

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 June 2009 and 2008 together with our unaudited consolidated interim condensed financial information as of and for the three and six months ended 30 June 2009. 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 2008 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, under the Petroleum Resources Management System (PRMS) reserve reporting methodology.

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, and we sell our natural gas volumes exclusively in the Russian domestic market. We export our stable gas condensate directly to international markets while our liquefied petroleum gas and crude oil are generally delivered to both international (including CIS) and domestic markets. We generally sell oil products produced from our unstable gas condensate on the domestic market while our wholly-owned Swiss-based trading subsidiary, RUNITEK, conducts limited commercial trading operations by purchasing and reselling refined products on international markets.

In May 2009, the Group acquired 51 percent of the outstanding ordinary shares of OAO "Yamal LNG", the license holder for the exploration and development of the South-Tambeyskoye field, with estimated natural gas and gas condensate reserves of 1.26 trillion cubic meters (tcm) and 51.6 million tons, respectively, in accordance with the Russian reserve classification (categories C1 + C2). We plan to appraise and include the South-Tambeyskoye field in our 2009 year-end reserve report in accordance with international reserve classifications appraised by independent petroleum reservoir engineers, DeGolyer and MacNaughton, to conform with the Group's present reserve reporting. The acquisition of the South-Tambeyskoye field significantly increases the Group's resource base consistent with our long-term business strategy as well as serving as a future platform for production growth.

In September 2008, we completed and launched the first stage of the second phase of development at our Yurkharovskoye field, which included two processing trains: a natural gas separation unit and a gas condensate preparation unit both with a capacity of 20 mmcm per day, or a total capacity exceeding seven billion cubic meters per annum. The successful launch of the first stage of the second phase at the Yurkharovskoye field enables the Group to increase total daily natural gas capacity to more than 100 mmcm per day as well as increase gas condensate production by more than 20%.

As a part of the Yurkharovskoye field's second phase development, we also built and connected an 87 kilometer natural gas pipeline to the Unified Gas Supply System (UGSS), owned and operated by OAO "Gazprom". The new pipeline connection will increase our natural gas transport capacity to 34 bcm per annum from the Yurkharovskoye field.

In October and November 2008, we also completed and launched, respectively, the second phase expansion of our Purovsky Gas Condensate Processing Plant (Purovsky Plant), which increased processing capacity to 5 million tons per annum and enables us to produce approximately 3.75 million tons of stable gas condensate and 1.25 million tons of LPG per annum. The processing capacity increase at the Purovsky Plant plays a vital role in our gas condensate value chain enabling the development of our complex gas condensate fields as well as optimizing marketing channels for gas condensate production.

In June 2009, the Group acquired 100 percent of the participation interest in OOO “EkropromStroy”, the company that manages the construction of the Group’s new office building located in Moscow. We plan to relocate all Moscow based administrative personnel into this office building upon its estimated completion in the fourth quarter of 2010. The acquisition and construction of this building enables us to meet our increasing demands for additional office space.

SELECTED DATA

<i>millions of Russian roubles except as stated</i>	Three months ended 30 June:		Change %
	2009	2008	
Financial results			
Total revenues (net of VAT and export duties)	23,148	21,352	8.4%
Operating expenses	(15,038)	(11,822)	27.2%
Profit attributable to NOVATEK shareholders	7,178	7,053	1.8%
EBITDA ⁽¹⁾	9,334	10,339	(9.7%)
EBITDAX ⁽²⁾	9,565	10,524	(9.1%)
Earnings per share (in Russian roubles)	2.37	2.32	2.2%
Operating results			
Natural gas sales volumes (mmcm)	7,704	7,979	(3.4%)
Stable gas condensate sales volumes (thousand tons)	658	383	71.8%
Liquefied petroleum gas sales volumes (thousand tons)	188	150	25.3%
Crude oil sales volumes (thousand tons)	45	72	(37.5%)
Oil product sales volumes (thousand tons)	3	8	(62.5%)
Oil product export trading volumes (thousand tons)	-	33	(100.0%)
Cash flow results			
Net cash provided by operating activities	8,448	7,935	6.5%
Capital expenditures	4,794	9,470	(49.4%)

⁽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.

⁽²⁾ EBITDAX represents EBITDA as defined above excluding exploration expenses.

SELECTED MACRO-ECONOMIC DATA

<i>Exchange rate of Russian rouble to US dollar</i>	Three months ended 30 June:		Change %
	2009	2008	
At the beginning of the period	34.01	23.52	44.6%
At the end of the period	31.29	23.46	33.4%
Average for the period	32.21	23.63	36.3%

<i>Crude oil prices, USD / bbl</i>	Three months ended 30 June:		Change %
	2009	2008	
WTI ⁽¹⁾			
At the end of the period	69.9	140.0	(50.1%)
Average for the period	59.8	123.8	(51.7%)
Brent ⁽²⁾			
At the end of the period	68.1	138.9	(51.0%)
Average for the period	59.1	121.2	(51.2%)
Urals ⁽²⁾			
At the end of the period	68.0	135.4	(49.8%)
Average for the period	58.5	117.4	(50.2%)

⁽¹⁾ Based on prices quoted by New York Mercantile Exchange (NYMEX).

⁽²⁾ Based on prices quoted by Intercontinental Exchange (ICE).

<i>Export duties, USD / ton ⁽¹⁾</i>	Three months ended 30 June:		Change %
	2009	2008	
Crude oil, stable gas condensate			
At the end of the period	152.8	398.1	(61.6%)
Average for the period	133.5	359.4	(62.9%)
LPG			
At the end of the period	0.0	280.5	(100.0%)
Average for the period	0.0	254.4	(100.0%)

⁽¹⁾ Export duties determined by the government of the Russian Federation.

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Current financial market conditions

The global financial crisis continues to negatively affect all borrowers by limiting access to capital markets, despite early signs of the financial markets willingness to price selected transactions. The general consensus, however, amongst the international and domestic banking community calls for a continuing period of tight credit market conditions and increasing margin spreads. Furthermore, there is a heightened awareness by market participants over excess corporate borrowings, potential liquidity problems and the ability of a company's balance sheet to withstand a prolonged period of market turbulence.

As a company, we have taken various measures to ensure the integrity and viability of our financial condition and continue to take steps to mitigate counter-party credit exposure from our sales of natural gas and liquid hydrocarbons. 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 reviewed our capital expenditure program for 2009 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 program. As a result of this assessment, we have not made any major adjustments to our capital expenditure program as of the 30 June 2009.

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 further corrective and/or preventive measures are required to sustain the business through the financial and liquidity crisis. In addition, we will continue to assess the trends in the capital markets for opportunities to access long-term funding at reasonable cost to the Company commensurate with our credit rating and our capital requirements.

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, and market conditions. In the three months ended 30 June 2009, the weighted average FTS price for the primary regions where we delivered our natural gas increased by RR 162 per mcm, or 10.2%, to RR 1,755 per mcm compared to RR 1,593 per mcm in the 2008 period. The specific 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 natural gas sales without incurring additional commercial expenses. However, we historically have realized higher prices and net margins for natural gas volumes sold directly to end-customers, as the gas transportation tariff is included in the contract price and no retail margin is lost to wholesale gas traders.

In April 2009, we renegotiated the sales terms for natural gas volumes sold to one of our large traders. Under the new sales terms, natural gas sales volumes are purchased by the trader on a delivered basis to the regions where the natural gas is to be consumed. These volumes are now classified as end-customers' sales under a separate category, 'traders in remote points'. The new terms led to a decrease in our total average natural gas netback price (excluding transportation expense) of 8.6% in the second quarter 2009 compared to the corresponding period in 2008 and was primarily due to additional transportation expense incurred for these volumes and distances delivered (see "Transportation expenses" below). In an environment of continued economic uncertainty and its affect on the demand for natural gas, the change in the terms for this classification of sales allowed us to grow our natural gas production volumes by 2.5 percent during the 2009 reporting period over the corresponding 2008 production levels while also correspondingly increasing our stable gas condensate and LPG sales volumes.

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. As part of the liberalization plan, in December 2008, the FTS approved four quarterly increases in the regulated price for natural gas in 2009 for an average total increase of 15.9%, rising by 5% in the first quarter, 7% in the second quarter, 7% in the third quarter and 6.2% in the fourth quarter. We expect further increases in the regulated price for natural gas as part of the Russian Federation government's efforts to liberalize the price of natural gas on the Russian domestic market. The FTS will continue to approve the effective increase on an annual basis and reserves the right to modify the percentages published as well as potentially prolong the timetable toward market price liberalization based on market conditions and other factors.

As a result of continued economic instability, in both global and domestic markets, our pricing strategy for natural gas emphasized increasing market share and maintaining production growth during the 2009 reporting period. In the three months ended 30 June 2009, our average natural gas price to end-customers, excluding traders in remote points, and ex-field price increased by 4.9% and 5.9%, respectively, compared to the corresponding period in 2008 (see "Natural gas sales" below).

The following table shows our average realized natural gas sales prices (net of VAT) for the three months ended 30 June 2009 and 2008:

<i>Russian roubles per mcm</i>	Three months ended 30 June:		Change %
	2009	2008	
Average natural gas price⁽¹⁾:			
<i>End-customers</i>	1,932	1,842	4.9%
<i>Traders in remote points</i>	1,836	-	n/a
<i>E-trading</i>	-	1,327	(100.0%)
Average natural gas price to end-customers	1,886	1,839	2.6%
Average natural gas transportation expense:			
<i>End-customers</i>	(813)	(752)	8.1%
<i>Traders in remote points</i>	(1,169)	-	n/a
<i>E-trading</i>	-	(134)	(100.0%)
Average natural gas transportation expense for sales to end-customers	(983)	(748)	31.4%
Average natural gas netback price:			
<i>End-customers</i>	1,119	1,090	2.7%
<i>Traders in remote points</i>	667	-	n/a
<i>E-trading</i>	-	1,193	(100.0%)
Average natural gas netback price on end-customer sales	903	1,091	(17.2%)
Average natural gas price ex-field (wholesale traders)	1,027	970	5.9%
Total average natural gas price excluding transportation expense	934	1,022	(8.6%)

⁽¹⁾ Includes cost of transportation.

In the three months ended 30 June 2009, there was no activity on the electronic trading platform for natural gas since the current legislation which regulates electronic trading expired at the end of 2008 and is presently under review.

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, 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 prices we receive for our liquid hydrocarbons on both the domestic and international markets are dependent on many external factors beyond the control of management.

Volatile movements in benchmark crude oil prices can have a positive and/or negative impact on the ultimate prices we receive for our liquid volumes sold on both the domestic and international markets, amongst many other factors. In the three months ended 30 June 2009, average benchmark crude oil prices were more than 50% lower than in the corresponding period in 2008.

Our stable gas condensate, LPG (excluding obligatory domestic deliveries at regulated prices), crude oil and oil products prices on both international and domestic markets include transportation expense in accordance with the specific terms of delivery.

In the three months ended 30 June 2009, our stable gas condensate export delivery terms were delivery to the port of destination ex-ship (DES) or priced at cost and freight (CFR), while in the corresponding period in 2008, our delivery terms were delivery to the port of destination ex-ship (DES). Our average export stable gas condensate contract price, including export duties, in the three months ended 30 June 2009 was approximately USD 483 per ton compared to approximately USD 1,063 per ton in the corresponding period in 2008.

In the three months ended 30 June 2009, our crude oil export delivery terms were delivery at frontier (DAF Feneshlitke, Hungary) and our average crude oil export contract price, including export duties, was approximately USD 423 per ton. In the corresponding 2008 period, we did not deliver our crude oil to 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 June 2009 and 2008:

<i>Russian roubles (RR) or US dollars (USD) per ton</i>	Three months ended 30 June:		Change %
	2009	2008	
Stable gas condensate			
Net export price, RR per ton	11,441	17,098	(33.1%)
Net export price, USD per ton	355.2	723.6	(50.9%)
Domestic price, RR per ton	8,217	10,678	(23.0%)
Crude oil			
Net export price, RR per ton	8,989	-	n/a
Net export price, USD per ton	279.0	-	n/a
Domestic price, RR per ton	6,503	9,076	(28.3%)

Our LPG export delivery terms during the three months ended 30 June 2009 were delivery at frontier (DAF) at the border of the customer’s country and carriage paid to (CPT) the Port of Temryuk, southern Russia. In the three months ended 30 June 2009, our average export LPG contract price, including export duties, was approximately USD 322 per ton compared to USD 810 per ton in the corresponding period in 2008. In the three months ended 30 June 2009, as well as in the corresponding period in 2008, our LPG CIS delivery terms were delivery at frontier (DAF) at the border of the customer’s country. During 2008, we were obliged to sell a portion of our LPG domestic sales volumes at regulated prices while the remaining portion of our sales was sold under commercial terms. During the 2009 period, we were not obliged to sell LPG volumes at regulated prices. In the three months ended 30 June 2009, we sold 80 thousand tons at an average commercial price of RR 6,660 per ton in the domestic market, compared to 110 thousand tons at an average commercial price of RR 10,918 per ton and 13 thousand tons at the regulated price of RR 4,500 per ton in the corresponding period in 2008.

Domestic sales of oil products produced from our unstable gas condensate were priced free carrier (FCA) at the Surgut railroad station (located in the Khanty-Mansiysk Autonomous Region).

In the three months ended 30 June 2009, our wholly-owned subsidiary, OOO “NOVATEK-Refuelling Complexes”, purchased 699 tons of liquefied petroleum gas, diesel fuel and petrol from third parties and subsequently resold 657 tons through its retail stations for approximately RR 15,414 per ton. There were no such sales in the corresponding period in 2008 since the operations of OOO “NOVATEK-Refuelling Complexes” commenced in the second half of 2008.

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 June 2009 and 2008 (excluding trading activities):

<i>Russian roubles (RR) or US dollars (USD) per ton</i>	Three months ended 30 June:		Change
	2009	2008	%
LPG			
Net export price, RR per ton	10,293	13,160	(21.8%)
Net export price, USD per ton	319.5	557.0	(42.6%)
CIS price, RR per ton	8,644	11,786	(26.7%)
Domestic price, RR per ton	6,660	10,236	(34.9%)
Oil products			
Domestic price, RR per ton	3,849	4,126	(6.7%)

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 range for the “input/output” rate effective from 1 April 2009 is RR 25.82 to RR 1,442.05 (excluding VAT) per mcm) and includes a constant rate of RR 22.40 (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 7.23 (excluding VAT) per mcm per 100 km effective 1 January 2008 and was increased by 4.7% to RR 7.57 (excluding VAT) per mcm per 100 km effective 1 January 2009 and by a further 6.9% to RR 8.09 (excluding VAT) per mcm per 100 km effective 1 April 2009.

In December 2008, the FTS approved an increase in the 2009 transportation tariff for natural gas. The new tariff will be implemented in four stages, consistent with the announced increases in regulated natural gas prices, for an average increase of 15.7% for the year. The increases in regulated transportation tariffs are passed on to our end-customers pursuant to delivery terms in the majority of our contracts.

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. On 27 March 2009, the FTS announced specific discount coefficients to be applied to the existing rail road transportation tariffs related to export deliveries of liquefied petroleum gas and stable gas condensate shipped from the Limbey rail station, located in close proximity to our Purovsky Plant (see “Transportation expenses” below).

We deliver our stable gas condensate and oil products produced from our unstable 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 overseas market destinations. The costs associated with tanker transportation are determined by the distance to the final destination, tanker availability, seasonality of deliveries and standard shipping terms.

Transportation transactions with related parties

All natural gas producers and wholesalers operating in Russia transport their commercial volumes of natural gas through the Unified Gas Supply System (UGSS), which is owned and operated by OAO Gazprom, a State monopoly and a shareholder of OAO NOVATEK since 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 immediately preceding 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

Our natural gas sales volumes decreased marginally primarily due to a reduction in our purchases from third parties. Our liquids sales volumes (crude oil, stable gas condensate, LPG and oil products) increased primarily due to an increase in our unstable gas condensate production.

Natural gas sales volumes

<i>millions of cubic meters</i>	Three months ended 30 June:		Change %
	2009	2008	
Production from:			
Yurkharovskoye field	4,260	2,526	68.6%
East-Tarkosalinskoye field	2,515	3,781	(33.5%)
Khancheyskoye field	766	1,064	(28.0%)
Other fields	22	7	214.3%
Total natural gas production	7,563	7,378	2.5%
Purchases from:			
Gazprom	-	483	n/m
Other	159	318	(50.0%)
Total natural gas purchases	159	801	(80.1%)
Total production and purchases	7,722	8,179	(5.6%)
Purovsky Plant and own usage	(10)	(5)	100.0%
Decrease (increase) in pipeline and underground gas storage facilities	(8)	(195)	(95.9%)
Total natural gas sales volumes	7,704	7,979	(3.4%)
<i>Sold to end-customers</i>	<i>3,009</i>	<i>3,430</i>	<i>(12.3%)</i>
<i>Sold to traders in remote points</i>	<i>2,764</i>	<i>-</i>	<i>n/m</i>
<i>E-trading sales</i>	<i>-</i>	<i>23</i>	<i>(100.0%)</i>
Subtotal sold to end-customers	5,773	3,453	67.2%
Sold ex-field	1,931	4,526	(57.3%)

In the three months ended 30 June 2009, our total consolidated natural gas production increased by 185 mmcm, or 2.5%, compared to the 2008 period due to an increase in production at our Yurkharovskoye field as a result of the first stage of the field's second phase of development launched in September 2008. In the 2009 period, we optimized oil and gas revenues through the management of our fields' operational and production flexibility. By reducing natural gas production, primarily from the dry gas layers at the East-Tarkosalinskoye field and, to a lesser degree, the wet gas layers at both the East-Tarkosalinskoye and Khancheyskoye fields, we were able to grow natural gas production at the Yurkharovskoye field, thus increasing unstable gas condensate production. The decision to reduce production was largely due to a decrease in demand from end-customers, the cessation of sales on the electronic natural gas exchange and normal seasonality consumption patterns.

At 30 June 2009, our cumulative natural gas volumes stored in Gazprom's underground gas storage facilities (UGSF) totaled 207 mmcm, representing an increase of 70 mmcm during the period. We also had a natural gas balance of 33 mmcm in the UGSS at 30 June 2009, compared to 96 mmcm at 31 March 2009. We expect our volumes of natural gas injected into underground gas storage facilities and maintained in the UGSS to continue fluctuating period-to-period depending on market conditions, storage capacity constraints and our development plans to sustain and/or grow production during periods of seasonality.

In the three months ended 30 June 2009, our natural gas purchases decreased by 642 mmcm, or 80.1%, compared to the corresponding period in 2008, primarily due to our ability to meet domestic market demand from our own production.

Liquids sales volumes

<i>thousands of tons</i>	Three months ended 30 June:		Change %
	2009	2008	
Production from:			
Yurkharovskoye field	355	188	88.8%
East-Tarkosalinskoye field	234	220	6.4%
Khancheyskoye field	160	164	(2.4%)
Other fields	10	25	(60.0%)
Total liquids production	759	597	27.1%
Purchases from:			
Other	-	38	(100.0%)
Total liquids purchases	-	38	(100.0%)
Total production and purchases	759	635	19.5%
Losses and own usage ⁽¹⁾	(3)	(5)	(40.0%)
Decreases (increases) in liquids inventory balances	138	16	n/m
Total liquids sales volumes	894	646	38.4%
<i>Stable gas condensate export</i>	<i>650</i>	<i>380</i>	<i>71.1%</i>
<i>Stable gas condensate domestic</i>	<i>8</i>	<i>3</i>	<i>166.7%</i>
<i>Subtotal stable gas condensate</i>	<i>658</i>	<i>383</i>	<i>71.8%</i>
<i>LPG export</i>	<i>107</i>	<i>13</i>	<i>n/m</i>
<i>LPG CIS</i>	<i>1</i>	<i>14</i>	<i>(92.9%)</i>
<i>LPG domestic</i>	<i>80</i>	<i>123</i>	<i>(35.0%)</i>
<i>Subtotal LPG</i>	<i>188</i>	<i>150</i>	<i>25.3%</i>
<i>Crude oil export</i>	<i>19</i>	<i>-</i>	<i>n/m</i>
<i>Crude oil domestic</i>	<i>26</i>	<i>72</i>	<i>(63.9%)</i>
<i>Subtotal crude oil</i>	<i>45</i>	<i>72</i>	<i>(37.5%)</i>
<i>Oil products export (international trading activities)</i>	<i>-</i>	<i>33</i>	<i>(100.0%)</i>
<i>Oil products domestic</i>	<i>3</i>	<i>8</i>	<i>(62.5%)</i>
<i>Subtotal oil products</i>	<i>3</i>	<i>41</i>	<i>(92.7%)</i>

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

In the three months ended 30 June 2009, our liquids production increased by 162 thousand tons, or 27.1%, to 759 thousand tons compared to 597 thousand tons in the 2008 period, due to the expansion of unstable gas condensate production capacity at our Yurkharovskoye field resulting from the launch of the first stage of the field's second phase of development in September 2008. The increase was offset by a decrease in crude oil production at our Ust-Purpeisky license area due to its disposal in April 2009.

At 30 June 2009, we had 172 thousand tons of stable gas condensate in transit or storage and recognized as inventory until such time as it is delivered to the port of destination as compared to 149 thousand tons as of 30 June 2008. In the three months ended 30 June 2009, our stable gas condensate in transit or storage and recognized as inventory decreased by 141 thousand tons compared to a decrease by 23 thousand tons in the corresponding period in 2008. The remaining change in liquids inventory balances related to changes in other liquid hydrocarbon products.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 30 JUNE 2009 COMPARED TO THE CORRESPONDING PERIOD IN 2008

The following table and discussion is a summary of our consolidated results of operations for the three months ended 30 June 2009 and 2008. Each line item is also shown as a percentage of our total revenues.

<i>Millions of Russian roubles</i>	Three months ended 30 June:			
	2009	% of total revenues	2008	% of total revenues
Total revenues (net of VAT and export duties)	23,148	100.0%	21,352	100.0%
<i>including:</i>				
natural gas sales	12,868	55.6%	10,740	50.3%
liquids sales	9,508	41.1%	9,672	45.3%
Operating expenses	(15,038)	(65.0%)	(11,822)	(55.4%)
Other operating income (loss)	(158)	(0.7%)	(195)	(0.9%)
Profit from operations	7,952	34.4%	9,335	43.7%
Finance income (expense)	1,103	4.8%	22	0.1%
Share of income (loss) of associated companies	11	0.0%	(45)	(0.2%)
Profit before income tax	9,066	39.2%	9,312	43.6%
Total income tax expense	(1,903)	(8.2%)	(2,256)	(10.6%)
Profit (loss)	7,163	30.9%	7,056	33.0%
Non-controlling interest	15	0.1%	(3)	0.0%
Profit attributable to NOVATEK shareholders	7,178	31.0%	7,053	33.0%

Total revenues

The following table sets forth our sales (net of VAT and export duties, where applicable) for the three months ended 30 June 2009 and 2008:

<i>Millions of Russian roubles</i>	Three months ended 30 June:		Change %
	2009	2008	
Natural gas sales	12,868	10,740	19.8%
<i>End-customer</i>	5,811	6,319	(8.0%)
<i>Traders in remote points</i>	5,073	-	n/m
<i>E-trading</i>	-	30	(100.0%)
Subtotal of end-customers sales	10,884	6,349	71.4%
Ex-field sales	1,984	4,391	(54.8%)
Stable gas condensate sales	7,500	6,525	14.9%
<i>Export</i>	7,440	6,497	14.5%
<i>Domestic</i>	60	28	114.3%
Liquefied petroleum gas sales	1,649	1,601	3.0%
<i>Export</i>	1,104	174	534.5%
<i>CIS</i>	11	163	(93.3%)
<i>Domestic</i>	534	1,264	(57.8%)
Crude oil sales	341	655	(47.9%)
<i>Export</i>	173	-	n/m
<i>Domestic</i>	168	655	(74.4%)
Oil products sales	18	890	(98.0%)
<i>Export</i>	-	819	n/m
<i>Domestic</i>	18	71	(74.6%)
Total oil and gas sales	22,376	20,411	9.6%
Sales of polymer and insulation tape	501	580	(13.6%)
Other revenues	271	361	(24.9%)
Total revenues	23,148	21,352	8.4%

Natural gas sales

In the three months ended 30 June 2009, our revenues from sales of natural gas increased by RR 2,128 million, or 19.8%, compared to the corresponding period in 2008 due to an increase in prices. Revenues from the sale of natural gas accounted for 55.6% and 50.3% of our total revenues in the three months ended 30 June 2009 and 2008, respectively. The increase in natural gas sales as a percentage of total revenues was primarily due to higher natural gas prices and significant decrease in liquids prices that was partially offset by an increase in liquids volumes sold.

In the three months ended 30 June 2009, our average realized natural gas price per mcm increased by RR 324 per mcm, or 24.1%, to RR 1,670 per mcm from RR 1,346 per mcm in the corresponding period in 2008. Our proportion of natural gas sold to end-customers, including traders in remote points and e-trading sales, to total natural gas sales volumes, increased from 43.3% in the three months ended 30 June 2008 to 74.9% in the 2009 period due primarily to the initiation of natural gas sales on a delivered basis to traders in remote points beginning in April 2009. The average realized prices of our natural gas sold directly to end-customers and traders in remote points (including transportation expense) and sold ex-field were higher by 2.6% and 5.9%, respectively, in the three months ended 30 June 2009 compared to the corresponding period in 2008. In the three months ended 30 June 2008, our sales of natural gas to end-customers were primarily to energy utility companies. The majority of natural gas volumes sold to end-customers in the 2009 period were delivered to energy utility companies and traders in remote points (previously recorded as ex-field sales).

As of 1 January 2009, trading on the electronic exchange has been temporarily suspended, pending the prolongation of legislation regulating the electronic trading of natural gas. There were no e-trading sales during the three months ended 30 June 2009 as compared to 23 mmcm in the corresponding 2008 period.

Stable gas condensate sales

In the three months ended 30 June 2009, our revenues from sales of stable gas condensate increased by RR 975 million, or 14.9%, compared to the corresponding period in 2008 primarily due to an increase in volumes sold which were offset by significantly lower average realized prices due primarily to declining benchmark prices.

In the three months ended 30 June 2009, we sold 658 thousand tons of stable gas condensate, of which 650 thousand tons, or 98.8%, was exported to the United States, Europe and South Korea, and the remaining 8 thousand tons were sold domestically. In the three months ended 30 June 2008, we delivered 380 thousand tons of stable gas condensate, or 99.2% of our total sales volumes, to markets in the United States. In the 2009 period, our total stable gas condensate sales volumes increased by 275 thousand tons, or 71.8%, primarily due to an increase in our unstable gas condensate production as well as a decrease in our “goods in transit or storage” balances at the end of the period.

We delivered our stable gas condensate to international markets using the loading and storage facilities at the Port of Vitino on the White Sea and via leased tankers. In the 2009 period, we geographically expanded our sales of stable gas condensate through deliveries to the Asian-Pacific region, namely South Korea. The diversification of our stable gas condensate sales provides us with revenue stability and opportunities for higher margins as well as expanding opportunities to enter new markets.

In the three months ended 30 June 2009, our average realized price, excluding export duties and translated into US dollars, for stable gas condensate sold on the export market decreased by USD 368.4 per ton, or 50.9%, to USD 355.2 per ton (DES and CFR) from USD 723.6 per ton (DES) in the corresponding period in 2008. The decrease in the average realized export price was the result of a 54.6% decrease in our average export contract price that was partially offset by a 63.9% decrease in our average export duty per ton. The decrease in our average realized contract price was due to an overall decrease in crude oil and related commodity prices on international markets in the 2009 period compared to 2008.

Liquefied petroleum gas sales

In the three months ended 30 June 2009, our revenues from the sales of LPG increased by RR 48 million, or 3.0%, compared to the corresponding period in 2008, primarily due to an increase in volumes sold and a decrease in our average realized prices. In the three months ended 30 June 2009, our total LPG sales volumes increased by 38 thousand tons, or 25.3%, to 188 thousand tons from 150 thousand tons in the corresponding period in 2008.

In the 2009 period, we were able to compete with other international LPG producers in international markets due to the abolishment of Russian export duties on LPG. As a result, in the three months ended 30 June 2009, our export sales volumes of LPG increased 8.2 times, to 107 thousand tons which amounted to 56.9% of our total LPG sales volumes. Our average LPG export price decreased by USD 237.5 per ton, or 42.6%, to USD 319.5 per ton (DAF and CPT excluding export duties and translated into US dollars) in the three months ended 30 June 2009 compared to the corresponding period in 2008. The decrease in our average realized export prices (excluding export duties) was primarily due to a 60.2% decrease in our average contract price which was partially offset by the abolishment of export duties in the 2009 period.

The remaining volumes of LPG were sold as follows: 42.6% was sold domestically at an average price of RR 6,660 per ton (FCA excluding VAT) representing a decrease of RR 3,576 per ton, or 34.9%, compared to the corresponding period in 2008, and 0.5% was sold to the CIS for an average price of RR 8,644 per ton (DAF) representing a decrease of RR 3,142 per ton, or 26.7%, respectively, compared to the corresponding period in 2008.

In the three months ended 30 June 2008, we sold 82.0% of our LPG volumes domestically, 8.7% to the export markets and 9.3% to markets in the CIS. The increase in our share of LPG deliveries to export markets from 8.7% in the three months ended 30 June 2008 to 56.9% in the 2009 period was primarily the result of optimizing our netback prices as well as penetrating new export markets.

Crude oil sales

In the three months ended 30 June 2009, our revenues from the sales of crude oil decreased by RR 314 million, or 47.9%, compared to the 2008 period, due to a decrease in both our sales volumes and prices.

In the three months ended 30 June 2009, our crude oil volumes available for sale decreased by 27 thousand tons, or 37.5%, to 45 thousand tons from 72 thousand tons in the 2008 period primarily due to a decrease in our crude oil production. In the 2009 period, 57.8% of crude oil volumes were sold domestically at an average price of RR 6,503 per ton (excluding VAT) representing a decrease of RR 2,573 per ton, or 28.3%, compared to the corresponding period in 2008. The decrease in our average realized price was due to the overall decrease in crude oil prices in the domestic market in the 2009 period. The remaining 42.2% of crude oil volumes were sold to the export markets at an average price of USD 279.0 per ton (DAF excluding export duties, translated into US dollars). In the three months ended 30 June 2008, we did not deliver our crude oil to the international markets due to our ability to achieve higher margins on the domestic market.

Oil products sales

In the three months ended 30 June 2009, our revenue from the sales of oil products decreased by RR 872 million, or 98.0%, compared to the corresponding period in 2008, primarily due to a temporary suspension of oil products (naphtha) trading activities on international markets by our foreign trading subsidiary beginning in December 2008.

In the three months ended 30 June 2009, we did not sell oil products (naphtha) to the international markets compared to sales of 33 thousand tons in the corresponding period in 2008 for an average contract price of USD 1,073 per ton (DES).

Our domestic oil products sales (produced from our unstable gas condensate and purchased from third parties) in the three months ended 30 June 2009 decreased by RR 53 million, or 74.6%, to RR 18 million from RR 71 million in the 2008 period, primarily due to a decrease in sales volumes.

In the three months ended 30 June 2009, our revenues from trading operations with oil products on the domestic market decreased to RR 10 million compared to RR 47 million in the corresponding period in 2008. In the 2009 period, we sold 657 tons of oil products for an average price of RR 15,414 per ton through our retail stations. We sold two thousand tons of oil products purchased for resale on the domestic market for RR 20,142 per ton in the corresponding period in 2008.

In the three months ended 30 June 2009, our revenues from oil products produced at the Surgutsky refinery decreased to RR 8 million from RR 24 million in the corresponding period in 2008. Oil products sales volumes produced from our unstable gas condensate were two thousand tons in the 2009 period compared to six thousand tons in the corresponding period in 2008. Our oil products sales price decreased by RR 277 per ton, or 6.7%, to RR 3,849 per ton in the three months ended 30 June 2009 from RR 4,126 per ton in the 2008 period primarily due to an overall decrease in oil products prices in the domestic market in the 2009 period.

Sales of polymer and insulation tape

Our revenues from the sales of polymer and insulation tape decreased by RR 79 million, or 13.6%, to RR 501 million in the three months ended 30 June 2009, compared to RR 580 million in the 2008 period mainly due to a decrease in pipe insulation products production.

Revenues from our sales of BOPP film wrap decreased by RR 12 million, or 3.5%, from RR 357 million in the three months ended 30 June 2008 to RR 345 million in the 2009 period due to a decrease in demand on both domestic and CIS markets. The proportion of BOPP film wrap sales to total sales of polymer and insulation tape increased by 7.3% to 68.9% in the three months ended 30 June 2009 compared to 61.6% in the 2008 period.

Our revenues from pipe insulation product sales decreased by RR 54 million, or 35.1%, from RR 154 million in the three months ended 30 June 2008 to RR 100 million in the 2009 period due to a decrease in volumes sold and sales prices. Revenues from polymer pipes sales decreased by RR 18 million, or 27.3%, from RR 66 million in the three months ended 30 June 2008 to RR 48 million in the 2009 period primarily due to a decrease in volumes sold. The remaining RR 8 million and RR 3 million in the three months ended 30 June 2009 and 2008, 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 June 2009, other revenues decreased by RR 90 million, or 24.9%, to RR 271 million from RR 361 million in the corresponding period in 2008. The decrease in other revenues was primarily related to revenues from geological and geophysical research services provided to our associates which accounted for RR 179 million in the three months ended 30 June 2009, compared to RR 248 million in the corresponding period in 2008.

In the three months ended 30 June 2009, our revenues from transportation, handling and storage services and polymer tolling decreased by RR 57 million and RR 13 million, respectively, while our revenues from rent services increased by RR 51 million. The remaining decrease of RR 2 million in other revenues was composed of various immaterial items.

Operating expenses

In the three months ended 30 June 2009, our total operating expenses increased by RR 3,216 million, or 27.2%, to RR 15,038 million compared to RR 11,822 million in the 2008 period, largely due to an increase in transportation costs that was partially offset by a decrease in our purchases of natural gas and liquid hydrocarbons. As a percentage of total operating expenses, our non-controllable expenses, such as transportation and taxes other than income tax, increased by 17.1% in the three months ended 30 June 2009 to 68.0% compared to 50.9% in the corresponding period in 2008. Total operating expenses increased as a percentage of total revenues to 65.0% in the three months ended 30 June 2009 compared to 55.4% in the corresponding period in 2008, as shown in the table below.

The increase in our operating expenses as a percent of total revenues was primarily due to an increase in our natural gas transportation expense due to a significant increase in volumes sold to end-customers, particularly the reclassification of traders in remote points as a result of the renegotiated terms from ex-field to delivered volumes.

<i>millions of Russian roubles</i>	Three months ended 30 June:			
	2009	% of total revenues	2008	% of total revenues
Transportation expenses	8,295	35.8%	4,229	19.8%
Taxes other than income tax	1,935	8.4%	1,792	8.4%
Non-controllable expenses	10,230	44.2%	6,021	28.2%
Materials, services and other	1,469	6.3%	1,743	8.2%
General and administrative expenses	1,281	5.5%	1,516	7.1%
Depreciation, depletion and amortization	1,274	5.5%	984	4.6%
Exploration expenses	231	1.0%	185	0.9%
Purchases of natural gas and liquid hydrocarbons	161	0.7%	1,632	7.6%
Net impairment expense	71	<i>n/m</i>	10	<i>n/m</i>
Change in natural gas, liquid hydrocarbons, and polymer products and work-in-progress	321	<i>n/m</i>	(269)	<i>n/m</i>
Total operating expenses	15,038	65.0%	11,822	55.4%

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 June 2009, non-controllable expenses of transportation and taxes other than income tax increased by RR 4,209 million, or 69.9%, to RR 10,230 million from RR 6,021 million in the corresponding period in 2008. The change in transportation expenses was primarily due to an increase in the aggregate amount of natural gas volumes delivered to end-customers, including traders in remote points, which were previously recorded as ex-field sales with no responsibility to incur transport related costs, the increase in the natural gas transportation tariff and an increase in liquids export sales volumes. Taxes other than income tax increased primarily due to higher property tax expense. As a percentage of total revenues our non-controllable expenses increased by 16.0% to 44.2% in the three months ended 30 June 2009 compared to 28.2% in the corresponding period in 2008.

Transportation expenses

In the three months ended 30 June 2009, our total transportation expenses increased by RR 4,066 million, or 96.1%, compared to the corresponding period in 2008.

<i>millions of Russian roubles</i>	Three months ended 30 June:		Change %
	2009	2008	
Natural gas transportation to customers	5,674	2,581	119.8%
Stable gas condensate and liquefied petroleum gas transportation by rail	1,646	1,004	63.9%
Stable gas condensate transported by tankers	853	523	63.1%
Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines	81	48	68.8%
Crude oil transportation to customers	40	31	29.0%
Other transportation costs	1	42	(97.6%)
Total transportation expenses	8,295	4,229	96.1%

In the three months ended 30 June 2009, our transportation expenses for natural gas increased by RR 3,093 million, or 119.8%, to RR 5,674 million from RR 2,581 million in the corresponding period in 2008. The change was mainly due to a 67.2% increase in our sales volumes of natural gas delivered directly to end-customers, including traders in remote points, where the cost of transportation is included in the sales price, as well as increases in the natural gas transportation tariff effective 1 January 2009 and 1 April 2009 (see “Transportation tariffs” above). Our average transportation distance for natural gas sold to end-customers fluctuates period-to-period and depends on the location of end-customers and the specific routes of transportation.

Total expenses for transportation by rail increased by RR 642 million, or 63.9%, primarily due to higher liquids volumes sold. In the three months ended 30 June 2009, our combined volumes of stable gas condensate and LPG sold and transported via rail increased by 313 thousand tons, or 58.7%, to 846 thousand tons from 533 thousand tons in the corresponding period in 2008.

Our expense for stable gas condensate transported by rail to export markets increased by RR 362 million, or 58.1% to RR 985 million from RR 623 million in the three months ended 30 June 2008 due to a 71.1% increase in volumes transported. In the three months ended 30 June 2009, our average transportation rate per ton for stable gas condensate decreased by 7.6% to RR 1,515 from RR 1,639 in the corresponding period in 2008, due to the application of a co-efficient of 0.72 to the existing rail tariff for stable gas condensate delivered to export markets from 7 April 2009. In accordance with the FTS announcement, the coefficient was applied to the existing rail road transportation tariff related to export deliveries of stable gas condensate shipped from the Limbey rail station, located in close proximity to our Purovsky Plant. The decrease was partially offset by a recognition of transportation expenses in the 2009 period incurred before 7 April 2009 and disclosed as “prepayments and other current assets” in the consolidated interim condensed statement of financial position at 31 March 2009. According to the announcement from the FTS (see “Transportation tariffs” above) the co-efficient applied against the existing rail tariff will be applicable throughout 2009.

In the three months ended 30 June 2009, we incurred RR 7 million of railroad transportation expenses related to stable gas condensate sales on the domestic market for an average transportation rate RR 1,022 per ton.

In the three months ended 30 June 2009, our expense for LPG transported by rail increased by RR 272 million, or 71.8%, primarily due to an increase in export volumes which were partially offset by a decrease in the export rail tariff. In the 2009 period, our expense for LPG transported by rail amounted to RR 651 million, of which RR 453 million was related to export sales, RR 4 million to CIS sales, and RR 194 million to domestic sales, or RR 4,222 per ton, RR 3,070 per ton, and RR 2,421 per ton, respectively. In the three months ended 30 June 2008, transportation expenses for LPG transported by rail amounted to RR 378 million, of which RR 71 million was related to export sales, RR 40 million to CIS sales, and RR 267 million to domestic sales, or RR 5,383 per ton, RR 2,891 per ton and RR 2,165 per ton, respectively. Following the formal announcement from the FTS (see “Transportation tariffs” above), we applied a co-efficient of 0.35 to the existing rail tariff for LPG export deliveries for volumes in excess of 90 thousand tons which we reached in the middle of April 2009. According to the announcement from the FTS the co-efficient applied against the existing rail tariff will be applicable throughout 2009.

The remaining RR 3 million of transportation expenses by rail in the three months ended 30 June 2009, and RR 2 million in the corresponding period in 2008, were related to the transportation of oil products sold on the domestic markets 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 330 million, or 63.1%, to RR 853 million in the 2009 period from RR 523 million in the three months ended 30 June 2008. The change was primarily due to a 71.1% increase in volumes sold that was partially offset by a slight decrease in average freight rates and shorter average distances to customers. In the three months ended 30 June 2009, we delivered 81.7% of our stable gas condensate export volumes to United States markets as compared to 100.0% of deliveries to United States markets in the 2008 period.

Taxes other than income tax

<i>millions of Russian roubles</i>	Three months ended 30 June:		Change
	2009	2008	%
Unified natural resources production tax (UPT)	1,588	1,631	(2.6%)
Property tax	315	142	121.8%
Other taxes	32	19	68.4%
Total taxes other than income tax	1,935	1,792	8.0%

In the three months ended 30 June 2009, taxes other than income tax increased by RR 143 million, or 8.0%, primarily due to an increase in property tax expense.

In the three months ended 30 June 2009, our UPT for gas condensate and natural gas increased by RR 94 million and RR 22 million, respectively, due to an increase in our production volumes. The decrease in our UPT for crude oil of RR 159 million was due to a reduction in volumes produced, and a decrease in our average crude oil production tax rate, which is linked to the Urals benchmark crude oil price. Our average UPT rate for crude oil decreased from RR 4,066 per ton in the three months ended 30 June 2008 to RR 2,199 per ton in the 2009 period. The natural gas production tax rate in the 2009 and 2008 periods remained unchanged at RR 147 per mcm.

In the three months ended 30 June 2009, our property tax expense increased by RR 173 million, or 121.8%, to RR 315 million from RR 142 million in the corresponding period in 2008, 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 June 2009, other taxes increased by RR 11 million, or 57.9%, primarily due to marginal increases in several different taxes classified within "other taxes" expense.

Materials, services and other

In the three months ended 30 June 2009, our materials, services and other expenses decreased by RR 274 million, or 15.7%, to RR 1,469 million compared to RR 1,743 million in the 2008 period. The main components of this expense were employee compensation and materials and supplies, which comprised 43.1% and 24.8%, respectively, of total materials, services and other expenses in the 2009 period.

<i>millions of Russian roubles</i>	Three months ended 30 June:		Change %
	2009	2008	
Employee compensation	633	608	4.1%
Materials and supplies	364	439	(17.1%)
Tolling and processing fees	127	65	95.4%
Electricity and fuel	78	71	9.9%
Fire safety and security expense	45	41	9.8%
Repair and maintenance services	22	83	(73.5%)
Other	87	125	(30.4%)
Subtotal materials, services and other	1,356	1,432	(5.3%)
Operator services expense	113	311	(63.7%)
Total materials, services and other	1,469	1,743	(15.7%)

In the three months ended 30 June 2009, our materials, services and other expenses, excluding operator services expense, decreased by RR 76 million, or 5.3%, to RR 1,356 million compared to RR 1,432 million in the corresponding period in 2008.

Our employee compensation increased by RR 25 million, or 4.1%, to RR 633 million compared to RR 608 million in the 2008 period. The increase was primarily due to an increase in average salaries and additional staffing at our subsidiaries, mainly OOO “NOVATEK-YURKHAROVNEFTEGAS” and the Purovsky Plant, both of which experienced significant growth in their activities. The increase in employee compensation at our production subsidiaries was partially offset by a decrease in payroll expenses due to the disposal of our non-core subsidiary, OOO “Purovsky terminal”, in December 2008.

Materials and supplies expense decreased by RR 75 million, or 17.1%, mainly due to the reduction in production of polymers and insulation tape products and the associated decrease in purchases of raw materials, which accounted for RR 68 million, or 90.7%, of the total decrease in materials and supplies expense.

Tolling and processing fees increased by RR 62 million, or 95.4%, primarily due to an 88.8% increase in volumes and a 10.2% increase in third party processing tariffs both related to the de-ethanization of unstable gas condensate produced at the Yurkharovskoye field, which accounted for RR 65 million of the total change in tolling and processing fees. The remaining decrease of RR 3 million related to the processing of our unstable gas condensate at the Surgutsky refinery.

In the three months ended 30 June 2009, operator services expense represented 7.7% of total materials, services and other expenses and refers to the geological and geophysical research provided to our associated companies. In the three months ended 30 June 2009, we provided services totaling RR 113 million to our associated companies at the Anomalniy, Zapadno-Tazovskiy, Sredniy Chaselskiy, Yuzhno-Zapolyarniy and Severo-Yamsoveiskiy license areas, as compared to RR 311 million for services rendered in the corresponding period in 2008. Corresponding revenues received from our associates are shown as other revenues in the unaudited consolidated interim condensed statement of income.

General and administrative expenses

In the three months ended 30 June 2009, our general and administrative expenses decreased by RR 235 million, or 15.5%, to RR 1,281 million compared to RR 1,516 million in the corresponding period in 2008. The main components of these expenses were employee compensation, legal, audit, and consulting services, and maintenance of social infrastructure and charitable contributions, which, on aggregate, comprised 71.3% and 75.9% of total general and administrative expenses in the three months ended 30 June 2009 and 2008, respectively.

<i>millions of Russian roubles</i>	Three months ended 30 June:		Change %
	2009	2008	
Employee compensation	721	934	(22.8%)
Legal, audit, and consulting services	108	80	35.0%
Maintenance of social infrastructure and charitable contributions	84	136	(38.2%)
Concession management services	71	87	(18.4%)
Business trip expenses	68	71	(4.2%)
Rent expense	59	36	63.9%
Depreciation – administrative buildings	39	24	62.5%
Fire safety and security expense	36	34	5.9%
Insurance expense	17	26	(34.6%)
Other	78	88	(11.4%)
Total general and administrative expenses	1,281	1,516	(15.5%)

Our employee compensation decreased by RR 213 million, or 22.8%, to RR 721 million compared to RR 934 million in the corresponding period in 2008 primarily due to a decrease in accrual of performance-related bonuses and a 4.4% decrease in the number of administrative employees.

Legal, audit, and consulting services expenses increased by RR 28 million, or 35.0%, to RR 108 million compared to RR 80 million in the 2008 period. The increase was largely due to information technology system updates.

In the three months ended 30 June 2009, our maintenance of social infrastructure and charitable contributions expense decreased by RR 52 million, or 38.2%, to RR 84 million compared to RR 136 million in the corresponding period in 2008, and were primarily related to our continued support for charities and social programs in the regions where we operate. This expense will continue to fluctuate period-on-period depending on the funding needs and implementation schedules of specific programs.

Concession management services represent administrative expenses incurred by Tharwa Petroleum Company S.A.E (the operator for El Arish concession area located in Egypt). In the three months ended 30 June 2009, our expenses related to concession management services decreased by RR 16 million, or 18.4%, compared to the corresponding period in 2008 primarily due to a decrease in bonuses paid to the operator.

In the three months ended 30 June 2009, our rent expense increased by RR 23 million, or 63.9%, primarily due to the relocation of our Moscow office in July 2008 and the renting of additional office space to accommodate the consolidation of our Moscow head office operations.

Insurance expense decreased by RR 9 million, or 34.6%, to RR 17 million compared to RR 26 million in the 2008 period. The decrease was primarily due to lower Group insurance rates which are the result of a reduction in accident claims.

In the three months ended 30 June 2009, other general and administrative expenses decreased by RR 10 million, or 11.4%, compared to the corresponding period in 2008. The decrease in these expense items was mainly due to a decrease in staff training expense by RR 9 million that was offset by an increase in repair and maintenance expense by RR 8 million. The remaining decrease was spread among different expense categories within other general and administrative expenses which, taken individually, increased immaterially during the period.

Depreciation, depletion and amortization

In the three months ended 30 June 2009, our depreciation, depletion and amortization (“DDA”) expense increased by RR 290 million, or 29.5%, compared to the corresponding period in 2008. Depreciation and depletion of our oil and gas properties accrued using the “units of production method” increased by RR 188 million, or 21.7%, as a result of an increase in our depletable cost base. Straight-line depreciation increased by RR 99 million, or 169.5%, primarily due to the completion of the Purovsky Plant’s second phase in the fourth quarter 2008.

In the 2009 period, our DDA per barrel of oil equivalent (boe) was RR 19.0 compared to DDA per boe of RR 16.4 in the corresponding period in 2008. The increase in our DDA calculated on a boe basis was primarily due to an increase in our depletable cost base as a result of completing the capital expansion program related to the first stage of the second phase of development at the Yurkharovskoye field in September 2008.

Purchases of natural gas and liquid hydrocarbons

Purchases of natural gas and liquid hydrocarbons decreased by RR 1,471 million, or 90.1%, to RR 161 million in the three months ended 30 June 2009, from RR 1,632 million in the 2008 period, primarily due to temporary suspension of trading operations with oil products, namely naphtha, by our foreign trading subsidiary on the international markets. In the three months ended 30 June 2008, our purchases of naphtha amounted to RR 877 million.

We also reduced our purchases of natural gas due to increases in our own natural gas production. Purchases of natural gas decreased by RR 555 million, or 78.4%, from RR 708 million in the three months ended 30 June 2008 to RR 153 million in the 2009 period, primarily due to a decrease in volumes purchased from other producers that was partially offset by an increase in purchase prices.

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

In the three months ended 30 June 2009, we recorded a charge of RR 321 million to change in inventory expense, compared to a reversal of RR 269 million in the corresponding period in 2008.

In the three months ended 30 June 2009, we recorded a charge of RR 291 million to change in inventory due to a decrease in our inventory balance of stable gas condensate in transit and storage by 141 thousand tons. During the same period, we recorded a charge of RR 31 million and RR 18 million due to a decrease in our inventory balances of polymers and insulation tape products and work-in-progress, respectively. The remaining reversal of RR 19 million to the change in inventory expense related to changes in our balances of other products.

In the three months ended 30 June 2008, we recorded a reversal of RR 136 million to change in inventory due to an increase in work-in-progress for operator services provided to our associates. During the same period, we recorded a reversal of RR 93 million and RR 70 million to change in inventory expense due to an increase in inventory balance of naphtha and natural gas, respectively. The reversals were partially offset by a 23 thousand ton decrease in our inventory balance of stable gas condensate in transit and storage resulting in a charge of RR 40 million to change in inventory expense in the three months ended 30 June 2008. The remaining reversal of RR 10 million to the change in inventory expense related to a change in other products balances.

Other operating income (loss) and net gain (loss) on disposals

In the three months ended 30 June 2009, we realized other operating loss of RR 158 million, of which RR 212 million was related to commodity derivative instruments that did not qualify as hedge transactions under IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). In addition, in the 2009 period, we recognized other income of RR 52 million and RR 10 million due to the disposal of our production subsidiary OOO “Purneft” in April 2009 and for penalties from our customers due to non-compliance of their contractual obligations, respectively. The remaining other loss of RR 8 million was primarily related to the disposal of fixed assets, equipment and materials.

In the three months ended 30 June 2008, we realized other operating loss of RR 195 million, of which RR 212 million was related to the disposal our long-term lease with OAO “Gazprom”.

Profit from operations

As a result of the factors discussed above, our profit from operations decreased by RR 1,383 million, or 14.8%, to RR 7,952 million in the three months ended 30 June 2009, compared to RR 9,335 million in the corresponding period in 2008. In the three months ended 30 June 2009, our profit from operations as a percentage of total revenues decreased to 34.4% compared to 43.7% in the 2008 period primarily due to significantly higher transportation expenses due to an increase in volumes sold as well as a significant decline in international and domestic benchmark crude oil prices.

Finance income (expense)

In the three months ended 30 June 2009, our net finance income increased to RR 1,103 million compared to net finance income of RR 22 million in the corresponding period in 2008. The increase was mainly due to a significant non-cash foreign exchange gain in the 2009 period, due to the strengthening of the Russian rouble relative to the US dollar.

In the three months ended 30 June 2009, interest expense increased by RR 135 million, or 264.7%, primarily due to an increase in our average debt balances. In the three months ended 30 June 2009, interest income increased by RR 28 million, or 34.1%, primarily due to an increase in interest income received on funds held on account as bank deposits.

We recorded a net foreign exchange gain of RR 1,179 million in the 2009 period compared to a net foreign exchange loss of RR 9 million in the corresponding period in 2008. The non-cash net foreign exchange gain recorded in the 2009 period was primarily due to an 8.0% strengthening of the Russian rouble against the US dollar and its effect on our foreign currency denominated borrowings.

Share of income (loss) of associated companies

In the three months ended 30 June 2009, our proportionate share in the income of associated companies amounted to RR 11 million compared to a loss of RR 45 million in the 2008 period. The loss recognized by our associated companies in the 2008 period was due to the expensing of geological and geophysical research incurred 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 21.0% and 24.1% for the three months ended 30 June 2009 and 2008, respectively. Our effective income tax rate, after excluding the effect of foreign subsidiaries, was 22.1% and 24.1% in the 2009 and 2008 periods, respectively. In the three months ended 30 June 2009, the Russian statutory income tax rate was 20% compared to 24% in the corresponding period in 2008. 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 107 million, or 1.5%, to RR 7,163 million in the three months ended 30 June 2009 from RR 7,056 million in the corresponding period in 2008. The profit attributable to NOVATEK shareholders increased by RR 125 million, or 1.8%, to RR 7,178 million in the three months ended 30 June 2009 from RR 7,053 million in the corresponding period in 2008.

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to NOVATEK shareholders, increased by RR 0.05 per share, or 2.2%, to RR 2.37 per share in the 2009 period from RR 2.32 per share in corresponding period in 2008.

LIQUIDITY AND CAPITAL RESOURCES

The following table shows our net cash flows from operating, investing and financing activities for the three months ended 30 June 2009 and 2008:

<i>millions of Russian roubles</i>	Three months ended 30 June:		Change %
	2009	2008	
Net cash provided by operating activities	8,448	7,935	6.5%
Net cash used in investing activities	(10,109)	(9,497)	6.4%
Net cash provided by (used in) financing activities	(1,806)	294	n/m

<i>Liquidity ratios</i>	30 June 2009	31 December 2008	Change, %
Current ratio	0.69	1.79	(61.5%)
Total debt to equity	0.40	0.27	48.1%
Long-term debt to long term debt and equity	0.148	0.172	(14.0%)
Net debt to total capitalization ⁽¹⁾	0.22	0.12	83.3%

⁽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 June 2009, our net cash provided by operating activities increased by RR 513 million, or 6.5%, to RR 8,448 million compared to RR 7,935 million in the corresponding period in 2008. The increase was mainly attributable to lower income tax paid and a decrease in inventories in the 2009 period that was partially offset by an increase in accounts receivable and prepayments.

Net cash used in investing activities

Net cash used in investing activities increased by RR 612 million, or 6.4%, to RR 10,109 million in the three months ended 30 June 2009 compared to RR 9,497 million in the corresponding period in 2008. In the three months ended 30 June 2009, our cash flow used in investing activities at our three core fields and the Purovsky Plant decreased by more than 50% compared to the 2008 period due to the completion of the first stage of the second phase of development at the Yurkharovskoye field and the second phase expansion of the Purovsky Plant in September and November 2008, respectively. The decrease was offset by RR 6,103 million in cash used for the acquisition of OAO "Yamal LNG".

Net cash provided by (used in) financing activities

In the three months ended 30 June 2009, the majority of our net cash used in financing activities was related to the payment of dividends. In the three months ended 30 June 2008, our cash flow provided by long-term borrowings (syndicated loan) was partially offset by the repayment of short-term borrowings and dividends.

Working capital

Our net working capital position (current assets less current liabilities) at 30 June 2009 was negative RR 11,096 million compared to positive RR 11,259 million at 31 December 2008. The change in our net working capital position was mainly due to an increase in our short-term debt and trade payables resulting from acquisitions, as well as a decrease in cash and cash equivalents, prepayments and other current assets that was partially offset by an increase in trade and other receivables.

Due to the high finance costs of debt during the first six months of 2009, the Group decided not to undertake significant borrowings in this period. Management believes that the current market environment for raising finance through the issuance of debt has improved, and as such, the Group is currently negotiating with several Russian and Western financial institutions to borrow funds on a long-term basis primarily in Russian roubles and, to a lesser extent, in foreign currencies.

The Group's management believes that it has and will have the ability to generate sufficient cash flows (from operating activity and financing activities) to repay all current liabilities and finance the Company's capital construction programs.

Capital expenditures

Total capital expenditures on property, plant and equipment for the three months ended 30 June 2009 and 2008 are as follows:

<i>millions of Russian roubles</i>	Three months ended 30 June:		Change %
	2009	2008	
Exploration, production and marketing	4,791	9,388	(49.0%)
Polymer production and marketing	3	82	(96.3%)
Total	4,794	9,470	(49.4%)

Exploration, production and marketing 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 and at our Purovsky Plant. In the three months ended 30 June 2009, we spent RR 51 million, RR 914 million, RR 3,044 million and RR 151 million for further field development at the Khancheyskoye, East-Tarkosalinskoye, Yurkharovskoye and Sterkhovoye fields, respectively, and RR 161 million on further construction work at the Purovsky Plant.

Debt obligations

At 30 June 2009, the Group had short-term credit facilities available for use in the aggregate amount of RR 9,387 million (USD 300 million) on either fixed or variable interest rates subject to the specific type of credit facility. At 30 June 2009, the Group also had available funds of RR 217 million under a long-term credit line with OAO "Gazprombank".

In addition, the Group had an unused two-year credit line facility obtained from "UniCredit Bank" in November 2007 for up to RR 3,129 million (USD 100 million) with interest rates negotiated at each withdrawal date. In June 2009, the Group extended the terms of the credit line until February 2010.

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 June 2009, RR 14,617 million, or 83.8%, of our long-term debt was denominated in US dollars (out of RR 40,207 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 37.7% in the three months ended 30 June 2009, is denominated in US dollars. As of 30 June 2009, the Russian rouble had depreciated by approximately 6.5% against the US dollar since 1 January 2009.

A hypothetical and instantaneous 30% strengthening in the Russian rouble in relation to the US dollar as of 30 June 2009 would have resulted in an estimated foreign exchange gain of approximately RR 8,543 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 financial statements all derivative instruments are recorded at their fair values. Unrealized gains or losses on derivative instruments are recognized within other operating 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 reduced demand for our hydrocarbons available for sale and the corresponding revenues generated from these sales 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; thereby, adversely affecting our financial and operating results.

Off balance sheet activities

As of 30 June 2009, 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.