

**OAO NOVATEK**

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

**30 JUNE 2003**

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## REVIEW REPORT

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 2003 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 18 are the responsibility of the Group's management. Our responsibility is to issue a report on this consolidated interim condensed financial information 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 about whether the consolidated interim condensed financial information is 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. The Group has prepared condensed consolidated interim financial information for the first time for the six months ended 30 June 2003. The accompanying consolidated interim condensed statements of income, cash flows and changes in shareholders' equity do not include information for the comparative six month period ended 30 June 2002, as required by International Accounting Standard No. 34.
4. Based on our review, except for the absence of comparative information as described in paragraph 3 above, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial information has not been properly prepared, in all material respects, in accordance with International Accounting Standard No. 34, Interim Financial Reporting.

*PricewaterhouseCoopers*

Moscow, Russian Federation  
18 March 2004

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

	Notes	30 June 2003	31 December 2002
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		755,183	306,158
Trade and other receivables, net	6	4,368,232	3,106,115
Prepayments and advances		640,220	605,939
Inventories, net	7	1,377,344	1,428,031
Loans receivable		795,537	248,241
Other current assets		-	15,409
<b>Total current assets</b>		<b>7,936,516</b>	<b>5,709,893</b>
<b>Non-current assets</b>			
Investments in associates, net	9	4,775,212	4,187,348
Intangible balances		(318,752)	(297,452)
Other long-term assets	10	942,837	780,687
Property, plant and equipment, net	11	6,677,935	5,562,090
<b>Total non-current assets</b>		<b>12,077,232</b>	<b>10,232,673</b>
<b>Total assets</b>		<b>20,013,748</b>	<b>15,942,566</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Ordinary share capital		248,768	248,768
Share premium		3,305,567	3,173,476
Retained earnings		3,089,693	2,021,672
<b>Total shareholders' equity</b>	14	<b>6,644,028</b>	<b>5,443,916</b>
<b>Minority interest</b>	18	<b>674,217</b>	<b>780,522</b>
<b>Non-current liabilities</b>			
Long-term debt	13	4,177,431	3,278,935
Deferred income tax liability		1,139,142	1,182,737
Asset retirement obligations		149,299	143,592
Other non-current liabilities		60,548	64,822
<b>Total non-current liabilities</b>		<b>5,526,420</b>	<b>4,670,086</b>
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	8	3,595,586	2,386,963
Short-term debt	12	2,665,156	1,717,493
Taxes payable		908,341	943,586
<b>Total current liabilities</b>		<b>7,169,083</b>	<b>5,048,042</b>
<b>Total liabilities</b>		<b>12,695,503</b>	<b>9,718,128</b>
<b>Total equity and liabilities</b>		<b>20,013,748</b>	<b>15,942,566</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. Mikhefson  
General Director

  
M. Gyetvai  
Financial Director

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

(in thousands of Russian roubles)

	Notes	Six months ended 30 June 2003
<b>Total operating revenues</b>	4	<b>7,122,266</b>
<b>Operating expenses and other deductions</b>		
Purchases, services and other	5	(4,988,752)
General and administrative		(203,835)
Taxes other than income tax	15	(342,612)
Maintenance of social infrastructure		(29,727)
Depreciation, depletion and amortisation, net		(138,961)
Impairment of inventories, net		(1,330)
Impairment of accounts and loan receivables		(137,405)
Gain on disposal of investments, net		17,835
Loss on disposal of property, plant and equipment, and inventories, net		(64,758)
<b>Total operating expenses</b>		<b>(5,889,545)</b>
<b>Income from operations</b>		<b>1,232,721</b>
Share of income of associates	9	285,983
<b>Non-operating income (expense)</b>		
Foreign exchange gain		145,181
Interest income		60,134
Interest expense		(195,612)
<b>Total non-operating income</b>		<b>9,703</b>
<b>Income before income tax</b>		<b>1,528,407</b>
<b>Income tax expense</b>		
Current income tax expense		(362,710)
Deferred income tax expense		(43,045)
Share of income tax of associates	9	(51,201)
<b>Total income tax expense</b>		<b>(456,956)</b>
<b>Income before minority interest</b>		<b>1,071,451</b>
Minority interest	18	31,460
<b>Net income</b>		<b>1,102,911</b>

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)

	<b>Six months ended 30 June 2003</b>
<b>Net income before income tax and minority interest</b>	<b>1,528,407</b>
<b>Adjustments to income before income tax and minority interest:</b>	
Depreciation, depletion and amortisation	138,961
Net charge for impairment provisions for accounts receivable, investments, property plant and equipment, and inventories	138,735
Net unrealised foreign exchange losses	(145,181)
Net loss on disposal of assets	50,135
Interest expense	195,612
Interest income	(60,134)
Share of net income from associates	(285,983)
Other	12,065
<b>Working capital changes</b>	
Increase in accounts receivable and prepayments	(1,316,570)
Increase in inventories	(17,219)
Decrease in other current assets	15,409
Increase in accounts payable and accrued liabilities, excluding interest and dividends	1,093,876
Increase in taxes payable, other than income tax	79,534
<b>Total effect of working capital changes</b>	<b>(144,970)</b>
Income taxes paid	(581,147)
<b>Net cash provided by operating activities</b>	<b>846 500</b>
<b>Cash flows from investing activities</b>	
Purchases of property, plant and equipment	(699,642)
Acquisition of subsidiaries	(4,866)
Acquisition of associated companies	(212,474)
Loans issued	(1,209,554)
Interest received	39,127
Disposal of associated companies	31,075
<b>Net cash used in investing activities</b>	<b>(2,056,334)</b>
<b>Cash flows from financing activities</b>	
Net change in short- and long-term borrowings	1,991,341
Interest paid	(322,049)
Payments to restricted cash accounts	(10,433)
<b>Net cash from financing activities</b>	<b>1,658,859</b>
Net decrease in cash and cash equivalents	449,025
Cash and cash equivalents at beginning of the year	306,158
<b>Cash and cash equivalents at end of the year</b>	<b>755,183</b>

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

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

(in thousands of Russian roubles)

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	<b>Number of ordinary shares</b>	<b>Ordinary share capital</b>	<b>Share premium</b>	<b>Retained earnings</b>	<b>Shareholders' equity</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 (Note 14)	-	-	-	(34,890)	(34,890)
Contribution from shareholders (Note 14)	-	-	523,028	-	523,028
Distribution to shareholders (Note 14)	-	-	(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>

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

## ОАО NOVATEK

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

(in thousands of Russian roubles, unless otherwise stated)

## 1 ORGANISATION AND PRINCIPAL ACTIVITIES

ОАО 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 operation 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.

During the first six months of 2003, and subsequently, the ultimate controlling shareholders of NOVATEK (the "Shareholders") have been restructuring their shareholding interests in various companies to place all entities controlled by NOVATEK formally under the legal ownership of NOVATEK. The transfers of controlling interests to NOVATEK represent a reorganisation of assets under common control and, accordingly, have been accounted for at their predecessor book value in a manner similar to a pooling of interests.

At 30 June 2003, the reorganisation of the Shareholders' controlling interests into NOVATEK was incomplete. Ownership interests, including 75 percent of OAO Minlay and 100 percent of Yurkharovneftegas, that are included in the following table have been included in the consolidated interim financial statements because they are integral to the operations of NOVATEK, are controlled and managed on a unified basis by NOVATEK, and the Shareholders were in the process of contributing their interest in these companies to NOVATEK. The Shareholders have completed the process of contributing their interest in these companies to NOVATEK subsequent to 30 June 2003.

These consolidated interim condensed financial statements reflect the financial position and results of operations of the principal subsidiaries listed below.

Subsidiary	Country of incorporation	Nature of operations	% of ordinary and preferred share capital	% of ordinary share capital
ОАО Пурнефтегазгеологиya ("PNGG")	Russia	Oil and gas exploration and production	79.6%	88.7%
ОАО Minlay ("Minlay")	Russia	Holding company	89.0%	89.0%
ООО Yurkharovneftegas ("Yurkharovneftegas")	Russia	Gas exploration and production	100.0%	100.0%
ОАО SNP NOVA ("SNP NOVA")	Russia	Construction services	74.3%	74.5%
ZAO NOVA Bank	Russia	Banking	88.6%	88.6%
ООО Yutneftegas	Russia	Holding company	100.0%	100.0%
ОАО Трубоизольятсия	Russia	Pipeline insulation production	52.2%	52.2%

As at 30 June 2003, the Group's respective interest in its principal associates were as follows:

Associate	Country of incorporation	Nature of operations	% of share capital
ОАО Tarkosaleneftegas	Russia	Oil and gas exploration and production	32.2%
ООО Geoilbent	Russia	Oil and gas exploration and production	66.0%
ООО Khancheyneftegas	Russia	Oil and gas exploration and production	43.0%



## ОАО NOVATEK

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

(in thousands of Russian roubles, unless otherwise stated)

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## 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 2002 prepared in accordance with International Financial Reporting Standards ("IFRS"). The 31 December 2002 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, except for the cumulative effect of changes in accounting principles, as described further below. The financial results of the periods reported herein are not necessarily indicative of future financial results.

**Exchange rates, restrictions and controls.** The official rate of exchange of the Russian rouble to the US dollar ("USD") at 30 June 2003 and 31 December 2002 was 30.35 and 31.78 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. 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, no adjustments for the effects of changes in general purchasing power have been made for the six months ended 30 June 2003.

## 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 2002.

## 4 OPERATING REVENUES

	<b>Six months ended 30 June 2003</b>
Gas sales	3,051,724
Oil and gas condensate sales	1,759,028
Construction services	1,633,914
Oil product sales	311,870
Sales of materials	53,189
Oil and gas transportation and handling services	78,440
Other revenues	234,101
<b>Total operating revenues</b>	<b>7,122,266</b>

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

(in thousands of Russian roubles, unless otherwise stated)

**5 PURCHASES, SERVICES AND OTHER**

	<b>Six months ended 30 June 2003</b>
Materials and supplies	2,995,785
Employee compensation	398,367
Construction services	303,585
Selling and transportation	683,320
Property insurance expense	232,018
Exploration expenses	28,334
Rent expenses	24,538
Well services	14,541
Electricity and fuel	74,822
Other	233,442
<b>Total purchases, services and other expenses</b>	<b>4,988,752</b>

**6 TRADE AND OTHER RECEIVABLES**

	<b>30 June 2003</b>	<b>31 December 2002</b>
Trade accounts receivable	867,736	543,055
Trade and other accounts receivable – related parties	798,804	959,566
Construction contract receivables	281,072	87,118
Construction contract receivables – related parties	472,335	766,066
Recoverable value added tax	1,412,982	535,746
Other receivables (net of provision of RR 6,068 thousand at 31 December 2002)	535,303	214,564
<b>Total trade receivables and other receivables, net</b>	<b>4,368,232</b>	<b>3,106,115</b>

**7 INVENTORIES**

	<b>30 June 2003</b>	<b>31 December 2002</b>
Materials and supplies (net of provisions of RR 148 million and RR 147 million at 30 June 2003 and 31 December 2002, respectively)	1,075,169	1,155,260
Materials and supplies – custody of contractors	154,440	36,543
Construction contract work-in-progress	134,963	137,318
Crude oil	12,772	28,476
Apartments available-for-sale	-	70,434
<b>Total inventories, net</b>	<b>1,377,344</b>	<b>1,428,031</b>

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

(in thousands of Russian roubles, unless otherwise stated)

**8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>30 June 2003</b>	<b>31 December 2002</b>
Trade accounts payable	1,375,379	891,396
Trade and other accounts payable – related parties	851,361	364,526
Construction advances	347,439	320,432
Bank customer deposits	209,778	263,936
Social security and other taxes	123,302	113,155
Interest payable	191,612	111,755
Salaries payable	120,950	108,360
Trade advances from customers	196,277	69,929
Dividends payable	35,833	943
Other payables	143,655	142,531
<b>Total accounts payable and accrued liabilities</b>	<b>3,595,586</b>	<b>2,386,963</b>

**9 INVESTMENTS IN ASSOCIATES**

	<b>30 June 2003</b>	<b>31 December 2002</b>
ОАО Таркосаленфегас	3,694,712	3,171,083
ООО Геоилбент	1,000,984	889,528
ООО Ханчейнефегас	67,819	64,058
ООО НКГ ИТЕРА	-	31,915
Other	11,697	30,764
<b>Total investments in associates</b>	<b>4,775,212</b>	<b>4,187,348</b>

*Movement in the carrying value of investment in associates.*

	<b>Six months ended 30 June 2003</b>
<b>Balance at the beginning of the reporting period</b>	<b>4,187,348</b>
Share of income before tax	285,983
Share of income tax expense of associates	(51,201)
Share of net income	234,782
Acquisitions of associates	913,175
Negative goodwill on acquisitions of associates	(509,111)
Disposals of associates	(50,982)
<b>Balance at the end of the reporting period</b>	<b>4,775,212</b>

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

(in thousands of Russian roubles, unless otherwise stated)

**10 OTHER LONG-TERM ASSETS**

	<b>30 June 2003</b>	<b>31 December 2002</b>
Long-term loans receivable	819,382	157,124
Restricted cash	34,000	23,567
Long-term VAT receivable	4,555	493,872
Long-term deferred tax asset	-	86,640
Other long-term assets	84,900	19,484
<b>Other long-term assets, net</b>	<b>942,837</b>	<b>780,687</b>

**Long-term loans receivable.** Included in long-term loans receivable are rouble denominated loan to Tarkosalenftegas and USD denominated loan to Khancheyneftegas, the Group's affiliates, in the aggregated amounts of RR 536.5 million and RR 282.9 million (USD 9.15 million), respectively. The loans are unsecured, bear interest of 10 percent, and are repayable between January and April 2008. Subsequent to the balance sheet date, the Group provided additional USD denominated loans to Khancheyneftegas for the amount of USD 21.7 million with the same terms. All loans are repayable in roubles.

**Long-term VAT receivable.** Long-term VAT receivables principally relate to the Group's oil and gas construction and development activities and represent the portion of total VAT receivables expected to be recovered more than one year following the balance sheet date. A significant portion of the amount of long-term VAT receivable as at 31 December 2002 has been reclassified to trade and other receivables as at 30 June 2003 as the related assets under construction were put into operation and management estimates that VAT related to existing construction will be recovered during the twelve months following the balance sheet date.

**11 PROPERTY, PLANT AND EQUIPMENT**

	<b>Operating assets</b>	<b>Assets under construction</b>	<b>Total</b>
Cost	2,692,509	3,715,853	6,408,362
Accumulated depreciation, depletion and amortisation	(846,272)	-	(846,272)
<b>Net book value at 31 December 2002</b>	<b>1,846,237</b>	<b>3,715,853</b>	<b>5,562,090</b>
Cost	4,577,402	3,098,551	7,675,953
Accumulated depreciation, depletion and amortisation	(998,018)	-	(998,018)
<b>Net book value at 30 June 2003</b>	<b>3,579,384</b>	<b>3,098,551</b>	<b>6,677,935</b>

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

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

(in thousands of Russian roubles, unless otherwise stated)

**12 SHORT-TERM DEBT**

	<b>30 June 2003</b>	<b>31 December 2002</b>
Short-term bank borrowings	2,559,774	1,568,995
Short-term loans payable – related parties	83,380	138,447
Other short-term debt	22,002	10,051
<b>Total short-term debt</b>	<b>2,665,156</b>	<b>1,717,493</b>

At 30 June 2003, short-term bank borrowings included Russian rouble denominated loans from Sberbank in the amount of RR 1,519 million and a US dollar denominated loan from Sberbank in the amount of RR 152 million (USD 5 million). The Sberbank loans are collateralised by the Group's and Tarkosaleneftegas' property, plant, equipment, and inventory in the amount of RR 1,938 million, and bear interest of 18 to 20 percent for the Russian rouble denominated loans, and 10 percent for the US dollar denominated loan. Subsequent to the balance sheet date, these short-term loans have been repaid and new loans have obtained as more fully described in Note 20.

At 30 June 2003, short-term bank borrowings included a US dollar denominated loan from Alfa Bank in the amount of RR 91 million (USD 3 million) and a US dollar denominated loan from Standard Bank of London Limited in the amount of RR 303 million (USD 10 million), which bear interest rates of 11 and 10 percent, respectively. In addition, short-term borrowings include a Russian rouble denominated loan from AKB Peresvet Bank in the amount of RR 140 million and a Russian rouble denominated loan from Merit Bank in the amount of RR 135 million, both loans bearing an interest rate of 12 percent, and a Russian rouble denominated loan from Noybrskiy Gorodskoy Bank in the amount of RR 100 million, with an interest rate of 19 percent. Subsequent to the balance sheet date, the short-term loan from Noybiskiy Gorodskoy Bank has been repaid.

At 30 June 2003, short-term loans payable to related parties included a Russian rouble denominated loan from OOO Khancheyneftegas in the amount of RR 80 million. The loan is unsecured and interest free.

**13 LONG-TERM DEBT**

	<b>30 June 2003</b>	<b>31 December 2002</b>
Long-term loans payable – related parties	1,340,038	1,208,986
Long-term loans payable	2,779,297	2,065,986
Other long-term debt	58,096	3,963
<b>Total long-term debt</b>	<b>4,177,431</b>	<b>3,278,935</b>

At 30 June 2003, long-term loans payable to related parties included US dollar denominated loans from SWGI Growth Fund in the amount of RR 1,340 million (USD 48 million). The SWGI Growth Fund loans are unsecured and bear interest of 12 to 15 percent, and mature between July and December 2005.

At 30 June 2003, long-term loans payable included a US dollar denominated loans from the Yamal Regional Fund of Development in the amount of RR 1,214 million (USD 40 million) and a US dollar denominated loan from Lukoil West Siberia in the amount of RR 759 million (USD 25 million). The Yamal Regional Fund of Development loan is secured by 31 percent of the shares of Yurkharovneftegas, bears interest of 10 percent, and matures in December 2006. The Lukoil West Siberia loan is secured by 34,400 (40 percent) shares in Nakhodkaneftegas, a Group associate, bears interest of 10 percent, and matures in April 2007. Subsequent to the balance sheet date, the Group sold its remaining 40 percent to Lukoil West Siberia for USD 44.6 million, which included the full settlement of this loan obligation.

## ОАО NOVATEK

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

(in thousands of Russian roubles, unless otherwise stated)

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

At 30 June 2003, long-term bank loans payable included a US dollar denominated loans from Vneshtorgbank in the amount of RR 807 million (USD 28 million). The loan is secured by shares of Tarkosaleneftegas, a Group associate (25 percent plus one share), guarantees of Yurkharovneftegas and Khancheyneftegas, bears interest of 9.75 percent, and matures in April 2008. Subsequent to the balance sheet date, the Group has received an additional USD 72 million under this credit loan facility.

Aggregate maturities of long-term debt outstanding at 30 June 2003 are as follows:

Between 1 and 2 years	58,096
Between 2 and 3 years	1,340,038
Between 3 and 4 years	1,972,640
Between 4 and 5 years	806,657

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<b>Total long-term debt</b>	<b>4,177,431</b>
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#### 14 SHAREHOLDERS' EQUITY

**Dividends.** In March 2003, a dividend was declared in respect of the year ended 31 December 2002 by the Board of Directors of NOVATEK and approved by shareholders in the amount of RR 35 million or RR 21 per ordinary share.

**Other contributed capital to and from shareholders.** During the first six months 2003, the Group acquired an additional 3.7 percent stake in Tarkosaleneftegas, the Group's associate, from third parties for which the consideration provided was interests in other companies owned by 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, have been recorded in the consolidated interim condensed statement of changes in shareholders' equity.

In June 2003, the Shareholders contributed to the Group an additional 35 percent of OAO Truboizolyatsia. The contributed equity in OAO Truboizolyatsia of RR 94 million has been recorded in the consolidated interim condensed statement of changes in shareholders' equity.

During the first six months of 2003, as part of the reorganisation of the Shareholders' controlling interests into NOVATEK, the Shareholders transferred their 100 percent interest in Yurkharovneftegas to OAO Minlay (Note 1). As the Shareholders' equity in Yurkharovneftegas was previously included into the consolidated financial statements of the Group (Note 1), the purchase price of RR 367.5 million payable by OAO Minlay to the Shareholders has been recorded as a distribution to shareholders in the consolidated interim condensed statement of changes in shareholders' equity.

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

(in thousands of Russian roubles, unless otherwise stated)

**15 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 2003</b>
Unified natural resources production tax	176,596
Property tax	38,921
Excise	57,486
VAT	23,475
Road users tax	179
Other	45,955
<b>Total taxes other than income tax</b>	<b>342,612</b>

**16 RELATED PARTY TRANSACTIONS**

During the six months ended 30 June 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:***

<b>Name of related party</b>	<b>Six months ended 30 June 2003</b>	
	Sales volumes (tonnes)	Russian roubles (000s)
Sales to Tarkosalenftegas	82,082	262,252
Sales to Khancheyneftegas	85,184	272,163
Purchases from Tarkosalenftegas	261,648	676,343
Purchases from Khancheyneftegas	223,135	588,903

***Purchases and sales of natural gas:***

<b>Name of related party</b>	<b>Six months ended 30 June 2003</b>	
	Sales volumes (m <sup>3</sup> 000s)	Russian roubles (000s)
Sales to NGK ITERA	915,200	471,957
Purchases from Tarkosalenftegas	2,567,000	603,743
Purchases from Khancheyneftegas	129,000	64,318
Purchases from Pur-Land	1,444,000	281,537

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

(in thousands of Russian roubles, unless otherwise stated)

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

	<b>As at and for the six months ended 30 June 2003</b>
<b>Balances</b>	
Trade and other receivables	1,271,139
Short-term loans receivable	487,023
Long-term loans receivable	819,382
Short-term debt	83,380
Long-term debt	1,340,038
Accounts payable	851,361
Interest payable	86,861
<b>Transactions</b>	
Sales of inventory	12,419
Interest expense	44,692
Construction sales	989,259
Other (Notes 14,19)	

**17 SEGMENT INFORMATION**

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

- Exploration and production – exploration, production, marketing and transportation of oil and gas
- Oil and gas services – drilling and construction of oil and gas infrastructure and facilities
- Corporate and other – other activities, including head office services, banking and telecommunications

<b>Six months ended 30 June 2003</b>	<b>Exploration and production</b>	<b>Oil and gas services</b>	<b>Corporate and other</b>	<b>Total</b>
Total segment revenues	5,201,062	1,633,914	287,290	7,122,266
Segment result	1,762,108	150,222	37,867	1,950,197

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

**18 MINORITY INTEREST**

	<b>Six months ended 30 June 2003</b>
Minority interest at the beginning of the year	780,522
Minority interest share of net profit (loss)	(31,460)
Net change in minority interest as a result of disposals and acquisitions	(74,845)
<b>Minority interest at the end of year</b>	<b>674,217</b>



## 19 CONTINGENCIES AND COMMITMENTS

**Operating environment.** While there have been notable improvements in the economic situation in the Russian Federation in recent years, the country 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 prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

Due to the absence of any market for these financial instruments, it is not practicable to estimate the fair value of the above guarantees. However, the Group does not expect to incur losses as a result of these guarantees.

**Taxation.** Russian tax legislation is subject to varying interpretations and frequent changes. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which may be significant. The tax returns remain open for review by the tax and customs authorities for three years. In the opinion of management, the ultimate outcome of these claims should not have a material adverse effect on the result of operations or financial position of the Group.

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

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

## 20 SUBSEQUENT EVENTS

In addition to the interest in Minlay received from entities under common control subsequent to the balance sheet date as discussed in Note 1, NOVATEK received 25.1 percent, 40 percent, and an additional 11 percent, of the total outstanding shares of OAO Tambeyneftegas, OAO Yamalneftegasdobycha, and Minlay, respectively, from the Yamal Regional Fund of Development. In return, NOVATEK issued 653,348 additional ordinary shares at a price of RR 825 per share, with a par value of RR 100 per share, to the contributing companies, of which, 170,244 were issued to the Yamal Regional Fund of Development, and 483,104 to companies representing the Shareholders of NOVATEK.

During the period July through October 2003, the Group entered into a series of 5-year finance lease agreements to finance purchases of equipment for the proposed Purovskiy Gas Condensate Stabilisation and Liquid Processing Plant, the proposed BOPP (biaxial polypropylene wrap film stretching equipment) Plant in Samara, a Gas Condensate Preparation Unit for the Yurkharovskoye field, and rolling stock for hydrocarbon liquids, in the total amounts of Euros 46.6 million and USD 21.3 million.

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

(in thousands of Russian roubles, unless otherwise stated)

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**20 SUBSEQUENT EVENTS (CONTINUED)**

In August 2003, the Group received a 5-year Russian rouble-denominated loan from the Finance Department of YNAO in the principal amount of RR 1,130 million to fund the construction of the proposed Purovskiy Gas Condensate Stabilization and Liquid Processing Plant. The loan is collateralised by the shares of Tarkosalenftegas (4.7 percent), and bears interest of 12.75 percent per annum.

In September 2003, the Group received short-term, Russian rouble-denominated credit loan facilities from Sberbank in the aggregate principal amount of RR 1,500 million to finance its operating activities. As of the date of these financial statements, the Group had received RR 1,154 million under these loan facilities. The loans are guaranteed by OAO NOVATEK, collateralised by equipment and materials of Khancheyneftegas and the Group, and bear annual interest of 13.5 to 14 percent.

In September 2003, the Group provided an unsecured 15 percent Russian rouble-denominated loan to its associate, Khancheyneftegas, in the amount of RR 879 million to fund development of the Khancheyskoye field.

In November 2003, the Group sold its remaining 40 percent interest in the shares of Nakhodkaneftegas, with a carrying value of RR 2 million, for USD 44.6 million to Lukoil West Siberia, including settlement of outstanding borrowings from Lukoil West Siberia. In addition, the Group also sold its 40 percent interest in OAO Yamalneftegasdobycha to Lukoil West Siberia for USD 25.4 million.

In December 2003, the Group received a short-term US dollar-denominated loan from the International Moscow Bank in the aggregate principal amount of USD 9.3 million bearing interest of 6 percent per annum to fund the construction of the proposed BOPP Plant in Samara. The loan is collateralised by a pledge of equipment from the plant.

In December 2003, the Group received a short-term, Russian rouble-denominated loan from Sberbank in the amount of RR 150 million. The loan bears interest of 15 percent and is collateralised by the Group's property, plant and equipment.

In February 2004, the Group received Russian rouble-denominated credit loan facilities from Sberbank in the aggregate principal amount of RR 350 million. As of the date of these financial statements, the Group had received RR 237 million under these loan facilities. The loan is collateralised by property, plant and equipment of Yurkharovneftegas of equivalent market value, and bears annual interest of 15.6 percent.