NOVATEK

Second Quarter 2011

Financial and Operational Results – Earnings Conference Call
16 August 2011
Moscow, Russian Federation

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Second Quarter 2011 earnings conference call. I would like to thank everyone for joining us this evening, and again extend our sincere gratitude to Troika Dialog for organizing and hosting our earnings conference call.

DISCLAIMER

Before we begin with the specific conference call details, I would like to refer you to our Disclaimer Statement as is our normal practice. During this conference call we may make reference to forward-looking statements by using words such as our plans, objectives, goals, strategies, and other similar words, which are other than statements of historical facts. Actual results may differ materially from those implied by such forward-looking statements due to known and unknown risks and uncertainties and reflect our views as of the date of this presentation. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements in light of new information or future events. Please refer to our regulatory filings, including our Annual Review for the year ended 31 December 2010, as well as any of our earnings press releases for more description of the risks that may influence our results.

SUMMARY HIGHLIGHTS

The macro-environment continues to show signs of instability and this has raised the possibility of a double-dip recessionary outcome, which is not the economic backdrop everyone was hoping for as we slowly, but steadily, emerged from the throes of the 2008 – 2009 economic stagnation. We presently operate in a period characterized by change and volatility, yet as a growing business, we need to make capital investment decisions that equip us with the capabilities to produce and deliver hydrocarbon products to our regions and customers in five to 10 year periods and beyond. The effect of the recent global economic crises has rattled the confidence of the capital markets, which will be felt for many years to come. Unfortunately, we are still in a period of economic uncertainty, and the past two week’s free-fall in the global equities markets are another grim reminder of the fragility of the world’s economic recovery.

The latest wave of market uncertainty has significantly increased equity volatility, and unfortunately, overshadows another record quarter of stellar financial and operational results achieved by NOVATEK. As witnessed from the market’s reaction, equities in the emerging markets are not immune to these extraneous events. Despite this uncertainty, we witnessed a pronounced shift in the sentiment toward the usage of natural gas during the past quarter, largely attributable to the aftermath of the disaster at the Fukishima nuclear plant in Japan, the impending global reaction toward the safety and reliability of nuclear energy, most notably the reaction by the German government to shutdown ageing nuclear plants as well as the moratorium referendum from Italy on the construction of new nuclear facilities.

We also witnessed some of the steam evaporating out of the unconventional shale gas story when the French government banned the use of "hydraulic fracturing" in that country. Although these recent events amongst many others market news have no doubt contributed to the pendulum shifts in forecasters' view of the global gas markets, we remained steadfast and positive in our assessments of the global gas markets, even throughout the height of the global economic crisis, and have remained more bullish than the prevailing market sentiments on the recovery of natural gas demand.

As a focused natural gas producer, we have phased the development activities and productive capacity of our fields to correspond to expected demand requirements on the Russian domestic market. Throughout this volatile period, we invested capital in field expansion and capacity development to ensure sufficient volumes of natural gas were available to meet our customer's demand requirements. This crucial point was reiterated on my prior conference calls to convey the importance of investing capital to ensure reliable supplies despite the market's contrarian view to our thinking. Fortunately, the investments made during the past couple of years has yielded significant contributions to our financial and operational results, and provided the necessary platform to increase our productive capacity in a sustainable manner.

In hindsight, the strategic decisions we made to exploit our wet gas fields are paying huge dividends today in terms of both cash flow generation and market multiples. Globally speaking, investors have paid a premium multiple to those energy companies with the ability to extract higher valued liquids from the production of natural gas. I raise this point to highlight that NOVATEK continues to invest capital today, either directly through the drill-bit or through the acquisition of new license areas as an example, to ensure our continued focus on extracting the highest value per unit produced, as well as capturing additional operational and financial synergies in our current wet gas operations, because we continue to believe there will be a sustained disconnect in the calorific parity basis between crude oil and natural gas, thus maintaining the premium multiples for wet gas asset plays. Furthermore, we strongly believe the market has not truly valued the potential upside we have in our development portfolio for the expected monetization of these wet gas reserves, nor has the market significantly factored in our ability to continuously migrate resources to reserves to eventual cash flow at attractive industry metrics.

We continue to hear investor comments or read analyst reports that question the market valuation of NOVATEK, but I challenge everyone listening tonight to find examples of oil and gas companies globally who have achieved the same levels of sustainable growth at industry enviable cost metrics throughout the up and down market cycles, as well as a company that has demonstrated significant growth and has continued to raise its dividend payout every year since we went public. I believe you will not find too many comparable companies. What you are more likely to find are international oil and gas companies struggling to demonstrate growth in their respective business models and companies that do not have the same growth prospects as NOVATEK.

We have built a production platform that will continue to grow with prudent capital investments, and the recent moves we made to "get closer" to our consumer base will bode well for the Company as we further penetrate the domestic market and increase our relative market share vis-à-vis our competitors. We have established ambitious growth targets for our people to achieve, and we believe with have the resources and commercial ability to achieve these targets. We are presently preparing our new Corporate Strategy beyond 2015, and anticipate that we will present this new corporate strategy to the investment community sometime after our third quarter financial results, meaning the latter part of November or early December.

I would like to spend a few minutes highlighting some of the key exploration and development activities during the first half of 2011 before proceeding to discuss our current gas and liquids commercial activities.

During the reporting period, we achieved very positive exploratory results as we discovered two new gas condensate deposits – one discovery at the Olimpiyskiy license area and a discovery at the Yurkharovskoye field, two new gas deposits at the North Khancheyskoye field, and two new oil deposits at the East-Tarkosalinskoye field. Our geophysical research also proved commercial productivity of two new producing layers at the Olimpiyskiy license area, one of which is natural gas at the Cenomanian layer, as well as the presence of three new gas deposits at the South Tambeyskoye field.

We drilled approximately 24 thousand meters of exploration wells and ran 1,606 square kilometers of three-dimensional seismic in the six months ended 30 June 2011. We plan to allocate additional capital to exploratory activities to begin migrating resources to reserves and, to potentially discover new sources of future hydrocarbon production.

For our development activities, we remained active by drilling approximately 52 thousand meters at three primary development sites – the Yurkharovskoye and East-Tarkosalinskoye fields, wholly owned by NOVATEK, and the Samburgskiy license area, which is part of the SeverEnergia assets. A total of 13 wells were drilled and completed during the period out of a total of 32 wells planned to be drilled in 2011.

At the Samburgskoye field, we spent approximately 50% of the invested capital on drilling activities and completed three horizontal wells which are presently awaiting connection to the gas preparation unit. The remaining funds invested at this field were spent on constructing a 46 kilometer gas pipeline from the gas preparation unit to the Unified Gas Supply System and a 20 kilometer gas condensate pipeline to connect the field to our pipeline infrastructure linking the Yurkharovskoye field to the Purovsky processing plant.

Our Yamal Development joint venture has completed the initial development plans for two large fields at SeverEnergia to be commissioned within the next two years, and based on these plans and the successful exploratory activities on the southern portion of the Samburgskiy license area, we have decided to increase our Purvosky processing plant from five million tons per annum to now 11 million tons per annum to accommodate the increased expected volumes of liquid hydrocarbons. We recently began the work to design an additional four trains at the Purovsky processing plant at a capacity of 1.5 million tons per train, with the estimated target completion of this upgrade by the end of 2013. We believe the initial exploratory results are exciting news and confirm my earlier comments that the market has not yet correctly valued the impact of this mid-term project

As we proceed forward with the initial ramp-up of wet gas production at this important license area, we expect to accrue first production by the end of 2011 or early 2012, and based on the importance of this mid-term development project, we will continue to appraise the investment community with its development activities on subsequent conference calls and investor meetings.

During the period, additional capital works were performed at the Purovsky processing plant to increase the LPG storage capacity from 29 million cubic meters to roughly 39 million cubic meters as well as ongoing procurement of tank reservoir materials and equipment at the Ust-Luga gas fractionation facility. The migration further along the liquids value chain will be a focal point of our investment strategy over the next several years; therefore, I won't spend too much time elaborating on the specifics of the work being performed as these commercial activities will be dealt with in depth at our upcoming strategy presentation.

I would like to make some general comments on our natural gas and liquids production during reporting period, but before I begin I would like to provide our investors with some positive news and inform everyone tonight that we are revising upward our natural gas production from 48.9 billion cubic meters (bcm) to the higher range between 50 bcm and 51 bcm, for the remainder of 2011. After considering the result for the first seven months of 2011, we are confident that demand on the domestic market will remain robust throughout the seasonally adjusted periods to warrant the upward revision as well as present indications of increased demand in the winter months. Our natural gas production for the first six months 2011 totaled 25.6 bcm, representing an increase of 7.2 bcm, or 39%, over the corresponding reporting period, of which 24% represented organic growth in our existing asset portfolio. We continued this positive trend during the month of July by producing 4.5 bcm, representing an increase of 65% Y-o-Y and 11.8% Q-o-Q.

For liquids, we increased our production during the reporting period by 315 thousand tons, or by 18%. This growth was achieved primarily through continued wet gas production increases at our Yurkharovskoye field, which as of the reporting date accounted for approximately 66% of our liquids production. We continued to see relative decreases in liquids output from both the East-Tarosalinskoye and Khancheyskoye fields, which corresponds to the declining concentration levels of the unstable gas condensate at our mature fields. We anticipate compensating for these natural declining levels of liquids concentration by bringing on stream "other" wet gas fields, like those of SeverEnergia.

In terms of monetizing our liquids production, there were recent reports indicating that the Arctic ice melt is decreasing at a record rate and may surpass the previous low period set in September 2007. This essentially means that the navigational period might be extended by another month to November, thereby increasing the Northern Sea Route from July to potentially November.

NOVATEK is capitalizing on this new sea route for the delivery of stable gas condensate to the Asian Pacific region, which effectively reduces the time and cost to market. On the 29th June, we launched the first tanker in the 2011 navigational period called "Perseverance" carrying a cargo of 60 thousand tons from the port of Murmansk to the port of Zhoushan in China. The tanker arrived at the port in 27 days, and thus bypassed the traditional Suez Canal and the Strait of Malacca to reach its point of destination.

Post the reporting period, we launched two additional tankers carrying equal quantities of stable gas condensate destined to China and Thailand, and will launch another tanker on the 18 August destined to Thailand. Presently, we are planning one tanker to be launched at the end of August destined to South Korea, and in September, we are planning to launch an additional two tankers to China and Thailand, and will study the ice conditions to determine if additional, unspecified number of tankers will be discharged to the Asian Pacific Region pending ice and market conditions. Therefore, during this navigational period, we will launch at least seven tankers to the important Asian Pacific region.

Last year, we made the historic voyage of the Northern Sea Route, and stated that it was our intention to continue using this passage for deliveries to this important consuming region. We have clearly demonstrated that this passage is navigable, and we intend to make this route a cornerstone of our logistical strategy to the Asian Pacific region for stable gas condensate and in the future, potentially LNG. Each voyage completed provides us with valuable information on the ice flows, depth of water amongst many other variables that will help us better understand what is possible in terms of navigational routes and timing of voyages. This information is presently shared with the relevant governmental agencies and Sovcomflot.

I would now like to highlight a few points on the Yamal LNG project and other market news.

Recently, Prime Minister Putin's Committee on Strategic Investments concluded their assessment of this transaction and approved Total's 20% equity participation in the Yamal LNG project, which paves the way for the transaction to be finalized once all documents are completed and executed. We continue to discuss the LNG project with "other" potential strategic partners for the remaining 29% equity participation and ongoing due diligence is presently being conducted. As of today's conference call, we have no other news to report at this time. I will update the investment community on any new developments as is my normal course of investor communication, but I would like to state that although the selection process of the remaining strategic partners is an important news story for the Company, the main work is still ongoing as we move forward with the FEED study as well as ongoing exploratory and infrastructure work

President Medvedev recently signed into law a series of tax proposals, including the tax concession package for the Yamal LNG project. We continue to undertake work activities according to our business plan, and, during the reporting period, capital was spent to procure materials and equipment for the airport as well as the construction of housing for the workers and miscellaneous infrastructure activities, such as the communication network. I could add that the Ministry of Transportation will begin fabricating new ice breakers beginning in 2012 that will eventually be used by Yamal LNG, and they will consist of a 75 megawatt nuclear ice breaker and two 25 megawatt diesel ice breakers.

In other developments during the second quarter 2011, Rosnedra, the governmental body responsible for subsoil licensing, annulled the tender process for the sale of four new licenses areas in the Yamal and Gydan peninsulas due to the lack of a competitive bidding process, and, at the same time, recommended that the four licenses be awarded to NOVATEK as the only qualified bidder. All documents have been recently submitted to the government, and we are awaiting final signatory before the new licenses are officially part of NOVATEK's reserve and resource base. We are anticipating that the transfer of these four licenses to NOVATEK will be completed by month end due to a slight delay in transferring paperwork from one governmental agency to another for the final, official sign-off.

Many people are speculating that a transaction involving NOVATEK is imminent but I have repeated many times in the past that it is our policy not to comment on market speculations and rumors; therefore, I will not be answering any specific questions relating to the recent market news on potentially entering the European markets via an acquisition. I will remind everyone that the Company rebranded our international wholly owned subsidiary, Runitek, to Novatek Gas and Power, effective the 1 January 2011, and I will reiterate the official statement that NOVATEK will continue to assess market opportunities that we believe complement our existing producing asset base and/or fill strategic gaps in our liquids and natural gas value chains that enhances our risk-adjusted netback margins.

This now leads me to other recent news about NOVATEK purchasing market share in the Chelyabinsk region. We are interested in establishing regional structures that allow us to further penetrate particular markets by having a visible presence on the ground. We already began this process last year by establishing NOVATEK-Perm and NOVATEK-Chelyabinsk, and also by acquiring a regional gas trader. Therefore, any market transaction that facilitates our aggressive growth strategy is something that you should expect Management to evaluate. We view the Chelyabinsk market as a very attractive market for NOVATEK to pursue, as it presently consumes approximately 16.5 bcm of natural gas on annually.

Another piece of market news that was released last week was the execution of a gas sales contract between NOVATEK and SIBUR. I can confirm that effective 1 January 2012, our wholly owned trading subsidiary, NOVATEK-Chelyabinsk, will be purchasing natural gas directly from SIBUR under a long-term sales and purchase contract. The initial volumes are projected to be 3.5 bcm in 2012 and increasing to 4.0 bcm per annum until 2016. As part of our broader commercial trading strategy, NOVATEK-Chelyabinsk will purchase this natural gas at a price in the region that accords us a reasonable trading margin as well as provides future upside to our netbacks in the region. Moreover, we also have the capabilities to sell approximately 2.0 bcm of our own produced natural gas directly to SIBUR facilities in other domestic regions.

We expect to grow our market share vis-à-vis our competitors and it is important that we target suitable markets to achieve our commercial strategy. Moreover, we want to find markets and customers to stabilize our production profile throughout the year, and we believe that our ability to deliver natural gas directly to SIBUR's petrochemical complexes is one aspect toward achieving production stability.

Even though the topic of acquisitions is very important to everyone, you must understand that we will not disclose this type of information if we are active in discussions. This policy is common business sense and I trust everyone understands this point. We will provide information to investors about the Company's activities, organically and acquisitively, through the normal disclosure channels via Business Wire. We also play an active role in meeting our valued investors through our regular attendance at investor conferences or Non-Deal Road Shows, and this accords everyone the chance to ask either myself or Investor Relations direct questions about our ongoing business activities.

Moving forward with the results achieved in the reporting period, we increased our natural gas sales by 43% for the first half of 2011, or by 7.8 bcm, as compared to the prior period. Seasonally adjusted, our quarter-on-quarter (Q-o-Q) sales volumes decreased from 14.0 bcm, a record volume sold by the Company, to 11.8 bcm, or by 2.2 bcm. Although we fully expected the seasonal adjustment in our volumes sold – we peak in the first and fourth quarters and trough in the second and third quarters - we nonetheless had a very strong quarterly performance versus the prior year reporting period by increasing our sales volumes by 50.0%, or 3.9 bcm.

Within our sales mix for natural gas, end-customer sales represented 52% versus 63% year-on-year for the six months ending the 30 June, with power generation sales accounting for approximately 39% of the total sales volumes or 75% of our end-customer category. During the quarter, our sales mix was 55% end-customers and 45% wholesale traders. The Y-o-Y reduction in our end-customers sales was largely attributable to the initiation of the new ITERA wholesale sales contract effective 1 January.

Our natural gas volumes sold to end-customers increased by 24% as compared to the second quarter 2010, and represented 69% of our total sales volumes versus 78% Y-o-Y. We demonstrated strong organic production growth from our Yurkharovskoye field and resumed production levels at the East Tarkosalinskoye field. We also benefited from the positive contribution from our share of equity production from Sibneftegas. During the second quarter

2011, we injected 157 million cubic meters of natural gas into the underground storage and this remained our inventory balance at the period end.

Our average realized price for end-customer sales during the second quarter 2011 increased by 14.2% in comparison to Y-o-Y and was consistent with those prices realized Q-o-Q. The prices we realized for natural gas were consistent with our expectation vis-à-vis the general tariff increase effective 1 January and the relative geographical mix of our primary customer base. For ex-field or wholesale traders, our average realized price increased Y-o-Y by RR 164 per mcm, or by 13.4%, and was consistent with the prices we received for this category of sales Q-o-Q. Our combined average realized price increased Y-o-Y by 17.0%, thus improving our average netbacks for natural gas sold to end-customers by RR 233 per mcm, or 19.4%, whereas our netbacks were only slightly higher Q-o-Q. We achieved a higher margin differential between end-customer and ex-field netbacks in the second quarter 2011 as compared to the prior period, which continues the pricing dynamics achieved prior to the economic crisis.

Our average distance to transport our natural gas to end-customers was reasonably consistent Y-o-Y and averaged approximately 1,913 kilometers, but was slightly higher than the average distanced transported of 1,841 kilometers in the first quarter 2011. As a result, our average transportation expense increased by approximately RR 93 per mcm, which was consistent with the tariff increase of 8.5% effective 1 January. Geographical markets representing greater than 10% of our sales volume mix were the Moscow, Orenburg, Chelyabinsk and Perm regions.

We sold slightly more than a million tons of liquids, which represented a 2.4% increase over our comparable Q-o-Q sales, but was roughly 206 thousand tons higher than the prior year period, representing a Y-o-Y increase of 25%. Within our liquids sales mix, stable gas condensate increased by 40% Y-o-Y and 4% Q-o-Q, which was slightly offset by declines in LPG sales.

The Yurkharovskoye field continues to yield organic growth in both natural gas and liquids production. With the increase in natural gas volumes produced at the Yurkharovskoye field, we also managed to correspondingly increase our unstable gas condensate production by approximately 186 thousand tons, or by 38%. The Yurkharovskoye field was recently nominated as one of the Best Gas Development Fields by World Oil Finance, and will remain the cornerstone of NOVATEK's production profile for many years to come.

Specifically, we had strong growth of 40% in our exports of stable gas condensate, which was slightly offset by a reduction in volumes sold for LPG. During the period, our volumes of stable gas condensate in transit and storage were approximately 274 thousand tons, which were lower by eight thousand Q-o-Q and tons and 55 thousand tons Y-o-Y. Our overall liquid hydrocarbon volumes in inventory were 371 thousand tons at period end.

The most notable difference in our liquid sales Y-o-Y was the significant increase in commodity prices between the respective periods, which positively affected our liquid netbacks. Our average export netbacks on a USD basis for stable gas condensate and LPG volumes sold during the period increased by approximately 58% and 54%, respectively, despite increases in both export duties and average transportation expenses. In comparison to the first quarter 2011, our average export netback for stable gas condensate decreased by 4.3% largely due to an increase in our export duties and transport expenses, which effectively negated the increase in the average price per ton. Our average LPG netback increased by 15% due to a combination of an increase in our average contractual price which was slightly offset by a reduction in export duties.

For stable gas condensate, we sold 752 thousand tons realizing an average netback per ton of USD 450 in the second quarter 2011 as compared to USD 286 per ton in the second quarter 2010 and USD 479 per ton in first quarter 2011. The difference per ton Y-o-Y was largely attributable to an increase in our contractual price which exceeded the increase in export duties and transport expenses. Our LPG export volumes were consistent Y-o-Y at approximately 114 thousand tons but we managed to significantly increase our average realized netback by USD 203 per ton, largely attributable to a 55% increase in our contractual price.

During the second quarter 2011, we dispatched 12 tankers carrying approximately 721 thousand tons from the Vitino Sea Port Terminal, of which six tankers or approximately 50% of the volumes dispatched were destined to the European markets and five tankers or approximately 42% were destined to the Asian Pacific Region. The remaining tanker was sold to the United States. Our Purovsky Processing Plant operated at 79% of its rated capacity with total plant output reaching 976 thousand tons, comprised of 748 thousand tons of stable gas condensate, 22 thousand tons of LPG and four thousand tons of methanol products.

On a total barrel of oil equivalent ("BOE") basis, we increased our production to 78.6 million BOE in the second quarter 2011 versus 61.5 million BOE in the prior reporting period. During the first quarter 2011, we produced 86.6 million BOE, which reflects the seasonal peak in our natural gas production and was fully accounted for in our seasonally-adjusted business plan. Despite the drop-off from peak production levels, we still averaged 864 thousand BOE per day in the second quarter 2011, representing a 15% increase over the Full Year 2010 average of 751 thousand BOE per day.

We increased our capital expenditures Y-o-Y and Q-o-Q by approximately 26% and 20%, respectively, during the current period. During the second quarter 2011, the Yurkharovskoye field accounted for approximately 35%, or RR 2.7 billion, of our invested capital which represented a 49% reduction in the capital spent on the field Y-o-Y, and was reasonably consistent with that spent in the first quarter 2011. I had previously mentioned that we are slowly approaching the point whereby the Yurkharovskoye field will begin its capital maintenance program and the reduction in capital spent reflects that fact, unless we decide to further expand the field's productive capacity through the development of deeper horizons.

On the revenue side, natural gas represented approximately 60% of our total revenues for the period, which is consistent with the level achieved Y-o-Y, but slightly lower than the percentage of revenues achieved in the first quarter 2011. Therefore, we continued a 60:40 revenue split between natural gas and liquids in this reporting period.

We effectively managed our operating costs during the second quarter 2011 relative to the size of our business and the continued growth of our revenues, and there were no real surprises during the period. Our total operating expenses increased Y-o-Y in absolute terms from RR 15.7 billion to RR 22.4 billion, but decreased as a percentage of total revenues from 61% to 55%. Operating expenses in the first quarter 2011 amounted to RR 23.4 billion, but were lower on a percentage basis as compared to our revenues because of the benefits of operating leverage we achieve with higher production volumes relative to fixed operating expenses.

As expected, the most significant changes in our operating expenses for the comparative periods was the relative increases in our transportation expenses, which is explainable by the overall growth in end-customer sales combined with the annual tariff increase, as well as taxes other than income, which increased year-on-year largely due to the volumetric nature of this expense item and the 61% increase in the mineral extraction tax for natural gas effective 1 January.

We continue to manage and control our General and Administrative (G&A) expenses as a normal course of business. However, we continue to fluctuate period-on-period in this controllable expense category due primarily to semi-annual and annual employee bonus payments, charitable contributions, consulting services and business travel expenses. Even though we increased our G&A expenses for the Y-o-Y and Q-o-Q comparatives, we believe these increases were benign and relatively consistent in percent terms, and positively reflects our ability to manage costs in a variety of market environments.

Specifically, within our G&A expenses as well as materials, services and other, we have various expenses related to administrative and operational salaries and bonuses. On the administrative side, the largest increase related to the bonus payments of RR 294 million based on the full year 2010 financial results, and the 10% indexation of basic salaries effective 1 July 2010. Our total administrative headcount of approximately 1,029 employees across all consolidated subsidiaries remained reasonably consistent between the comparative periods. For the materials, services and other expense category, we had a combination of salary increases based on the 10% indexation and additional staffing at various operational locations, which was offset by the divestiture of NOVATEK-Polymer and the corresponding headcount reduction.

At the end of second quarter 2011, the Company had a total employee headcount of approximately 3,850 employees.

We undertake various repair and maintenance activities at our production and processing sites, and these expenses tend to vary period-on-period based on rotating schedules. Therefore, it is not unusual to see periodic expenditures paid to maintain our asset base in proper working condition, and more importantly, the type and frequency of the work varies depending on whether something was specifically planned to undergo repair and maintenance, or something unexpected arose that needed attention during a particular reporting period.

Moreover, as we continue to increase the level of productive assets in our portfolio and commission these new assets into operations, we are invariably going to increase from time-to-time our electricity and fuel usage. This fact is part of our normal growth, and should be expected when new items are commissioned into operations. Collectively, both of these expense items do not have a huge impact on our operating costs per se, and we don't expect any material increase in our per unit operating cost due these infrequent cost items.

More importantly, attention should be paid to the fact that NOVATEK maintains the lowest operating costs in the global oil and gas industry, and not solely on fluctuations in specific line items period-on-period. If you look at our repairs and maintenance and our electricity and fuel in the first and second quarters 2011, you will notice that we increased our expenses item by RR 102 million and RR 19 million, respectively, which is less than 3/10ths of one-percent and not meaningful for the other line item.

As a result of the factors enumerated above, our EBITDA and Net Profit margins continued to remain robust in the reporting period achieving levels of 48.9% and 35.5%, respectively. We also increased our earnings per share ("EPS") Y-o-Y by 102% to RR 4.75 per share during the period, but our EPS was lower by 23.5% Q-o-Q. Our "profit from operations" increased Y-o-Y by 80% and remained strong throughout the six months ending 30 June 2011, despite the fact that the prior year period was aided by the one-off disposal of a 49% interest in ZAO Terneftegaz, which was comprised of a non-cash fair market revaluation gain of RR 807 million and RR 776 million in net consideration.

Our Balance Sheet and liquidity position continued to remain strong throughout the reporting period although we increased our overall debt portfolio as a result of the US dollar denominated Eurobond that we concluded in February 2011. We remained free cash flow positive during the second quarter 2011 and made the initial pre-payment for the recent license tender in the amount of RR 6.9 billion. We will continue to fund our capital expenditure program through internally-generated cash flows and have the ability to meet all of our debt obligations and liabilities when they mature or become due for payment.

CONCLUSION

In conclusion, I would like to sincerely thank all of our valued shareholders for your continued belief in the growth story of NOVATEK, as we fully understand that the recent volatility in the capitals markets forces investors to reconsider their investment portfolios and their commitment to the emerging markets. NOVATEK is an exceptional company with a strong growth production profile, increasing cash flow generation and a low-risk, long-lived reserve base that fully supports our growth strategy. We have a strong history of delivering on our commitments despite the occasional market skepticism and, equally important, we maintain a unblemished reputation in terms of governance and transparency amongst Russian listed entities.

NOVATEK has begun its transformation process. We will migrate further along the hydrocarbon value chain to increase our risk-adjusted margins, and we will continue to get closer to our consumer base through our regional commercial expansion. We have an excellent set of exploration and development opportunities resident in our existing asset portfolio, and we will continue to assess acquisitions that support our growth initiatives, expand our market reach, and fill gaps in our asset portfolio.

We continue to deliver solid financial and operational results through the seasonal peaks and troughs, and have created a company with the capacity to withstand various market environments to create sustainable shareholder value. The financial and operational results achieved over the first half of 2011 clearly demonstrate these capabilities and, accordingly, we believe we are well positioned to continue capitalizing on our present market position. Our invested capital solidifies the foundation of our growth platform, and we, as trusted management and shareholders, remain highly confident in the future prospects of NOVATEK.

I would like to end this portion of the conference call and open the session to questions and answers.

Thank you very much.