

**ОАО НКГ СЛАВНЕФТ И СУБСИДИАРИИ**

Consolidated Financial Statements

December 31, 2005 and 2004

(With Independent Auditors' Report Thereon)



KPMG Limited

11 Gogolevsky Boulevard  
Moscow 119019  
Russia

Tel. +7 (095) 937 4477  
Fax +7 (095) 937 4400/99  
www.kpmg.ru

### **Independent Auditors' Report**

The Board of Directors  
OAO Neftegazovaya Kompania Slavneft:

We have audited the accompanying consolidated balance sheets of OAO Neftegazovaya Kompania Slavneft ("OAO NGK Slavneft" or "the Company") and its subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' capital and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of OAO NGK Slavneft. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

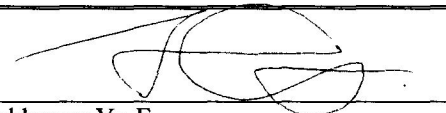
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

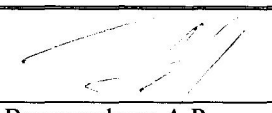
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OAO NGK Slavneft and its subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*KPMG Limited*

KPMG Limited  
April 5, 2006

	Note	December 31, 2005	December 31, 2004
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	76,435	86,896
Accounts receivable, net	4	847,858	1,192,649
Inventories	5	228,213	257,285
Deferred income tax assets	11	24,031	22,489
Other current assets		42,449	2,991
<b>Total current assets</b>		<b>1,218,986</b>	<b>1,562,310</b>
Investments	6	21,869	20,560
Property, plant and equipment	7	4,061,078	3,453,422
Deferred income tax assets	11	15,885	9,679
Other non-current assets	8	187,881	178,479
<b>Total assets</b>		<b>5,505,699</b>	<b>5,224,450</b>
<b>LIABILITIES AND SHAREHOLDERS' CAPITAL</b>			
<b>Current liabilities</b>			
Accounts payable		114,980	146,264
Short-term debt and current portion of long-term debt	9	223,350	278,640
Taxes payable	11	427,190	432,862
Dividends payable		147,671	2,303
Other current liabilities	12	83,157	52,531
<b>Total current liabilities</b>		<b>996,348</b>	<b>912,600</b>
Long-term debt	10	170,858	206,439
Asset retirement obligations	7	43,343	30,391
Deferred income tax liabilities	11	473,597	512,095
Other non-current liabilities		12,132	-
<b>Total liabilities</b>		<b>1,696,278</b>	<b>1,661,525</b>
<b>Minority interest</b>	13	<b>1,006,868</b>	<b>1,052,757</b>
<b>Shareholders' capital</b>			
Common shares (0.001 Russian ruble par value, 4,754,238,000 shares authorized and issued)		2,201	2,201
Treasury stock, at cost		-	(11,724)
Additional paid in capital		1,717,621	1,716,983
Retained earnings		1,082,731	802,708
<b>Total shareholders' capital</b>		<b>2,802,553</b>	<b>2,510,168</b>
<b>Total liabilities and shareholders' capital</b>		<b>5,505,699</b>	<b>5,224,450</b>

  
Sukhanov Yu.E.  
President  
OAO NGK Slavneft

  
Baranovskaya A.P.  
Vice-president on economics and finance  
OAO NGK Slavneft

OAO NGK Slavneft  
 Consolidated Statements of Income  
 (All amounts in thousands of USD, except for share data)

	Note	Year ended December 31, 2005	Year ended December 31, 2004
<b>Revenues</b>			
Sales (including excise and export duties)		7,287,364	5,938,667
Other		244,656	185,677
<b>Total revenues</b>		<b>7,532,020</b>	<b>6,124,344</b>
<b>Costs and other deductions</b>			
Operating expenses		(1,412,528)	(1,182,878)
Selling, general and administrative expenses		(610,538)	(791,696)
Cost of other sales		(151,178)	(85,634)
Taxes other than income taxes	11	(2,670,641)	(1,915,512)
Depreciation, depletion and amortization		(259,382)	(234,879)
Exploration expenses		(32,546)	(17,434)
(Loss) gain on sale of assets, net		(3,823)	26,597
<b>Income from operating activities</b>		<b>2,391,384</b>	<b>1,922,908</b>
Interest expense		(7,387)	(3,387)
Currency translation (loss) gain		(35,423)	58,482
Other non-operating loss, net		(34,284)	(12,203)
Minority interest	13	(366,374)	(145,053)
<b>Income before income taxes</b>		<b>1,947,916</b>	<b>1,820,747</b>
Current income taxes		(753,607)	(524,279)
Deferred income taxes		42,379	(84,759)
<b>Total income tax expense</b>	11	<b>(711,228)</b>	<b>(609,038)</b>
<b>Net income</b>		<b>1,236,688</b>	<b>1,211,709</b>

*OAO NGK Slavneft*  
*Consolidated Statements of Changes in Shareholders' Capital*  
*(All amounts in thousands of USD, except share data)*

	Common shares	Treasury stock	Additional paid in capital	Retained earnings	Total shareholders' capital
<b>Balance as of January 1, 2004</b>	<b>2,201</b>	<b>(11,724)</b>	<b>1,716,983</b>	<b>392,491</b>	<b>2,099,951</b>
Net income	-	-	-	1,211,709	1,211,709
Dividends declared	-	-	-	(801,492)	(801,492)
<b>Balance as of December 31, 2004</b>	<b>2,201</b>	<b>(11,724)</b>	<b>1,716,983</b>	<b>802,708</b>	<b>2,510,168</b>
Net income	-	-	-	1,236,688	1,236,688
Sales of treasury stock	-	11,724	638	-	12,362
Dividends declared	-	-	-	(956,665)	(956,665)
<b>Balance as of December 31, 2005</b>	<b>2,201</b>	<b>-</b>	<b>1,717,621</b>	<b>1,082,731</b>	<b>2,802,553</b>

OAO NGK Slavneft  
 Consolidated Statements of Cash Flows  
 (All amounts in thousands of USD, except share data)

	Year ended December 31, 2005	Year ended December 31, 2004
<b>Cash flows from operating activities</b>		
Net income	1,236,688	1,211,709
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on sale of assets, net	3,823	(26,597)
Depreciation, depletion and amortization	259,382	234,879
Deferred income taxes	(42,379)	84,759
Minority interest	366,374	145,053
Decrease (increase) in accounts receivable	253,251	(336,514)
Decrease (increase) in inventories and other assets	27,080	(95,395)
(Decrease) increase in accounts payable	(25,309)	73,911
(Decrease) increase in taxes payable	(4,056)	165,451
Increase in other current liabilities	38,894	23,357
Other	(28,276)	22,425
<b>Net cash provided by operating activities</b>	<b>2,085,472</b>	<b>1,503,038</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment and long-term investments	41,539	84,326
Purchases of property, plant and equipment and other non-current assets	(874,411)	(602,461)
Acquisition of additional interests in subsidiary companies	(1)	(244,187)
Purchases of long-term investments	(9,677)	(6,711)
<b>Net cash used in investing activities</b>	<b>(842,550)</b>	<b>(769,033)</b>
<b>Cash flows from financing activities</b>		
Net change in short-term debt	(30,345)	65,322
Repayments of long-term debt	(10,219)	-
Proceeds from sale of treasury stock	12,362	-
Dividends paid	(1,222,987)	(800,188)
<b>Net cash used in financing activities</b>	<b>(1,251,189)</b>	<b>(734,866)</b>
Effect of exchange rate changes on cash and cash equivalents	(2,194)	(3,527)
<b>Net decrease in cash and cash equivalents</b>	<b>(10,461)</b>	<b>(4,388)</b>
Cash and cash equivalents at beginning of period	86,896	91,284
<b>Cash and cash equivalents at end of period</b>	<b>76,435</b>	<b>86,896</b>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	14,181	10,925
Income taxes paid	719,178	479,642