
Total revenues and other income	12,983	139%	6,177	97%
Operating expenses	(5,443)	58%	(4,889)	77%
Income from operations	7,540	81%	1,288	20%
Finance income (expense)	(189)	2%	(14)	0%
Share of income from associates	66	1%	118	2%
Income before income tax and minority interest	7,417	79%	1,392	22%
Total income tax expense	(1,817)	19%	444	7%
Profit for the period	5,600	60%	948	15%
Minority interest	8	0%	(64)	1%
Profit attributable to Novatek shareholders	5,608	60%	884	14%

⁽¹⁾ Net of VAT, excise tax and export duties.

Revenues

Our total revenues comprise oil and gas sales, sales from our oil and gas construction services, sales of polymer and insulation tape and other revenues. Total revenues increased by RR 2,997 million, or 47.1%, to RR 9,355 million for the three months ended 30 June 2005 compared to RR 6,358 million for the corresponding period in 2004. Total revenues attributable to our oil and gas construction services business were RR nil and RR 986 million for the three month periods ended 30 June 2005 and 2004, respectively. The following table sets forth our net sales, volumes and average realized prices for the three months ended 30 June 2005 and 2004:

	Three months ended 30 June			
	2005	2004	Increase (Decrease)	% Increase (Decrease)
Sales of natural gas				
Net sales ⁽¹⁾	5,454	3,114	2,340	75%
<i>Volumes in mmcm</i>	6,760	4,239	2,521	60%
<i>Average price, \$ per mcm</i> ⁽²⁾	28.6	25.4	3.2	13%
<i>Average price, RR per mcm</i>	807	735	72	10%
Sales of crude oil and gas condensate				
Net sales ⁽¹⁾	1,832	1,578	254	16%
<i>Volumes in thousands tonnes</i>	341	401	(60)	(15%)
<i>Average price, \$ per tonne</i> ⁽²⁾	190.1	135.9	55.3	40%
<i>Average price, RR per tonne</i>	5,371	3,935	1,436	36%
Sales of stable gas condensate				
Net sales ⁽¹⁾	574	-	574	100%
<i>Volumes in thousands tonnes</i>	87	-	87	100%
<i>Average price, \$ per tonne</i> ⁽²⁾	232.6	-	232.6	100%
<i>Average price, RR per tonne</i>	6,572	-	6,572	100%
Sales of oil products				
Net sales ⁽¹⁾	1,216	417	799	192%
<i>Volumes in thousands of tonnes</i>	235	105	130	123%
<i>Average price, \$ per tonne</i> ⁽²⁾	183.2	136.9	46.3	34%
<i>Average price, RR per tonne</i>	5,176	3,963	1,213	31%
Total oil and gas sales	9,076	5,109	3,967	78%
Oil and gas construction services revenue ⁽¹⁾	-	986	(986)	(100%)
Sales of polymer and insulation tape ⁽¹⁾	225	114	111	97%
Other revenues ⁽¹⁾	54	149	(95)	(64%)
Total revenues	9,355	6,358	2,997	47%
Net gain (loss) on disposals	3,631	(219)	3,850	1,758%
Other income (expense)	(3)	38	(41)	(108%)
Total revenues and other income	12,983	6,177	6,806	110%

⁽¹⁾ Millions of RR, net of VAT, excise tax and export duties.

⁽²⁾ Converted from the average realized RR price using average exchange rates for the period

Excluding revenues from our oil and gas construction services business, which we sold in June 2004, revenues from our core oil and gas business increased by RR 3,967 million, or 77.6%, for the three months ended 30 June 2005 compared to the corresponding period in 2004, primarily due to the increase in sales volumes of natural gas and the combination of crude oil and gas condensate, stable gas condensate and oil products together with higher average realized prices for all products during the 2005 period. Our natural gas and liquids (crude oil and gas condensate, stable gas condensate and oil products) sales volumes increased for the three months ended 30 June 2005 by 59.5% and 31.0%, respectively, compared to the corresponding period in 2004. These increases were mainly the result of an increase in production at our Yurkharovskoye field, production attributable to our increased interest in Tarkosaleneftegas, commencement of operations at our Purovsky plant and to a lesser extent increased production at our Khancheykoye field (partially offset by decreases in production at our other fields).

Oil and gas sales

The following table shows the sources of our production and purchases of natural gas in the three months ended 30 June 2005 compared to the corresponding period in 2004:

	Three months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
	(mmcm)			
Production from:				
Yurkharovneftegas	2,248	1,492	756	51%
Tarkosaleneftegas ⁽¹⁾	3,027	-	3,027	100%
Khancheyneftegas ⁽¹⁾	735	-	735	100%
Other	20	182	(162)	(89%)
Total natural gas production	6,030	1,674	4,356	260%
Purchases from:				
Tarkosaleneftegas ⁽¹⁾	-	1,824	(1,824)	(100%)
Khancheyneftegas ⁽¹⁾	-	628	(628)	(100%)
Other	666	191	475	249%
Total natural gas purchases	666	2,643	(1,977)	(75%)
Changes in inventory	64	(78)	142	182%
Total natural gas sales volumes	6,760	4,239	2,521	60%

⁽¹⁾ These companies were not consolidated in the three months ended 30 June 2004.

In the three months ended 30 June 2005, our three core fields, East Tarkosalinskoye, Yurkharovskoye and Khancheynskoye, produced 6.01 bcm of natural gas, representing 88.9% of our total natural gas sales volumes. In the three months ended 30 June 2004, we purchased approximately 56% of Tarkosaleneftegas' production and 100% of Khancheyneftegas' production

Our revenues from the sale of natural gas for the three months ended 30 June 2005 increased by RR 2,340 million, or 75.1%, compared to the corresponding period in 2004. Revenues from the sale of natural gas accounted for 58.3% and 49.0% of our total revenues for the three months ended 30 June 2005 and 2004, respectively. The increase in natural gas revenues was primarily attributable to an increase in sales volumes and to a lesser extent an increase in average prices for the three months ended 30 June 2005 compared to the corresponding period in 2004. We sell our natural gas volumes exclusively in the Russian domestic market. For the three months ended 30 June 2005, our average realized price per mcm increased by RR 72 per mcm, or 9.8%, compared to the corresponding period in 2004, due to an overall increase in natural gas prices and an increase in sales to end-customers. The decrease in production from "Other" was primarily attributable to the sale of our subsidiary holding the license to the West Tarkosalinskoye field to Gazprom. After the sale, we began purchasing our share of natural gas production from the West Tarkosalinskoye field in accordance with contractual terms and conditions.

The following table shows the breakdown of natural gas sales volumes between ex-field and end-customer market segments for the three months ended 30 June 2005 and 2004:

	Three months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
	(mmcm)			
Sales ex-field	4,126	2,674	1,452	54%
End-customer sales	2,634	1,565	1,069	68%
Total gas sales	6,760	4,239	2,521	60%

As part of the December 2004 acquisitions of the remaining interests in Tarkosalenftegas and Khancheyneftegas, we have committed to sell a total volume of 37.5 bcm of natural gas over a five year period starting in January 2005 to the Itera Group, and have classified the sales volumes as “ex-field” sales. As our largest sales contract, this contract will have an effect on the relative proportion of ex-field sales and end-customer sales for that period. Under this contract we sold 2.3 bcm to Itera in the three months ended 30 June 2005 compared to .8 bcm for the corresponding period in 2004.

Total sales volumes of crude oil and gas condensate decreased for the six months ended 30 June 2005 by 60,000 tonnes, or 15.0%, compared to the corresponding period in 2004, while total sales volumes of oil products (diesel fuel, light distillate, naphtha and others) increased for the 2005 period by 130,000 tonnes, or 123.3%, compared to the 2004 period. The decrease in oil and gas condensate sales volumes and corresponding increase in oil products sales volumes was due to significantly lower yields of stabilized gas condensate and higher yields of oil products from the Surgutsky refinery in the 2005 period. The commencement of operations at our Purovsky plant also contributed to the decrease in oil and gas condensate sales volumes due to the migration of the processing of our de-ethanized unstable gas condensate from the Surgutsky refinery to the Purovsky plant in June 2005. Stable gas condensate sales volumes from the Purovsky plant increased by 87,000 tonnes, or 100.0%, and are now sold separately from the gas condensate we receive from the Surgutsky refinery.

The following table shows the sources of our production and purchases of crude oil and gas condensate for the three months ended 30 June 2005 and 2004:

	Three months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
	(mt)			
Production from:				
Yurkharovneftegas	184	169	15	9%
Tarkosaleneftegas ⁽¹⁾	185	-	185	100%
Khancheyneftegas ⁽¹⁾	164	-	164	100%
Other	35	63	(28)	(44%)
Total production	568	232	336	145%
Purchases from:				
Tarkosaleneftegas ⁽¹⁾	-	86	(86)	(100%)
Khancheyneftegas ⁽¹⁾	-	125	(125)	(100%)
Geoilbent	110	92	18	20%
From third parties	56	25	31	124%
Total purchases	166	328	(162)	(49%)
Total production and purchases	734	560	174	31%
Changes in inventory and other losses	(71)	(54)	(17)	(31%)
Total liquids sales	663	506	157	31%
Oil and gas condensate sales	341	401	(60)	(15%)
Stable gas condensate sales	87	-	87	100%
Oil products sales	235	105	130	123%

⁽¹⁾ These companies were not consolidated in the three months ended 30 June 2004.

In the three months ended 30 June 2005, our three core fields, East Tarkosalinskoye, Yurkharovskoye and Khancheynskoye, produced 533,000 tonnes of oil and gas condensate, accounting for 93.8% of our total crude oil and gas condensate production volumes. For the three months ended 30 June 2005, crude oil and gas condensate production increased by 336,000 tonnes, or 144.8%, over production for the corresponding period in 2004. The increase was largely attributable to the continued development of the Yurkharovskoye, Khancheynskoye and East Tarkosalinskoye fields (partially offset by decreases in production at our other fields), and to a lesser extent an increase in production attributable to Tarkosaleneftegas resulting from its consolidation in December 2004. Purchases for the three months ended 30 June 2005 decreased by 162,000 tonnes, or 49.4%, compared to the corresponding period in 2004, primarily due to the consolidation of Tarkosaleneftegas and Khancheyneftegas in December 2004.

The table below shows the net sales, volumes and average realized prices we received for our crude oil and gas condensate in the three months ended 30 June 2005 and 2004.

	Three months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
Sales of crude oil and gas condensate-exported				
Net sales ⁽¹⁾	469	434	35	8%
<i>Volumes in thousands of tonnes</i>	73	93	(20)	(22%)
<i>Average price, \$ per tonne</i> ⁽²⁾	227.9	161.4	66.5	41%
<i>Average price, RR per tonne</i>	6,438	4,673	1,766	38%
Sales of crude oil and gas condensate-domestic				
Net sales ⁽¹⁾	1,363	1,144	219	19%
<i>Volumes in thousands of tonnes</i>	268	308	(40)	(13%)
<i>Average price, \$ per tonne</i> ⁽²⁾	180.0	128.1	51.9	40%
<i>Average price, RR per tonne</i>	5,085	3,710	1,375	37%
Sales of stable gas condensate-exported				
Net sales ⁽¹⁾	570	-	570	100%
<i>Volumes in thousands of tonnes</i>	87	-	87	100%
<i>Average price, \$ per tonne</i> ⁽²⁾	232.7	-	232.7	100%
<i>Average price, RR per tonne</i>	6,575	-	6,575	100%
Sales of stable gas condensate-domestic				
Net sales ⁽¹⁾	4	-	4	100%
<i>Volumes in thousands of tonnes</i>	.65	-	.65	100%
<i>Average price, \$ per tonne</i> ⁽²⁾	223.0	-	223.0	100%
<i>Average price, RR per tonne</i>	6,272	-	6,272	100%

⁽¹⁾ Millions of RR, net of VAT, excise tax and export duties.

⁽²⁾ Converted from the average realized RR price using average exchange rates for the period

Our revenues from the sales of crude oil and gas condensate increased by RR 254 million, or 16.1%, for the three months ended 30 June 2005 compared to the corresponding period in 2004, primarily as a result of higher prices for both domestic and export sales volumes offset by a reduction in the overall volumes of crude oil and gas condensate sold during the period.

Our revenue from the sales of oil and gas condensate depends on the product mix we receive from the Surgutsky refinery over which we have limited control. The product mix is a result of the level of refining available whereby more complex refining yields higher margin products like diesel fuel and light distillate while less complex refining yields lower margin products like stabilized gas condensate and butane fractions. In the three months ended 30 June 2005 stabilized gas condensate output comprised 44.2% of the total yield from the refinery compared with 62.8% for the corresponding period in 2004.

Our purchases of crude oil from Geoilbent amounted to 110,000 tonnes and 92,000 tonnes in the three months ended 30 June 2005 and 2004, respectively. Following our disposal of Geoilbent in June 2005 we have ceased purchasing its crude oil volumes.

Our average realized sales price translated into US dollars for crude oil and gas condensate exported to international markets increased by USD 66.5 per tonne, or 41.2%, in the three months ended 30 June 2005 compared to the corresponding period in 2004, primarily due to the higher pricing environment in the international crude oil markets during the 2005 period. Our average realized crude oil and gas condensate domestic sales price increased by RR 1,375 per tonne, or 37.1%, in the three months ended 30 June 2005 compared to the corresponding period in 2004, due to the strengthening of domestic crude oil prices compared to the corresponding period in 2004.

Our crude oil and gas condensate sold for export is generally sold free on board (FOB) or delivery at frontier (DAF) at the border of the Russian Federation. Historically, the majority of our sales volumes sold for export are transported by pipeline to Germany or through the shipping ports

at Butinge, Lithuania and Novorossiysk, Russia. Under such agreements, the buyer takes ownership and responsibility for further transportation of the crude oil and gas condensate to its final destination. Our affiliated companies, Kerden Trading Ltd and TNG Energy, act as trading agents for a majority of our export sales of crude oil and gas condensate and stable gas condensate.

The volumes of stable gas condensate we receive from the Purovsky plant are sold separate from the volumes received from the Surgutsky refinery and as such are not included in revenue from oil and gas condensate sales. Our revenues from the sales of stable gas condensate increased by RR 574 million, or 100%, for the three months ended 30 June 2005 compared to the corresponding period in 2004.

In the three months ended 30 June 2005 we exported substantially all of the stable gas condensate from the Purovsky plant to markets in Europe using our loading and storage facilities at the Port of Vitino on the White Sea. Our average realized price translated into US dollars for stable gas condensate sold on the export market was USD 232.7 per tonne for the three months ended 30 June 2005 compared to nil for the corresponding period in 2004.

The following table sets out the net sales, volumes and average realized prices we received for our oil products in the three months ended 30 June 2005 and 2004:

	Three months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
Sales of oil products-export				
Net sales ⁽¹⁾	-	-	-	-
<i>Volumes in thousands of tonnes</i>	-	-	-	-
<i>Average price, \$ per tonne</i> ⁽²⁾	-	-	-	-
<i>Average price, RR per tonne</i>	-	-	-	-
Sales of oil products-domestic				
Net sales ⁽¹⁾	1,216	417	799	192%
<i>Volumes in thousands of tonnes</i>	235	105	130	123%
<i>Average price, \$ per tonne</i> ⁽²⁾	183.2	137.0	46.2	34%
<i>Average price, RR per tonne</i>	5,176	3,965	1,211	31%

⁽¹⁾ Millions of RR, net of VAT, excise tax and export duties.

⁽²⁾ Converted from the average realized RR price using average exchange rates for the period

For the three months ended 30 June 2005, our revenues from the sales of oil products increased by RR 799 million, or 191.6%, compared to the corresponding period in 2004. The increase was attributable to a higher yield of oil products from the Surgutsky refinery and production of oil products from the Purovsky plant. Oil products sales volumes from the Surgutsky refinery and the Purovsky plant amounted to 175,000 tonnes and 27,000 tonnes, respectively for the three month period ended 30 June 2005, and 103,000 tonnes and nil for the corresponding period in 2004. The remaining 33,000 tonnes and 2,000 tonnes in the three months ended 30 June 2005 and 2004, respectively, were produced by our subsidiary, Purneftegasegeologia. We also benefited from an increase in the average oil products price in the 2005 period compared to the 2004 period. The main oil products sold were diesel fuel, light distillate and naphtha. We did not supply oil products to the export market in the three months ended 30 June 2005 and the corresponding period in 2004, because we were able to realize better margins for light distillate and diesel fuel, the main products sold for export, on the domestic market. The domestic market for oil products in the three months ended 30 June 2004 was characterized by generally lower prices across all oil products categories and we received a lower proportion of higher margin processed volumes from the Surgutsky refinery compared to the 2005 period.

Oil and gas construction services

We had no revenues from our oil and gas construction services in the three months ended 30 June 2005 compared to RR 986 million for the corresponding period in 2004 due to the divestiture of this business in June 2004.

Sales of polymer and insulation tape and other income

Our sales of polymer and insulation tape increased to RR 225 million in the three months ended 30 June 2005 compared to RR 114 million in the corresponding period in 2004 due to higher volumes and prices for the 2005 period. In the three months ended 30 June 2005 we commenced production of BOPP film wrap at our subsidiary Novatek Polimer and plan to supplement our purchases with production from our subsidiary. In the three months ended 30 June 2005 we purchased and resold 565 tonnes of BOPP film wrap which accounted for 17.0% of sales volumes and 15.8% of polymer and insulation tape revenue, or RR 35.5 million, compared to RR 1.2 million in the corresponding period in 2004. Prices and production for other polymers increased by 44.9% and 14.3%, respectively, and contributed an additional RR 75.1 million in revenue for the three months ended 30 June 2005 compared to the same period in 2004.

Other income

Other income includes gains and losses recognized on the disposals of our investments in oil and gas producing subsidiaries and associates. In the three months ended 30 June 2005, our gain on the disposal of investments in oil and gas producing associates was RR 3,611 compared to nil in the corresponding period in 2004. The gain was due to the divestiture of our interests in Geoilbent, Selkupneftegas and Tambeyneftegas in June 2005 (see section, *Divestitures*).

Operating expenses

Operating expenses for the three months ended 30 June 2005 increased by RR 554 million, or 11.3%, to RR 5,443 million compared to RR 4,889 million for the corresponding period in 2004. Operating expenses decreased as a percentage of total revenues from 76.9% for the three months ended 30 June 2004 to 58.2% for the corresponding period in 2005. The decrease was largely attributable to lower materials, services and other expenses due to the divestiture of the oil and gas construction services business in June 2004 and lower purchases of oil, gas condensate and natural gas due to the consolidation of Tarkosalneftegas and Khancheyneftegas in December 2004. Total operating expenses attributable to our oil and gas construction services business were RR nil and RR 1,580 million for the three month periods ended 30 June 2005 and 2004, respectively. The table below presents a breakdown of operating expenses in each period:

	Three months ended 30 June			
	2005		2004	
	(RR million)	(% of total revenues)	(RR million)	(% of total revenues)
Materials, services and other expense	777	8%	1,430	22%
Purchases of oil, gas condensate and natural gas	770	8%	1,513	24%
Transportation expenses	1,597	17%	923	15%
Taxes other than income tax	747	8%	296	5%
General and administrative expenses	578	6%	341	5%
Depreciation, depletion and amortization	850	10%	325	5%
Net impairment expense	3	0%	22	0%
Exploration expenses	121	1%	39	1%
Total operating expenses	5,443	58%	4,889	77%

Materials, services and other expense

Our materials, services and other expense in the three months ended 30 June 2005 decreased by RR 653 million, or 45.7%, compared to the corresponding period in 2004. The decrease related to the sale of our oil and gas construction services business in June 2004 and was partially offset by increases due to the consolidation of Tarkosaleneftegas and Khancheyneftegas at 31 December 2004.

Purchases of natural gas, gas condensate and crude oil

For the three months ended 30 June 2005 and 2004, we purchased natural gas, gas condensate and crude oil as shown in the following table:

	Three months ended 30 June			
	2005		2004	
	<u>Quantity</u>	<u>RR million</u>	<u>Quantity</u>	<u>RR million</u>
Purchases from related parties				
Purchases of natural gas from (mmcm):				
Tarkosaleneftegas ⁽¹⁾	-	-	1,824	546
Khancheyneftegas ⁽¹⁾	-	-	628	262
Total purchases of natural gas from related parties	-	-	2,452	808
Purchases of natural gas from third parties	666	291	117	87
Purchases from related parties				
Purchases of crude oil and gas condensate from (mt):				
Tarkosaleneftegas	-	-	86	137
Khancheyneftegas	-	-	125	200
Geoilbent	110	274	92	240
Purchases of crude oil and gas condensate from related parties	110	274	303	577
Purchases of crude oil and gas condensate from third parties	56	144	25	41
Purchases of insulation tape and other products from third parties		61		-
Total purchases of natural gas and crude oil and gas condensate		770		1,513
Total purchases from related parties		274		1,385
Total purchases from third parties		496		128

⁽¹⁾ These companies were not consolidated in the three months ended 30 June 2004.

In the three months ended 30 June 2005, our purchases of hydrocarbons decreased significantly due to the acquisition and subsequent consolidation of our production from Tarkosaleneftegas and Khancheyneftegas. In the three months ended 30 June 2005, our purchases of natural gas included production from the West Tarkosalinskoye field in the amount of 369 mmcm of natural gas. This field was previously owned by us (See “Divestures” above) and our net production of natural gas from this field in the three months ended 30 June 2004 was 974 mmcm. In the three months ended 30 June 2005 we purchased RR 61 million of insulation tape from European suppliers compared to nil for the 2004 period. The purchased tape was sold together with our own production of insulation tape.

Transportation expense

Our transportation expense for the three months ended 30 June 2005 increased by RR 674 million, or 73.0%, compared to the corresponding period in 2004. Transportation expense for natural gas for the three months ended 30 June 2005, increased by RR 519 million, or 88.7%, to RR 1,104 million compared to the corresponding period in 2004 due to a 68.3% increase in our sales volumes of natural gas sold to end-customers, for whom the cost of transportation is included in the

sales prices, and a 12.1% increase in our average natural gas transportation expense per mcm. The increase in volumes contributed roughly 70% to the increase in natural gas transportation expense.

Our expense for transportation of crude oil and gas condensate decreased by RR 45 million, or 25.7%, for the three months ended 30 June 2005 compared to the corresponding period in 2004. The transportation expense of RR 175 million for crude oil and gas condensate for the three months ended 30 June 2004 includes RR 51 million, attributable to our subsidiary Purneftegasgeologiya, for the delivery of crude oil from the field to the input point of the Transneft pipeline network. Our expense for crude oil and gas condensate shipped via the Transneft pipeline network increased by RR 6 million, or 4.8%, for the three months ended 30 June 2005 due to an increase in the average transportation expense per tonne, which was partially offset by a reduction in volumes delivered. The increase in the expense per tonne was due to a combination of tariff rate increases and an increase in the average delivery distance in the three months ended 30 June 2005 compared to the same period in 2004.

Our expense for oil products and stable gas condensate transported by railroad increased by RR 157 million, or 413.2%, for the three months ended 30 June 2005 due to an increase in volumes and higher transportation expense per tonne, compared to the corresponding period in 2004. Our expense for stable gas condensate transported by rail relates to the volumes of stable gas condensate transported from the Purovsky plant and amounted to RR 56 million, or approximately RR 645 per tonne, for the three months ended 30 June 2005 compared to nil in the corresponding period in 2004. Our expense for oil products transported by rail amounted to RR 139 million, or RR 591.6 per tonne, for the three months ended 30 June 2005 compared to RR 38 million, or RR 330.4 per tonne for the same period in 2004. The increase in the expense per tonne for oil products in the 2005 period is due in part to an increase in tariffs in January and April 2005 of 9.0% and 5.4%, respectively, and changes in our oil products mix. Certain oil products have higher transportation tariffs which influence the average expense per tonne.

Taxes other than income tax

Taxes other than income tax includes mineral extraction tax also referred to as the “unified natural resources production tax”, property tax, excise tax, social taxes and other taxes. For the three months ended 30 June 2005, taxes other than income taxes increased by RR 451 million, or 152.4%, compared to the corresponding period in 2004. The increase was offset by a reversal of a provision for additional taxes of RR 427 million recorded in the three months ended 31 March 2005 due to a difference between the tax basis as determined by the Russian tax authorities and our calculation method of the unified natural resources production tax on gas condensate. In July 2005, a revised methodology for the calculation of the tax was enacted which resulted in a reversal of the provision.

The increase in taxes other than income tax resulted primarily from a RR 790 million, or 300.4%, increase in our mineral extraction tax due to an increase in hydrocarbon volumes produced in the three months ended 30 June 2005 compared to the corresponding period in 2004, and the tax impact from the consolidation of Tarkosaleneftegas and Khancheyneftegas which amounted to RR 644 million. Prior to the consolidation, mineral extraction tax from these companies was not directly included as part of our tax expense. These companies were accounted for under the equity method as associated companies.

Effective 1 January 2005, the base rate for unified natural resources production taxes relating to crude oil increased from RR 347 per metric tonne to RR 419 per metric tonne. The new rate will be applicable until 1 January 2007, after which the tax rate will be 16.5% of our crude oil revenues, net of VAT. In 2005, the production tax for natural gas increased by RR 28 per mcm to RR135 per mcm compared to RR 107 per mcm in 2004.

Other operating expenses

We saw a general increase in other operating expenses for the three months ended 30 June 2005 compared to the corresponding period in 2004, due to the continued development of our oil and gas fields and a corresponding growth in sales volumes resulting from the full consolidation of Tarkosaleneftegas and Khancheyneftegas. However, certain expenses were discontinued following the sale of our oil and gas construction services business in June 2004.

Notwithstanding the discontinued operations:

- Depreciation, depletion and amortization expense, increased by RR 525 million for the three months ended 30 June 2005, or 161.2%, compared to the corresponding period in 2004. The increase was primarily due to depreciation expense, calculated on a units of production basis for our oil and gas properties, which increased by RR 529 million, or 187.4%, largely due to the growth in production volumes, additions of property, plant and equipment at the Yurkharovskoye field and the impact of the consolidation of Tarkosaleneftegas and Khancheyneftegas in December 2004. This expense was offset by a RR 4 million reduction in straight line depreciation and amortization of other assets.; and
- Employee compensation expense and general and administrative expenses, excluding the effects of the discontinued operations, were generally higher during the three months ended 30 June 2005 compared to the corresponding period in 2004 due to the consolidation of Tarkosaleneftegas and Khancheyneftegas. As a result of the consolidation, our average number of employees grew from 2,250 as at 30 June 2004 to 3,807 as at 30 June 2005.

Income from operations

As a result of the factors discussed above, our income from operations increased by RR 6,252 million to RR 7,540 million, or 485.4%, for the three months ended 30 June 2005 from RR 1,288 million for the corresponding period in 2004. Our income from operations as a percentage of our total revenues increased to 80.6% for the three months ended 30 June 2005 compared to 20.3% for the corresponding period in 2004. Income from operations in the three months ended 30 June 2005 benefited from a one-time gain of RR 3,611 million, resulting from the disposal of our investments in oil and gas producing associates, compared to nil in the corresponding period in 2004. Our income from operations net of the gain on disposals for the 2005 period was RR 3,929 million or 42.0% of total revenues.

Finance income and expense

Finance income and expense increased from a net expense of RR 14 million in the three months ended 30 June 2004 to a net expense of RR 189 million in the corresponding period in 2005. The increase was due to higher interest expense resulting from the consolidation of debt and related interest expense of Tarkosaleneftegas and Khancheyneftegas in 2005. In addition, the increase resulted from net foreign exchange losses of RR 136 million largely associated with debt, in the three months ended 30 June 2005 compared to a net loss of RR 27 million in the corresponding period in 2004. The increase in finance expense in the three months ended 30 June 2005 was offset by an increase in interest income of RR 134 million from the corresponding period in 2004. Interest income for the three months ended 30 June 2005 increased compared to the corresponding period in 2004 due to the provision of loans to our associated companies and other related parties.

Share of income of associated companies

For the three months ended 30 June 2005, our share of the net income of Tarkosaleneftegas and Khancheyneftegas was nil, compared to RR 61 million for the corresponding period in 2004, as we now consolidate these entities and no longer account for them on an equity basis due to the acquisition of the additional interests in these entities in December 2004. Our share of the net income of other associated companies increased by RR 9 million to RR 66 million for the three

months ended 30 June 2005 compared to RR 57 million for the corresponding period in 2004. The increase was due to higher income from operations recorded by our associated company, Geoilbent (which was sold in June 2005). During the first quarter of 2004, Geoilbent received a beneficial tax ruling reducing its income taxes by RR 344 million, of which RR 227 million was attributable to our 66% participation interest.

Income tax expense

Our overall effective income tax rates (total tax expense calculated as a percentage of our reported IFRS income before income tax and share of net income from associates) were 24.7% and 34.8% for the three months ended 30 June 2005 and 2004, respectively. Our share of the tax expenses of our associated companies is included within our income tax expense.

The table below shows the income tax expense for the three months ended 30 June 2005 and 2004.

	Three months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
Current income tax expense	2,070	412	1,658	402%
Deferred income tax expense	(253)	32	(285)	(891%)
Total income tax expense	1,817	444	1,373	309%

Our effective income tax rate of 24.7% for the three months ended 30 June 2005 correlates closely to our statutory income tax rate of 24%. The difference was primarily due to a reduction in deductible expenses for statutory income tax purposes.

Profit for the period and earnings per share

As a result of the factors discussed above, our profit for the period increased by RR 4,652 million, or 490.7%, to RR 5,600 million for the three months ended 30 June 2005 from RR 948 million for the corresponding period in 2004. We recorded net income attributable to our oil and gas construction services business of RR 93 million for the three months ended 30 June 2004 compared to nil for the three months ended 30 June 2005.

Our weighted average basic and diluted earnings per share increased to RR 1,847 per share for the three months ended 30 June 2005 from RR 393 per share for the corresponding period in 2004. The weighted average number of ordinary shares outstanding for the three months ended 30 June 2005 and 2004 were 3,036,306 and 2,247,030, respectively. The weighted average number of shares was higher in the 2005 period due to the issuance of 789,276 new ordinary shares in connection with the acquisitions in December 2004 of the remaining interests in Tarkosaleneftegas and Khancheyneftegas.

Results of Operations

For the six months ended 30 June 2005 compared to the six months ended 30 June 2004

The following table and discussion is a summary of our consolidated results of operations for the six months ended 30 June 2005 and 2004. Each line item is also shown as a percentage of our total revenues.

	Six months ended 30 June			
	2005		2004	
	(RR million)	(% of total revenues)	(RR million)	(% of total revenues)
Total Revenues ⁽¹⁾	18,359	100%	13,053	100%
Other income (loss)	3,624	20%	(222)	2%
Total revenues and other income	21,983	120%	12,831	98%
Operating expenses	(11,195)	61%	(10,024)	77%
Income from operations	10,788	59%	2,807	22%
Finance income expense	(430)	2%	(3)	0%
Share of income from associates	143	1%	492	4%
Income before income tax and minority interest	10,501	57%	3,296	25%
Total income tax expense	(2,593)	14%	(923)	7%
Profit for the period	7,908	43%	2,373	18%
Minority interest	15	0%	(55)	0%
Profit attributable to Novatek shareholders	7,923	43%	2,318	18%

⁽¹⁾ Net of VAT, excise tax and export duties.

Revenues

Our total revenues comprise oil and gas sales, sales from our oil and gas construction services, sales of polymer and insulation tape and other revenues. Total revenues increased by RR 5,306 million, or 40.6%, to RR 18,359 million for the six months ended 30 June 2005 compared to RR 13,053 million for the corresponding period in 2004. Total revenues attributable to our oil and gas construction services business were RR nil and RR 2,053 million for the six month periods ended 30 June 2005 and 2004, respectively. The following table sets forth our net sales, volumes and average realized prices for the six months ended 30 June 2005 and 2004:

	Six months ended 30 June			
	2005	2004	Increase (Decrease)	% Increase (Decrease)
Sales of natural gas				
Net sales ⁽¹⁾	11,392	6,590	4,802	73%
<i>Volumes in mmcm</i>	13,771	9,266	4,504	49%
<i>Average price, \$ per mcm</i> ⁽²⁾	29.6	24.7	4.8	20%
<i>Average price, RR per mcm</i>	827	711	116	16%
Sales of crude oil and gas condensate				
Net sales ⁽¹⁾	3,392	3,075	317	10%
<i>Volumes in thousands tonnes</i>	705	784	(79)	(10%)
<i>Average price, \$ per tonne</i> ⁽²⁾	171.8	136.2	35.6	26%
<i>Average price, RR per tonne</i>	4,810	3,920	890	23%
Sales of stable gas condensate				
Net sales ⁽¹⁾	574	-	574	100%
<i>Volumes in thousands tonnes</i>	87	-	87	100%
<i>Average price, \$ per tonne</i> ⁽²⁾	234.8	-	234.8	100%
<i>Average price, RR per tonne</i>	6,572	-	6,572	100%
Sales of oil products				
Net sales ⁽¹⁾	2,411	682	1,729	253%
<i>Volumes in thousands of tonnes</i>	478	216	262	122%
<i>Average price, \$ per tonne</i> ⁽²⁾	180.2	110.0	70.2	64%
<i>Average price, RR per tonne</i>	5,045	3,166	1,878	59%
Total oil and gas sales	17,769	10,347	7,422	72%
Oil and gas construction services revenue ⁽¹⁾	-	2,053	(2,053)	(100%)
Sales of polymer and insulation tape ⁽¹⁾	437	273	164	60%
Other revenues ⁽¹⁾	153	380	(227)	(60%)
Total revenues	18,359	13,053	5,306	41%
Net loss on disposals	3,631	(262)	3,893	1,286%
Other income (expense)	(7)	40	(47)	(118%)
Total revenues and other income	21,983	12,831	9,152	71%

⁽¹⁾ Millions of RR, net of VAT, excise tax and export duties.

⁽²⁾ Converted from the average realized RR price using average exchange rates for the period

Excluding revenues from our oil and gas construction services business, which we sold in June 2004, revenues from our core oil and gas business increased by RR 7,422 million, or 71.7%, for the six months ended 30 June 2005 compared to the corresponding period in 2004, primarily due to the increase in sales volumes of natural gas and the combination of crude oil and gas condensate, stable gas condensate and oil products together with higher average realized prices for all products during the 2005 period. Our natural gas and liquids (crude oil and gas condensate, stable gas condensate and oil products) sales volumes increased for the six months ended 30 June 2005 by 48.6% and 27.1%, respectively, compared to the corresponding period in 2004. These increases were the result of an increase in production at our Yurkharovskoye field, production attributable to our increased interest in Tarkosaleneftegas, commencement of operations at our Purovsky processing plant and to a lesser extent increased production at our Khanchevskoye field (partially offset by decreases in production at our other fields).

Oil and gas sales

The following table shows the sources of our production and purchases of natural gas in the six months ended 30 June 2005 compared to the corresponding period in 2004:

	Six months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
	(mmcm)			
Production from:				
Yurkharovneftegas	4,486	2,805	1,681	60%
Tarkosaleneftegas ⁽¹⁾	6,716	-	6,716	100%
Khancheyneftegas ⁽¹⁾	1,412	-	1,412	100%
Other	49	1,480	(1,431)	(97%)
Total natural gas production	12,663	4,285	8,378	196%
Purchases from:				
Yurkharovneftegas	-	-	-	-
Tarkosaleneftegas ⁽¹⁾	-	3,525	(3,525)	(100%)
Khancheyneftegas ⁽¹⁾	-	1,053	(1,053)	(100%)
Other	1,220	685	535	78%
Total natural gas purchases	1,220	5,263	(4,043)	(77%)
Changes in inventory	(112)	(282)	170	60%
Total natural gas sales volumes	13,771	9,266	4,505	49%

⁽¹⁾ These companies were not consolidated in the six months ended 30 June 2004.

In the six months ended 30 June 2005, our three core fields, East Tarkosalinskoye, Yurkharovskoye and Khancheynskoye, produced 12.6 bcm of natural gas, representing 91.6% of our total natural gas sales volumes. In the six months ended 30 June 2004, we purchased approximately 56% of Tarkosaleneftegas' production and 100% of Khancheyneftegas' production

Our revenues from the sale of natural gas for the six months ended 30 June 2005 increased by RR 4,802 million, or 72.9%, compared to the corresponding period in 2004. Revenues from the sale of natural gas accounted for 62.1% and 50.5% of our total revenues for the six months ended 30 June 2005 and 2004, respectively. The increase in natural gas revenues was attributable to an increase in sales volumes and an increase in prices for the six months ended 30 June 2005 compared to the corresponding period in 2004. We sell our entire natural gas volumes in the Russian domestic market. For the six months ended 30 June 2005, our average realized price per mcm increased by RR 116 per mcm, or 16.3%, compared to the corresponding period in 2004, due to an overall increase in natural gas prices and an increase in sales to end-customers. The decrease in production from "Other" was primarily attributable to the sale of our subsidiary holding the license to the West Tarkosalinskoye field to Gazprom. After the sale, we began purchasing our share of the production from the West Tarkosalinskoye field in accordance with contractual terms and conditions.

The following table shows the breakdown of natural gas sales volumes between ex-field and end-customer market segments for the six months ended 30 June 2005 and 2004:

	Six months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
	(mmcm)			
Sales ex-field	7,928	5,091	2,837	56%
End-customer sales	5,843	4,175	1,667	40%
Total gas sales	13,771	9,266	4,504	49%

As part of the December 2004 acquisitions of the remaining interests in Tarkosaleneftegaz and Khancheyneftegas, we have committed to sell a total volume of 37.5 bcm of natural gas over a five year period starting in January 2005 to the Itera Group, and have classified the sales volumes as “ex-field” sales. As our largest sales contract, this contract will have an effect on the relative proportion of ex-field sales and end-customer sales for that period. For the six months ended 30 June 2005 our sales to Itera under this contract amounted to 3.1 bcm.

Total sales volumes of crude oil and gas condensate decreased for the six months ended 30 June 2005 by 154,000 tonnes, or 19.7%, compared to the corresponding period in 2004, and total sales volumes of oil products increased for the 2005 period by 270,000 tonnes, or 130.7%, compared to the 2004 period. The decrease in oil and gas condensate sales volumes and the corresponding increase in oil products sales volumes were due to significantly lower yields of stabilized gas condensate and higher yields of oil products from the Surgutsky refinery in the 2005 period. The commencement of operations at our Purovsky plant also contributed to the decrease in oil and gas condensate sales volumes due to the migration of the processing of our de-ethanized unstable gas condensate from the Surgutsky refinery to the Purovsky plant in June 2005. Stable gas condensate sales volumes from the Purovsky plant increased by 87,000 tonnes, or 100.0%, and are now sold and reported separately from the gas condensate we receive from the Surgutsky refinery.

The following table shows the sources of our production and purchases of crude oil and gas condensate for the six months ended 30 June 2005 and 2004:

	Six months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
	(mt)			
Production from:				
Yurkharovneftegas	353	322	31	10%
Tarkosaleneftegas ⁽¹⁾	366	-	366	100%
Khancheyneftegas ⁽¹⁾	307	-	307	100%
Other	73	142	(69)	(49%)
Total production	1,099	464	635	137%
Purchases from:				
Tarkosaleneftegas ⁽¹⁾	-	163	(163)	(100%)
Khancheyneftegas ⁽¹⁾	-	232	(232)	(100%)
Geoilbent	219	190	28	15%
From third parties	93	59	34	58%
Total purchases	312	644	(332)	(52%)
Total production and purchases	1,411	1,108	303	27%
Changes in inventory and other losses	(140)	(108)	(32)	(30%)
Total liquids sales	1,271	1,000	271	27%
Oil and gas condensate sales	705	784	(79)	(10%)
Stable gas condensate sales	87	-	87	100%
Oil products sales	478	216	263	122%

⁽¹⁾ These companies were not consolidated in the six months ended 30 June 2004.

In the six months ended 30 June 2005, our three core fields, East Tarkosalinskoye, Yurkharovskoye and Khancheynskoye, produced 1,026,000 tonnes of oil and gas condensate, accounting for 93.4% of our total crude oil and gas condensate production volumes. For the six months ended 30 June 2005, crude oil and gas condensate production increased by 635,000 tonnes, or 136.9%, over production for the corresponding period in 2004. The increase was largely attributable to the continued development of the Yurkharovskoye, Khancheynskoye and East Tarkosalinskoye fields (partially offset by decreases in production at our other fields), and to a lesser extent an increase in production attributable to Tarkosaleneftegas resulting from its consolidation in December 2004. Purchases for the six months ended 30 June 2005 decreased by 332,000 tonnes, or 51.6%, compared to the corresponding period in 2004, primarily due to the impact of the consolidation of Tarkosaleneftegas and Khancheyneftegas in December 2004.

The table below shows the net sales, volumes and average realized prices we received for our crude oil and gas condensate in the six months ended 30 June 2005 and 2004.

	Six months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
Sales of crude oil and gas condensate-exported				
Net sales ⁽¹⁾	960	1,118	(158)	(14%)
<i>Volumes in thousands of tonnes</i>	161	237	(76)	(32%)
<i>Average price, \$ per tonne</i> ⁽²⁾	212.6	163.8	48.8	30%
<i>Average price, RR per tonne</i>	5,951	4,714	1,237	26%
Sales of crude oil and gas condensate-domestic				
Net sales ⁽¹⁾	2,433	1,957	476	24%
<i>Volumes in thousands of tonnes</i>	544	547	(3)	(1%)
<i>Average price, \$ per tonne</i> ⁽²⁾	159.8	124.3	35.4	28%
<i>Average price, RR per tonne</i>	4,472	3,579	894	25%
Sales of stable gas condensate-export				
Net sales ⁽¹⁾	570	-	570	100%
<i>Volumes in thousands of tonnes</i>	87	-	87	100%
<i>Average price, \$ per tonne</i> ⁽²⁾	232.7	-	232.7	100%
<i>Average price, RR per tonne</i>	6,575	-	6,575	100%
Sales of stable gas condensate-domestic				
Net sales ⁽¹⁾	4	-	4	100%
<i>Volumes in thousands of tonnes</i>	.65	-	.65	100%
<i>Average price, \$ per tonne</i> ⁽²⁾	222.0	-	222.0	100%
<i>Average price, RR per tonne</i>	6,272	-	6,272	100%

⁽¹⁾ Millions of RR, net of VAT, excise tax and export duties.

⁽²⁾ Converted from the average realized RR price using average exchange rates for the period

Our revenues from the sales of crude oil and gas condensate increased by RR 317 million, or 10.3%, for the six months ended 30 June 2005 compared to the corresponding period in 2004, primarily as a result of higher prices for both domestic and export sales volumes and partially offset by a reduction in the overall volumes of crude oil and gas condensate sold during the period.

Our revenue from the sales of oil and gas condensate depends on the product mix we receive from the Surgutsky refinery over which we have limited control. The product mix is a result of the level of refining available whereby more complex refining yields higher margin products like diesel fuel and light distillate while less complex refining yields lower margin products like stabilized gas condensate and butane fractions. In the six months ended 30 June 2005 stabilized gas condensate output comprised 42.9% of the total yield from the refinery compared with 63.1% for the corresponding period in 2004.

Following our disposal of Geoilbent in June 2005, we ceased purchasing its crude oil volumes which amounted to 240,000 tonnes and 190,000 tonnes in the six months ended 30 June 2005 and 2004, respectively.

Our average realized sales price translated into US dollars for crude oil and gas condensate exported to international markets increased by USD 48.8 per tonne, or 29.8%, in the six months ended 30 June 2005 compared to the corresponding period in 2004, primarily due to the higher pricing environment in the international crude oil markets during the 2005 period. Our average realized crude oil and gas condensate domestic sales price increased by RR 894 per tonne, or 25.0%, in the six months ended 30 June 2005 compared to the corresponding period in 2004, due to the strengthening of domestic crude oil prices in the 2005 period.

Our crude oil and gas condensate sold for export is generally sold free on board (FOB) or delivery at frontier (DAF) at the border of the Russian Federation. Historically, the majority of our sales volumes sold for export are transported by pipeline to Germany or through the shipping ports

at Butinge, Lithuania and Novorossiysk, Russia. Under such agreements, the buyer takes ownership and responsibility for further transportation of the crude oil and gas condensate to its final destination. Our affiliated companies, Kerden Trading Ltd and TNG Energy, act as trading agents for a majority of our export sales of crude oil and gas condensate.

The volumes of stable gas condensate we receive from the Purovsky plant are sold separate from the volumes receive from the Surgutsky refinery and are not included in revenue from oil and gas condensate sales. Our revenues from the sales of stable gas condensate increased by RR 574 million, or 100%, for the six months ended 30 June 2005 compared to the corresponding period in 2004.

In the three months ended 30 June 2005 we exported substantially all of the stable gas condensate from the Purovsky plant to markets in Europe. Our average realized price translated into US dollars for stable gas condensate sold on the export market was USD 232.7 per tonne.

The following table sets out the net sales, volumes and average realized prices we received for our oil products in the six months ended 30 June 2005 and 2004:

	Six months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
Sales of oil products-export				
Net sales ⁽¹⁾	-	98	(98)	(100%)
<i>Volumes in thousands of tonnes</i>	-	20	(20)	(100%)
<i>Average price, \$ per tonne</i> ⁽²⁾	-	171.5	(171.5)	(100%)
<i>Average price, RR per tonne</i>	-	4,937	(4,937)	(100%)
Sales of oil products-domestic				
Net sales ⁽¹⁾	2,411	584	1,827	313%
<i>Volumes in thousands of tonnes</i>	478	196	282	144%
<i>Average price, \$ per tonne</i> ⁽²⁾	180.2	103.5	76.7	74%
<i>Average price, RR per tonne</i>	5,045	2,980	2,065	69%

⁽¹⁾ Millions of RR, net of VAT, excise tax and export duties.

⁽²⁾ Converted from the average realized RR price using average exchange rates for the period

For the six months ended 30 June 2005, our revenues from the sales of oil products increased by RR 1,792 million, or 253.5%, compared to the corresponding period in 2004. The increase was attributable to higher yields of oil products from the Surgutsky refinery and production of oil products from the Purovsky plant. Oil products sales volumes from the Surgutsky refinery and the Purovsky plant amounted to 417,000 tonnes and 27,000 tonnes, respectively for the six month period ended 30 June 2005 and 203,000 tonnes and nil for the corresponding period in 2004. The remaining 34,000 tonnes and 13,000 tonnes in the six months ended 30 June 2005 and 2004, respectively, were produced by our subsidiary, Purneftegasgeologia. We also benefited from an increase in the average oil products price in the 2005 period compared to the 2004 period. The main oil products sold were diesel fuel, light distillate and naphtha. We did not supply oil products to the export market in the six months ended 30 June 2005, because we were able to realize better margins for light distillate and diesel fuel, the main products sold for export, on the domestic market. For the six months ended 30 June 2005, domestic sales of oil products increased by RR 1,827 million, or 312.9%, compared to the corresponding period in 2004, due to a generally stronger domestic pricing environment and increased volumes in the 2005 period. The domestic market for oil products in the six months ended 30 June 2004 was characterized by generally lower prices across all oil products categories and we received a lower proportion of higher margin processed volumes from the Surgutsky refinery in 2004 compared to the 2005 period.

Oil and gas construction services

We had no revenues from our oil and gas construction services in the six months ended 30 June 2005 compared to RR 2,053 million for the corresponding period in 2004 due to the divestiture of this business in June 2004.

Sales of polymer and insulation tape and other income

Our sales of polymer and insulation tape increased to RR 437 million in the six months ended 30 June 2005 compared to RR 273 million in the corresponding period in 2004 due to higher volumes and prices for the 2005 period. At the end of June 2005 we commenced production of BOPP film wrap at our subsidiary Novatek Polimer and plan to supplement our purchases with production from our subsidiary. In the six months ended 30 June 2005 we purchased and resold 799 tonnes of BOPP film wrap which accounted for 10.3% of sales volumes and 11.4% of polymer and insulation tape revenue, or RR 49.9 million, compared to RR 1.2 million in the corresponding period in 2004. Prices and production for other polymers increased by 41.2% and less than one per cent, respectively, and contributed an additional RR 113.6 million in revenue for the six months ended 30 June 2005 compared to the same period in 2004.

Other income

Other income includes gains and losses recognized on the disposals of our investments in oil and gas producing subsidiaries and associates. In the six months ended 30 June 2005, our gain on the disposal of investments in oil and gas producing associates was RR 3,611 compared to nil in the corresponding period in 2004. The increase was due to the divestiture of our interests in Geoilbent, Selkupneftegas and Tambeyneftegas in June 2005 (see section, *Divestitures*).

Operating expenses

Operating expenses for the six months ended 30 June 2005 increased by RR 1,171 million, or 11.7%, to RR 11,195 million compared to RR 10,024 million for the corresponding period in 2004. Operating expenses decreased as a percentage of revenues from 76.8% for the six months ended 30 June 2004 to 61.0% for the corresponding period in 2005. The decrease was largely attributable to lower materials, services and other expenses due to the divestiture of the oil and gas construction services business in June 2004 and a decrease in purchases of oil, gas condensate and natural gas due to the consolidation of Tarkosalneftegas and Khancheyneftegas in December 2004. Total operating expenses attributable to our oil and gas construction services business were RR nil and RR 3,612 million for the six month periods ended 30 June 2005 and 2004, respectively. The table below presents a breakdown of operating expenses in each period:

	Six months ended 30 June			
	2005		2004	
	(RR million)	(% of total revenues)	(RR million)	(% of total revenues)
Materials, services and other expense	1,644	9%	3,140	24%
Purchases of oil, gas condensate and natural gas	1,381	8%	2,997	23%
Transportation expenses	3,313	18%	1,969	15%
Taxes other than income tax	2,048	11%	688	5%
General and administrative expenses	830	5%	599	5%
Depreciation, depletion and amortization	1,664	9%	474	4%
Net impairment expense	45	0%	55	0%
Exploration expenses	270	1%	102	1%
Total operating expenses	11,195	61%	10,024	77%

Materials, services and other expense

Our materials, services and other expense in the six months ended 30 June 2005 decreased by RR 1,496 million, or 47.6%, compared to the corresponding period in 2004. The decrease related to the sale of our oil and gas construction services business in June 2004 and was partially offset by increases due to the consolidation of Tarkosaleneftegas and Khancheyneftegas at 31 December 2004.

Purchases of natural gas, gas condensate and crude oil

For the six months ended 30 June 2005 and 2004, we purchased natural gas, gas condensate and crude oil as shown in the following table:

	Six months ended 30 June			
	2005		2004	
	Quantity	RR million	Quantity	RR million
Purchases from related parties				
Purchases of natural gas from (mmcm):				
Tarkosaleneftegas ⁽¹⁾	-	-	3,525	1,055
Khancheyneftegas ⁽¹⁾	-	-	1,053	439
Purchases of natural gas from related parties	-	-	4,578	1,494
Purchases of natural gas from third parties	1,220	522	496	287
Purchases from related parties				
Purchases of crude oil and gas condensate from (mt):				
Tarkosaleneftegas ⁽¹⁾	-	-	163	261
Khancheyneftegas ⁽¹⁾	-	-	232	371
Geoilbent	219	562	190	506
Purchases of crude oil and gas condensate from related parties	219	562	585	1,138
Purchases of crude oil and gas condensate from third parties	93	236	33	78
Purchases of insulation tape and other products from third parties		61		-
Total purchases of natural gas and crude oil and gas condensate		1,381		2,997
Total purchases from related parties		562		2,632
Total purchases from third parties		819		365

⁽¹⁾ These companies were not consolidated in the six months ended 30 June 2004.

In the six months ended 30 June 2005, our purchases of hydrocarbons decreased significantly due to the consolidation of hydrocarbon production from Tarkosaleneftegas and Khancheyneftegas. In the six months ended 30 June 2005, our purchases of natural gas included production from the West Tarkosalinskoye field in the amount of 752 mmcm of natural gas. This field was previously owned by us (See “Divestures” above) and our net production of natural gas from this field in the six months ended 30 June 2004 was 1,206 mmcm. In the six months ended 30 June 2005 we purchased RR 61 million of insulation tape from European suppliers compared to nil for the 2004 period. The purchased tape was sold together with our own production of insulation tape.

Transportation expense

Our transportation expense for the six months ended 30 June 2005 increased by RR 1,344 million, or 68.3%, compared to the corresponding period in 2004. Transportation expense for natural gas for the six months ended 30 June 2005, increased by RR 1,091 million, or 84.3%, to RR 2,385 million compared to the corresponding period in 2004 due to a 39.9% increase in our sales volumes of natural gas sold to end-customers, for whom the cost of transportation is included in the

sales prices, and a 31.7% increase in our average natural gas transportation expense per mcm. These two factors contributed roughly equally to the increase in natural gas transportation expense.

Our expense for transportation of crude oil and gas condensate decreased by RR 60 million, or 17.0%, for the six months ended 30 June 2005 compared to the corresponding period in 2004. The transportation expense of RR 353 million for the transport of crude oil and gas condensate for the six months ended 30 June 2004 includes RR 79 million, which is attributable to our subsidiary Purneftegasgeologiya for the delivery of crude oil from the field to the input point of the Transneft pipeline network. Our transportation expense for crude oil and gas condensate shipped via the Transneft pipeline network increased by RR 19 million, or 6.9%, for the three months ended 30 June 2005 as compared to the corresponding period in 2004. The increase was due to higher average transportation expense per tonne which was offset by a reduction in volumes delivered. The increase in the transportation expense per tonne was due to an increase in the tariff rates and an increase in the average delivery distance for the three months ended 30 June 2005 as compared to the same period in 2004.

Our expenses for oil products and stable gas condensate transported by railroad increased by RR 238 million, or 417.5%, for the six months ended 30 June 2005 due to an increase in oil products volumes, higher per tonne expense for stable gas condensate transportation volumes and higher per tonne expense for oil products volumes, compared to the corresponding period in 2004. Our expense for stable gas condensate transported by rail relates to the volumes of stable gas condensate transported from the Purovsky plant and amounted to RR 56 million, or RR 645 per tonne, for the six months ended 30 June 2005 compared to nil in the corresponding period in 2004. Our expense for oil products transported by rail amounted to RR 239 million, or RR 499.9 per tonne, for the six months ended 30 June 2005 compared to RR 57 million, or RR 264.5 per tonne for the same period in 2004. The increase in the expense per tonne for oil products in the 2005 period is due in part to an increase in tariffs in January and April 2005 of 9.0% and 5.4%, respectively, and changes in our oil products mix. Certain oil products have higher transportation tariffs which influence the average expense per tonne.

Taxes other than income tax

Taxes other than income tax includes mineral extraction tax also referred to as the “unified natural resources production tax”, property tax, excise tax, social taxes and other taxes. For the six months ended 30 June 2005, taxes other than income taxes increased by RR 1,360 million, or 197.7%, compared to the corresponding period in 2004. The increase was offset by the reversal of a provision for additional taxes of RR 427 million which was recorded in the three months ended 31 March 2005 due to a difference between the tax basis as determined by the Russian tax authorities and our calculation method of the unified natural resources production tax on gas condensate. In July 2005, a revised methodology for the calculation of the tax was enacted which resulted in the reversal of the provision.

The increase in taxes other than income tax resulted primarily from a RR 1,591 million, or 259.5%, increase in our mineral extraction tax due to increased volumes produced in the six months ended 30 June 2005 compared to the corresponding period in 2004, and the tax impact from the consolidation of Tarkosaleneftegas and Khancheyneftegas. Prior to the consolidation, mineral extraction tax from these companies was not included as part of our expenses due to the fact that, as associates, these companies were accounted for under the equity method.

Effective 1 January 2005, the base rate for unified natural resources production taxes relating to crude oil increased from RR 347 per metric tonne to RR 419 per metric tonne. The new rate will be applicable until 1 January 2007, after which the tax rate will be 16.5% of our crude oil revenues, net of VAT. Production tax for natural gas in the six months ended 30 June 2004 was RR 107 per mcm and for the corresponding period in 2005 it was increased to RR 135 per mcm.

Other operating expenses

We saw a general increase in other operating expenses for the six months ended 30 June 2005 compared to the corresponding period in 2004, due to the continued development of our oil and gas fields and a corresponding growth in sales volumes resulting from the full consolidation of Tarkosaleneftegas and Khancheyneftegas. However, certain expenses were discontinued following the sale of our oil and gas construction services business in June 2004.

Notwithstanding the discontinued operations:

- Depreciation, depletion and amortization expense increase by RR 1,190 million, or 251.1%, for the six months ended 30 June 2005 compared to the same period in 2004. The increase was primarily due to depreciation expense, calculated on a units of production basis for our oil and gas properties, which increased by RR 1,223 million, or 318.2%, largely due to the growth in production volumes, additions of property, plant and equipment at the Yurkharovskoye field and the impact of the consolidation of Tarkosaleneftegas and Khancheyneftegas in December 2004. This was offset by a RR 33 million reduction in straight line depreciation and amortization of other assets.; and
- Employee compensation expense and general and administrative expenses, excluding the effects of the discontinued operations, were generally higher during the six months ended 30 June 2005 compared to the corresponding period in 2004 due to the consolidation of Tarkosaleneftegas and Khancheyneftegas which increased the average number of employees from 2,250 as at 30 June 2004 to 3,807 as at 30 June 2005.

Income from operations

As a result of the factors discussed above, our income from operations increased by RR 7,981 million to RR 10,788 million, or 284.3%, for the six months ended 30 June 2005 from RR 2,807 million for the corresponding period in 2004. Our income from operations as a percentage of our total revenues increased to 58.8% for the six months ended 30 June 2005 compared to 21.5% for the corresponding period in 2004. Income from operations in the six months ended 30 June 2005 benefited from a one-time gain of RR 3,611 million, resulting from the disposal of our investments in oil and gas producing associates, compared to nil in the corresponding period in 2004. Our income from operations net of the gain on disposals for the 2005 period was RR 7,177 million or 39.1% of total revenues.

Finance income and expense

Finance income and expense increased from a net expense of RR 3 million in the six months ended 30 June 2004 to a net expense of RR 430 million in the corresponding period in 2005. The increase was due to higher interest expense resulting from the consolidation of debt and related interest expense of Tarkosaleneftegas and Khancheyneftegas in 2005 see note on. In addition, the increase resulted from foreign exchange losses of RR 263 million largely associated with debt, in the six months ended 30 June 2005 compared to a net gain of RR 17 million in the corresponding period in 2004. The increase in finance expense in the six months ended 30 June 2005 was offset by an increase in interest income of RR 268 million over the corresponding period in 2004. Interest income for the six months ended 30 June 2005 increased compared to the corresponding period in 2004 due to the provision of additional loans to our associated companies and other related parties.

Share of income of associated companies

For the six months ended 30 June 2005, our share of the net income of Tarkosaleneftegas and Khancheyneftegas was nil, compared to RR 177 million for the corresponding period in 2004, as we now consolidate these entities and no longer account for them on an equity basis due to the acquisition of the additional interests in these entities in December 2004. Our share of the net income of other associated companies decreased by RR 174 million to RR 143 million for the six

months ended 30 June 2005 compared to RR 317 million for the corresponding period in 2004. The decrease was due to lower income from operations recorded by our associated company, Geoilbent which was sold in June 2005), and the consolidation of Tarkosaleneftegas and Khancheyneftegas. During the first quarter of 2004, Geoilbent received a beneficial tax ruling reducing its income taxes by RR 344 million, RR 227 million of which was attributable to our 66% participation interest.

Income tax expense

Our overall effective income tax rates (total tax expense calculated as a percentage of our reported IFRS income before income tax and share of net income from associates) were 25.0% and 32.9% for the six months ended 30 June 2005 and 2004, respectively. Our share of the taxation expenses of our associated companies is included within our income tax expense. The table below shows the income tax expense for the six months ended 30 June 2005 and 2004.

	Six months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
Current income tax expense	2,936	847	2,089	247%
Deferred income tax expense (benefit)	(343)	76	(419)	(551%)
Total income tax expense	2,593	923	1,670	181%

Our effective income tax rate of 25.0% for the six months ended 30 June 2005 correlates closely to our statutory income tax rate of 24.0%. The difference was primarily due to a reduction in deductible expenses for statutory income tax purposes.

Profit for the period and earnings per share

As a result of the factors discussed above, our net income increased by RR 5,535 million, or 233.2%, to RR 7,908 million for the six months ended 30 June 2005 from RR 2,373 million for the corresponding period in 2004. Profit attributable to our oil and gas construction services business was nil for the six months ended 30 June 2005 compared to a net profit of RR 140 million for the corresponding period in 2004. Our weighted average basic and diluted earnings per share increased to RR 2,609 per share for the six months ended 30 June 2005 from RR 1,032 per share for the corresponding period in 2004. The weighted average number of ordinary shares outstanding for the six months ended 30 June 2005 and 2004 were 3,036,306 and 2,247,030, respectively. The weighted average number of shares was higher in the 2005 period due to the issuance of 789,276 new ordinary shares in connection with the acquisitions in December 2004 of the remaining interests in Tarkosaleneftegas and Khancheyneftegas.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are the cash provided from operating activities, debt financing, and access to capital markets. Our plan going forward is to finance our budgeted capital expenditures, interest and dividend mainly out of operating cash flows supplemented by additional borrowings and equity. In addition, we intend to improve our debt profile by retiring a portion of our short-term rouble denominated debt and by refinancing our debt portfolio with long-term borrowings in roubles and other currencies.

Cash flows

The following table shows our net cash flows from operating, investing and financing activities for six months ended 30 June 2005 and 2004:

	Six months ended 30 June		Increase (Decrease)	% Increase (Decrease)
	2005	2004		
Net cash provided by operating activities	5,900	3,092	2,808	91%
Net cash provided by (used for) investing activities	638	(4,846)	5,484	113%
Net cash provided by (used for) financing activities	(7,221)	2,215	(9,436)	(426%)

Net cash provided by operating activities

Net cash provided by operating activities increased by RR 2,808 million to RR 5,900 million for the six months ended 30 June 2005 compared to RR 3,092 million for the comparable period in 2004. The cash inflow was mainly attributable to significantly higher operating income from our sales of natural gas and crude oil and gas condensate as a result of increases in our sales volumes and realized prices for the six months ended 30 June 2005 and 2004. The positive impact on our cash flows due to higher sales volumes and realized prices was partially offset increasing income tax payments in each year.

Net cash from investing activities

Net cash from investing activities increased by RR 5,484 million to RR 638 million for the six months ended 30 June 2005 compared to RR 4,846 million used in investing activities for the comparable period in 2004. The increase in cash from finance activities for the six months ended 30 June 2005 is due to proceeds from the disposal of associates which were offset by expenditures made to continue our oil and gas development activities, particularly funds spent on the Purovsky processing plant as compared to higher overall capital investment in property plant and equipment and short- and long-term loans provided to our associates, Tarkosalenftegas and Khancheyneftegas for the comparable period in 2004.

Net cash from financing activities

Net cash from financing activities decreased by RR 9,436 million to net cash used in financing activities of RR 7,221 million in the six months ended 30 June 2005 compared to net cash from financing activities RR 2,215 million for the corresponding period in 2004. The decrease was primarily due to repayments of short and long term borrowings of RR 10,276 million. See “Debt obligations” below.

Working capital

At 30 June 2005, our working capital surplus (current assets less current liabilities) was RR 3,455 million compared to a deficit of RR 5,105 million at 30 June 2004. The RR 8,560 million increase in our net working capital position for the six months ended 30 June 2005 compared to the corresponding period in 2004 is primarily due to an increase in short-term loans receivable that were reclassified in the prior period to long-term loans receivable.

We believe that we have sufficient working capital to meet our requirements for at least the next twelve months; however, we are dependent on the continued availability of capital and certain other factors.

Capital expenditures

Total capital expenditures on property, plant and equipment by segment for each of the three months and six months ended 30 June 2005 and 2004 amounted to the following:

	Three months ended 30 June		Three months ended 30 June	
	2005		2004	
	RR million	% of total	RR million	% of total
Exploration and production includes processing	1,441	89%	1,968	99%
Oil and gas construction services	-	-	11	1%
Other ⁽¹⁾	184	11%	7	-
Total	1,625	100%	1,986	100%

⁽¹⁾ Includes expenditures for other activities, including head office services, banking and telecommunications.

	Six months ended 30 June		Six months ended 30 June	
	2005		2004	
	RR million	% of total	RR million	% of total
Exploration and production (includes processing)	2,991	93%	4,072	97%
Oil and gas construction services	-	-	32	1%
Other ⁽¹⁾	210	7%	108	3%
Total	3,201	100%	4,212	100%

⁽¹⁾ Includes expenditures for other activities, including head office services, banking and telecommunications.

Exploration and production expenditures represent our investments in developing our oil and gas properties (including processing). During the six months ended 30 June 2005 and 2004, capital expenditures in exploration and production were mainly attributable to the construction of the Purovsky processing plant and the storage and loading facilities at the Port of Vitino as well as further development at our three core fields. During the six months ended 30 June 2005 we spent and capitalized an aggregate of approximately RR 169 million on those activities.

Capitalized interest of RR 218 million and RR 173 million was included within capital expenditures for the three months ended 30 June 2005 and 2004, respectively, and RR 451 million and RR 257 million of interest expense was capitalized for the six months ended 30 June 2005 and 2004, respectively.

We have budgeted total capital expenditures of approximately RR 5.0 billion for 2005, which included funds for the completion of the Purovsky processing plant and the storage and loading

facilities at the Port of Vitino, as well as funds targeted for further field development at our Yurkharovskoye and East Tarkosalinskoye fields and other miscellaneous capital projects.

Budgeted total capital expenditures on property, plant and equipment by segment for the year ended 31 December 2005 are as follows:

	2005	
	<u>RR million</u>	<u>% of total</u>
Exploration and production includes processing	4,765	97%
Other	142	3%
Total	<u>4,907</u>	<u>100%</u>

The actual amount and timing of our capital expenditures are subject to adjustment.

Debt obligations

Recent developments

In August 2005, we repaid loans of RR 900 million and RR 400 million ahead of their maturity schedule from the Novokuybyshevsky branch of Sberbank. The loans were due to be repaid in December 2009 and bore interest of 12.0% per annum.

In August 2005, we repaid USD 2.08 million of a USD 17.9 million loan from ZAO BNP Paribas. The loan bears interest of LIBOR plus 3.5% per annum and is repayable between February and May 2006.

In August 2005, we repaid the US dollar denominated loan of RR 2,426 million from Vneshtorgbank ahead of its maturity schedule releasing the pledge of 26% of our participation interest in Tarkosaleneftegas.

In August 2005, we repaid the RR denominated loan of RR 1,130 million from the Finance Department of YNAO ahead of its maturity schedule releasing the pledge of 4.7% of our participation interest in Tarkosaleneftegas.

In August 2005, Yurkharovneftegas repaid RR 380 million of a RR 500 million loan from Alfa-bank. The loan bears interest of 12.0% per annum and is payable in December 2005.

Effective 4 August 2005, ZAO International Moscow Bank decreased its interest rate on the USD 7 million loan provided to us in February 2005 from 4.25%+LIBOR to 3.5%+LIBOR. The loan is payable in June 2006.

In July-August 2005, Tarkosaleneftegas repaid RR 860 million in loans from the West Siberian branch of Sberbank. The loans bore interest of between 10.5% and 10.9% per annum and were repaid ahead of their maturity schedule.

In July 2005, Tarkosaleneftegas repaid a portion of a USD loan from Raiffeisenbank Budapest in the amount of USD 500 thousand. The remaining USD 2.5 million is scheduled to be repaid in September 2005.

Overview

Our total debt decreased by RR 5,461 million to RR 18,539 million at 30 June 2005 from 24,000 million at 31 December 2004. Our total debt increased by RR 7,869 million from RR 10,670 million at 30 June 2004. Our borrowings have been used primarily for the financing of capital expenditures related to development of our three core oil and gas fields and investment in related assets such as the construction of the Purovsky processing plant.

Our debt position at 30 June 2005, 31 December 2004 and at 30 June 2004 was as follows:

	30 June	31 December	30 June
	2005	2004	2004
	(RR million)		
Short-term debt			
Russian rouble denominated loans	735	3,680	1,907
US dollar denominated loans	1,546	-	374
Loans from related parties ⁽¹⁾	-	425	-
Promissory notes issued	280	1,275	-
Current portion of long-term debt	9,697	5,388	-
Total short-term debt and current portion of long-term debt	12,258	10,768	2,281
Long-term debt			
Russian rouble denominated loans	3,290	4,537	1,419
US dollar denominated loans	11,568	11,586	5,805
EURO denominated loans	120	-	-
Loans from related parties ⁽¹⁾	-	1,497	1,165
Rouble bonds issued	1,000	1,000	-
Less current portion of long-term debt	(9,697)	(5,388)	-
Total long-term debt	6,281	13,232	8,389
Total debt	18,539	24,000	10,670

⁽¹⁾ Some of the loans from related parties are denominated in US dollars.

Maturities

Scheduled maturities of long-term debt outstanding at 31 December 2004 are as follows:

	Schedule of maturities as at		
	30 June	31 December	30 June
	2005	2004	2004
	(RR million)		
2004	-	-	-
2005	-	-	3,641
2006	-	7,920	2,128
2007	2,247	2,697	968
2008	2,518	2,093	1,652
2009	1,000	515	-
Thereafter	516	7	-
Total long-term debt	6,281	13,232	8,389