

**OAO NOVATEK**

**IFRS CONSOLIDATED INTERIM CONDENSED  
FINANCIAL STATEMENTS (UNAUDITED)**

**30 JUNE 2004**

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**REVIEW REPORT OF AUDITORS**

To the shareholders and directors of OAO NOVATEK

1. We have reviewed the accompanying consolidated interim condensed balance sheet of OAO NOVATEK and its subsidiaries (the "Group") as at 30 June 2004 and the related consolidated interim condensed statement of income, of cash flows and of changes in shareholders' equity for the six months then ended. These consolidated interim condensed financial statements as set out on pages 4 to 21 are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated interim condensed financial statements based on our review.
2. We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the consolidated interim condensed financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.
3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standard No. 34, Interim Financial Reporting.

*PricewaterhouseCoopers*

Moscow, Russian Federation  
1 October 2004

**OAO NOVATEK**  
**Consolidated Interim Condensed Balance Sheet (unaudited)**  
(in thousands of Russian roubles)

	Notes	At 30 June 2004	At 31 December 2003
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	13,049,793	10,056,960
Intangible balances		89,268	59,452
Investments in associates	11	5,802,435	5,291,321
Long-term loans receivable	14	3,203,608	2,932,546
Other non-current assets		268,114	388,901
<b>Total non-current assets</b>		<b>22,413,218</b>	<b>18,729,180</b>
<b>Current assets</b>			
Inventories	9	582,902	1,372,041
Trade and other receivables	8	2,350,157	3,011,637
Prepayments and advances		963,985	1,199,386
Short-term loans receivable	13	1,523,174	552,357
Other current assets		29,062	11,289
Cash and cash equivalents		2,094,977	1,617,887
<b>Total current assets</b>		<b>7,544,257</b>	<b>7,764,597</b>
<b>Total assets</b>		<b>29,957,475</b>	<b>26,493,777</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term debt	17	8,389,663	5,751,633
Deferred income tax liability		1,640,096	1,698,853
Asset retirement obligations		174,210	153,890
Other non-current liabilities		-	47,445
<b>Total non-current liabilities</b>		<b>10,203,969</b>	<b>7,651,821</b>
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	10	3,151,374	3,325,490
Short-term debt	16	2,280,825	2,069,286
Income taxes payable		25,019	567,436
Other taxes payable		627,374	866,838
<b>Total current liabilities</b>		<b>6,084,592</b>	<b>6,829,050</b>
<b>Total liabilities</b>		<b>16,288,561</b>	<b>14,480,871</b>
<b>Minority interest</b>	22	<b>371,389</b>	<b>468,384</b>
<b>Shareholders' equity</b>			
Ordinary share capital	18	314,103	314,103
Additional paid-in capital		5,962,622	5,962,622
Retained earnings		7,020,800	5,267,797
<b>Total shareholders' equity</b>		<b>13,297,525</b>	<b>11,544,522</b>
<b>Total shareholders' equity and liabilities</b>		<b>29,957,475</b>	<b>26,493,777</b>

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

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

  
L. Mikhelson  
General Director

  
M. Gyetvay  
Financial Director

**OAO NOVATEK****Consolidated Interim Condensed Statement of Income (unaudited)**

(in thousands of Russian roubles)

	Notes	Six months ended 30 June 2004	Six months ended 30 June 2003
<b>Revenues</b>			
Oil and gas sales	4	10,346,874	4,676,711
Oil and gas construction services	12	2,053,441	1,633,914
<b>Total revenues</b>		<b>12,400,315</b>	<b>6,310,625</b>
Gain on disposal of investments in oil and gas producing subsidiaries and associates		-	17,835
Net loss on disposal of construction services and other subsidiaries	12	(261,921)	-
Other income	5	654,382	307,972
<b>Total revenues and other income</b>		<b>12,792,776</b>	<b>6,636,432</b>
<b>Operating expenses</b>			
Materials, services and other	6	(3,486,978)	(2,342,459)
Purchases of oil, gas condensate and natural gas	20	(2,997,271)	(1,429,744)
Transportation expenses	7	(1,796,935)	(673,767)
Taxes other than income tax	19	(676,178)	(342,612)
General and administrative expenses		(396,919)	(302,099)
Depreciation, depletion and amortisation		(472,657)	(138,961)
Net impairment expense		(55,054)	(138,735)
Exploration expenses		(93,519)	(28,334)
<b>Total operating expenses</b>		<b>(9,975,511)</b>	<b>(5,396,711)</b>
<b>Profit from operations</b>		<b>2,817,265</b>	<b>1,239,721</b>
<b>Finance income (expense)</b>			
Foreign exchange gain		17,166	145,181
Interest income		196,825	49,134
Interest expense		(217,263)	(191,612)
<b>Total finance income (expense)</b>		<b>(3,272)</b>	<b>2,703</b>
Share of income of associates	11	332,769	285,983
<b>Profit before income tax and minority interest</b>		<b>3,146,762</b>	<b>1,528,407</b>
<b>Income tax expense</b>			
Current income tax expense		(856,847)	(362,710)
Deferred income tax expense		(76,471)	(43,045)
Share of income tax benefit (expense) of associates	11	159,374	(51,201)
<b>Total income tax expense</b>		<b>(773,944)</b>	<b>(456,956)</b>
<b>Profit before minority interest</b>		<b>2,372,818</b>	<b>1,071,451</b>
Minority interest	22	(54,799)	31,460
<b>Net profit</b>		<b>2,318,019</b>	<b>1,102,911</b>
Basic and diluted earnings per share (in Russian roubles)	23	1,032	692

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

**OAO NOVATEK****Consolidated Interim Condensed Statement of Cash Flows (unaudited)**

(in thousands of Russian roubles)

	Six months ended 30 June 2004	Six months ended 30 June 2003
<b>Net income before income tax and minority interest</b>	<b>3,146,762</b>	<b>1,528,407</b>
<b>Adjustments to income before income tax and minority interest:</b>		
Depreciation, depletion and amortisation	472,657	138,961
Net impairment expense	55,054	138,735
Net unrealised foreign exchange gain	(6,398)	(145,181)
Net loss on disposal of assets and subsidiaries	237,683	50,135
Interest expense	217,263	155,612
Interest income	(196,825)	(71,134)
Share of income from associates	(332,769)	(285,983)
Other	-	12,065
<b>Working capital changes</b>		
Decrease (increase) in accounts receivable and prepayments	678,890	(1,316,570)
Decrease (increase) in inventories	769,250	(17,219)
Decrease (increase) in other current assets	(7,373)	15,409
Increase (decrease) in accounts payable and accrued liabilities	(199,622)	1,093,876
Increase (decrease) in taxes payable, other than income tax	(287,455)	79,534
<b>Total effect of working capital changes</b>	<b>953,690</b>	<b>(144,970)</b>
Income taxes paid	(1,455,691)	(581,147)
<b>Net cash provided by operating activities</b>	<b>3,091,426</b>	<b>795,500</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(3,921,803)	(699,642)
Acquisition of subsidiaries	(75,330)	(4,866)
Acquisition of associated companies	(11,728)	(212,474)
Proceeds from disposal of subsidiaries and associates	239,700	31,075
Interest paid and capitalised	(256,606)	(167,788)
Short and long-term loans provided	(2,494,719)	(1,209,554)
Repayment of short and long-term loans	1,504,087	-
Interest received – non banking	171,317	50,127
<b>Net cash used in investing activities</b>	<b>(4,845,082)</b>	<b>(2,213,122)</b>
<b>Cash flows from financing activities</b>		
Proceeds from long-term borrowings	3,625,598	970,341
Proceeds from short-term borrowings	1,687,539	1,157,000
Repayments of long-term borrowings	(971,600)	(72,341)
Repayments of short-term borrowings	(1,395,150)	(63,659)
Interest paid – non banking	(166,599)	(114,261)
Dividends paid	(565,016)	-
<b>Net cash from financing activities</b>	<b>2,214,772</b>	<b>1,877,080</b>
Net withdrawals from (payments to) restricted cash accounts	15,974	(10,433)
<b>Net increase in cash and cash equivalents</b>	<b>477,090</b>	<b>449,025</b>
Cash and cash equivalents at the beginning of the reporting period	1,617,887	306,158
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>2,094,977</b>	<b>755,183</b>

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

**OAO NOVATEK****Consolidated Interim Condensed Statement of Changes in Shareholders' Equity (unaudited)**

(in thousands of Russian roubles)

	<b>Number of ordinary shares</b>	<b>Ordinary share capital</b>	<b>Additional paid-in capital</b>	<b>Retained earnings</b>	<b>Shareholders' equity</b>
<b><u>For the six months ended 30 June 2003</u></b>					
<b>Balance at 31 December 2002</b>	<b>1,593,682</b>	<b>248,768</b>	<b>3,173,476</b>	<b>2,021,672</b>	<b>5,443,916</b>
Dividends	-	-	-	(34,890)	(34,890)
Contribution from shareholders (Note 18)	-	-	523,028	-	523,028
Distribution to shareholders (Note 18)	-	-	(390,937)	-	(390,937)
Net income for the period	-	-	-	1,102,911	1,102,911
<b>Balance at 30 June 2003</b>	<b>1,593,682</b>	<b>248,768</b>	<b>3,305,567</b>	<b>3,089,693</b>	<b>6,644,028</b>
<b><u>For the six months ended 30 June 2004</u></b>					
<b>Balance at 31 December 2003</b>	<b>2,247,030</b>	<b>314,103</b>	<b>5,962,622</b>	<b>5,267,797</b>	<b>11,544,522</b>
Dividends (Note 18)	-	-	-	(565,016)	(565,016)
Net income for the period	-	-	-	2,318,019	2,318,019
<b>Balance at 30 June 2004</b>	<b>2,247,030</b>	<b>314,103</b>	<b>5,962,622</b>	<b>7,020,800</b>	<b>13,297,525</b>

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

**OAO NOVATEK****Notes to the Consolidated Interim Condensed Financial Statements (unaudited)**

(in thousands of Russian roubles, unless otherwise stated)

**1 ORGANISATION AND PRINCIPAL ACTIVITIES**

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

The Group's primary activities are the exploration, development, production and marketing of natural gas, gas condensate, crude oil and related petroleum products, together with the provision of construction and other services to the oil and gas industry, primarily in the YNAO. In June 2004, the Group sold its subsidiaries that represent substantially all of the Group's oil and gas construction services segment to focus its activities on oil and gas exploration, production and processing of hydrocarbons. The Group has elected not to provide separate discontinuing operations disclosures in the accompanying interim financial statements, however, segment reporting in Note 21 provides further information regarding the Group's oil and gas construction services operations.

These consolidated interim condensed financial statements reflect the financial position and results of operations of the principal subsidiaries listed below, all of which are incorporated in the Russia Federation:

Subsidiary	Nature of operations	At 30 June 2004		At 31 December 2003	
		% of ordinary and preferred share capital	% of ordinary share capital	% of ordinary and preferred share capital	% of ordinary share capital
OAO Purneftegasgeologiya ("PNGG")	Oil and gas exploration and production	69.6%	77.5%	79.6%	88.7%
OAO Minlay ("Minlay")	Holding company (liquidated)	-	-	100.0%	100.0%
OOO Yurkharovneftegas ("Yurkharovneftegas")	Gas exploration and production	100.0%	100.0%	100.0%	100.0%
OAO SNP NOVA ("SNP NOVA")	Construction services	-	-	74.3%	74.5%
ZAO NOVA Bank	Banking	88.6%	88.6%	88.6%	88.6%
OOO Yutneftegas	Holding company (liquidated)	-	-	100.0%	100.0%
OAO Truboizolyatsia ("Truboizolyatsia")	Pipeline insulation production	71.2%	71.2%	52.2%	52.2%
OOO Novafininvest ("Novafininvest")	Construction contractor and holding company	-	-	99.0%	99.0%
OOO Purgasdobycha ("Purgasdobycha")	Oil and gas exploration and production	100%	100%	-	-



## ОАО NOVATEK

### Notes to the Consolidated Interim Condensed Financial Statements (unaudited)

(in thousands of Russian roubles, unless otherwise stated)

## 1 ORGANISATION AND PRINCIPAL ACTIVITIES (CONTINUED)

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

Associate	Country of incorporation	Nature of operations	30 June 2004	31 December 2003
			% of share capital	% of share capital
ОАО НК Таркосаленфегас ("Таркосаленфегас")	Russia	Oil and gas exploration and production	32.2%	32.2%
ООО Геоилбент ("Геоилбент")	Russia	Oil and gas exploration and production	66.0%	66.0%
ООО Ханчейнефегас ("Ханчейнефегас")	Russia	Oil and gas exploration and production	43.0%	43.0%
ОАО Тамбейнефегас	Russia	Oil and gas exploration and production	25.1%	25.1%

## 2 BASIS OF PRESENTATION

The consolidated interim condensed financial statements have been prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting ("IAS 34"). These consolidated interim condensed financial statements should be read in conjunction with OAO NOVATEK's consolidated financial statements as of and for the year ended 31 December 2003 prepared in accordance with International Financial Reporting Standards ("IFRS"). The 31 December 2003 consolidated balance sheet data has been derived from audited financial statements.

In the opinion of the Group's management, the information furnished herein reflects all known accruals and adjustments necessary for a fair statement of the results for the periods reported herein. All such adjustments are of a normal recurring nature. The financial results of the periods reported herein are not necessarily indicative of future financial results.

**Use of estimates.** The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from such estimates.

**Exchange rates.** The official rate of exchange of the Russian rouble to the US dollar ("USD") at 30 June 2004 and 31 December 2003 was 29.03 and 29.45 Russian roubles to USD 1.00, respectively.

**Accounting for the effect of inflation.** Prior to 1 January 2003, the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian rouble in accordance with International Accounting Standard No. 29, Financial Reporting in Hyperinflationary Economies ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Therefore, non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current as of 31 December 2002) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to 31 December 2002. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflationary has ceased, effective from 1 January 2003, the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current as of 31 December 2002 were treated as the basis for the carrying amounts in subsequent financial statements.

**Reclassifications.** Certain reclassifications have been made to previously reported balances to conform to the current period's presentation; such reclassifications have no effect on net income or shareholders' equity.

**ОАО NOVATEK****Notes to the Consolidated Interim Condensed Financial Statements (unaudited)**

(in thousands of Russian roubles, unless otherwise stated)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies followed by the Group are consistent with those disclosed in the financial statements for the year ended 31 December 2003.

**4 OIL AND GAS SALES**

	<b>Six months ended 30 June 2004</b>	<b>Six months ended 30 June 2003</b>
Gas sales	6,589,761	3,051,724
Oil and gas condensate sales	3,074,662	870,900
Oil product sales	682,451	754,087
<b>Total oil and gas sales</b>	<b>10,346,874</b>	<b>4,676,711</b>

During the six months ended 30 June 2004, the Group had sales to several significant customers: Kerden Trading Limited, a related party; Yugnefteproduct; Centrusgas; and to regional energy companies that are subsidiaries of RAO Unified Energy Systems ("UES"). Sales of crude oil and gas condensate to Kerden Trading Limited and Yugnefteproduct represent 12 percent (2003: 15 percent) and 11 percent (2003: 2 percent) of total oil and gas sales, respectively, for the six months ended 30 June 2004. Sales to UES subsidiaries and Centrusgas of natural gas represent 17 percent (2003: 25 percent) and 7 percent (2003: 14 percent), respectively, of total oil and gas sales for the six months ended 30 June 2004.

**5 OTHER INCOME**

	<b>Six months ended 30 June 2004</b>	<b>Six months ended 30 June 2003</b>
Sales of polymer and insulation tape	273,480	-
Oil transportation and handling services	106,445	78,440
Telecommunication services	95,225	79,149
Exploration services	46,691	5,369
Sales of materials	5,726	53,189
Net gain (loss) on disposal of property, plant and equipment	34,483	(64,758)
Net banking interest income	27,050	7,000
Other revenues	65,282	149,583
<b>Total other income</b>	<b>654,382</b>	<b>307,972</b>

**ОАО NOVATEK****Notes to the Consolidated Interim Condensed Financial Statements (unaudited)**

(in thousands of Russian roubles, unless otherwise stated)

**6 MATERIALS, SERVICES AND OTHER**

	<b>Six months ended 30 June 2004</b>	<b>Six months ended 30 June 2003</b>
Materials and supplies	1,304,654	886,072
Employee compensation	489,275	300,103
Construction services	415,023	303,585
Insurance expense	236,690	232,018
Extraction services	180,130	66,510
Tolling fees	160,236	234,058
Electricity and fuel	130,132	74,822
Rent expense	108,733	24,538
Maintenance of social infrastructure/ social expenses	82,684	29,727
Other	379,421	191,026
<b>Total materials, services and other</b>	<b>3,486,978</b>	<b>2,342,459</b>

Additional employee compensation expense of RR 301 million and RR 179 million are included in general and administrative expenses for the six months ended 30 June 2004 and 2003, respectively.

**7 TRANSPORTATION EXPENSES**

	<b>Six months ended 30 June 2004</b>	<b>Six months ended 30 June 2003</b>
Gas transportation to customers	1,293,820	453,279
Crude oil transportation to customers	358,532	107,218
Railroad transportation to customers	56,792	52,745
Transportation costs incurred in operations	87,791	60,525
<b>Total transportation expenses</b>	<b>1,796,935</b>	<b>673,767</b>

**8 TRADE AND OTHER RECEIVABLES**

	<b>30 June 2004</b>	<b>31 December 2003</b>
Trade accounts receivable (net of provision of RR 19 million and RR 18 million at 30 June 2004 and 31 December 2003, respectively)	659,739	749,077
Trade and other accounts receivable – related parties	509,081	329,032
Construction balances due from customers (net of provision of RR 5 million at 31 December 2003)	-	48,163
Construction balances due from related parties	-	54,280
Recoverable value added tax	915,611	1,317,298
Interest on loans receivable – related parties	121,490	95,984
Other receivables (net of provision of RR 22 million and RR 28 million at 30 June 2004 and 31 December 2003, respectively)	144,236	417,803
<b>Total trade and other receivables</b>	<b>2,350,157</b>	<b>3,011,637</b>

**ОАО NOVATEK****Notes to the Consolidated Interim Condensed Financial Statements (unaudited)**

(in thousands of Russian roubles, unless otherwise stated)

**9 INVENTORIES**

	<b>30 June 2004</b>	<b>31 December 2003</b>
Materials and supplies at net realisable value (net of provision of RR 76 million and RR 136 million at 30 June 2004 and 31 December 2003, respectively)	141,194	643,285
Materials and supplies at cost	181,058	275,134
Materials and supplies – custody of contractors	48,601	252,364
Construction contract work-in-progress	68,163	96,598
Crude oil and oil products	45,227	60,261
Apartments and premises available-for-sale	11,538	22,226
Polymer and insulation tape products	87,121	22,173
<b>Total inventories</b>	<b>582,902</b>	<b>1,372,041</b>

**10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>30 June 2004</b>	<b>31 December 2003</b>
Trade accounts payable	856,721	1,102,575
Trade and other accounts payable – related parties	710,235	532,228
Trade advances from customers	489,778	269,400
Bank customer deposits	390,991	205,644
Bank customer deposits – related parties	84,594	105,631
Construction advances	257,319	818,167
Interest payable	118,021	67,358
Salaries payable	73,990	110,909
Other payables	169,725	113,578
<b>Total accounts payable and accrued liabilities</b>	<b>3,151,374</b>	<b>3,325,490</b>

**11 INVESTMENTS IN ASSOCIATES**

	<b>30 June 2004</b>	<b>31 December 2003</b>
ОАО NK Tarkosaleneftegaz	3,974,801	3,841,320
ООО Geoilbent	1,567,737	1,246,681
ООО Khancheyneftegas	116,210	74,649
ОАО Tambeyneftegas	109,600	113,554
Other	34,087	15,117
<b>Total investments in associates</b>	<b>5,802,435</b>	<b>5,291,321</b>

**OAO NOVATEK****Notes to the Consolidated Interim Condensed Financial Statements (unaudited)**

(in thousands of Russian roubles, unless otherwise stated)

**11 INVESTMENTS IN ASSOCIATES (CONTINUED)***Movement in carrying value of investment in associates.*

	<b>Six months ended 30 June 2004</b>	<b>Six months ended 30 June 2003</b>
<b>Balance at the beginning of the reporting period</b>	<b>5,291,321</b>	<b>4,187,348</b>
Share of income before tax	332,769	285,983
Share of income tax benefit (expense)	159,374	(51,201)
Share of net income	492,143	234,782
Unrealised gains on sales to associates	(1,543)	-
Additions of associates	24,082	913,175
Negative goodwill recognised on acquisition	-	(509,111)
Disposals of associates	(3,568)	(50,982)
<b>Balance at the end of the reporting period</b>	<b>5,802,435</b>	<b>4,775,212</b>

Included in the balance at the end of the reporting period at 30 June 2004 and 2003 is goodwill of RR 55 million and RR nil, which is net of amortisation of RR 1 million and RR nil, respectively, and negative goodwill of RR 495 million and RR 509 million, which is net of amortisation of RR 14 million and RR nil, respectively.

During the six months ended 30 June 2004, Geoilbent was successful in its legal claim for recovery of RR 344 million of overpaid income taxes relating to prior fiscal periods and accordingly recorded an income tax benefit during the period.

**12 INVESTMENTS IN SUBSIDIARIES**

In June 2004, the Group sold its 99 percent investment in the share capital of Novafininvest to shareholders of the Group: SWGI Growth Fund (Cyprus) Limited - 40.9 percent, OOO Levit - 53.6 percent, and OOO KOPITEK - 4.5 percent, for total cash consideration of RR 240 million. The sale resulted in the recognition of a net loss of RR 296 million recorded in the consolidated interim condensed statement of income for the six months ended 30 June 2004.

The sale of Novafininvest, including its subsidiary SNP NOVA, represents the discontinuance of substantially all of the activities of the oil and gas construction services segment of the Group (Note 21). The Group expects to continue existing contractual relationships, and may enter into additional contracts, with Novafininvest and its subsidiaries in the future.

During the six months ended 30 June 2004, the Group also sold to third parties 100 percent of the shares in a holding company owning 11.2 percent of the ordinary shares of PNGG, with a carrying value of RR 41 million, for RR 12 million in promissory notes.

During the six months ended 30 June 2004, the Group purchased from third parties an additional 19 percent of Truboizolyatsia for RR 67 million in cash.

**OAO NOVATEK****Notes to the Consolidated Interim Condensed Financial Statements (unaudited)**

(in thousands of Russian roubles, unless otherwise stated)

**12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)**

*Transactions in process.* During the six months ended 30 June 2004, the Group transferred its license for the West-Tarkosalinskoye field to a newly formed subsidiary company, Purgasdobycha. On 20 February 2004, the board of directors of PNGG resolved to dispose of Purgasdobycha and, during May 2004, PNGG entered into an agreement in principle to sell the company to Gazprom. The agreement is subject to finalisation of terms and necessary approvals, which are in progress.

The agreement in principle also includes a proposed purchase by the Group of an additional 8.34 percent of the issued ordinary shares of PNGG and future purchases by the Group of 10 percent of the hydrocarbon production from the Cenomanian gas deposit of the field and net 50 percent of the hydrocarbon production from the Neocomian gas and gas condensate deposits of the West-Tarkosalinskoye field for a period to be determined. Management expects that the transactions will not have a material impact on the Group's financial position, results of operations and cash flows in the future.

**13 SHORT-TERM LOANS RECEIVABLE**

	<b>30 June 2004</b>	<b>31 December 2003</b>
US dollar denominated loans	94,080	91,619
US dollar denominated loans to related parties	81,277	147,273
Russian rouble denominated loans	12,314	23,901
Russian rouble denominated loans to related parties	110,476	18,000
Banking loans receivable (net of provision of RR 31 million and RR 35 million at 30 June 2004 and 31 December 2003, respectively)	412,260	271,564
Current portion of long-term loans to related parties	812,767	-
<b>Total short-term loans receivable</b>	<b>1,523,174</b>	<b>552,357</b>

Upon the sale of Novafininvest (Note 12), the Group recognised certain outstanding loans receivable from the disposed entities. At 30 June 2004, US dollar denominated loans to related parties consisted of an unsecured loan in the amount of RR 81 million (USD 2.8 million) to SNP NOVA bearing interest of 10 percent. Russian rouble denominated loans to related parties consisted of principally an interest free loan to Novafininvest in the amount of RR 98 million.

During the six months ended 30 June 2004, Geoilbent repaid its US dollar denominated loan in the amount of RR 147 million.

At 30 June 2004 and 31 December 2003, banking loans receivable represents Russian rouble denominated loans issued by NOVA Bank to various customers. The loans are generally collateralised by equipment and bear interest from 11 to 26 percent.

**14 LONG-TERM LOANS RECEIVABLE**

	<b>30 June 2004</b>	<b>31 December 2003</b>
US dollar denominated loans to related parties	3,793,829	1,972,446
Russian rouble denominated loans to related parties	127,039	878,800
Banking loans receivable	90,657	73,940
Russian rouble denominated loans	4,850	7,360
Less current portion of long-term loans to related parties	(812,767)	-
<b>Total long-term loans receivable</b>	<b>3,203,608</b>	<b>2,932,546</b>

**ОАО NOVATEK****Notes to the Consolidated Interim Condensed Financial Statements (unaudited)**

(in thousands of Russian roubles, unless otherwise stated)

**14 LONG-TERM LOANS RECEIVABLE (CONTINUED)**

During the six months ended 30 June 2004, the Group provided US dollar denominated loans in the amounts, net of repayments, of RR 622 million (USD 22 million) and RR 1,200 million (USD 42 million) to Tarkosalenftegas and Khancheynftegas, respectively. At 30 June 2004, US dollar denominated loans to related parties included loans in the aggregate amount of RR 1,416 million (USD 49 million) to Tarkosalenftegas. The loans are unsecured, bear interest of 10 percent, and are repayable in January and February 2008. Also included are loans in the aggregate amount of RR 2,378 million (USD 82 million) to Khancheynftegas. The loans are unsecured, bear interest of 10 percent, and are repayable between December 2004 and April 2008.

During the six months ended 30 June 2004, the Group provided Russian rouble denominated loans to related parties, including a loan to Yargeo, a Group associate, in the amount of RR 28 million. The loan is unsecured, bears interest of 12 percent, and is repayable by August 2006.

Upon the sale of Novafininvest (Note 12), the Group recognised certain outstanding loans receivable from the disposed entities. At 30 June 2004, Russian rouble denominated loans to related parties included a interest free loan to Nova Energy Services in the amount of RR 95 million. The loan is unsecured and is repayable between August 2005 and October 2006.

In February 2004, Khancheynftegas repaid Russian rouble denominated loans in the aggregate amount of RR 879 million.

**15 PROPERTY, PLANT AND EQUIPMENT**

	Operating assets	Assets under construction	Total
Cost	8,670,466	2,552,293	11,222,759
Accumulated depreciation, depletion and amortisation	(1,165,799)	-	(1,165,799)
<b>Net book value at 31 December 2003</b>	<b>7,504,667</b>	<b>2,552,293</b>	<b>10,056,960</b>
Additions	73,251	4,138,315	4,211,566
Transfers	691,933	(691,933)	-
Disposals and impairments, net	(536,064)	(210,012)	(746,076)
Depreciation, depletion and amortisation	(472,657)	-	(472,657)
Cost	8,146,602	5,788,663	13,935,265
Accumulated depreciation, depletion and amortisation	(885,472)	-	(885,472)
<b>Net book value at 30 June 2004</b>	<b>7,261,130</b>	<b>5,788,663</b>	<b>13,049,793</b>

Included in additions to property, plant and equipment for the six month ended 30 June 2004 is capitalised interest of RR 257 million (RR 212 million for the six months ended 30 June 2003).

**16 SHORT-TERM DEBT**

	30 June 2004	31 December 2003
US dollar denominated loans	373,931	660,091
Russian rouble denominated loans	1,763,839	1,276,245
Other short-term debt	143,055	132,950
<b>Total short-term debt</b>	<b>2,280,825</b>	<b>2,069,286</b>

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**16 SHORT-TERM DEBT (CONTINUED)**

During the six months ended 30 June 2004, loans in the amount of RR 295 million (USD 10 million) were repaid to Standard Bank and net principal repayments of RR 98 million were made under the Group's short-term Russian rouble borrowing facility with Sberbank. Also during this period, the Group received Russian rouble denominated loans from Alfa Bank in the total amount of RR 595 million. The Alfa Bank loans are unsecured and bear interest of 12 percent.

At 30 June 2004, Russian rouble denominated loans included loans from Sberbank in the aggregated amount of RR 750 million bearing interest of 12 percent.

**17 LONG-TERM DEBT**

	<b>30 June 2004</b>	<b>31 December 2003</b>
US dollar denominated loans	5,805,480	2,945,450
US dollar denominated loans from related parties	1,005,472	1,178,180
Russian rouble denominated loans	1,354,456	1,621,821
Russian rouble denominated loans from related parties	159,760	-
Other long-term debt	64,495	6,182
<b>Total long-term debt</b>	<b>8,389,663</b>	<b>5,751,633</b>

In April 2004, the Group received a loan in the amount of RR 2,903 million from ING Bank N.V. backed by USD 100 million, 18-month term, credit linked notes with an annual coupon rate of 9.125 percent, payable semi-annually. The proceeds of the notes are to be used towards developing the Group's oil and gas fields and the Purovsky Gas Condensate Plant. Yurkharovneftegas and Tarkosaleneftegas have guaranteed the issue.

During the six months ended 30 June 2004, the Group repaid a RR 156 million US dollar (USD 5 million) denominated loan to the Yamal Regional Fund of Development, a Group shareholder.

During the six months ended 30 June 2004, the Group repaid RR 259 million of Russian rouble denominated loans to Sberbank. The remaining long-term loans from Sberbank in the amount of RR 200 million bear interest of 12 percent and mature in October 2005.

During the six months ended 30 June 2004, the Group received a RR 155 million Russian rouble denominated loan from the Yamal Regional Fund of Development. The loan is guaranteed by Yurkharovneftegas, bears interest of 12 percent and matures in March 2007.

At 30 June 2004 and 31 December 2003, other long-term debt consists of NOVA Bank promissory notes that are repayable between August 2005 and December 2008.

Aggregate maturities of long-term debt outstanding at 30 June 2004 are as follows:

Between 1 and 2 years	3,641,235
Between 2 and 3 years	2,128,052
Between 3 and 4 years	967,580
Between 4 and 5 years	1,652,796
<b>Total long-term debt</b>	<b>8,389,663</b>

As indicated in the table above a significant amount of the Group's long-term borrowings mature in 2005 and 2006. The Group plans to fund its capital expenditures and debt repayment requirements through internally generated cash from operations and supplement it with additional borrowings and equity.



## ОАО NOVATEK

### Notes to the Consolidated Interim Condensed Financial Statements (unaudited)

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#### 17 LONG-TERM DEBT (CONTINUED)

On 29 June 2004, NOVATEK registered with the Federal Financial Markets Service of Russia a domestic prospectus for the issue of 1 million Rouble denominated non-convertible bonds with a nominal value RR 1,000, payable in 728 days. The bonds may be issued during a period of one year following the effective prospectus registration date.

Subsequent to the balance sheet date, in August 2004, the Group obtained a credit facility from Sberbank totalling RR 500 million. The facility is unsecured, bears interest of 13 to 14 percent, and matures in August 2007.

#### 18 SHAREHOLDERS' EQUITY

**Dividends.** In May 2004, a dividend was declared and paid in respect of the year ended 31 December 2003 by the Board of Directors of NOVATEK and approved by shareholders in the amount of RR 565 million or RR 251.45 per ordinary share.

**Other contributed capital from shareholders.** During the six months ended 30 June 2003, the Group acquired an additional 3.7 percent stake in Tarkosaleneftegas from third parties for which the consideration provided was interests in other companies owned by the ultimate controlling shareholders of NOVATEK (the "Shareholders"). In addition, the Shareholders contributed another 1 percent of Tarkosaleneftegas to the Group. The contributions from Shareholders, in the total amount of RR 411 million, were recorded in the consolidated interim condensed statement of changes in shareholders' equity for the six months ended 30 June 2003.

In June 2003, the Shareholders contributed to the Group 35 percent of Truboizolyatsia. The contributed equity in Truboizolyatsia of RR 94 million was recorded in the consolidated interim condensed statement of changes in shareholders' equity for the six months ended 30 June 2003.

During the six months ended 30 June 2003, as part of the reorganisation of the Shareholders' controlling interests into NOVATEK, the Shareholders transferred their 100 percent interest in Yurkharovneftegas into the Group. The RR 367.5 million paid to the Shareholders was recorded as a distribution to shareholders in the consolidated interim condensed statement of changes in shareholders' equity for the six months ended 30 June 2003.

#### 19 TAXES OTHER THAN INCOME TAX

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

	<b>Six months ended 30 June 2004</b>	<b>Six months ended 30 June 2003</b>
Unified natural resources production tax	612,766	176,596
Property tax	41,998	38,921
Excise tax	35,200	57,486
Value added tax	1,171	23,475
Other taxes	(14,957)	46,134
<b>Total taxes other than income tax</b>	<b>676,178</b>	<b>342,612</b>

During the six months ended 30 June 2004, the Group paid RR 22 million to repay and settle previously restructured taxes with a net carrying value of RR 51 million. The balance was forgiven by the taxation authorities resulting in the recognition of a gain of RR 29 million that was recorded in other taxes within taxes other than income tax for the period.

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**20 RELATED PARTY TRANSACTIONS**

During the six months ended 30 June 2004 and 2003, the Group had significant activities with companies related to its shareholders in connection with purchases and sales of crude oil, natural gas, gas condensate, construction and other related services, and purchases and sales of equity securities. The Group's reported results of operations, financial position and cashflows would be different had such transactions been carried out amongst unrelated parties. The financial condition of the Group and its future operations may be affected by continued transactions with related parties.

*Purchases and sales of crude oil and gas condensate:*

Name of related party	Six months ended 30 June 2004		Six months ended 30 June 2003	
	Sales volumes (tonnes)	Russian roubles (000s)	Sales volumes (tonnes)	Russian roubles (000s)
Sales to Kerden Trading Limited	237,185	1,118,462	-	-
Purchases from Tarkosaleneftegas	162,992	260,787	179,861	344,734
Purchases from Khancheyneftegas	234,168	413,710	137,596	263,726
Purchases from Geoilbent	189,872	506,107	-	-

*Purchases and sales of natural gas:*

Name of related party	Six months ended 30 June 2004		Six months ended 30 June 2003	
	Sales volumes (m <sup>3</sup> 000s)	Russian roubles (000s)	Sales volumes (m <sup>3</sup> 000s)	Russian roubles (000s)
Sales to NGK ITERA (until February 2003)	-	-	348,220	149,444
Purchases from Tarkosaleneftegas	3,525,466	1,054,843	2,567,000	503,119
Purchases from Khancheyneftegas	1,053,293	439,170	129,000	53,598
Purchases from Purland	-	-	1,444,000	234,614

*Sales of oil products:*

Name of related party	Six months ended 30 June 2004		Six months ended 30 June 2003	
	Sales volumes (tonnes)	Russian roubles (000s)	Sales volumes (tonnes)	Russian roubles (000s)
Light distillate sales to Kerden Trading Limited	19,851	98,446	88,444	422,430
Diesel fuel sales to Kerden Trading Limited	-	-	41,608	216,305
Diesel fuel sales to Tarkosaleneftegas	1,424	10,122	1,451	10,220

**OA O NOVATEK****Notes to the Consolidated Interim Condensed Financial Statements (unaudited)**

(in thousands of Russian roubles, unless otherwise stated)

**20 RELATED PARTY TRANSACTIONS (CONTINUED)***Other balances and transactions with related parties:*

	As at and for the six months ended 30 June 2004	Balances as at 31 December 2003 and transactions for the six months ended 30 June 2003
<b>Balances</b>		
Trade and other receivables	509,081	383,312
Short-term loans receivable	1,004,520	198,073
Prepayments and advances	224,711	19,022
Long-term loans receivable	3,108,101	2,851,246
Long-term debt	1,165,232	1,178,180
Accounts payable	794,829	637,859
Interest receivable	121,490	95,984
<b>Transactions</b>		
Sales of inventory	30,770	2,199
Interest expense	50,413	44,692
Interest income	186,902	-
Construction sales	208,985	989,259
Other (Notes 12, 18, 24)		

**21 SEGMENT INFORMATION**

The Group operates principally in the oil and gas industry in the Russian Federation. The Group evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Group as a whole. However, the Group's activities are considered by management to comprise one geographic segment and, for the periods to June 2004 (Note 12), the following business segments:

- Exploration and production – exploration, production, marketing and transportation of oil and gas;
- Oil and gas construction services – drilling and construction of oil and gas infrastructure and facilities (discontinued from 30 June 2004 - Note 12);
- Corporate and other – other activities, including head office services, banking and telecommunications.

Six months ended 30 June 2004	Exploration and production	Oil and gas construction services	Other	Total
<b>Total segment revenues</b>	<b>10,357,518</b>	<b>2,969,089</b>	<b>643,738</b>	<b>13,970,345</b>
Inter-segment sales	-	(915,648)	-	(915,648)
External revenues and other income	10,357,518	2,053,441	643,738	13,054,697
Unallocated loss on disposal				(261,921)
Total revenues and other income				12,792,776
<b>Segment result</b>	<b>3,339,827</b>	<b>139,623</b>	<b>67,283</b>	<b>3,546,733</b>
<b>Six months ended 30 June 2003</b>				
<b>Total segment revenues</b>	<b>4,772,986</b>	<b>2,666,702</b>	<b>287,290</b>	<b>7,726,978</b>
Inter-segment sales	-	(1,108,381)	-	(1,108,381)
External revenues and other income	4,772,986	1,558,321	287,290	6,618,597
Unallocated gain on disposal				17,835
Total revenues and other income				6,636,432
<b>Segment result</b>	<b>1,762,108</b>	<b>150,222</b>	<b>44,867</b>	<b>1,957,197</b>

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

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**22 MINORITY INTEREST**

	<b>Six months ended 30 June 2004</b>	<b>Six months ended 30 June 2003</b>
Minority interest at the beginning of the reporting period	468,384	780,522
Minority interest share of net profit (loss)	54,799	(31,460)
Net change in minority interest as a result of disposals and acquisitions	(151,794)	(74,845)
<b>Minority interest at the end of the reporting period</b>	<b>371,389</b>	<b>674,217</b>

**23 EARNINGS PER SHARE**

Earnings per share have been calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period. The weighted average number of shares outstanding was 2,247 thousand and 1,594 thousand for the six months ended 30 June 2004 and 2003, respectively.

**24 CONTINGENCIES AND COMMITMENTS**

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

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

**Guarantees.** The Group has guaranteed bank debt and interest obligations of related and other parties totalling RR 650 million at 30 June 2004 (at 31 December 2003 – RR 999 million) and has pledged shares, in favour of Group associates, with a carrying value totalling RR 1,877 million (at 31 December 2003 – 1,546 million). The guaranteed debt and interest obligations are due on various dates in 2004 through 2009. In addition, the Group has pledged its property, plant and equipment, inventory, and 29.7 percent and 31 percent of its shares and participation interests in Tarkosaleneftegaz and Yurkharovneftegas, respectively, as collateral for long-term borrowings.

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

**Oilfield licensing obligations.** The Group undergoes periodic reviews by various governmental institutions responsible for oversight and monitoring of compliance of subsurface license users with the terms of their respective licenses and other relevant safety and environmental legislation. Sanctions for non compliance based upon the reviews can include fines, penalties, license limitation, supervision or revocation. The Group provides detailed responses to any issues raised in these reports and, where applicable, sets forth timetables for addressing such issues. Management believes that any issues related to license compliance, including any requested work program revisions or financial undertakings, will be resolved through negotiations, corrective actions, and other remedial steps. Management believes that all existing items of license non compliance are of immaterial significance and considers it remote that they will result in a material adverse impact on the Group's financial position.

**24 CONTINGENCIES AND COMMITMENTS (CONTINUED)**

**Environmental liabilities.** The Group and its predecessor entities have operated in the oil and gas industry in the Russian Federation for many years. Environmental regulations and their enforcement are continually being considered by governmental authorities and the Group periodically evaluates its obligations related thereto. As obligations are identified, they are recognised immediately. The existence of environmental liabilities under proposed or any future legislation, or as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation, cannot be estimated but could be material. Under existing legislation, management believes that there are no probable liabilities which will have a material adverse effect on the financial position or the operation results of the Group.

**Legal contingencies.** During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated interim condensed financial statements.

**25 SUBSEQUENT EVENTS**

In July 2004, the Constitutional Court of the Russian Federation publicly issued its interpretation of existing VAT legislation that has a possible effect of denying the recovery of input VAT or deferring the point at which the Group is able to offset input VAT to the extent the creation of such VAT is deemed to be attributable to the utilisation of funds other than the company's own funds (e.g., borrowings or funds received free of charge). Management is unable to predict the impact of this event on the Group as of the date of issuing these financial statements.

In July 2004, the Group sold its 11.16 percent interest in OAO NK Mangazeya to its other shareholders for RR 0.2 million. The Group's basis in its investment in OAO NK Mangazeya was RR 0.1 million. Subsequently, the Group purchased 100 percent of the shares of OOO Terneftegas from OAO NK Mangazeya and certain other individuals, including related parties, for RR 55 million in cash. Management has not yet assessed the fair values of the identifiable assets and liabilities of OOO Terneftegas and therefore is not able to disclose the purchase accounting resulting from this transaction.

In July and August 2004, the Group obtained two loans from Sberbank in the aggregate principal amount of RR 1,053 million. The loans are collateralised by property, plant and equipment of Khancheyneftegas, bear interest of 11.2 percent and 12 percent, and mature in June and July 2005.

In August 2004, the Group purchased an additional 25.5 percent interest in Truboizolyatsia in return for RR 61 million in cash, bringing the Group's total ownership interest in Truboizolyatsia to 96.7 percent.

On 27 August 2004, an extraordinary general meeting of the shareholders of NOVATEK was held at which the shareholders approved the issuance of 789,276 new ordinary shares, with par and total values per share of RR 100 and RR 28,300, respectively, to TNG Energy AG, a related party of the Group, and ZAO Levit (formerly OOO Levit), a shareholder of NOVATEK, in return for contributions of shares in Tarkosaleneftegas and Khancheyneftegas. The subscription period for the new shares will be valid for one year after registration with the Federal Financial Markets Service, which is expected to occur during October 2004.

In September 2004, the Group entered into a finance lease agreement with Alfa-Leasing in the amount of USD 18 million to lease 220 additional rail cars for the transportation of hydrocarbon liquids to be produced at the Group's gas condensate plant.

In September 2004, the principal shareholders of the Group signed a protocol to sell 25.1 percent of the Group to Total S.A. The agreement is subject to finalising terms between the parties and receiving regulatory approval from the Federal Anti-Monopoly Service.

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