

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 months ended 30 September 2008 and 2007 together with our unaudited consolidated interim condensed financial information as of and for the three and nine months ended 30 September 2008. The unaudited consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. This consolidated interim condensed financial information should be read together with the audited consolidated financial statements for the year ended 31 December 2007 prepared in accordance with International Financial Reporting Standards (IFRS).

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 and its consolidated subsidiaries (hereinafter jointly referred to as "we" or the "Group").

OVERVIEW

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

Our exploration, development, production and processing of natural gas, gas condensate, crude oil and related oil products have been conducted primarily within the Russian Federation. We sell our natural gas volumes exclusively in the Russian domestic market. We export our stable gas condensate directly to international markets while liquefied petroleum gas and crude oil are generally delivered to both international (including CIS) and domestic markets. We generally sell our oil products produced from our unstable gas condensate on the domestic market. We began limited commercial trading operations in September 2007 through our wholly-owned Swiss-based trading subsidiary, RUNITEK, by primarily purchasing and reselling refined products on the international markets.

SELECTED DATA

<i>millions of Russian roubles except as stated</i>	Three months ended 30 September:		Change %
	2008	2007	
Financial results			
Total revenues (net of VAT and export duties)	20,463	15,211	34.5%
Operating expenses	(11,936)	(8,539)	39.8%
Profit attributable to NOVATEK shareholders	5,682	5,119	11.0%
EBITDA ⁽¹⁾	9,633	7,602	26.7%
Earnings per share (in Russian roubles)	1.87	1.69	10.7%
Operating results			
Natural gas sales volumes (mmcm)	8,226	6,639	23.9%
Stable gas condensate sales volumes (thousand tons)	329	436	(24.5%)
Liquefied petroleum gas sales volumes (thousand tons)	153	150	2.0%
Crude oil sales volumes (thousand tons)	63	73	(13.7%)
Oil product sales volumes (thousand tons)	32	6	433.3%
Cash flow results			
Net cash provided by operating activities	6,759	6,916	(2.3%)
Capital expenditures	9,784	5,908	65.6%

⁽¹⁾EBITDA represents net income before finance income (expense) and income taxes from the statement of income, and depreciation, depletion and amortization and share-based compensation from the statement of cash flows.

<i>Exchange rate of Russian rouble to US dollar</i>	Three months ended 30 September:		Change %
	2008	2007	
At the beginning of the period	23.46	25.82	(9.1%)
At the end of the period	25.25	24.95	1.2%
Average for the period	24.25	25.51	(4.9%)

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Current financial market conditions

The recent downturn in the global financial markets has negatively affected all borrowers from accessing the capital markets. The general consensus amongst the international and domestic banking community is a period of tight credit market conditions and increasing margin spreads. Furthermore, there is a heightened awareness over excess borrowings, potential liquidity problems and the strength of a company's balance sheet to withstand a period of market turbulence.

As a company, we have taken various measures to ensure the integrity of our financial condition and mitigate counter-party credit exposure from our natural gas and liquid hydrocarbon sales. In addition, we have taken proactive steps to ensure the safety of our excess funds deposited with both domestic and international banks as well as limited our exposure from prepayments to various service providers. Presently, our cash and deposits are diversified and maintained in well capitalized banks with a minimum risk of default.

In a period of limited access to the capital markets for funding purposes, we have closely reassessed our capital expenditure programs for the remainder of this year and the next twelve months and have concluded that we have sufficient liquidity through current internal cash flows and short-term borrowing facilities to fund our core natural gas business operations and planned capital expenditure programs. As of the 30 September 2008, we have not made any major adjustments to our current capital expenditure program and we will continue to fund our exploration and development programs as well as our plans to expand our processing capacity.

Management will continue to closely monitor the economic environment in Russia as well as the domestic and international capital markets to determine if any other corrective and/or preventive measures are required to sustain the business through the financial and liquidity crisis.

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 prices regulated by the Federal Tariffs Service (FTS), a governmental agency. In the three months ended 30 September 2008, the weighted average FTS price for the regions where we delivered our natural gas increased by RR 289 per mcm, or 22.4%, to RR 1,577 per mcm compared to RR 1,288 per mcm in the corresponding period in 2007. 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. Sales to wholesale traders allow us to diversify our gas sales without incurring additional commercial expenses. However, we generally realize higher prices and net margins for natural gas volumes sold directly to the end-customers, as the gas transportation tariff is included in the contract price and no retail margin is lost to wholesale gas traders. During the three months ended 30 September 2008, the average netback margin differential we received on end-customer sales compared to ex-field sales (average end-customer netback less average ex-field price) remained relatively consistent as compared to the period in 2007 (see "Natural gas sales" below). During the three months ended 30 September 2008, the rate of growth in our average natural gas price sold ex-field exceeded the respective rate of growth on our average netback price sold to end-customers by 3.5%.

In November 2006, the FTS approved and published a plan to liberalize the price of natural gas sold on the Russian domestic market by the year 2011. Effective 1 January 2008, the FTS approved a 25% increase in the regulated price of natural gas for the year 2008. As part of that program, on 6 November 2008, FTS approved a further average 19.6% increase in the regulated price for natural gas for the year 2009, which will be implemented in two stages – 1 January 2009 and 1 July 2009. We expect further increases in the regulated price for natural gas as part of the liberalization program. The FTS approves the effective increase on an annual basis and reserves the right to modify the percentages published based on market conditions and other factors.

The following table shows our average realized natural gas sales prices (net of VAT) for the three months ended 30 September 2008 and 2007:

<i>Russian roubles per mcm</i>	Three months ended 30 September:		Change %
	2008	2007	
Average natural gas price to end-customers	1,850	1,509	22.6%
Gas transportation expense for sales to end-customers	756	640	18.1%
Average natural gas netback price on end-customer sales	1,094	869	25.9%
Average natural gas price ex-field (wholesale traders)	996	770	29.4%
Average netback margin differential	98	99	(1.0%)

We also participate in the electronic trading of natural gas at non-regulated prices utilizing the electronic trading facilities of Mezhhregiongaz, a subsidiary of Gazprom. Our average natural gas netback prices on electronic trading (e-trading) are shown in the table below:

<i>Russian roubles per mcm</i>	Three months ended 30 September:		Change %
	2008	2007	
Average natural gas price to customers on e-trading sales	1,382	1,130	22.3%
Gas transportation expense on e-trading sales	131	115	13.9%
Average natural gas netback on e-trading sales	1,251	1,015	23.3%

Crude oil, stable gas condensate, liquefied petroleum gas and oil products prices

Crude oil, stable gas condensate, liquefied petroleum gas (“LPG”) and oil products prices on international markets have historically been volatile depending on, among other things, the balance between supply and demand fundamentals, and the ability and willingness of oil producing countries to sustain or change production levels to meet changes in global demand and potential disruptions in global crude oil supplies due to war, geopolitical developments, terrorist activities or natural disasters. Crude oil, stable gas condensate, LPG and oil products prices on the domestic market also fluctuate depending on supply and demand fundamentals amongst other factors. 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 actual price we receive for our liquid hydrocarbons on both the domestic and international markets are dependent on many external factors beyond the control of management.

Our stable gas condensate, LPG (excluding obligatory domestic deliveries at regulated prices), crude oil and oil products prices at both international and domestic markets include transportation expense in accordance with the terms of delivery. Our delivery terms for the sale of crude oil on the domestic market changed effective January 2008 whereby our contract prices cover transportation expense as we are responsible for transportation, and the buyer takes ownership and associated risks at the point of its destination. Correspondingly, revenues and prices for the comparative period of 2007 were adjusted to gross up transportation expenses.

In the three months ended 30 September 2008 our stable gas condensate export delivery terms were delivery to the port of destination ex-ship (DES) while in the corresponding period in 2007 delivery terms were delivery to the port of destination ex-ship (DES) or priced at cost and freight (CFR). Our average export stable gas condensate contract price, including export duties, in the three months ended 30 September 2008 was approximately USD 1,014 per ton, or 48.2% higher, compared to approximately USD 684 per ton in the corresponding period in 2007.

In the three months ended 30 September 2008, we did not deliver our crude oil to the international markets due to our ability to achieve higher margins on the domestic market.

The following table shows our average realized stable gas condensate and crude oil sales prices (net of VAT and export duties, where applicable) for the three months ended 30 September 2008 and 2007:

<i>Russian roubles (RR) or US dollars (USD) per ton</i>	Three months ended 30 September:		Change %
	2008	2007	
Stable gas condensate			
Net export price, RR per ton	14,251	11,995	18.8%
Net export price, USD per ton	587.8	470.2	25.0%
Crude oil			
Net export price, RR per ton	-	7,634	n/m
Net export price, USD per ton	-	299.2	n/m
Domestic price, RR per ton	9,632	6,936	38.9%

Our LPG export and CIS delivery terms during the three months ended 30 September 2008 were delivery at frontier (DAF) at the border of the customer's country. In the three months ended 30 September 2008, our average export LPG contract price, including export duties was approximately USD 946 per ton, or 43.8% higher, compared to USD 658 per ton in the corresponding period in 2007. We are obliged to sell a portion of our LPG volumes in the domestic market at regulated prices while the remaining portion of our sales are sold under commercial terms. In the three months ended 30 September 2008, we sold 16 thousand tons at the average regulated price (excluding transportation expense) of RR 4,500 per ton and 107 thousand tons at a average commercial price of RR 12,331 per ton in the domestic market, compared to 12 thousand tons at RR 3,500 per ton and 106 thousand tons at RR 10,347 per ton, respectively, in the 2007 period.

Domestic sales of oil products associated with our own production were priced free carrier (FCA) at the Surgut railroad station (located in the Khanty-Mansiysk Autonomous Region). In addition, in the three months ended 30 September 2008, as well as in the corresponding period in 2007, our foreign trading subsidiary purchased oil products (naphtha) on international markets for resale. In the 2008 period, we delivered naphtha to the United States and Europe at an average contract price USD 1,027 per ton, and the delivery terms were delivery to the port of destination ex-ship (DES) and free on board (FOB, Vitino). In the three months ended 30 September 2007, we resold naphtha to markets in the United States at an average contract price USD 684 per ton, and the delivery terms were delivery to the port of destination ex-ship (DES). There were no applicable export duties on these sales.

The following table shows our average realized liquefied petroleum gas and oil products sales prices (net of VAT and export duties, where applicable) for the three months ended 30 September 2008 and 2007 (excluding trading activities):

<i>Russian roubles (RR) or US dollars (USD) per ton</i>	Three months ended 30 September:		Change %
	2008	2007	
LPG			
Net export price, RR per ton	15,361	12,702	20.9%
Net export price, USD per ton	635.7	497.9	27.7%
CIS price, RR per ton	14,949	11,210	33.4%
Domestic price, RR per ton	11,300	9,668	16.9%
Oil products			
Domestic price, RR per ton	7,245	6,552	10.6%

Transportation tariffs

The methodology of calculating transportation tariffs for natural gas produced in the Russian Federation 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 and Tajikistan) consists of two parts: a rate for the utilization of the trunk pipeline and a transportation rate per mcm per 100 km. The rate for utilization of the trunk pipeline is based on an "input/output" function which is determined by where natural gas enters and exits the trunk pipeline (the maximum "input/output" rate effective from 1 January 2008 is RR 1,351.01 (excluding VAT) per mcm) and includes a constant rate of RR 20.01 (excluding VAT) per mcm for end-customers using Gazprom's gas distribution systems. The constant rate is deducted from the utilization rate for end-customers using non-Gazprom gas distribution systems. The second component of the transportation rate for natural gas

delivered within the customs territory of the Russian Federation and the member states of the Customs Union Agreement was set at RR 6.07 effective from 1 March 2007 and was increased by 19.1% from 1 January 2008 to RR 7.23 per mcm per 100 km (excluding VAT).

The increases in regulated transportation tariffs are passed on to our end-customers pursuant to delivery terms in the majority of our contracts.

On 6 November 2008, as part of the plan to liberalize the price of natural gas sold on the Russian domestic market by the year 2011, FTS approved a further average 19.5% increase in the transportation tariffs for natural gas for the year 2009, which will be implemented in two stages – 1 January 2009 and 1 July 2009, i.e. in line with natural gas prices increase.

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

Our stable gas condensate (to the port of Vitino on the White Sea), LPG and oil products are transported by rail which is owned and operated by Russian Railways, Russia's state-owned monopoly railway operator. Our transportation tariffs for transport by rail are also set by the FTS and vary depending on product and length of transport route.

We deliver our stable gas condensate to international markets using the loading and storage facilities at the Port of Vitino on the White Sea and tankers for transportation to US, European and other market destinations. The costs associated with the transportation of stable gas condensate by tanker are determined by the distance to the final destination, tanker availability, seasonality of deliveries and standard shipping terms.

Transactions with related parties

All natural gas producers and wholesalers operating in Russia transport their natural gas volumes through the Unified Gas Supply System (UGSS), which is owned and operated by OAO Gazprom, a State monopoly and a shareholder of OAO NOVATEK from October 2006. As an independent natural gas producer, we utilize the UGSS to transport natural gas to end-customers at the tariff established by the FTS.

Our tax burden

We have not employed any tax minimization schemes using offshore or domestic tax zones in the Russian Federation.

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, unified natural resources production tax (UPT), export duties, property tax, social taxes and contributions.

In practice, Russian tax authorities often have their own interpretation of tax laws that rarely favors taxpayers, who 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 precedes the year in which the audit is conducted. Previous audits do not completely exclude subsequent claims relating to the audited period. In addition, in some instances, new tax regulations have been given retroactive effect.

OPERATIONAL HIGHLIGHTS

Hydrocarbon sales volumes

In the three months ended 30 September 2008, our natural gas sales volumes increased primarily due to a growth in our production. Our liquids sales volumes (crude oil, stable gas condensate, LPG and oil products) decreased primarily due to an increase in liquids inventory balance as of 30 September 2008.

Natural gas sales volumes

<i>millions of cubic meters</i>	Three months ended 30 September:		Change %
	2008	2007	
Production from:			
Yurkharovskoye field	2,554	2,267	12.7%
East-Tarkosalinskoye field	3,893	2,790	39.5%
Khancheyskoye field	1,077	871	23.7%
Other fields	7	8	(12.5%)
Total natural gas production	7,531	5,936	26.9%
Purchases from:			
Gazprom	467	479	(2.5%)
Other	290	229	26.6%
Total natural gas purchases	757	708	6.9%
Total production and purchases	8,288	6,644	24.7%
Purovsky Plant and own usage	(5)	(7)	(28.6%)
Decrease (increase) in pipeline and underground gas storage facilities	(57)	2	n/m
Total natural gas sales volumes	8,226	6,639	23.9%
<i>Sold to end-customers</i>	<i>4,016</i>	<i>3,010</i>	<i>33.4%</i>
<i>E-trading sales</i>	<i>24</i>	<i>73</i>	<i>(67.1%)</i>
Subtotal sales treated as sold to end-customers	4,040	3,083	31.0%
Sold ex-field	4,186	3,556	17.7%

In the three months ended 30 September 2008, our total consolidated natural gas production increased by 1,595 mmcm, or 26.9%, compared to the corresponding period in 2007 primarily due to the restoration of normal production levels at our East-Tarkosalinskoye field as well as organic production growth at our Yurkharovskoye field. The low level of natural gas production at East-Tarkosalinskoye field in the 2007 period was directly related to our inability to inject natural gas into storage due to the lack of available capacity at Gazprom's underground gas storage facilities caused by the unseasonably warm weather.

In the three months ended 30 September 2008, our natural gas purchases increased by 49 mmcm, or 6.9%, compared to the corresponding period in 2007, primarily due to an increase in purchases from 'other' suppliers. In the 2008 period, we purchased additional volumes of natural gas to meet additional demand to maximize our end-customer sales.

At 30 September 2008, our natural gas volumes stored in Gazprom's underground gas storage facilities totaled 300 mmcm, representing an increase of 90 mmcm during the period. The remaining change related to gas volumes in pipeline. We expect our volumes of natural gas injected into underground gas storage facilities to continue to fluctuate period-to-period depending on market conditions, storage capacity constraints and our development plans to either sustain and/or grow production during periods of seasonality.

Liquids sales volumes

<i>thousands of tons</i>	Three months ended 30 September:		Change %
	2008	2007	
Production from:			
Yurkharovskoye field	193	175	10.3%
East-Tarkosalinskoye field	250	241	3.7%
Khancheyskoye field	171	173	(1.2%)
Other fields	19	25	(24.0%)
Total liquids production	633	614	3.1%
Purchases from:			
Other	24	6	300.0%
Total liquids purchases	24	6	300.0%
Total production and purchases	657	620	6.0%
Losses ⁽¹⁾	(5)	(5)	0.0%
Decreases (increases) in liquids inventory balances	(75)	50	n/m
Total liquids sales volumes	577	665	(13.2%)
<i>Stable gas condensate export</i>	329	436	(24.5%)
<i>LPG export</i>	24	19	26.3%
<i>LPG CIS</i>	6	13	(53.8%)
<i>LPG domestic</i>	123	118	4.2%
<i>Subtotal LPG</i>	153	150	2.0%
<i>Crude oil export</i>	-	22	(100.0%)
<i>Crude oil domestic</i>	63	51	23.5%
<i>Subtotal crude oil</i>	63	73	(13.7%)
<i>Oil products export (international trading activities)</i>	25	2	n/m
<i>Oil products domestic</i>	7	4	75.0%
<i>Subtotal oil products</i>	32	6	433.3%

⁽¹⁾ Losses associated with processing at the Purovsky Plant and Surgutsky refinery as well as during rail road, trunk and tanker transportation.

In the three months ended 30 September 2008, our liquids production increased by 19 thousand tons, or 3.1%, to 633 thousand tons compared to 614 thousand tons in the 2007 period primarily due to the expansion of gas condensate production capacity at our Yurkharovskoye field related to the field's second phase of development. The higher gas condensate yields from the East-Tarkosalinskoye field were due to changes in the technical parameters of the gas separation process which results in a higher output of gas condensate from the initial natural gas mix.

At 30 September 2008, we had 216 thousand tons of stable gas condensate in transit and recognized as inventory until such time as it is delivered to the port of destination compared to 128 thousand tons as of 30 September 2007. Our stable gas condensate in transit and recognized as inventory was increased by 67 thousand tons as at 30 September 2008 as compared to the inventory balance as at 30 June 2008, while in the corresponding period of 2007 the inventory balance was reduced by 48 thousand tons. The remaining change in liquids inventory balances related to changes in other liquid products.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2008 COMPARED TO THE CORRESPONDING PERIOD IN 2007

The following table and discussion is a summary of our consolidated results of operations for the three months ended 30 September 2008 and 2007. Each line item is also shown as a percentage of our total revenues.

<i>millions of Russian roubles</i>	Three months ended 30 September:			
	2008	% of total revenues	2007	% of total revenues
Total revenues (net of VAT and export duties)	20,463	100.0%	15,211	100.0%
<i>including:</i>				
natural gas sales	11,632	56.8%	7,359	48.4%
liquids sales	7,805	38.1%	7,336	48.2%
Other income (loss)	(11)	(0.1%)	(1)	(0.0%)
Total revenues and other income	20,452	99.9%	15,210	100.0%
Operating expenses	(11,936)	(58.3%)	(8,539)	(56.1%)
Profit from operations	8,516	41.6%	6,671	43.9%
Finance income (expense)	(976)	(4.8%)	(19)	(0.1%)
Share of income (loss) of associated companies	(34)	(0.2%)	18	0.1%
Profit before income tax and minority interest	7,506	36.7%	6,670	43.8%
Total income tax expense	(1,820)	(8.9%)	(1,552)	(10.2%)
Profit for the period	5,686	27.8%	5,118	33.6%
Minority interest	(4)	(0.0%)	1	0.0%
Profit attributable to NOVATEK shareholders	5,682	27.8%	5,119	33.7%

Total revenues and other income

The following table sets forth our sales (net of VAT and export duties where applicable) and other income (loss) for the three months ended 30 September 2008 and 2007:

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2008	2007	
Natural gas sales	11,632	7,359	58.1%
<i>End-customer</i>	7,427	4,540	63.6%
<i>E-trading</i>	34	82	(58.5%)
<i>Subtotal sales treated as sold to end-customers</i>	7,461	4,622	61.4%
<i>Sold ex-field</i>	4,171	2,737	52.4%
Stable gas condensate sales	4,687	5,232	(10.4%)
<i>Export</i>	4,687	5,232	(10.4%)
Liquefied petroleum gas sales	1,841	1,530	20.3%
<i>Export</i>	366	241	51.9%
<i>CIS</i>	85	144	(41.0%)
<i>Domestic</i>	1,390	1,145	21.4%
Crude oil sales	608	519	17.1%
<i>Export</i>	-	164	n/m
<i>Domestic</i>	608	355	71.3%
Oil products sales	669	55	n/m
<i>Export</i>	617	28	n/m
<i>Domestic</i>	52	27	92.6%
Total oil and gas sales	19,437	14,695	32.3%
Sales of polymer and insulation tape	561	413	35.8%
Other revenues	465	103	351.5%
Total revenues	20,463	15,211	34.5%
Other income (loss)	(11)	(1)	n/m
Total revenues and other income	20,452	15,210	34.5%

Natural gas sales

In the three months ended 30 September 2008, our revenues from sales of natural gas increased by RR 4,273 million, or 58.1%, compared to the corresponding period in 2007. The increase in natural gas revenues was attributable to both increase in prices and volumes sold. Revenues from the sale of natural gas accounted for 56.8% and 48.4% of our total revenues in the three months ended 30 September 2008 and 2007, respectively. The change in natural gas sales as a percentage of total revenues was primarily due to increases in natural gas volumes sold and higher realized prices, and a decrease in our stable gas condensate sales volumes.

In the three months ended 30 September 2008, our average realized natural gas price per mcm increased by RR 305 per mcm, or 27.5%, to RR 1,414 per mcm from RR 1,109 per mcm in the corresponding period in 2007. Our proportion of natural gas sold to end-customers, including e-trading sales, on a volume basis, increased from 46.4% in the three months ended 30 September 2007 to 49.1% in the 2008 period mainly due to greater volumes sold to end-customers. The average realized prices of our natural gas sold directly to end-customers, at the electronic trading system and natural gas sold ex-field were higher by 22.6%, 22.3% and 29.4%, respectively, in the three months ended 30 September 2008 compared to the corresponding period in 2007. Our average natural gas netback price sold to end-customer increased by 25.9% during the period. Our sales of natural gas to end-customers were primarily to energy utilities and large industrial companies in both periods.

In the three months ended 30 September 2008, our e-trading natural gas sales decreased by RR 48 million, or 58.5%, due to a reduction in volumes sold on the electronic trading exchange by 49 mmcm, or 67.1%, from 73 mmcm in the 2007 period which was partially offset by an increase in the average sales prices we received for these volumes sold. Our e-trading natural gas sales were primarily to energy utility companies in both periods. The volumes sold on the e-trading platform are subject to fluctuate period to period due to market demand and our commitment to fulfill our contractual obligations.

Stable gas condensate sales

In the three months ended 30 September 2008, our revenues from sales of stable gas condensate decreased by RR 545 million, or 10.4%, compared to the corresponding period in 2007 primarily due to a decrease in volumes sold that was partially offset by an increase in average realized prices.

In the three months ended 30 September 2008, we exported 329 thousand tons of stable gas condensate, or 100.0% of our sales volumes, to markets in the United States and Europe, while in the corresponding period in 2007 our export sales volumes to these markets were higher by 107 thousand tons. The decrease in stable gas condensate sales volumes resulted from an increase in “goods in transit” balance by 67 thousand tons in the three months ended 30 September 2008 compared to a decrease in such balance by 48 thousand tons in the corresponding period in 2007. Our commercial activities in the three months ended 30 September 2008 were affected by the hurricane season in the Gulf of Mexico, particular Hurricane Ike, for delivery of stable gas condensate to the United States. During that period, one tanker was not unloaded due to repairs at the receiving port in Houston, Texas. The delayed tanker subsequently landed and unloaded its cargo in October 2008.

We delivered all of our stable gas condensate to the international markets using the loading and storage facilities at the Port of Vitino on the White Sea and via leased tankers.

In the three months ended 30 September 2008, our average realized price, excluding export duties, and translated into US dollars, for stable gas condensate sold on the export market increased by USD 117.6 per ton, or 25.0%, to USD 587.8 per ton (DES) from USD 470.2 per ton (DES and CFR) in the corresponding period in 2007. The increase in the average realized export price was the result of a 48.2% increase in our average export contract price that was partially offset by an increase in our average export duty per ton by 103.7%. The increase in our average realized contract prices was due to the overall increase in prices on international markets in the 2008 period.

Liquefied petroleum gas sales

In the three months ended 30 September 2008, our revenues from the sales of LPG increased by RR 311 million, or 20.3%, compared to the corresponding period in 2007, primarily due to an increase in domestic prices.

In the three months ended 30 September 2008, we increased our sales volumes of LPG by three thousand tons, or 2.0%, to 153 thousand tons mainly due to an increase in LPG throughput at our Purovsky Plant, of which 80.4% was sold domestically at an average price of RR 11,300 per ton (FCA excluding VAT). This represents an increase in the average domestic sales price of RR 1,632 per ton, or 16.9%, compared to the corresponding period in 2007. The remaining volumes of LPG were sold as follows: 15.7% was sold to the export market for an average price of USD 635.7 per ton (DAF excluding export duties) and 3.9% was sold to the CIS for an average price of RR 14,949 per ton (DAF). In the three months ended 30 September 2008, our average LPG sales price on the export market and in the CIS increased by USD 137.8 per ton, or 27.7%, and by RR 3,739 per ton, or 33.4%, respectively, compared to the corresponding period in 2007. The increase in our average realized export prices (excluding export duties) was primarily due to an increase in our average contract prices by 43.7% combined with a 101.6% increase in our average export duty per ton in the 2008 period.

Crude oil sales

In the three months ended 30 September 2008, our revenues from the sales of crude oil increased by RR 89 million, or 17.1%, compared to the corresponding period in 2007 due to an increase in domestic crude oil prices. The decrease in crude oil volumes available for sale by 10 thousand tons, or 13.7%, from 73 thousand tons in the three months ended 30 September 2007 to 63 thousand tons in the 2008 period was mainly attributable to a decrease in crude oil production at our Ust-Purpeiskoye field, which is classified as ‘other’ fields in the production table.

Our average realized crude oil domestic sales price (excluding VAT) increased by RR 2,696 per ton, or 38.9%, to RR 9,632 per ton in the three months ended 30 September 2008, compared to RR 6,936 per ton in the 2007 period. The increase in our average realized contract prices was due to the strong crude oil prices, both internationally and domestically, in the 2008 period.

Oil products sales

In the three months ended 30 September 2008, our revenue from the sales of oil products increased by RR 614 million, or 11.2 times, compared to the corresponding period in 2007, primarily due to an increase in oil products sold on the international markets by our foreign trading subsidiary.

In the three months ended 30 September 2008, we purchased 24 thousand tons of oil products and resold 25 thousand tons to customers in the United States and Europe for an average contract price of USD 1,027 per ton (DES and FOB). At 30 September 2008, 13 thousand tons were recorded as “goods in transit” in inventories until such time as they are delivered to the port of destination and in storage facilities at the port of Vitino compared to 14 thousand tons at 30 June 2008. At 30 September 2007, our balance of oil products was 5 thousand tons as compared to nil at 30 June 2007.

Our domestic oil products sales increased by RR 25 million, or 92.6%, to RR 52 million in the three months ended 30 September 2008 from RR 27 million in the 2007 period due to an increase in volumes sold.

In the three months ended 30 September 2008, our domestic oil products sales volumes related to our own production increased from four thousand tons to seven thousand tons due to higher volumes of unstable gas condensate delivered to the Surgutsky refinery as a result of an increase in gas condensate production at our Yurkharovskoye field. The price we received for our oil product sales increased by RR 693 per ton, or 10.6%, from RR 6,552 per ton to RR 7,245 per ton due to an overall increase in oil products prices in the domestic market in the 2008 period.

Sales of polymer and insulation tape

Our revenues from the sales of polymer and insulation tape increased by RR 148 million, or 35.8%, to RR 561 million in the three months ended 30 September 2008, compared to RR 413 million in the 2007 period mainly due to an increase in BOPP film wrap production.

Revenues from our sales of BOPP film wrap increased by RR 155 million, or 72.4%, from RR 214 million in the three months ended 30 September 2007 to RR 369 million in the 2008 period due to a more efficient utilization of the facilities which increased the volumes available for sale. The proportion of BOPP film wrap sales to total sales of polymer and insulation tape increased by 14.0% to 65.8% in the three months ended 30 September 2008 compared to 51.8% in the 2007 period.

Our revenues from pipe insulation product sales decreased by RR 6 million, or 5.0%, from RR 121 million in the three months ended 30 September 2007 to RR 115 million in the 2008 period mainly due to a slight decrease in volumes sold. Revenues from polymer pipes sales increased by RR 8 million, or 12.5%, from RR 64 million in the three months ended 30 September 2007 to RR 72 million in the 2008 period primarily due to an increase in volumes sold. The remaining RR 5 million and RR 14 million in the three months ended 30 September 2008 and 2007, related to sales of other polymer products.

Other revenues

Other revenues include geological and geophysical research services, rent, polymer tolling, transportation, handling, storage and other services. In the three months ended 30 September 2008, other revenues increased by RR 362 million, or 3.5 times, to RR 465 million from RR 103 million in the corresponding period in 2007. The increase in other revenues was primarily due to commencement of selling geological and geophysical research to our associates in the fourth quarter 2007, which accounted for RR 386 million in the three months ended 30 September 2008, compared to nil in the corresponding period in 2007.

In the three months ended 30 September 2008, revenues from polymer tolling decreased by RR 20 million that was partially offset by an increase in income from rent services by RR 12 million. The remaining decrease of RR 15 million was composed of various immaterial items.

Other income (loss)

In the three months ended 30 September 2008, we realized other net loss of RR 11 million mainly from disposal of fixed assets and assets under construction compared to RR 1 million in the corresponding period in 2007.

Operating expenses

In the three months ended 30 September 2008, our total operating expenses increased by RR 3,397 million, or 39.8%, to RR 11,936 million as compared to RR 8,539 million in the corresponding period in 2007. The increase was largely due to transportation costs, as well as increases in taxes other than income tax, materials, services and other expenses, purchases of natural gas and liquid hydrocarbons and general and administrative expenses. Total operating expenses increased as a percentage of total revenues to 58.3% in the three months ended 30 September 2008 compared to 56.1% in the corresponding period in 2007, as shown in the table below.

<i>millions of Russian roubles</i>	Three months ended 30 September:			
	2008	% of total revenues	2007	% of total revenues
Transportation expenses	4,565	22.3%	3,359	22.1%
Taxes other than income tax	1,928	9.4%	1,425	9.4%
Non-controllable expenses	6,493	31.7%	4,784	31.5%
Materials, services and other	1,642	8.0%	1,172	7.7%
General and administrative expenses	1,336	6.5%	913	6.0%
Purchases of natural gas and liquid hydrocarbons	1,126	5.5%	671	4.4%
Depreciation, depletion and amortization	1,085	5.3%	850	5.6%
Exploration expenses	219	1.1%	48	0.3%
Net impairment expense	30	n/m	50	n/m
Change in natural gas, liquid hydrocarbons, and polymer products and work-in-progress	5	n/m	51	n/m
Total operating expenses	11,936	58.3%	8,539	56.1%

Non-controllable expenses

A significant proportion of our operating expenses are characterized as non-controllable expenses since we are unable to influence the increase in regulated tariffs for transportation of our hydrocarbons or the rates imposed by federal, regional or local tax authorities. In the three months ended 30 September 2008, non-controllable expenses of transportation and taxes other than income tax increased by RR 1,709 million, or 35.7%, to RR 6,493 million from RR 4,784 million in the corresponding period in 2007. The change was primarily due to an increase in the transportation tariff for natural gas and volumes sold to the end-customers. Taxes other than income tax increased primarily due to higher mineral production taxes for natural gas resulting from increased production volumes. As a percentage of total revenues our non-controllable expenses increased by 0.2% to 31.7% in the three months ended 30 September 2008 compared to 31.5% in the corresponding period in 2007.

Transportation expenses

In the three months ended 30 September 2008, our total transportation expenses increased by RR 1,206 million, or 35.9%, compared to the corresponding period in 2007.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2008	2007	
Natural gas transportation to customers	3,040	1,934	57.2%
Stable gas condensate, liquefied petroleum gas and oil products transportation by rail	996	955	4.3%
Stable gas condensate transported by tankers	421	406	3.7%
Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines	50	29	72.4%
Crude oil transportation to customers	29	31	(6.5%)
Oil products transported by tankers	22	-	n/m
Other transportation costs	7	4	75.0%
Total transportation expenses	4,565	3,359	35.9%

In the three months ended 30 September 2008, our transportation expenses for natural gas increased by RR 1,106 million, or 57.2% to RR 3,040 million from RR 1,934 million in the corresponding period in 2007. The increase was mainly due to a growth in volumes delivered to the end-customers and higher transportation tariffs effective from 1 January 2008 (see "Transportation tariffs" above). We are not able to influence the transportation route of natural gas sold to end-customers and therefore we have no control over our average

delivery distance. Our average transportation distance for natural gas sold to end-customers fluctuates insignificantly period-to-period.

In the three months ended 30 September 2008, our total expenses for transportation by rail increased by RR 41 million, or 4.3%, due to higher railroad transportation tariffs, that was offset by a decrease in liquids sales volumes. In the three months ended 30 September 2008, our combined volumes of stable gas condensate, LPG and oil products sold and transported via rail decreased by 101 thousand tons, or 17.1%, to 489 thousand tons from 590 thousand tons in the 2007 period (see “Stable gas condensate sales” above).

Our expense for stable gas condensate transported by rail to export markets decreased by RR 50 million, or 8.1%, from RR 617 million to RR 567 million. In the three months ended 30 September 2008, our transportation rate per ton for stable gas condensate increased to RR 1,724 from RR 1,415 in the corresponding period in 2007 primarily due to tariff increases of approximately 14.9% from 1 January 2008, 1.2% from 1 April 2008 and 10.0% from 1 July 2008 resulting in an average tariff rate increase of 27.9% during the respective period.

In the three months ended 30 September 2008, our expense for LPG transported by rail amounted to RR 427 million, of which RR 130 million was related to export sales, RR 17 million to CIS sales, and RR 280 million to domestic sales, or RR 5,472 per ton, RR 3,002 per ton, and RR 2,278 per ton, respectively. In the three months ended 30 September 2007, transportation expenses for LPG amounted to RR 335 million, of which RR 90 million was related to export sales, RR 31 million to CIS sales, and RR 214 million to domestic sales, or RR 4,772 per ton, RR 2,399 per ton and RR 1,810 per ton, respectively. In the three months ended 30 September 2008, our LPG rail transportation expense was primarily affected by an increase in transportation tariffs and a marginal increase in volumes sold.

The remaining RR 2 million of the transportation expenses by rail in the three months ended 30 September 2008 and RR 3 million in the corresponding period in 2007 were related to the transportation of oil products and other railroad services not allocated between products.

Total transportation expense for delivery of stable gas condensate by tanker to international markets increased by RR 15 million, or 3.7%, from RR 406 million in the three months ended 30 September 2007 to RR 421 million in the 2008 period. The change was primarily due to higher average freight rates in the 2008 period that was partially offset by a decrease in volumes sold and transported by 24.5%. In the three months ended 30 September 2008, we delivered 83.1% of our stable gas condensate export volumes to the US market compared to 62.3% in the corresponding period in 2007.

Taxes other than income tax

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2008	2007	
Unified natural resources production tax (UPT)	1,660	1,286	29.1%
Property tax	232	122	90.2%
Other taxes	36	17	111.8%
Total taxes other than income tax	1,928	1,425	35.3%

In the three months ended 30 September 2008, taxes other than income tax increased by RR 503 million, or 35.3%, of which RR 374 million and RR 110 million was due to UPT and property tax increase.

The UPT increase was primarily due to a 26.9% increase in natural gas production volumes and an increase in our average production tax rate for crude oil from RR 2,639 per ton in the three months ended 30 September 2007 to RR 4,158 per ton in the 2008 period. The natural gas production tax rate in the 2008 and 2007 periods remained unchanged at RR 147 per mcm.

In the three months ended 30 September 2008, our property tax expense increased by RR 110 million, or 90.2%, to RR 232 million from RR 122 million in the corresponding period in 2007 primarily due to additions of property, plant and equipment (PPE) at our production subsidiaries. In addition, a re-assessment of the existing tax base for property, plant and equipment was performed which resulted in an additional property tax expense of RR 71 million.

In the three months ended 30 September 2008, other taxes increased by RR 19 million primarily due to an increase in excise tax expense by RR 12 million. The increase in excise tax expense was due to greater volumes

of unstable gas condensate processed at the Surgutsky refinery in the 2008 period and higher proportion of diesel fuel and distillate received for the refining process which are subject to the excise tax.

Materials, services and other

In the three months ended 30 September 2008, our materials, services and other expenses increased by RR 470 million, or 40.1%, to RR 1,642 million compared to RR 1,172 million in the corresponding period in 2007. The main components of this expense were employee compensation and materials and supplies, which comprised 34.2% and 29.8%, respectively, of the expense category in the 2008 period.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2008	2007	
Employee compensation	562	499	12.6%
Materials and supplies	490	341	43.7%
Repair and maintenance	98	85	15.3%
Tolling and processing fees	74	47	57.4%
Electricity and fuel	70	47	48.9%
Fire safety and security expense	40	67	(40.3%)
Other	129	86	50.0%
Subtotal materials, services and other	1,463	1,172	24.8%
Operator services expense	179	-	n/m
Total materials, services and other	1,642	1,172	40.1%

In the three months ended 30 September 2008, our materials, services and other expenses, excluding operator services expenses, increased by RR 291 million, or 24.8%, to RR 1,463 million as compared to RR 1,172 million in the corresponding period in 2007.

Employee compensation increased by RR 63 million, or 12.6%, to RR 562 million compared to RR 499 million in the corresponding period in 2007 primarily due to increase in average salaries and additional staffing at our subsidiaries, mainly Yurkharovskoye field and the Purovsky processing plant, due to growth in our activities.

Materials and supplies expense increased by RR 149 million, or 43.7%, mainly due to higher production of polymers and insulation tape products and the associated increase in purchases of raw materials, which accounted for RR 165 million or 35.1% of total materials, services and other expense change. The remaining decrease in materials and supplies of RR 16 million related to a reduction in methanol expense due to shift to partial own production.

Tolling and processing fees increased by RR 27 million, or 57.4%, primarily due to a 28% increase in third parties processing tariffs related to de-ethanization of unstable gas condensate produced at the Yurkharovskoye field and a 10% increase in volumes de-ethanized, which accounted for RR 18 million of total change. The remaining RR 9 million related to in processing of our unstable gas condensate on the Surgutsky refinery.

In the three months ended 30 September 2008, we incurred an increase in our average electricity tariff at our production entities and a rise in prices for fuel which increased our electricity and fuel expenses by RR 23 million, or 48.9%.

Fire safety and security expenses decreased by RR 27 million, or 40.3%, to RR 40 million from RR 67 million in the three months ended 30 September 2007 primarily due to a reduction in fire safety services provided by third parties at our production entities. During the fourth quarter 2007, the Group organized its own fire safety departments to meet the Group's overall fire and safety requirements at its production and processing facilities.

In the three months ended 30 September 2008, other expenses increased by RR 43 million, or 50.0%, of which RR 22 million related to expenses on temporary roads and premises required for exploration works at Olympiyskiy license area classified as 'other' fields in the production table.

Operator services expense represents geological and geophysical research provided by the Group to our associated companies. In the three months ended 30 September 2008, we provided services totaling RR 175 million to the Severo Russkiy, Anomalniy, Zapadno-Tazovski and Sredniy Chaselskiy fields. Corresponding revenues received from our associates are shown as other revenues in the consolidated statement of income.

General and administrative expenses

In the three months ended 30 September 2008, our general and administrative expenses increased by RR 423 million, or 46.3%, to RR 1,336 million compared to RR 913 million in the corresponding period in 2007. The main components of these expenses were employee compensation, maintenance of social infrastructure and charitable contributions and legal, audit, and consulting services, which on aggregate comprised 75.3% and 75.2% of total general and administrative expenses in the three months ended 30 September 2008 and 2007, respectively.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2008	2007	
Employee compensation	823	490	68.0%
Maintenance of social infrastructure and charitable contributions	145	114	27.2%
Legal, audit, and consulting services	61	83	(26.5%)
Rent expense	53	39	35.9%
Business trip expenses	51	50	2.0%
Fire safety and security expense	36	30	20.0%
Insurance expense	22	25	(12.0%)
Other	145	82	76.8%
Total general and administrative expenses	1,336	913	46.3%

Employee compensation increased by RR 333 million, or 68.0%, to RR 823 million compared to RR 490 million in the corresponding period in 2007. The increase was primarily due to higher average salaries combined with a decrease in number of employees by 9.6%, which resulted in employee compensation increasing by RR 118 million. In the three months ended 30 September 2008, bonuses to administrative employees increased by RR 134 million, or 98.4%.

In the three months ended 30 September 2008, our maintenance of social infrastructure and charitable contributions increased by RR 31 million, or 27.2%, to RR 145 million compared to RR 114 million in corresponding period in 2007, and were primarily related to our continued support for charities and social programs in the regions where we operate.

Legal, audit and consulting service expenses decreased by RR 22 million, or 26.5%, to RR 61 million compared to RR 83 million in the corresponding period in 2007. The decrease was largely due to the completion of the initial stage of consulting services related to management efficiency programs and information technology system reviews provided to the Group in the 2007 period.

In the three months ended 30 September 2008, our rent expense increased by RR 14 million, or 35.9%, primarily due to the relocation of our Moscow office and the renting of additional office space to accommodate the consolidation of our Moscow head office operations. The relocation to the new Moscow office overlapped the end of the lease term at our old premises and is considered as one-time event.

Other general and administrative expenses increased by RR 63 million, or 76.8%, compared to the period in 2007. The increase in these items was mainly due to an increase in repair and maintenance expense (primarily expenses related to the preparation work in the new Moscow office), fuel and materials expense and other transportation expenses, which accounted for RR 16 million, RR 13 million and RR 13 million, respectively, of the increase.

Purchases of natural gas and liquid hydrocarbons

Purchases of natural gas and liquid hydrocarbons increased by RR 455 million, or 67.8%, to RR 1,126 million from RR 671 million in the corresponding period in 2007 primarily due to purchases of oil products, namely naphtha, on the international markets for resale, which amounted to RR 457 million in the three months ended 30 September 2008 as compared to RR 117 million in the corresponding period in 2007. Purchases of natural gas increased by RR 114 million, or 20.6%, from RR 553 million in the three months ended 30 September 2007 to RR 667 million in 2008 period due to increases in both volumes purchased from third parties and prices.

Depreciation, depletion and amortization

In the three months ended 30 September 2008, our depreciation, depletion and amortization (“DDA”) expense increased by RR 235 million, or 27.6%, compared to the corresponding period in 2007 primarily due to an increase in depreciation and depletion of our oil and gas properties accrued using the “units of production” method as a result of increased natural gas and liquids production. In the 2008 period, our DDA per barrel of oil equivalent (boe) was RR 17.6 compared to DDA per boe of RR 16.6 in the corresponding period in 2007. The change in our DDA per boe was largely due to additions to our production assets at Yurkharovskoye field.

Change in natural gas, liquid hydrocarbons, and polymer products and work-in-progress

In the three months ended 30 September 2008, our inventory balance of stable gas condensate in transit and storage increased by 67 thousand tons and we injected 90 mmcm of natural gas into the underground gas storage facilities as compared to a decrease of 48 thousand tons and nil volumes for natural gas in the corresponding period in 2007. We also recorded a charge of RR 124 million to change in inventory due to a decrease in cost of naphtha purchased for resale at 30 September 2008 as compared to 30 June 2008, and a charge relating to decrease in work-in-progress for operator services provided to our associates in the amount of RR 181 million.

The net effect was a charge of RR 5 million to our change in inventory in the three months ended 30 September 2008 as compared to RR 51 million in the corresponding period in 2007.

Profit from operations

As a result of the factors discussed above, our profit from operations increased by RR 1,845 million, or 27.7%, to RR 8,516 million in the three months ended 30 September 2008 compared to RR 6,671 million in the corresponding period in 2007. In the three months ended 30 September 2008, our profit from operations as a percentage of total revenues decreased to 41.6 % as compared to 43.9% in the corresponding period in 2007.

Finance income (expense)

In the three months ended 30 September 2008, we recorded a net finance loss of RR 976 million compared to RR 19 million in the 2007 period.

In the three months ended 30 September 2008, interest expense increased by RR 29 million, or 45.3%, due to an increase in our weighted average debt balance. In the three months ended 30 September 2008, interest income decreased by RR 9 million, or 10.2%, primarily due to a decrease in interest income on funds held on account as bank deposits, that was partially offset by an increase in interest income on loans issued to our associates.

During the period, we recorded a net foreign exchange loss of RR 962 million compared to RR 43 million in the corresponding period in 2007. The increase in foreign exchange loss was primarily due to the 7.6% strengthening of the US dollar against the Russian rouble and its effect on our foreign currency denominated borrowings.

Share of income (loss) of associated companies

In the three months ended 30 September 2008, we recognized our proportionate share in the loss of associated companies of RR 34 million. The loss recognized by our associated companies was due to expensing of geological and geophysical research incurred in the 2008 period under the successful efforts accounting policy.

Income tax expense

Our overall consolidated effective income tax rates (total income tax expense calculated as a percentage of our reported IFRS profit before income tax) were 24.1% and 23.3% for the three months ended 30 September 2008 and 2007, respectively. Our effective income tax rate, after excluding the effect of foreign subsidiaries, was 24.8% and 24.0% in the 2008 and 2007 periods, respectively. Russian statutory income tax rate for both periods was 24%. The difference between our effective and statutory income tax rates is primarily due to certain non-deductible expenses.

Profit attributable to shareholders and earnings per share

As a result of the factors discussed above, profit for the period increased by RR 568 million, or 11.1%, to RR 5,686 million in the three months ended 30 September 2008 from RR 5,118 million in the corresponding period in 2007. The profit attributable to NOVATEK shareholders increased by RR 563 million, or 11.0%, to RR 5,682 million in the three months ended 30 September 2008 from RR 5,119 million in the corresponding period in 2007.

We increased our weighted average basic and diluted earnings per share by RR 0.18 per share, or 10.7%, from RR 1.69 per share in the three months ended 30 September 2007 to RR 1.87 per share in the 2008 period based on the profits attributable to NOVATEK's shareholders.

LIQUIDITY AND CAPITAL RESOURCES

The following table shows our net cash flows from operating, investing and financing activities for the three months ended 30 September 2008 and 2007:

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2008	2007	
Net cash provided by operating activities	6,759	6,916	(2.3%)
Net cash used in investing activities	(9,088)	(6,274)	44.9%
Net cash provided (used) in financing activities	11,294	(533)	n/m

<i>Liquidity ratios</i>	30 September 2008	31 December 2007	Change %
Current ratio	2.71	1.41	92.2%
Total debt to equity	0.25	0.08	212.5%
Long-term debt to long-term debt and equity	0.171	0.001	n/m
Net debt to total capitalization ⁽¹⁾	0.08	0.03	166.7%

⁽¹⁾ Net debt represents total debt less cash and cash equivalents. Total capitalization represents total debt, total equity and deferred income tax liability.

Net cash provided by operating activities

In the three months ended 30 September 2008, our net cash provided by operating activities decreased marginally by RR 157 million, or 2.3%, to RR 6,759 million compared to RR 6,916 million in the corresponding period in 2007. The decrease was mainly attributable to higher income tax paid of RR 935 million and an increase in accounts receivable and prepayments and other changes in working capital of RR 1,447 million. The decrease in our net cash provided by operating activities was partially offset by higher operating income of RR 2,255 million mainly as a result of strong average realized prices for our natural gas and volumes sold.

Net cash used in investing activities

Net cash used in investing activities increased by RR 2,814 million, or 44.9%, to RR 9,088 million in the three months ended 30 September 2008 compared to RR 6,274 million in the corresponding period in 2007. The change in the 2008 period was primarily due to an increase in capital expenditures related to further development of our three core fields and the construction activities associated with the second phase expansion of the Purovsky Processing plant.

Net cash used in financing activities

In the three months ended 30 September 2008, net cash provided by financing activities amounted to RR 11,294 million compared to net cash used in financing activities amounted to RR 533 million in the corresponding period in 2007. A significant amount of net cash used in financing activities in the three months ended 30 September 2007 related to repayments of borrowings and the payment of dividends. Net cash provided by financing activities in the 2008 period represents an excess of our proceeds from borrowings over debt repayments and dividends paid. The full withdrawn of our syndicated loan during the period was achieved at favorable financing terms and conditions.

Working capital

Our net working capital position (current assets less current liabilities) at 30 September 2008 was RR 18,649 million compared to RR 4,963 million at 31 December 2007. The strengthening of our working capital position was the result of strong operating activities and cash received under our long-term borrowing facilities. The increase by RR 13,686 million was mainly due to an increase in cash and cash equivalents and a decrease in short-term debt that was partially offset by an increase in accounts payable and accrued liabilities at 30 September 2008.

Capital expenditures

Total capital expenditures on property, plant and equipment for the three months ended 30 September 2008 and 2007 are as follows:

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2008	2007	
Exploration and production	9,476	5,648	67.8%
Other	308	260	18.5%
Total	9,784	5,908	65.6%

Exploration and production expenditures represent our investments in exploring for and developing our oil and gas properties. During both reporting periods, the majority of our capital expenditures related to ongoing development and exploration activities at our three core fields. In the three months ended 30 September 2008, we spent RR 297 million, RR 782 million, RR 5,214 million and RR 718 million for field development at the Khancheyskoye, East-Tarkosalinskoye, Yurkharovskoye and Sterkhovoye fields, respectively, and RR 2,321 million on construction of the second phase at the Purovsky Processing Plant.

Debt obligations

At 30 September 2008, the Group had a short-term USD denominated loans from BNP PARIBAS Bank in the amount of RR 2,525 million (USD 100 million) repayable in September 2009.

On 21 April 2008, the Group obtained an USD 800 million three-year unsecured syndicated term loan facility for general corporate purposes including funding capital expenditure programs. At 30 September 2008, RR 19,950 million (USD 790 million), net of transaction costs incurred, was withdrawn under this facility agreement.

At 30 September 2008, the Group had short-term credit facilities for available use in the aggregate amount of RR 7,085 million (USD 281 million) on either fixed or variable interest rates subject to the specific type of credit facility. In addition, the Group has available funds up to the maximum amount of RR 2,525 million (USD 100 million) under a two year credit line facility with UniCredit Bank with interest rates negotiated on each withdrawal dates.

QUALITATIVE AND QUANTITATIVE DISCLOSURES AND MARKET RISKS

We are exposed to market risk from changes in commodity prices, foreign currency exchange rates, and interest rates. We are exposed to commodity price risk as our prices for crude oil and stable gas condensate destined for export sales are linked to international crude oil prices. We are exposed to foreign exchange risk to the extent that a portion of our sales revenues, costs, receivables, loans and debt are denominated in currencies other than Russian roubles. We are subject to market risk from changes in interest rates that may affect the cost of our financing. From time to time we may use derivative instruments, such as commodity forward contracts, commodity price swaps, commodity options, foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks, and we may hold or issue derivative or other financial instruments for trading purposes.

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the Russian rouble relative to the US dollar and Euro. As of 30 September 2008, RR 19,960 million, or 84.2%, of our long-term debt was denominated in US dollars (out of RR 23,713 million of our total borrowings at that date). Changes in the value of the Russian rouble relative to the US dollar will impact our foreign currency-denominated costs and expenses and our debt service obligations for foreign currency-denominated borrowings in Russian rouble terms as well as receivables at our foreign subsidiaries. We believe that the risks associated with our foreign currency exposure are partially mitigated by the fact that a portion of our total revenues, approximately 27.7% in the three months ended 30 September 2008, is denominated in US dollars. As of 30 September 2008, the Russian rouble had depreciated by approximately 3% against the US dollar since 1 January 2008.

A hypothetical and instantaneous 10% strengthening in the Russian rouble in relation to the US dollar as of 30 September 2008 would have resulted in an estimated foreign exchange gain of approximately RR 2,361 million on foreign currency denominated borrowings held at that date.

Commodity risk

Substantially all of our crude oil, stable gas condensate and LPG export sales are sold under spot contracts. Our export prices are linked to international crude oil prices. External factors such as geopolitical developments, natural disasters and the actions of the Organization of Petroleum Exporting Countries affect crude oil prices and thus our export prices.

The weather is another factor affecting demand for and, therefore, the price of natural gas. Changes in weather conditions from year to year can influence demand for natural gas and to some extent gas condensate and oil products.

From time to time we may employ derivative instruments to mitigate the price risk of our sales activities. In our consolidated interim condensed financial information all derivative instruments are recorded at their fair values. Unrealized gains or losses on derivative instruments are recognized within other income (loss), unless the underlying arrangement qualifies as a hedge.

Pipeline access

We transport substantially all of our natural gas through the Gazprom owned UGSS. Gazprom is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia. Under existing legislation, Gazprom must provide access to the UGSS to all independent suppliers on a non-discriminatory basis provided there is capacity not being used by Gazprom. In practice, however, Gazprom exercises considerable discretion over access to the UGSS because it is the sole owner of information relating to capacity. There can be no assurance that Gazprom will continue to provide us with access to the UGSS, however, we have not been denied access in prior periods.

Ability to reinvest

Our business requires significant ongoing capital expenditures in order to grow our production. An extended period of low natural gas prices or high transportation tariffs would limit our ability to maintain an adequate level of capital expenditures, which in turn could limit our ability to increase or maintain current levels of production and deliveries of natural gas, gas condensate, crude oil and other associated products, adversely affecting our results.

Off balance sheet activities

As of 30 September 2008, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.