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 nine months ended 30 September 2005 and 2004 in conjunction with our consolidated financial statements as of and for the three and nine month periods ended 30 September 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 the 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 Tarkosaleneftegas and Khancheyneftegas prior to their being consolidated in December 2004. Prior to that date, sales volumes and revenues include the volumes of Tarkosaleneftegas and Khancheyneftegas only to the extent OAO NOVATEK purchased such production from Tarkosaleneftegas and Khancheyneftegas. 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 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 currently export the majority of our stable 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, stable gas condensate, crude oil and related 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 6,826 mmcm in the three months ended 30 September 2005 from 3,316 mmcm, in the corresponding period in 2004, or 105.9% and to 20,597 mmcm in the nine months ended 30 September 2005 from 12,582 mmcm for the corresponding period in 2004, or 63.7%.

Our combined liquids (crude oil, stable gas condensate, oil products and liquefied petroleum gas (LPG)) sales volumes increased to 592,000 tonnes in the three months ended 30 September 2005 from 541,000 tonnes in the corresponding period in 2004, or 9.4%, and to 1,866,000 tonnes in the nine months ended 30 September 2005 from 1,541,000 tonnes for the corresponding period in 2004, or 21.1%. 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 certain 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 16.7% and 7.0%, respectively, in the three months ended 30 September 2005 as compared to the same period in 2004, and were higher by 19.8% and 11.9%, respectively, in the nine months ended 30 September 2005 as 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 September 2005 are as follows:

- Effective 1 October 2005, the FTS raised the natural gas transportation tariff by 23% to RR 23.84 per mcm per 100 km from 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 wholly owned subsidiaries Tarkosaleneftegas and Yurkharovneftegas. With the completion of the December 2004 acquisitions discussed below, we acquired 100% of Tarkosaleneftegas 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 Tarkosaleneftegas 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 Tarkosaleneftegas.

Prior to our acquisitions of additional interests in Tarkosaleneftegas and Khancheyneftegas in December 2004, we purchased approximately 56% of Tarkosaleneftegas’ hydrocarbon production and 100% of Khancheyneftegas’ hydrocarbon production and then resold the production to third parties. Subsequent to the acquisitions, Tarkosaleneftegas’ and Khancheyneftegas’ activities were consolidated into our financial position and results of operations. Accordingly, all purchases from, sales to and balances with Tarkosaleneftegas and Khancheyneftegas have been eliminated in our consolidated balance sheets at 30 September 2005 and 31 December 2004 and in our consolidated statement of income for the three months and nine months ended 30 September 2005, and each line item within our total operating expenses for the three months and nine months ended 30 September 2005 includes the corresponding results of Tarkosaleneftegas and Khancheyneftegas for the periods. At all other balance sheet dates and in all other reporting periods, we accounted for Tarkosaleneftegas 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 Tarkosaleneftegas and Khancheyneftegas, including a significant increase in operating expenses and a corresponding decrease in purchases of crude 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 62 % 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 Tambeyneftegas to Gazprombank-Invest for approximately RR 120 million. Also in June 2005, we disposed of our 34% interest in Selkupneftegas 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 nine months ended 30 September 2005 compared to corresponding periods in 2004. 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 Tarkosaleneftegas and Khancheyneftegas 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 and nine months ended 30 September 2005:

	Three months ended 30 September			
Natural Gas Sales Prices	**2005**	**2004**	**Increase (Decrease)**	**% Increase (Decrease)**
Average natural gas price to end-customers [(1) (2)]	1,113	954	159	17%
Gas transportation expense for sales to end-customers [(1)]	452	331	121	37%
Average natural gas netback on end-customer sales [(1)]	661	623	38	6%
Average natural gas price ex-field [(1)]	612	572	40	7%

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

	Nine months ended 30 September			
Natural Gas Sales Prices	**2005**	**2004**	**Increase (Decrease)**	**% Increase (Decrease)**
Average natural gas price to end-customers [(1) (2)]	1,103	921	182	20%
Gas transportation expense for sales to end-customers [(1)]	422	316	106	34%
Average natural gas netback on end-customer sales [(1)]	681	605	76	13%
Average natural gas price ex-field [(1)]	622	556	66	12%

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

Crude oil, stable gas condensate, LPG and oil products prices

Crude oil, stable gas condensate, LPG 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 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 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, stable gas condensate, LPG and oil products sales prices for the three and nine months periods ended 30 September 2005 and 2004:

Liquid Hydrocarbon Sales Prices [1] [2]	**Three months ended 30 September**			
	2005	**2004**	**Increase (Decrease)**	**% Increase (Decrease)**
Average crude oil export price	7,476	5,441	2,035	37%
Average crude oil domestic price	5,525	4,177	1,348	32%
Average stable gas condensate export price	8,534	-	8,534	100%
Average stable gas condensate domestic price	6,164	-	6,164	100%
Average LPG export price	7,583	-	7,583	100%
Average LPG domestic price	6,071	-	6,071	100%
Average oil products export price	-	-	-	-
Average oil products domestic price	6,324	2,929	3,395	116%

[1] Net of VAT, excise tax and export duties. Average RR realized per tonne.
[2] Includes cost of transportation.

Liquid Hydrocarbon Sales Prices [1] [2]	**Nine months ended 30 September**			
	2005	**2004**	**Increase (Decrease)**	**% Increase (Decrease)**
Average crude oil export price	6,137	4,955	1,182	24%
Average crude oil domestic price	4,577	3,783	794	21%
Average stable gas condensate export price	8,096	-	8,096	100%
Average stable gas condensate domestic price	6,161	-	6,161	100%
Average LPG export price	7,583	-	7,583	100%
Average LPG domestic price	6,009	-	6,009	100%
Average oil products export price	-	4,900	-	-
Average oil products domestic price	5,211	2,958	2,253	76%

[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 unstable de-ethanized 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 naptha) 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 currently delivering substantially all of our unstable de-ethanized gas condensate to the plant for stabilization and processing into stable gas condensate and LPG. We still deliver a small portion of our unstable de-ethanized gas condensate to the Surgutsky refinery as a backup in case of foreseen and unforeseen stoppages at the Purovsky processing plant. We expect our stable 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 generally passed on to end-customers depending on the contract terms. 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 and nine months ended 30 September 2005 and 2004:

	Three months ended 30 September			
	2005	**2004**	**Increase (Decrease)**	**% Increase (Decrease)**
Gas transportation expense (average realized RR per mcm sold to end-customers)	452	331	121	37%
Gas transportation expense as % of end-customer sales	41%	35%	6%	17%

	Nine months ended 30 September			
	2005	**2004**	**Increase (Decrease)**	**% Increase (Decrease)**
Gas transportation expense (average realized RR per mcm sold to end-customers)	422	316	106	34%
Gas transportation expense as % of end-customer sales	38%	34%	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 increased for the three and nine months ended 30 September 2005 compared to the same period in 2004 due to an increase in the average delivery distance to our end-customers combined with higher transportation tariffs effective from 1 October 2004 in approximately equal proportions. For the three months and nine months periods ended 30 September 2005, our average gas transportation expense per mcm increased by 36.7% and 33.5%, respectively, compared to the corresponding periods in 2004.

Our unstable de-ethanized 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 naptha). With the commissioning of our Purovsky processing plant in June 2005, we began transporting substantially all of our unstable de-ethanized gas condensate production volumes from our East Tarkosalinskoye and Khancheyskoye fields through our own pipeline network directly to the Purovsky processing plant. We currently have an agreement with Gazprom to access its gas condensate pipeline network to deliver the unstable de-ethanized 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. The commissioning of our Purovsky processing plant has changed our distribution channel for the delivery of stabilized gas condensate to the market. We now 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 gas 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 nine months periods ended 30 September 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 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 nine 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.

In 2005, the IASB published IFRS 7 *Financial Instruments: Disclosures* and a complementary Amendment to IAS 1 *Presentation of Financial Statements-Capital Disclosures*. The IFRS introduces new requirements to improve the information on financial instruments that is given in entities' financial statements. It replaces IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and some of the requirements in IAS 32 *Financial Instruments: Disclosure and Presentation*. The Amendment to IAS 1 introduces requirements for disclosures about an entity's capital. In addition, IFRIC 6, *Liabilities Arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment*, giving guidance on the accounting for liabilities for waste management costs and withdrew IFRIC 3 *Emission Rights*. Management is currently assessing the effect of the adoption of these standards and interpretation on the Group.

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 September 2005 compared to the three months ended 30 September 2004

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

	Three months ended 30 September			
	2005		2004	
	(RR million)	(% of total revenues)	(RR million)	(% of total revenues)
Total Revenues [1]	**10,260**	**100%**	**5,027**	**100%**
Other income (loss)	(18)	0%	381	8%
Total revenues and other income	10,242	100%	5,408	108%
Operating expenses	(6,214)	61%	(3,319)	66%
Income from operations	**4,028**	**39%**	**2,089**	**42%**
Finance income (expense)	(78)	1%	(72)	1%
Share of income from associates	-	-	229	4%
Income before income tax and minority interest	3,950	38%	2,246	45%
Total income tax expense	(1,095)	10%	(497)	10%
Profit for the period	**2,855**	**28%**	**1,749**	**35%**
Minority interest	(20)	0%	6	0%
Profit attributable to Novatek shareholders	**2,875**	**28%**	**1,743**	**35%**

[1] Net of VAT, excise tax and export duties.

Revenues

Our total revenues comprise oil and gas sales, sales of polymer and insulation tape and other revenues. Total revenues increased by RR 5,233 million, or 104.1%, to RR 10,260 million for the three months ended 30 September 2005 as compared to RR 5,027 million for the corresponding period in 2004. The following table shows our net sales, volumes and average realized prices for the three months ended 30 September 2005 and 2004:

	Three months ended 30 September			
	2005	**2004**	**Increase (Decrease)**	**% Increase (Decrease)**
Sales of natural gas				
Net sales (1)	**5,481**	**2,583**	**2,898**	**112%**
Volumes in millions of cubic meters (mmcm)	*6,826*	*3,316*	*3,510*	*106%*
Average price, $ per mcm (2)	*28.2*	*26.7*	*1.5*	*6%*
Average price, RR per mcm	*803*	*779*	*24*	*3%*
Sales of crude oil				
Net sales (1)	**494**	**1,820**	**(1,326)**	**(73%)**
Volumes in thousands of tonnes	*82*	*400*	*(318)*	*(80%)*
Average price, $ per tonne (2)	*211.7*	*155.9*	*55.8*	*36%*
Average price, RR per tonne	*6,024*	*4,550*	*1,474*	*32%*
Sales of stable gas condensate				
Net sales (1)	**2,629**	**-**	**2,629**	**100%**
Volumes in thousands of tonnes	*309*	*-*	*309*	*100%*
Average price, $ per tonne (2)	*299.0*	*-*	*299.0*	*100%*
Average price, RR per tonne	*8,508*	*-*	*8,508*	*100%*
Sales of LPG				
Net sales (1)	**601**	**-**	**601**	**100%**
Volumes in thousands of tonnes	*96*	*-*	*96*	*100%*
Average price, $ per tonne (2)	*220.0*	*-*	*220.0*	*100%*
Average price, RR per tonne	*6,260*	*-*	*6,260*	*100%*
Sales of oil products				
Net sales (1)	**664**	**413**	**251**	**61%**
Volumes in thousands of tonnes	*105*	*141*	*(36)*	*(26%)*
Average price, $ per tonne (2)	*222.3*	*100.3*	*122.0*	*122%*
Average price, RR per tonne	*6,324*	*2,929*	*3,395*	*116%*
Total oil and gas sales	**9,869**	**4,816**	**5,053**	**105%**
Oil and gas construction services revenue (1)	-	-	-	-
Sales of polymer and insulation tape (1)	278	158	120	76%
Other revenues (1)	113	53	60	113%
Total revenues	**10,260**	**5,027**	**5,233**	**104%**
Net gain (loss) on disposals	-	319	(319)	(100%)
Other income (expense)	(18)	62	(80)	(129%)
Total revenues and other income	**10,242**	**5,408**	**4,834**	**89%**

(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

Revenues from our core oil and gas business segment increased by RR 5,053 million, or 104.9%, for the three months ended 30 September 2005 as compared to the corresponding period in 2004, primarily due to the increase in sales volumes of natural gas, stable gas condensate and LPG, (offset by a decrease in sales volumes of crude oil and oil products), together with higher average realized prices for all products during the 2005 period. Our sales volumes of natural gas and combined liquids (crude oil, stable gas condensate, LPG and oil products) increased for the three months ended 30 September 2005 by 105.9% and 9.4%, 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 consolidated interest in Tarkosaleneftegas, commencement of operations at our Purovsky processing plant and to a lesser extent increased production at our Khancheyskoye field (partially offset by decreases in production at our other fields and most notably decreases in crude oil purchases due to the divestiture of our participation interest in Geoilbent).

Oil and gas sales

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

Millions of cubic meters (mmcm)	Three months ended 30 September 2005	2004	Increase (Decrease)	% Increase (Decrease)
Production from:				
Yurkharovneftegas	2,102	1,725	377	22%
Tarkosaleneftegas [1]	3,415	-	3,415	100%
Khancheyneftegas [1]	685	-	685	100%
Other	2	7	(5)	(71%)
Total natural gas production	**6,204**	**1,732**	**4,472**	**258%**
Purchases from:				
Tarkosaleneftegas [1] [2]	-	774	(774)	(100%)
Khancheyneftegas [1] [3]	-	606	(606)	(100%)
Other	698	20	678	3,390%
Total natural gas purchases	**698**	**1,400**	**(702)**	**(50%)**
Changes in inventory	(76)	184	(260)	(141%)
Total natural gas sales volumes	**6,826**	**3,316**	**3,510**	**106%**

[1] These companies were not consolidated in the three months ended 30 September 2004.
[2] Represents purchases of cenomanian gas production at our combined interest of 56%.
[3] Represents purchases of natural gas at our agreed upon contractual rate of 100%

In the three months ended 30 September 2005, our three core fields, East Tarkosalinskoye, Yurkharovskoye and Khancheyskoye, produced 6,202 mmcm of natural gas (net of losses and own consumption), representing 90.9% of our total natural gas sales volumes. In the three months ended 30 September 2004, we purchased approximately 56% of Tarkosaleneftegas' cenomanian gas production and 100% of Khancheyneftegas' natural gas production.

Our revenues from the sale of natural gas for the three months ended 30 September 2005 increased by RR 2,898 million, or 112.2%, compared to the corresponding period in 2004. Revenues from the sale of natural gas accounted for 53.4% and 51.4% of our total revenues for the three months ended 30 September 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 September 2005 as 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 September 2005, our average realized price per mcm increased by RR 24 per mcm, or 3.1%, compared to the corresponding period in 2004, due primarily to an overall increase in natural gas prices and to a lesser extent increases 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 September 2005 and 2004:

Millions of cubic meters (mmcm)	Three months ended 30 September 2005	2004	Increase (Decrease)	% Increase (Decrease)
Sales ex-field	4,222	1,519	2,703	178%
End-customer sales	2,604	1,797	807	45%
Total gas sales	**6,826**	**3,316**	**3,510**	**106%**

As part of our December 2004 acquisition of the remaining interests in Tarkosaleneftegas and Khancheyneftegas, we have committed to sell a total volume of 37,500 mmcm 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 the duration of the contract. Under this contract we sold 1,300 mmcm to Itera in the three months ended 30 September 2005. In the three months ended 30 September 2004, we sold 70 mmcm to Itera.

Total sales volumes of crude oil decreased for the three months ended 30 September 2005 by 318,000 tonnes, or 79.5%, compared to the corresponding period in 2004, whereas total sales volumes of stable gas condensate increased by 309,000 tonnes compared to nil for the corresponding period in 2004. Total sales volumes of oil products (diesel fuel, light distillate, naptha and others) decreased for the three months ended 30 September 2005 by 36,000 tonnes, or 25.5%, compared to the 2004 period, while total sales volumes of LPG increased by 96,000 tonnes compared to nil for the corresponding period in 2004.

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

Thousands of tonnes (mt)	Three months ended 30 September 2005	2004	Increase (Decrease)	% Increase (Decrease)
Production from:				
Yurkharovneftegas	168	144	24	17%
Tarkosaleneftegas (1)	195	-	195	100%
Khancheyneftegas (1)	174	-	174	100%
Other	-	4	(4)	(100%)
Total production	**537**	**148**	**389**	**263%**
Purchases from:				
Tarkosaleneftegas (1) (2)	-	93	(93)	(100%)
Khancheyneftegas (1) (3)	-	143	(143)	(100%)
Geoilbent	-	63	(63)	(100%)
From third parties	32	11	21	191%
Total purchases	**32**	**310**	**(278)**	**(90%)**
Total production and purchases	**569**	**458**	**111**	**24%**
Changes in inventory	23	83	(60)	(72%)
Total liquids sales	**592**	**541**	**51**	**9%**
Crude oil sales	82	400	(318)	(80%)
Stable gas condensate sales	309	-	309	100%
LPG	96	-	96	100%
Oil products sales	105	141	(36)	(26%)

(1) These companies were not consolidated in the three months ended 30 September 2004.
(2) Represents purchases of production at our combined interest of 56%.
(3) Represents purchases of production at our agreed upon contractual rate of 100%.

In the three months ended 30 September 2005, our three core fields, East Tarkosalinskoye, Yurkharovskoye and Khancheyskoye, produced 537,000 tonnes of crude oil and gas condensate, accounting for 100% of our total crude oil and gas condensate production volumes. For the three months ended 30 September 2005, crude oil and gas condensate production increased by 389,000 tonnes, or 262.8%, over production for the corresponding period in 2004. The increase was largely attributable to the continued development of the Yurkharovskoye, Khancheyskoye 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 September 2005 decreased by 278,000 tonnes, or 89.7%, compared to the corresponding period in 2004, primarily due to the consolidation of Tarkosaleneftegas and Khancheyneftegas in December 2004 and the divestiture of Geiolbent in June 2005.

The following table shows the net sales, volumes and average realized prices we received for our crude oil and stable gas condensate in the three months ended 30 September 2005 and 2004:

	Three months ended 30 September			
	2005	**2004**	**Increase (Decrease)**	**% Increase (Decrease)**
Sales of crude oil-export				
Net sales (1)	**157**	**642**	**(485)**	**(76%)**
Volumes in thousands of tonnes	*21*	*118*	*(97)*	*(82%)*
Average price, $ per tonne (2)	*262.8*	*186.4*	*76.4*	*41%*
Average price, RR per tonne	*7,476*	*5,441*	*2,035*	*37%*
Sales of crude oil-domestic				
Net sales (1)	**337**	**1,178**	**(841)**	**(71%)**
Volumes in thousands of tonnes	*61*	*282*	*(221)*	*(78%)*
Average price, $ per tonne (2)	*194.2*	*143.1*	*51.1*	*36%*
Average price, RR per tonne	*5,525*	*4,177*	*1,348*	*32%*
Sales of stable gas condensate-export				
Net sales (1)	**2,620**	**-**	**2,620**	**100%**
Volumes in thousands of tonnes	*307*	-	*307*	*100%*
Average price, $ per tonne (2)	*299.9*	-	*299.9*	*100%*
Average price, RR per tonne	*8,534*	-	*8,534*	*100%*
Sales of stable gas condensate-domestic				
Net sales (1)	**9**	**-**	**9**	**100%**
Volumes in thousands of tonnes	*1.46*	-	*1.46*	*100%*
Average price, $ per tonne (2)	*216.6*	-	*216.6*	*100%*
Average price, RR per tonne	*6,164*	-	*6,164*	*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 decreased by RR 1,326 million, or 72.9%, for the three months ended 30 September 2005 compared to the corresponding period in 2004, as a result of the reduction in the overall volumes of crude oil sold during the period offset by higher prices in both the export and domestic markets.

The decrease in sales volumes of crude oil in the three months ended 30 September 2005 was due to the migration of processing of our unstable de-ethanized gas condensate from the Surgutsky refinery to the Purovsky processing plant and the divestiture of our participation interest in Geoilbent. This decrease was offset by increases in stable gas condensate and LPG sales volumes from the Purovsky processing plant.

Our revenue from the sales of crude oil depends on the volume of unstable de-ethanized gas condensate processed at the Surgutsky refinery and the product mix we receive from the refinery. In the three months ended 30 September 2005, we delivered 406,000 tonnes and 146,000 tonnes of unstable de-ethanized gas condensate to the Purovsky processing plant and Surgutsky refinery, respectively, compared to nil and 376,000 tonnes, respectively, for the corresponding period in 2004. The product mix, over which we have limited control, 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 September 2005, stabilized gas condensate output comprised 23.2% of the total yield from the Surgutsky refinery compared with 61.4% for the corresponding period in 2004. Stable gas condensate and LPG sales volumes from the Purovsky processing plant are sold separately from the gas condensate and oil products we receive from the Surgutsky refinery.

Following our disposal of Geoilbent in June 2005 we have ceased purchasing its crude oil volumes. Our purchases of crude oil from Geoilbent amounted to 63,000 tonnes in the three months ended 30 September 2004.

Our average realized sales price translated into US dollars for crude oil exported to international markets increased by USD 76.4 per tonne, or 41.0%, in the three months ended 30 September 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 domestic sales price increased by RR 1,348 per tonne, or 32.3%, in the three months ended 30 September 2005 compared to the corresponding period in 2004, due to the strengthening of domestic crude oil prices in the 2005 period.

Our crude oil 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 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 stable gas condensate.

The volumes of stable gas condensate we receive from the Purovsky processing plant are sold separate from the volumes received from the Surgutsky refinery and as such are not included in revenue from crude oil sales. Our revenues from the sales of stable gas condensate increased by RR 2,629 million, or 100%, for the three months ended 30 September 2005 compared to nil for the corresponding period in 2004.

In the three months ended 30 September 2005, we exported substantially all of the stable gas condensate from the Purovsky processing plant to markets in the US 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 299.9 per tonne for the three months ended 30 September 2005 compared to nil for the corresponding period in 2004.

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

	Three months ended 30 September 2005	2004	Increase (Decrease)	% Increase (Decrease)
Sales of LPG-export				
Net sales [1]	**91**	**-**	**91**	**100%**
Volumes in thousands of tonnes	*12*	-	*12*	*100%*
Average price, $ per tonne [2]	*266.5*	-	*266.5*	*100%*
Average price, RR per tonne	*7,583*	-	*7,583*	*100%*
Sales of LPG-domestic				
Net sales [1]	**510**	**-**	**510**	**100%**
Volumes in thousands of tonnes	*84*	-	*84*	*100%*
Average price, $ per tonne [2]	*213.4*	-	*213.4*	*100%*
Average price, RR per tonne	*6,071*	-	*6,071*	*100%*
Sales of oil products-export				
Net sales [1]	**-**	**-**	**-**	**-**
Volumes in thousands of tonnes	-	-	-	-
Average price, $ per tonne [2]	-	-	-	-
Average price, RR per tonne	-	-	-	-
Sales of oil products-domestic				
Net sales [1]	**664**	**413**	**251**	**61%**
Volumes in thousands of tonnes	*105*	*141*	*(36)*	*(26%)*
Average price, $ per tonne [2]	*222.3*	*100.3*	*122.0*	*122%*
Average price, RR per tonne	*6,324*	*2,929*	*3,395*	*116%*

[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 September 2005, our revenues from the sales of LPG increased by RR 601 million, or 100.0%, compared to nil for the corresponding period in 2004 due to the commencement of operations at our Purovsky processing plant in June 2005. Total volumes of LPG sold in the three months ended 30 September 2005 amounted to 96,000 tonnes. We sold 87.5% of our LPG volumes domestically for an average price of RR 6,071 per tonne and the remaining volumes to the export market for an average price of USD 266.5 per tonne.

For the three months ended 30 September 2005, our revenue from the sales of oil products increased by RR 251 million, or 60.8%, compared to the corresponding period in 2004 due to a 115.9% increase in the average domestic price. Sales volumes from the Surgutsky refinery amounted to 105,000 tonnes for the three month period ended 30 September 2005 compared to 140,000 tonnes for the corresponding period in 2004. The remaining 1,000 tonnes in the three months ended 30 September 2004 were refined by our subsidiary, Purneftegasgeologiya. The main oil products sold were diesel fuel, light distillate and naptha. We sold 100% of our volumes of oil products to the domestic market in the three months ended 30 September 2005 and 2004, as 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 September 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.

Sales of polymer and insulation tape and other income

Our sales of polymer and insulation tape increased to RR 278 million in the three months ended 30 September 2005 compared to RR 158 million in the corresponding period in 2004, due to higher sales volumes and prices for the 2005 period. In the three months ended 30 September 2005, we commenced production of BOPP film wrap at our subsidiary Novatek-Polimer and plan to supplement our purchases with production from this subsidiary. In the three months ended 30 September 2005, we produced 300 tonnes of BOPP film wrap which accounted for

7.2% of sales volumes and 6.1% of polymer and insulation tape revenue, or RR 17 million, compared to nil in the corresponding period in 2004. Prices and production for other polymers increased by 9.4% and 60.9%, respectively, and contributed an additional RR 103 million in revenue for the three months ended 30 September 2005 compared to the same period in 2004.

Other income (loss)

In the three months ended 30 September 2005, we recorded a loss of RR 18 million compared to income of RR 62 million in the corresponding period in 2004. The decrease in other income was due to losses on fixed and intangible asset disposals which were offset by other income resulting from compensation for damage to insured fixed assets.

Operating expenses

Operating expenses for the three months ended 30 September 2005 increased by RR 2,895 million, or 87.2%, to RR 6,214 million compared to RR 3,319 million for the corresponding period in 2004. Operating expenses decreased as a percentage of total revenues to 60.6% for the three months ended 30 September 2005 as compared to 66.0% for the corresponding period in 2004. The table below presents a breakdown of operating expenses in each period:

	Three months ended 30 September			
	2005		**2004**	
	(RR million)	**(% of total revenues)**	**(RR million)**	**(% of total revenues)**
Materials, services and other expense	1,064	10%	383	8%
Purchases of crude oil, gas condensate and natural gas	406	4%	1,070	21%
Transportation expenses	1,876	18%	887	18%
Taxes other than income tax	1,216	12%	373	7%
General and administrative expenses	625	6%	402	8%
Depreciation, depletion and amortization	943	9%	294	6%
Net impairment expense	65	1%	(125)	(2%)
Exploration expenses	19	0%	35	1%
Total operating expenses	**6,214**	**61%**	**3,319**	**66%**

Materials, services and other expense

Our materials, services and other expense in the three months ended 30 September 2005 increased by RR 681 million, or 177.8%, compared to the corresponding period in 2004. The increase is due to higher payroll expenses for production workers which increased by RR 266 million and increases in materials and supplies which increased by RR 246 million both of which contributed 133.7% to the increase which is related to the consolidation of Tarkosaleneftegas and Khancheyneftegas at 31 December 2004.

Purchases of natural gas, gas condensate, crude oil and insulation tape

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

	Three months ended 30 September			
	2005		2004	
	Quantity	RR million	Quantity	RR million
Purchases from related parties				
Purchases of natural gas from (mmcm):				
Tarkosaleneftegas [(1)]	-	-	774	243
Khancheyneftegas [(1)]	-	-	606	253
Total purchases of natural gas from related parties	**-**	**-**	**1,380**	**496**
Purchases of natural gas from third parties	*698*	*315*	*20*	*12*
Purchases from related parties				
Purchases of crude oil and gas condensate from (mt):				
Tarkosaleneftegas	-	-	93	149
Khancheyneftegas	-	-	143	229
Geoilbent	-	-	63	155
Purchases of crude oil and gas condensate from related parties	**-**	**-**	**299**	**533**
Purchases of crude oil and gas condensate from third parties	*32*	*86*	*11*	*24*
Purchases of insulation tape and other products from third parties		*5*		*5*
Total purchases of natural gas and crude oil and gas condensate		**406**		**1,070**
Total purchases from related parties		-		1,028
Total purchases from third parties		*406*		*42*

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

In the three months ended 30 September 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 September 2005, our purchases of natural gas included production from the West Tarkosalinskoye field in the amount of 362 mmcm. This field was previously owned by us (See ''Divestitures'' above) and our net production of natural gas from this field in the three months ended 30 September 2004 was 496 mmcm. In the three months ended 30 September 2005, purchases of insulation tape amounted to RR 5 million after the reclassification of RR 15 million of purchases of insulation tape expense from prior periods. Purchases of insulation tape in the three months ended 30 September 2005 before the reclassification amounted to RR 20 million comared to RR 5 million in the corresponding period in 2004.

Transportation expense

Our transportation expense for the three months ended 30 September 2005 increased by RR 989 million, or 111.5%, compared to the corresponding period in 2004. Transportation expense for natural gas for the three months ended 30 September 2005 increased by RR 583 million, or 98.1%, to RR 1,177 million compared to the corresponding period in 2004. The increase was due to a 44.9% 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 36.7% increase in our average natural gas transportation expense per mcm. The increase in volumes and transportation expense per mcm contributed roughly equally to the increase in natural gas transportation expense.

Our expense for transportation of crude oil decreased by RR 142 million, or 82.6%, for the three months ended 30 September 2005 as compared to the corresponding period in 2004. The decrease in crude oil transportation expense for the three months ended 30 September 2005 was due to a reduction in volumes delivered which was slightly offset by an increase in the expense per tonne due to a combination of tariff rate increases and an increase in the average delivery distance in the three months ended 30 September 2005 compared to the same period in 2004.

Our expense for transportation of oil products, stable gas condensate and LPG transported by rail increased by RR 460 million due to increases in total volumes transported in the three months ended 30 September 2005, compared to the corresponding period in 2004, and an increase in the average expense per tonne for oil products in the 2005 period compared to the corresponding period in 2004.

Our expense for oil products transported by rail increased by RR 65 million, or 342.1%, for the three months ended 30 September 2005 due to higher average transportation expense per tonne compared to the corresponding period in 2004. Our expense for oil products transported by rail amounted to RR 800 per tonne for the three months ended 30 September 2005, compared to RR 135 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, increases in the average delivery distance and changes in our oil products mix. Certain oil products, like light distillate, have higher transportation tariffs which influence the average expense per tonne. In the three months ended 30 September 2005, our sales volumes of light distillate increased by 83.7% compared to the corresponding period in 2004.

Our expense for stable gas condensate and LPG transported by rail amounted to RR 114 million, or approximately RR 369 per tonne, and RR 281 million, or RR 2,927 per tonne, respectively, for the three months ended 30 September 2005 compared to nil in the corresponding period in 2004.

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 September 2005, taxes other than income taxes increased by RR 843 million, or 226.0%, compared to the corresponding period in 2004.

The increase in taxes other than income tax resulted primarily from a RR 793 million, or 276.3%, increase in our mineral extraction tax due to an increase in hydrocarbon volumes produced in the three months ended 30 September 2005 compared to the corresponding period in 2004, and an increase in property tax of RR 49 million, or 233.3%, in the three months ended 30 September 2005 compared to the corresponding period in 2004. These increases are directly related to the growth in production volumes and additions of property, plant and equipment at the Yurkharovskoye field and the impact of the consolidation of Tarkosaleneftegas and Khancheyneftegas in December 2004. Prior to the consolidation, taxes other than income tax attributable to these companies were 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. 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 September 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.

The main other operating expense items are as follows:

- Depreciation, depletion and amortization expense, increased by RR 649 million for the three months ended 30 September 2005, or 220.8%, 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 627 million, or 222.9%, largely due to the growth in production volumes and additions of property, plant and equipment at the Yurkharovskoye field and the impact of the consolidation of Tarkosaleneftegas and Khancheyneftegas in December 2004. Straight line depreciation and amortization of other assets also increased by RR 22 million.; and

- Employee compensation expense and general and administrative expenses were generally higher during the three months ended 30 September 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 2,577 as at 30 September 2004 to 3,989 as at 30 September 2005.

Income from operations

As a result of the factors discussed above, our income from operations increased by RR 1,939 million to RR 4,028 million, or 92.8%, for the three months ended 30 September 2005 from RR 2,089 million for the corresponding period in 2004. Our income from operations as a percentage of our total revenues decreased to 39.3% for the three months ended 30 September 2005 compared to 41.6% for the corresponding period in 2004.

Finance income and expense

Finance expense increased slightly from a net expense of RR 72 million in the three months ended 30 September 2004 to a net expense of RR 78 million in the corresponding period in 2005. The expense resulted from an increase in interest expense of RR 141 million in the three months ended 30 September 2005 compared to the corresponding period in 2004. The increase was partly offset by net foreign exchange gains of RR 57 million, largely associated with US dollar denominated debt, in the three months ended 30 September 2005 compared to a net foreign exchange loss of RR 37 million in the corresponding period in 2004, and, an increase of RR 41 million in interest income for the three months ended 30 September 2005, compared to the corresponding period in 2004, due to the provision of loans to related parties.

Share of income of associated companies

For the three months ended 30 September 2005, our share of the net income of Tarkosaleneftegas and Khancheyneftegas was nil, compared to RR 89 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 140 million to nil for the three months ended 30 September 2005 compared to the corresponding period in 2004 primarily due to the divestiture of our participation interest in Geoilbent in June 2005.

Income tax expense

Our overall effective income tax rates (total tax expense calculated as a percentage of our reported IFRS profit before income tax and share of net income from associates) were 27.7% and 24.6% for the three months ended 30 September 2005 and 2004, respectively. Our share of the tax expenses of our associated companies is included within our income tax expense.

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

	Three months ended 30 September			
	2005	**2004**	**Increase (Decrease)**	**% Increase (Decrease)**
Current income tax expense	(1,398)	(368)	(1,030)	280%
Deferred income tax benefit/(expense)	303	(129)	432	(335%)
Total income tax expense	**(1,095)**	**(497)**	**(598)**	**120%**

Our effective income tax rate of 27.7% for the three months ended 30 September 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 1,106 million, or 63.2%, to RR 2,855 million for the three months ended 30 September 2005 from RR 1,749 million for the corresponding period in 2004. Profit attributable to Novatek shareholders after minority interest increased by RR 1,132 million, or 65.0%, to RR 2,875 million for the three months ended 30 September 2005 from RR 1,743 million for the corresponding period in 2004.

Our weighted average basic and diluted earnings per share increased to RR 947 per share for the three months ended 30 September 2005 from RR 776 per share for the corresponding period in 2004. The weighted average number of ordinary shares outstanding for the three months ended 30 September 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 nine months ended 30 September 2005 compared to the nine months ended 30 September 2004

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

	Nine months ended 30 September			
	2005		2004	
	(RR million)	(% of total revenues)	(RR million)	(% of total revenues)
Total Revenues [1]	**28,634**	**100%**	**18,081**	**100%**
Other income (loss)	3,606	13%	159	1%
Total revenues and other income	32,240	113%	18,240	101%
Operating expenses	(17,424)	61%	(13,344)	74%
Income from operations	**14,816**	**52%**	**4,896**	**27%**
Finance income expense	(508)	2%	(75)	0%
Share of income from associates	143	1%	721	4%
Income before income tax and minority interest	14,451	51%	5,542	31%
Total income tax expense	(3,688)	13%	(1,420)	8%
Profit for the period	**10,763**	**38%**	**4,122**	**23%**
Minority interest	(35)	0%	61	0%
Profit attributable to Novatek shareholders	**10,798**	**38%**	**4,061**	**23%**

[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 10,553 million, or 58.4%, to RR 28,634 million for the nine months ended 30 September 2005 as compared to RR 18,081 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 nine month periods ended 30 September 2005 and 2004, respectively. The following table shows our net sales, volumes and average realized prices for the nine months ended 30 September 2005 and 2004:

	Nine months ended 30 September			
	2005	**2004**	**Increase (Decrease)**	**% Increase (Decrease)**
Sales of natural gas				
Net sales (1)	**16,873**	**9,173**	**7,700**	**84%**
Volumes in millions of cubic meters (mmcm)	*20,597*	*12,582*	*8,015*	*64%*
Average price, $ per mcm (2)	*29.1*	*25.2*	*3.9*	*15%*
Average price, RR per mcm	*819*	*729*	*90*	*12%*
Sales of crude oil				
Net sales (1)	**3,886**	**4,895**	**(1 009)**	**(21%)**
Volumes in thousands of tonnes	*787*	*1,184*	*(397)*	*(34%)*
Average price, $ per tonne (2)	*175.4*	*143.0*	*32.4*	*23%*
Average price, RR per tonne	*4,938*	*4,134*	*804*	*19%*
Sales of stable gas condensate				
Net sales (1)	**3,203**	**-**	**3,203**	**100%**
Volumes in thousands of tonnes	*396*	-	*396*	*100%*
Average price, $ per tonne (2)	*287.3*	-	*287.3*	*100%*
Average price, RR per tonne	*8,088*	-	*8,088*	*100%*
Sales of LPG				
Net sales (1)	**758**	**-**	**758**	**100%**
Volumes in thousands of tonnes	*123*	-	*123*	*100%*
Average price, $ per tonne (2)	*218.9*	-	*218.9*	*100%*
Average price, RR per tonne	*6,163*	-	*6,163*	*100%*
Sales of oil products				
Net sales (1)	**2,918**	**1,095**	**1,823**	**167%**
Volumes in thousands of tonnes	*560*	*357*	*203*	*57%*
Average price, $ per tonne (2)	*185.1*	*106.1*	*79.0*	*75%*
Average price, RR per tonne	*5,211*	*3,067*	*2,144*	*70%*
Total oil and gas sales	**27,638**	**15,163**	**12,475**	**82%**
Oil and gas construction services revenue (1)	-	2,053	(2,053)	(100%)
Sales of polymer and insulation tape (1)	714	432	282	65%
Other revenues (1)	282	433	(151)	(35%)
Total revenues	**28,634**	**18,081**	**10,553**	**58%**
Net gain (loss) on disposals	3,631	57	3,574	6,270%
Other income (expense)	(25)	102	(127)	(125%)
Total revenues and other income	**32,240**	**18,240**	**14,000**	**77%**

(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 segment increased by RR 12,475 million, or 82.3%, for the nine months ended 30 September 2005 as compared to the corresponding period in 2004, primarily due to the increase in sales volumes of natural gas, stable gas condensate, LPG and oil products together with higher average realized prices for all products during the 2005 period. Our sales volumes of natural gas and combined liquids (crude oil, stable gas condensate, LPG and oil products) increased for the nine months ended 30 September 2005 by 63.7% and 21.1%, 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 consolidated interest in Tarkosaleneftegas, commencement of operations at our Purovsky processing plant and to a lesser extent increased production at our Khancheyskoye field (partially offset by decreases in production at our other fields and most notably decreases in crude oil purchases due to the divestiture of our participation interest in Geoilbent).

Oil and gas sales

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

Millions of cubic meters (mmcm)	Nine months ended 30 September 2005	2004	Increase (Decrease)	% Increase (Decrease)
Production from:				
Yurkharovneftegas	6,565	4,528	2,037	45%
Tarkosaleneftegas [(1)] [(2)]	10,102	-	10,102	100%
Khancheyneftegas [(1)] [(3)]	2,079	-	2,079	100%
Other	26	1,580	(1,554)	(98%)
Total natural gas production	**18,772**	**6,108**	**12,664**	**207%**
Purchases from:				
Yurkharovneftegas	-	-	-	-
Tarkosaleneftegas [(1)]	-	4,300	(4,300)	(100%)
Khancheyneftegas [(1)]	-	1,659	(1,659)	(100%)
Other	1,956	516	1,440	279%
Total natural gas purchases	**1,956**	**6,475**	**(4,519)**	**(70%)**
Changes in inventory	(131)	(1)	(130)	-
Total natural gas sales volumes	**20,597**	**12,582**	**8,015**	**64%**

[(1)] These companies were not consolidated in the nine months ended 30 September 2004.
[(2)] Represents purchases of cenomanian gas production at our combined interest of 56%.
[(3)] Represents purchases of natural gas production at our agreed upon contractual rate of 100%.

In the nine months ended 30 September 2005, our three core fields, East Tarkosalinskoye, Yurkharovskoye and Khancheyskoye, produced 18,746 mmcm of natural gas, representing 91.0% of our total natural gas sales volumes. In the nine months ended 30 September 2004, we purchased approximately 56% of Tarkosaleneftegas' cenomanian gas production and 100% of Khancheyneftegas' natural gas production.

Our revenues from the sale of natural gas for the nine months ended 30 September 2005 increased by RR 7,700 million, or 83.9%, compared to the corresponding period in 2004. Revenues from the sale of natural gas accounted for 58.9% and 50.7% of our total revenues for the nine months ended 30 September 2005 and 2004, respectively. The increase in natural gas revenues was attributable to an increase in sales volumes and to a lesser degree an increase in prices for the nine months ended 30 September 2005 as compared to the corresponding period in 2004. We sell our entire natural gas volumes in the Russian domestic market. For the nine months ended 30 September 2005, our average realized price per mcm increased by RR 90 per mcm, or 12.4%, 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 nine months ended 30 September 2005 and 2004:

Millions of cubic meters (mmcm)	Nine months ended 30 September 2005	2004	Increase (Decrease)	% Increase (Decrease)
Sales ex-field	12,150	6,610	5,540	84%
End-customer sales	8,447	5,972	2,475	41%
Total gas sales	**20,597**	**12,582**	**8,015**	**64%**

As part of the December 2004 acquisitions of the remaining interests in Tarkosaleneftegas and Khancheyneftegas, we have committed to sell a total volume of 37,500 mmcm 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 the duration of the contract. Under this contract we sold 5,000 mmcm to Itera in the nine months ended 30 September 2005. In the nine months ended 30 September 2004, we sold 1,270 mmcm of natural gas to Itera.

Total sales volumes of crude oil decreased for the nine months ended 30 September 2005 by 397,000 tonnes, or 33.5%, compared to the corresponding period in 2004 whereas total sales volumes of stable condensate increased by 396,000 tonnes compared to nil for the corresponding period in 2004. Total sales volumes of oil products (diesel fuel, light distillate, naptha and others) increased by 203,000 tonnes, or 56.9%, as compared to the 2004 period, while total sales volumes of LPG increased by 123,000 tonnes compared to nil for the corresponding period in 2004.

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

Thousands of tonnes (mt)	Nine months ended 30 September 2005	2004	Increase (Decrease)	% Increase (Decrease)
Production from:				
Yurkharovneftegas	493	401	92	23%
Tarkosaleneftegas (1) (2)	569	-	569	100%
Khancheyneftegas (1) (3)	453	-	453	100%
Other	78	210	(132)	(63%)
Total production	**1,593**	**611**	**982**	**161%**
Purchases from:				
Tarkosaleneftegas (1) (2)	-	256	(256)	(100%)
Khancheyneftegas (1) (3)	-	375	(375)	(100%)
Geoilbent	219	253	(34)	(13%)
From third parties	130	44	86	195%
Total purchases	**349**	**928**	**(579)**	**(62%)**
Total production and purchases	**1,942**	**1,539**	**403**	**26%**
Changes in inventory	(76)	2	(78)	-
Total liquids sales	**1,866**	**1,541**	**325**	**21%**
Crude oil sales	787	1,184	(397)	(34%)
Stable gas condensate sales	396	-	396	100%
LPG	123	-	123	100%
Oil products sales	560	357	203	57%

(1) These companies were not consolidated in the nine months ended 30 September 2004.
(2) Represents purchases of crude oil and gas condensate production at our combined interest of 56%.
(3) Represents purchases of gas condensate at our agreed upon contractual rate of 100%.

In the nine months ended 30 September 2005, our three core fields, East Tarkosalinskoye, Yurkharovskoye and Khancheyskoye, produced 1,515,000 tonnes of oil and gas condensate, accounting for 95.1% of our total crude oil and gas condensate production volumes. For the nine months ended 30 September 2005, crude oil and gas condensate production increased by 982,000 tonnes, or 160.7%, over production for the corresponding period in 2004. The increase was largely attributable to the continued development of the Yurkharovskoye, Khancheyskoye 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 nine months ended 30 September 2005 decreased by 579,000 tonnes, or 62.4%, compared to the corresponding period in 2004, primarily due to the impact of the consolidation of Tarkosaleneftegas and Khancheyneftegas in December 2004.

The following table shows the net sales, volumes and average realized prices we received for our crude oil and stable gas condensate in the nine months ended 30 September 2005 and 2004:

	Nine months ended 30 September			
	2005	**2004**	**Increase (Decrease)**	**% Increase (Decrease)**
Sales of crude oil-export				
Net sales [(1)]	**1,117**	**1,759**	**(642)**	**(37%)**
Volumes in thousands of tonnes	*182*	*355*	*(173)*	*(49%)*
Average price, $ per tonne [(2)]	*218.0*	*171.4*	*46.6*	*27%*
Average price, RR per tonne	*6,137*	*4,955*	*1,182*	*24%*
Sales of crude oil-domestic				
Net sales [(1)]	**2,769**	**3,136**	**(367)**	**(12%)**
Volumes in thousands of tonnes	*605*	*829*	*(224)*	*(27%)*
Average price, $ per tonne [(2)]	*162.6*	*130.8*	*31.8*	*24%*
Average price, RR per tonne	*4,577*	*3,783*	*794*	*21%*
Sales of stable gas condensate-export				
Net sales [(1)]	**3,190**	**-**	**3,190**	**100%**
Volumes in thousands of tonnes	*394*	-	*394*	*100%*
Average price, $ per tonne [(2)]	*287.6*	-	*287.6*	*100%*
Average price, RR per tonne	*8,096*	-	*8,096*	*100%*
Sales of stable gas condensate-domestic				
Net sales [(1)]	**13**	**-**	**13**	**100%**
Volumes in thousands of tonnes	*2.11*	-	*2.11*	*100%*
Average price, $ per tonne [(2)]	*218.9*	-	*218.9*	*100%*
Average price, RR per tonne	*6,161*	-	*6,161*	*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 decreased by RR 1,009 million, or 20.6%, for the nine months ended 30 September 2005 compared to the corresponding period in 2004, primarily as a result of a reduction in the overall volumes of crude oil sold during the period offset by higher prices in both the export and domestic markets.

The decrease in sales volumes of crude oil in the nine months ended 30 September 2005 was due to the migration of the processing of our unstable de-ethanized gas condensate from the Surgutsky refinery to the Purovsky processing plant and the divestiture of our participation interest in Geoilbent. This decrease was offset by increases in stable gas condensate and LPG sales volumes from the Purovsky processing plant.

Our revenue from the sales of crude oil depends on the volume of unstable de-ethanized gas condensate processed at the Surgutsky refinery and the product mix we receive from the refinery. In the nine months ended 30 September 2005, we delivered 534,000 tonnes and 969,000 tonnes of unstable de-ethanized condensate to the Purovsky processing plant and Surgutsky refinery, respectively, compared to nil and 935,000 tonnes, respectively, for the corresponding period in 2004. The product mix, over which we have limited control, 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 nine months ended 30 September 2005, stabilized gas condensate output comprised 43% of the total yield from the Surgutsky refinery compared with 62% for the corresponding period in 2004. Stable gas condensate and LPG sales volumes from the Purovsky processing plant are sold separately from the gas condensate and oil products we receive from the Surgutsky refinery.

Following our disposal of Geoilbent in June 2005, we ceased purchasing its crude oil volumes which amounted to 219,000 tonnes and 253,000 tonnes in the nine months ended 30 September 2005 and 2004, respectively.

Our average realized sales price translated into US dollars for crude oil exported to international markets increased by USD 46.6 per tonne, or 27.2%, in the nine months ended 30 September 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 domestic sales price increased by RR 794 per tonne, or 21.0%, in the nine months ended 30 September 2005 compared to the corresponding period in 2004, due to the strengthening of domestic crude oil prices in the 2005 period.

Our crude oil 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 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 stable gas condensate.

The volumes of stable gas condensate we receive from the Purovsky processing plant are sold separate from the volumes received from the Surgutsky refinery and as such are not included in revenue from crude oil sales. Our revenues from the sales of stable gas condensate increased by RR 3,203 million, or 100.0%, for the nine months ended 30 September 2005 compared to nil for the corresponding period in 2004.

In the nine months ended 30 September 2005, we exported substantially all of the stable gas condensate from the Purovsky processing plant primarily to markets in the US and, to a lesser extent, European markets 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 287.6 per tonne for the nine months ended 30 September 2005 compared to nil for the corresponding period in 2004.

The following table shows the net sales, volumes and average realized prices we received for our LPG and oil products in the nine months ended 30 September 2005 and 2004:

	Nine months ended 30 September			
	2005	**2004**	**Increase (Decrease)**	**% Increase (Decrease)**
Sales of LPG-export				
Net sales [(1)]	**91**	**-**	**91**	**100%**
Volumes in thousands of tonnes	*12*	*-*	*12*	*100%*
Average price, $ per tonne [(2)]	*266.5*	*-*	*266.5*	*100%*
Average price, RR per tonne	*7,583*	*-*	*7,583*	*100%*
Sales of LPG-domestic				
Net sales [(1)]	**667**	**-**	**667**	**100%**
Volumes in thousands of tonnes	*111*	*-*	*111*	*100%*
Average price, $ per tonne [(2)]	*213.5*	*-*	*213.5*	*100%*
Average price, RR per tonne	*6,009*	*-*	*6,009*	*100%*
Sales of oil products-export				
Net sales [(1)]	**-**	**98**	**(98)**	**(100%)**
Volumes in thousands of tonnes	*-*	*20*	*(20)*	*(100%)*
Average price, $ per tonne [(2)]	*-*	*169.4*	*(169.4)*	*(100%)*
Average price, RR per tonne	*-*	*4,900*	*(4,900)*	*(100%)*
Sales of oil products-domestic				
Net sales [(1)]	**2,918**	**997**	**1,921**	**193%**
Volumes in thousands of tonnes	*560*	*337*	*223*	*66%*
Average price, $ per tonne [(2)]	*185.1*	*102.3*	*82.8*	*81%*
Average price, RR per tonne	*5,211*	*2,958*	*2,253*	*76%*

[(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 nine months ended 30 September 2005, our revenues from the sales of LPG increased by RR 758 million, or 100.0%, compared to nil for the corresponding period in 2004 due to the commencement of operations at our Purovsky processing plant in June 2005. Total volumes of LPG sold in the nine months ended 30 September 2005 amounted to 123,000 tonnes. We sold 90.2% of our LPG domestically for an average price of RR 6,009 per tonne and the remaining volumes to the export market for an average price of USD 266.5 per tonne.

For the nine months ended 30 September 2005, our revenues from the sales of oil products increased by RR 1,823 million, or 166.5%, compared to the corresponding period in 2004. The increase was attributable to higher yields of oil products from the Surgutsky refinery which amounted to 522,000 tonnes for the nine month period ended 30 September 2005 compared to 338,000 tonnes for the corresponding period in 2004. The remaining 38,000 tonnes and 19,000 tonnes in the nine months ended 30 September 2005 and 2004, respectively, were produced by our subsidiary, Purneftegasgeologiya. 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 naptha. We did not supply oil products to the export market in the nine months ended 30 September 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 nine months ended 30 September 2005, domestic sales of oil products increased by RR 1,921 million, or 192.7%, 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 nine months ended 30 September 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 nine months ended 30 September 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 revenues

Our sales of polymer and insulation tape increased to RR 714 million in the nine months ended 30 September 2005 compared to RR 432 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 nine months ended 30 September 2005, we produced 300 tonnes of BOPP film wrap which accounted for 4.3% of sales volumes and 2.4% of polymer and insulation tape revenue, or RR 17 million, compared to nil in the corresponding period in 2004. Prices and production for other polymers increased by 31.7% and 17.1%, respectively, and contributed an additional RR 265 million in revenue for the nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2005 increased by RR 4,080 million, or 30.6%, to RR 17,424 million compared to RR 13,344 million for the corresponding period in 2004. Operating expenses decreased as a percentage of revenues from 73.8% for the nine months ended 30 September 2004 to 60.9% 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 crude oil, gas condensate and natural gas due to the consolidation of Tarkosaleneftegas and Khancheyneftegas in December 2004. Total operating expenses attributable to our oil and gas construction services business were nil and RR 3,612 million for the nine month periods ended 30 September 2005 and 2004, respectively. The following table presents a breakdown of operating expenses in each period:

	Nine months ended 30 September			
	2005		**2004**	
	(RR million)	**(% of total revenues)**	**(RR million)**	**(% of total revenues)**
Materials, services and other expense	2,714	10%	3,537	20%
Purchases of crude oil, gas condensate and natural gas	1,772	6%	4,044	22%
Transportation expenses	5,191	18%	2,865	16%
Taxes other than income tax	3,264	11%	1,061	6%
General and administrative expenses	1,465	5%	1,001	6%
Depreciation, depletion and amortization	2,607	9%	768	4%
Net impairment expense	110	0%	(70)	0%
Exploration expenses	301	1%	138	1%
Total operating expenses	**17,424**	**61%**	**13,344**	**74%**

Materials, services and other expense

Our materials, services and other expense in the nine months ended 30 September 2005 decreased by RR 823 million, or 23.3%, compared to the corresponding period in 2004. The decrease was due to the sale of our oil and gas construction services business in June 2004 which was partially offset by increases due to the consolidation of Tarkosaleneftegas and Khancheyneftegas at 31 December 2004.

Purchases of natural gas, gas condensate, crude oil and insulation tape

For the nine months ended 30 September 2005 and 2004, we purchased natural gas, gas condensate, crude oil and insulation tape as shown in the following table:

	Nine months ended 30 September			
	2005		**2004**	
	Quantity	**RR million**	**Quantity**	**RR million**
Purchases from related parties				
Purchases of natural gas from (mmcm):				
Tarkosaleneftegas [1]	-	-	4,300	1,298
Khancheyneftegas [1]	-	-	1,659	692
Purchases of natural gas from related parties	**-**	**-**	**5,959**	**1,990**
Purchases of natural gas from third parties	*1,956*	*852*	*516*	*280*
Purchases from related parties				
Purchases of crude oil and gas condensate from (mt):				
Tarkosaleneftegas [1]	-	-	256	410
Khancheyneftegas [1]	-	-	375	599
Geoilbent	219	562	253	661
Purchases of crude oil and gas condensate from related parties	**219**	**562**	**884**	**1,670**
Purchases of crude oil and gas condensate from third parties	*130*	*330*	*44*	*72*
Purchases of insulation tape and other products from third parties	-	*28*		*32*
Total purchases of natural gas and crude oil and gas condensate		**1,772**		**4,044**
Total purchases from related parties		562		3,660
Total purchases from third parties		*1,210*		*384*

[1] These companies were not consolidated in the nine months ended 30 September 2004.

In the nine months ended 30 September 2005, our purchases of hydrocarbons decreased significantly due to the acquisition and subsequent consolidation of hydrocarbon production from Tarkosaleneftegas and Khancheyneftegas. In the nine months ended 30 September 2005, our purchases of natural gas included production from the West Tarkosalinskoye field in the amount of 1,114 mmcm of natural gas. This field was previously owned by us (See “Divestitures” above) and our net production of natural gas from this field in the nine months ended 30 September 2004 was 1,252 mmcm. In the nine months ended 30 September 2005, we purchased RR 28 million of insulation tape from European suppliers compared to RR 32 million for the 2004 period. The purchased tape was sold together with our own production of insulation tape.

Transportation expense

Our transportation expense for the nine months ended 30 September 2005 increased by RR 2,326 million, or 81.2%, compared to the corresponding period in 2004. Transportation expense for natural gas for the nine months ended 30 September 2005, increased by RR 1,674 million, or 88.7%, to RR 3,562 million compared to the corresponding period in 2004. The increase was due to a 41.4% 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 33.4% increase in our average natural gas transportation expense per mcm. The increase in volumes and transportation expense per mcm contributed roughly equally to the increase in natural gas transportation expense.

Our expense for transportation of crude oil decreased by RR 191 million, or 36.0%, for the nine months ended 30 September 2005 compared to the corresponding period in 2004. The decrease in crude oil transportation expense for the nine months ended 30 September 2005 was due to a reduction in volumes delivered which was slightly offset by an increase in the expense per tonne due to a combination of tariff rate increases and an increase in the average delivery distance in the nine months ended 30 September 2005 compared to the same period in 2004.

Our expense for transportation of oil products, stable gas condensate and LPG transported by rail increased by RR 688 million due to increases in total volumes transported in the nine months ended 30 September 2005 compared to the corresponding period in 2004 and an increase in the average expense per tonne for oil products in the 2005 period compared to the corresponding period in 2004.

Our expense for oil products transported by railroad increased by RR 185 million, or 268.6%, for the nine months ended 30 September 2005 due to an increase in volumes and higher transportation expense per tonne, compared to the corresponding period in 2004. Our expense for oil products transported by rail amounted to RR 454 per tonne for the nine months ended 30 September 2005 compared to RR 193 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, increases in the average delivery distance and changes in our oil products mix. Certain oil products, like light distillate, have higher transportation tariffs which influence the average expense per tonne. In the nine months ended 30 September 2005, our sales volumes of light distillate increased by 342.7% compared to the corresponding period in 2004.

Our expense for stable gas condensate and LPG transported by rail amounted to RR 182 million, or approximately RR 460 per tonne, and RR 322 million, or RR 2,618 per tonne, respectively, for the nine months ended 30 September 2005 compared to nil in the corresponding period in 2004.

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 nine months ended 30 September 2005, taxes other than income taxes increased by RR 2,203 million, or 207.6%, 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 2,384 million, or 264.9%, increase in our mineral extraction tax due to an increase in hydrocarbon volumes produced in the nine months ended 30 September 2005 compared to the corresponding period in 2004, and an increase in property tax of RR 162 million, or 257.1%, in the nine months ended 30 September 2005 compared to the same period in 2004. These increases are directly related to the growth in production volumes and additions of property, plant and equipment at the Yurkharovskoye field and the impact of the consolidation of Tarkosaleneftegas and Khancheyneftegas in December 2004. Prior to the consolidation, taxes other than on income tax attributable to these companies were 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. In 2005, the production tax for natural gas increased by RR 28 per mcm to RR 135 per mcm compared to RR 107 per mcm in 2004.

Other operating expenses

We saw a general increase in other operating expenses for the nine months ended 30 September 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 1,839 million, or 239.5%, for the nine months ended 30 September 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 1,851 million, or 278%, largely due to the growth in production volumes and 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 12 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 nine months ended 30 September 2005 compared to the corresponding period in 2004 due to the consolidation of Tarkosaleneftegas and Khancheyneftegas which increased the average number of employees from 2,577 as at 30 September 2004 to 3,989 as at 30 September 2005.

Income from operations

As a result of the factors discussed above, our income from operations increased by RR 9,920 million to RR 14,816 million, or 202.6%, for the nine months ended 30 September 2005 from RR 4,896 million for the corresponding period in 2004. Our income from operations as a percentage of our total revenues increased to 51.7% for the nine months ended 30 September 2005 compared to 27.1% for the corresponding period in 2004. Income from operations in the nine months ended 30 September 2005 benefited from a one-time net gain of RR 3,611 million, resulting from the disposal of our investments in oil and gas producing associates, compared to a net loss of RR 22 million in the corresponding period in 2004. Our income from operations net of the gain on disposals for the 2005 period was RR 11,205 million or 39.1% of total revenues.

Finance income and expense

Finance income and expense increased from a net expense of RR 75 million in the nine months ended 30 September 2004 to a net expense of RR 508 million in the corresponding period in 2005. The increase was due to higher interest expense in the nine months ended 30 September 2005 of RR 914 million compared to RR 358 million in the corresponding period in 2004 primarily due to the consolidation of debt and related interest expense of Tarkosaleneftegas and Khancheyneftegas in December 2004. Foreign exchange losses, largely associated with US dollar denominated debt, increased by RR 186 million in the nine months ended 30 September

2005 compared to the corresponding period in 2004. These increases were offset by an increase in interest income in the nine months ended 30 September 2005 of RR 309 million over the corresponding period in 2004 due to the provision of loans to related parties.

Share of income of associated companies

For the nine months ended 30 September 2005, our share of the net income of Tarkosaleneftegas and Khancheyneftegas was nil, compared to RR 266 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 312 million to RR 143 million for the nine months ended 30 September 2005 compared to RR 455 million for the corresponding period in 2004. The decrease was due to lower income from operations recorded by our associate company, Geoilbent, which was sold in June 2005 and a beneficial tax ruling during the first quarter of 2004 in favor of Geoilbent which reduced its income tax expense 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 25.8% and 29.4% for the nine months ended 30 September 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 nine months ended 30 September 2005 and 2004.

	Nine months ended 30 September			
	2005	**2004**	**Increase (Decrease)**	**% Increase (Decrease)**
Current income tax expense	(4,334)	(1,215)	(3,119)	257%
Deferred income tax benefit/(expense)	646	(205)	851	(415%)
Total income tax expense	**(3,688)**	**(1,420)**	**(2,268)**	**160%**

Our effective income tax rate of 25.8% for the nine months ended 30 September 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 6,641 million, or 161.1%, to RR 10,763 million for the nine months ended 30 September 2005 from RR 4,122 million for the corresponding period in 2004. Profit attributable to our oil and gas construction services business was nil for the nine months ended 30 September 2005 compared to a net profit of RR 140 million for the corresponding period in 2004. Profit attributable to shareholders, after minority interest, increased by RR 6,737 million, or 165.9%, to RR 10,798 million for the nine months ended 30 September 2005 from RR 4,061 million for the corresponding period in 2004. Our weighted average basic and diluted earnings per share increased to RR 3,556 per share for the nine months ended 30 September 2005 from RR 1,807 per share for the corresponding period in 2004. The weighted average number of ordinary shares outstanding for the nine months ended 30 September 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 if necessary. 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 nine months ended 30 September 2005 and 2004:

	Nine months ended 30 September			
	2005	**2004**	**Increase (Decrease)**	**% Increase (Decrease)**
Net cash provided by operating activities	7,136	3,390	3,746	111%
Net cash provided by (used for) investing activities	10,138	(6,094)	16,232	266%
Net cash provided by (used for) financing activities	(14,581)	2,820	(17,401)	(617%)

Net cash provided by operating activities

Net cash provided by operating activities increased by RR 3,746 million to RR 7,136 million for the nine months ended 30 September 2005 compared to RR 3,390 million for the comparable period in 2004. The increase in the cash inflow was mainly attributable to significantly higher operating income from our oil and gas sales as a result of increases in our sales volumes and realized prices for the nine months ended 30 September 2005 compared to the corresponding period in 2004. The positive impact on our cash flows due to higher sales volumes and realized prices was partially offset by an increase in income tax payments.

Net cash from investing activities

Net cash from investing activities increased by RR 16,232 million to RR 10,138 million for the nine months ended 30 September 2005 compared to net cash used in investing activities of RR 6,094 million for the comparable period in 2004. The increase in the nine months ended 30 September 2005 compared to the corresponding period in 2004 was primarily due to proceeds from the disposal of Geoilbent, Selkupneftegas and Tambeyneftegas and repayment of a loan made to a related party. In the nine months ended 30 September 2005, the net cash used for investment in purchases of property plant and equipment, primarily associated with the continued development of our oil and gas activities, was slightly lower than in the corresponding period in 2004 and the provision of short- and long-term loans was significantly lower compared to the corresponding period in 2004. In the nine months ended 30 September 2004, we provided short- and long-term loans to our associates, Tarkosaleneftegas and Khancheyneftegas for the continued development of their oil and gas activities.

Net cash from financing activities

Net cash from financing activities decreased by RR 17,401 million to net cash used in financing activities of RR 14,581 million in the nine months ended 30 September 2005 compared to net cash from financing activities RR 2,820 million for the corresponding period in 2004. The decrease was primarily due to repayments of short- and long-term borrowings of RR 17,996 million. See ‘‘Debt obligations’’ below.

Working capital

At 30 September 2005, our working capital surplus (current assets less current liabilities) was RR 1,120 million compared to a surplus of RR 4,411 million at 30 September 2004. The RR 3,291 million decrease in our net working capital position for the nine months ended 30 September 2005 compared to the corresponding period in 2004 is primarily due to an increase of RR 7,762 million in short-term and current portion of long-term debt off set by an increase in cash and cash equivalents of RR 3,911 million in the 2005 period.

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 nine months ended 30 September 2005 and 2004 amounted to the following:

	Three months ended 30 September		**Three months ended 30 September**	
	2005		**2004**	
	RR million	**% of total**	**RR million**	**% of total**
Exploration and production (includes processing)	902	81%	1,314	99%
Oil and gas construction services	-	-	-	-
Other [1]	214	19%	13	1%
Total	**1,116**	**100%**	**1,327**	**100%**

[1] Includes expenditures for other activities, including head office services, banking and telecommunications.

	Nine months ended 30 September		**Nine months ended 30 September**	
	2005		**2004**	
	RR million	**% of total**	**RR million**	**% of total**
Exploration and production (includes processing)	3,894	90%	5,386	97%
Oil and gas construction services	-	-	32	1%
Other [1]	424	10%	121	2%
Total	**4,318**	**100%**	**5,539**	**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 nine months ended 30 September 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 nine months ended 30 September 2005 we spent and capitalized an aggregate of approximately RR 1,769 million on the Purovsky processing plant and the loading facilities at the Port of Vitino.

Capitalized interest of RR 87 million and RR 136 million was included within capital expenditures for the three months ended 30 September 2005 and 2004, respectively, and RR 538 million and RR 393 million of interest expense was capitalized for the nine months ended 30 September 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	
	RR million	**% of total**
Exploration and production (includes processing)	4,765	97%
Other	142	3%
Total	**4,907**	**100%**

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

Debt obligations

Recent developments

In the period, 1 October to 8 November 2005, we repaid the USD denominated loan of RR 107 million (USD 3.75 million) to ZAO BNP Paribas.

On the 14 October 2005, we repaid RR 2,856 million (USD 100 million) of the US dollar denominated loan from ING Bank N.V. backed by unsecured, 18-month credit-linked notes, issued in April 2004.

Overview

Our total debt obligations decreased by RR 12,448 million, or 51.9%, to RR 11,552 million at 30 September 2005 from RR 24,000 million at 31 December 2004. Our total debt increased by RR 398 million, or 3.6%, from RR 11,154 million at 30 September 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 the loading facilities at the Port of Vitino.

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

	30 September 2005	**31 December 2004**	**30 September 2004**
		(RR million)	
Short-term debt			
Russian rouble denominated loans	120	3,680	2,233
US dollar denominated loans	1,358	-	112
Loans from related parties [(1)]	-	425	5
Promissory notes issued	-	1,275	12
Total	**1,478**	**5,380**	**2,362**
Add: current portion of long-term debt	8,646	5,388	-
Total short-term debt and current portion of long-term debt	**10,124**	**10,768**	**2,362**
Long-term debt			
Russian rouble denominated loans	-	4,537	1,771
US dollar denominated loans	8,944	11,586	5,843
EURO denominated loans	130	-	-
Loans from related parties [(1)]	-	1,497	1,178
Rouble bonds issued	1,000	1,000	-
Total	**10,074**	**18,620**	**8,792**
Less: current portion of long-term debt	(8,646)	(5,388)	-
Total long-term debt	**1,428**	**13,232**	**8,792**
Total debt	**11,552**	**24,000**	**11,154**

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

Maturities

Scheduled maturities of long-term debt outstanding at 30 September 2005, 31 December 2004 and 30 September 2004 are as follows:

	Schedule of maturities as at		
	30 September 2005	**31 December 2004**	**30 September 2004**
		(RR million)	
2004	-	-	-
2005	-	-	4,043
2006	-	7,920	2,153
2007	1,161	2,697	2,107
2008	128	2,093	489
2009	107	515	-
Thereafter	32	7	-
Total long-term debt	**1,428**	**13,232**	**8,792**