MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations for the three months ended 30 September 2007 and 2006 together with our unaudited consolidated interim condensed financial information as of and for the three and nine months ended 30 September 2007. 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 2006 prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial and operating information contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" comprises information of OAO NOVATEK and its consolidated subsidiaries (hereinafter jointly referred to as "we" or the "Group").

OVERVIEW

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

Our exploration, development, production and processing of natural gas, gas condensate, crude oil and related oil products have been conducted primarily within the Russian Federation. We sell our natural gas volumes exclusively in the Russian domestic market. We export our stable gas condensate directly to international markets while liquefied petroleum gas and crude oil are generally delivered to both international (including CIS) and domestic markets. We generally sell our oil products on the domestic market.

SELECTED DATA

	Three months ended 30 September:		Change
millions of Russian roubles except as stated	**2007**	**2006**	**%**
Financial results			
Total revenues (net of VAT and export duties)	15,196	13,098	16.0%
Operating expenses	(8,524)	(7,712)	10.5%
Profit attributable to NOVATEK shareholders	5,119	4,086	25.3%
EBITDA [(1)]	7,602	6,536	16.3%
Earnings per share of common stock (in Russian roubles)	1.69	1.35	25.2%
Operating results			
Natural gas sales volumes (mmcm)	6,639	7,097	(6.5%)
Stable gas condensate sales volumes (thousand tons)	436	438	(0.5%)
Liquefied petroleum gas sales volumes (thousand tons)	150	134	11.9%
Crude oil sales volumes (thousand tons)	73	68	7.4%
Oil product sales volumes (thousand tons)	6	8	(25.0%)
Cash flow results			
Net cash provided by operating activities	6,876	4,269	61.1%
Capital expenditures	5,908	1,098	438.1%

[(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.

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Natural gas prices

As an independent natural gas producer, we are not subject to the government's regulation of natural gas prices. Historically, we have sold most of our natural gas at prices higher than the regulated prices set by the government for Gazprom's domestic gas sales, although the prices we can achieve are strongly influenced by the prices regulated by the Federal Tariffs Service (FTS), a governmental agency. In the three months ended 30 September 2007, the weighted average FTS price for the regions where we delivered our natural gas increased by RR 159 per mcm, or 14.1%, to RR 1,288 per mcm compared to RR 1,129 per mcm in the corresponding period in 2006. The terms for delivery of natural gas affect our average realized prices. Natural gas sold "ex-field" is sold primarily to wholesale gas traders, in which case the buyer is responsible for the payment of gas transportation tariffs. Sales to wholesale traders allow us to diversify our gas sales without incurring additional commercial expenses. However, we realize higher prices and net margins for natural gas volumes sold directly to the end-customer, as the gas transportation tariff is included in the contract price and no retail margin is lost when realizing natural gas to wholesale gas traders. During the three months ended 30 September 2007, the average netback margin differential we received on end-customer sales compared to ex-field sales (average end-customer netback less average ex-field price) increased by RR 22 per mcm, or 27.2%, compared to the period in 2006 as a result of higher average realized prices to end-customers (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 September 2007 and 2006:

Russian roubles per mcm	**Three months ended 30 September: 2007**	**2006**	**Change %**
Average natural gas price to end-customers [(1)]	1,500	1,273	17.8%
Gas transportation expense for sales to end-customers	627	534	17.4%
Average natural gas netback on end-customer sales	873	739	18.1%
Average natural gas price ex-field (wholesale traders)	770	658	17.0%
Average netback margin differential	103	81	27.2%

[(1)] Includes cost of transportation.

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

Crude oil, stable gas condensate, liquefied petroleum gas ("LPG") and oil products prices on international markets have historically been volatile depending on, among other things, the balance between supply and demand fundamentals, and the ability and willingness of oil producing countries to sustain production levels to meet increasing 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. Crude oil prices in Russia have generally remained below prices in the international market primarily due to constraints on the ability of many Russian oil companies to transport their crude oil, whereas certain oil products and LPG prices in Russia have more closely followed prices on international markets. This has occasionally led to crude oil surpluses in key consuming regions in Russia driving down the price in the domestic market. Moreover, there is no independent or uniform benchmark price for crude oil in Russia because the majority of all crude oil destined for sale in Russia is produced and refined by the same vertically integrated Russian oil companies. Crude oil that is not exported from Russia or refined by the producer is offered for sale in the domestic market at prices determined on a transaction-by-transaction basis. Crude oil that we sell bound for international markets is transported through the Transneft pipeline system where it is blended with other crude oil of varying qualities to produce an export blend commonly referred to as "Urals blend", which normally trades at a discount to the international benchmark Brent crude oil.

Our stable gas condensate, LPG (excluding obligatory domestic deliveries at regulated prices), and oil products prices at both international and domestic markets, as well as crude oil prices at international markets include transportation expense in accordance with the terms of delivery. Delivery terms for our crude oil and obligatory LPG domestic sales are such that the buyer takes ownership at the point of loading or at the entrance to the trunk pipeline and is responsible for the transportation expense to the final destination.

In the three months ended 30 September 2007, as well as in the corresponding period of 2006, our stable gas condensate export delivery terms were delivery to the port of destination ex-ship (DES) or priced at cost and freight (CFR). Our average export stable gas condensate contract price, including export duties, in the three months ended 30 September 2007, was approximately USD 684 per ton compared to approximately USD 612 per ton in the corresponding period in 2006.

In the three months ended 30 September 2007, as well as in the corresponding period of 2006, our crude oil export delivery terms were delivery at frontier (DAF Adamova Zastava, Germany). In the 2007 period, our average crude oil export contract price, including export duties, was approximately USD 517 per ton compared to USD 463 per ton in the 2006 period.

The following table shows our average realized stable gas condensate and crude oil sales prices (net of VAT and export duties, where applicable) for the three months ended 30 September 2007 and 2006:

	Three months ended 30 September:		**Change**
Russian roubles (RR) or US dollars (USD) per ton	**2007**	**2006**	**%**
Stable gas condensate			
Net export price, RR per ton	11,995	10,898	10.1%
Net export price, USD per ton	470.2	406.5	15.7%
Domestic price, RR per ton	-	8,182	n/a
Crude oil			
Net export price, RR per ton	7,634	6,621	15.3%
Net export price, USD per ton	299.2	247.0	21.1%
Domestic price, RR per ton [(1)]	6,637	6,827	(2.8%)

[(1)] Net of transportation costs.

Our LPG export and CIS delivery terms during the three months ended 30 September 2007 and 2006 were delivery at frontier (DAF) at the border of the customer’s country. In the three months ended 30 September 2007, our average export LPG contract price, including export duties, was approximately USD 658 per ton compared to USD 531 per ton in the corresponding period in 2006. We are obliged to sell a portion of our LPG volumes at regulated prices while the remaining portion of our sales are sold under commercial terms. In the 2007 period, we sold 12 thousand tons at the regulated price of RR 3,500 per ton and 106 thousand tons at a commercial price of RR 10,347 per ton in the domestic market, compared to 12 thousand tons at RR 1,350 per ton and 104 thousand tons at RR 7,978 per ton, respectively, in the 2006 period.

Domestic sales of oil products associated with our own production were priced free carrier (FCA) at the Surgut railroad station (located in the Khanty-Mansiysk Autonomous Region). In addition, in the 2007 period our foreign liquids trading subsidiaries purchased oil products on international markets which were resold to markets in the USA. The delivery terms for these volumes were delivery to the port of destination ex-ship (DES Houston, USA) for an average contract price of USD 684 per ton. There were no applicable export duties on these volumes.

The following table shows our average realized liquefied petroleum gas and oil products sales prices (net of VAT and export duties, where applicable) for the three months ended 30 September 2007 and 2006:

	Three months ended 30 September:		**Change**
Russian roubles (RR) or US dollars (USD) per ton	**2007**	**2006**	**%**
LPG			
Net export price, RR per ton	12,702	10,498	21.0%
Net export price, USD per ton	497.9	391.6	27.1%
CIS price, RR per ton	11,210	8,953	25.2%
Domestic price, RR per ton	9,668	7,289	32.6%
Oil products			
Domestic price, RR per ton	6,552	3,717	76.3%

Transportation tariffs

In the first seven months of 2006, the transportation tariff set by the FTS (effective from 1 October 2005) for the transport of natural gas produced in Russia 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) was RR 23.84 (excluding VAT) per mcm per 100 km.

Starting from 1 August 2006, the general methodology for calculating transportation tariffs for natural gas produced in the Russian Federation was changed by the FTS. Under the new methodology the transportation tariff consists of two parts: a rate for the utilization of the trunk pipeline and a transportation rate per mcm per 100 km. The rate for utilization of the trunk pipeline is based on an "input/output" function which is determined by where natural gas enters and exits the trunk pipeline (the maximum "input/output" rate effective from 1 March 2007 is RR 1,061.51 (excluding VAT) per mcm) and includes a constant rate of RR 13.8 (excluding VAT) per mcm for end-customers using Gazprom's gas distribution systems. The constant rate is deducted from the utilization rate for end-customers using non-Gazprom gas distribution systems. The second component of the transportation rate for natural gas delivered within the customs territory of the Russian Federation and the member states of the Customs Union Agreement was set at RR 6.07 (excluding VAT) per mcm per 100 km.

The increases in regulated transportation tariffs are passed on to our end-customers pursuant to delivery terms in the majority of our contracts. There is no set timetable for reviews or changes in transportation tariffs set by the FTS, and thus changes in transportation tariffs occur on an irregular basis.

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

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

Transactions with related parties

All natural gas producers and wholesalers operating in Russia transport their natural gas volumes through the Unified Gas Supply System (UGSS), which is owned and operated by the State monopoly Gazprom, a shareholder of OAO NOVATEK from October 2006. As an independent natural gas producer, we utilize the UGSS to transport natural gas to end-customers at the tariff established by the FTS (see "Transportation tariffs" above and Note 16 "Related party transactions" in our consolidated interim condensed financial information).

Our tax burden

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

We are subject to a wide range of taxes imposed at the federal, regional, and local levels, many of which are based on revenue or volumetric measures. In addition to income tax, significant taxes to which we are subject include VAT, unified natural resources production tax (UPT), export duties, property tax, social taxes and contributions.

In practice, Russian tax authorities often have their own interpretation of tax laws that rarely favors taxpayers, who have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to an inspection of their activities for a period of three calendar years which immediately precedes the year in which the audit is conducted. Previous audits do not completely exclude subsequent claims relating to the audited period. In addition, in some instances, new tax regulations have been given retroactive effect.

OPERATIONAL HIGHLIGHTS

Hydrocarbon sales volumes

In the three months ended 30 September 2007, our natural gas sales volumes decreased primarily due to a decrease in volumes sold ex-field and the temporary decrease in natural gas production from certain fields both resulting from the unseasonably warm winter in Europe and Russia. Our aggregated liquids sales volumes (crude oil, stable gas condensate, LPG and oil products) increased in the 2007 period due to organic increases in gas condensate and crude oil production.

Natural gas sales volumes

millions of cubic meters	**Three months ended 30 September: 2007**	**2006**	**Change %**
Production from:			
Yurkharovskoye field	2,267	2,371	(4.4%)
East-Tarkosalinskoye field	2,790	4,038	(30.9%)
Khancheyskoye field	871	747	16.6%
Other fields	8	6	33.3%
Total natural gas production	**5,936**	**7,162**	**(17.1%)**
Purchases from:			
Gazprom	479	478	0.2%
Other	229	45	408.9%
Total natural gas purchases	**708**	**523**	**35.4%**
Total production and purchases	**6,644**	**7,685**	**(13.5%)**
Purovsky Plant and own usage	(7)	(7)	0.0%
Decrease (increase) in pipeline and underground gas storage facilities	2	(581)	n/a
Total natural gas sales volumes	**6,639**	**7,097**	**(6.5%)**
Sold to end-customers	*3,083*	*2,929*	*5.3%*
incl. e-trading	*81*	*-*	*n/a*
Sold ex-field	*3,556*	*4,168*	*(14.7%)*

In the three months ended 30 September 2007, our total consolidated natural gas production decreased by 1,226 mmcm, or 17.1%, compared to the corresponding period in 2006. The decrease in production was due to a temporary reduction in production of dry Cenomanian gas mainly at our East-Tarkosalinskoye field and. to a lesser extent, a reduction in natural gas production at our Yurkharovskoye field. The decrease in production was directly related to our inability to inject natural gas into storage due to the lack of available capacity at Gazprom's underground gas storage facilities and a decrease in natural gas volumes sold ex-field. The decrease was partially offset by an increase in natural gas production capacity at the Khancheyskoye field related to the field's second phase of development.

The unseasonably warm winter weather in Western, Central and Eastern Europe resulted in decreased export deliveries of natural gas from Gazprom, which directly affected the normal seasonal withdrawal of natural gas from underground storage facilities. This reduction had a direct impact on our proportion of natural gas sold ex-field to wholesale traders. As a result, due to the overfilled underground storage system we did not have the ability to produce and inject our planned natural gas volumes in the third quarter 2007. Despite the warmest winter in Russia over the past 126 years, base natural gas demand on the domestic market remained reasonably robust.

In the three months ended 30 September 2007, purchases increased by 185 mmcm, or 35.4%, compared to the corresponding period in 2006, primarily due to an increase in purchases from 'other' suppliers. In the 2007 period, we purchased additional volumes of natural gas in regions where certain end-customers are located, in order to meet additional demand and maximize our end-customer sales.

At 30 June and 30 September 2007, our cumulative natural gas volumes stored in Gazprom's underground gas storage facilities totaled 247 mmcm. We expect our volumes of natural gas injected into underground gas storage facilities to fluctuate period-to-period depending on market conditions, storage capacity constraints and our development plans to sustain and/or grow production during periods of seasonality.

Liquids sales volumes

thousands of tons	**Three months ended 30 September: 2007**	**2006**	**Change %**
Production from:			
Yurkharovskoye field	175	165	6.1%
East-Tarkosalinskoye field	241	220	9.5%
Khancheyskoye field	173	176	(1.7%)
Other fields	25	31	(19.4%)
Total liquids production	**614**	**592**	**3.7%**
Purchases from:			
Purgazdobycha	-	18	n/a
Other	6	-	n/a
Total liquids purchases	**6**	**18**	**(66.7%)**
Total production and purchases	**620**	**610**	**1.6%**
Losses [(1)]	(5)	(5)	0.0%
Decreases (increases) in liquids inventory balances	50	43	16.3%
Total liquids sales volumes	**665**	**648**	**2.6%**
Stable gas condensate export	*436*	*436*	*0.0%*
Stable gas condensate domestic	*-*	*2*	*n/a*
LPG export	*19*	*8*	*137.5%*
LPG CIS	*13*	*10*	*30.0%*
LPG domestic	*118*	*116*	*1.7%*
Crude oil export	*22*	*22*	*0.0%*
Crude oil domestic	*51*	*46*	*10.9%*
Oil products export	*2*	*-*	*n/a*
Oil products domestic	*4*	*8*	*(50.0%)*

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

In the three months ended 30 September 2007, our gas condensate and crude oil production increased by 22 thousand tons, or 3.7%, to 614 thousand tons compared to 592 thousand tons in the corresponding period in 2006. The increase was mainly due to higher gas condensate yields from the East-Tarkosalinskoye field due to the start-up of a new compressor booster station and the resulting changes to the parameters of the field's Valanginian gas separation process as well as organic growth in gas condensate production at the Yurkharovskoye field.

At 30 September 2007, we had 128 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 compared to 154 thousand tons as of 30 September 2006. Our stable gas condensate in transit or storage and recognized as inventory was reduced by 48 thousand tons as at 30 September 2007 as compared to the inventory balance as at 30 June 2007, while in the corresponding periods of 2006 the inventory balance decreased by 44 thousand tons. The remaining change in liquids inventory balances related to changes in other liquid products.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2007 COMPARED TO THE CORRESPONDING PERIOD IN 2006

The following table and discussion is a summary of our consolidated results of operations for the three months ended 30 September 2007 and 2006. Each line item is also shown as a percentage of our total revenues.

	Three months ended 30 September:			
millions of Russian roubles	**2007**	**% of total revenues**	**2006**	**% of total revenues**
Total revenues (net of VAT and export duties)	15,196	*100.0%*	13,098	*100.0%*
Other income (loss)	(1)	*0.0%*	42	*0.3%*
Total revenues and other income	**15,195**	***100.0%***	**13,140**	***100.3%***
Operating expenses	(8,524)	*(56.1%)*	(7,712)	*(58.9%)*
Profit from operations	**6,671**	***43.9%***	**5,428**	***41.4%***
Finance income (expense)	(19)	*(0.1%)*	(13)	*(0.1%)*
Share of profit of associates, net of income tax	18	*0.1%*	-	*0.0%*
Profit before income tax and minority interest	**6,670**	***43.9%***	**5,415**	***41.3%***
Total income tax expense	(1,552)	*(10.2%)*	(1,330)	*(10.2%)*
Profit for the period	**5,118**	***33.7%***	**4,085**	***31.2%***
Minority interest	(1)	*(0.0%)*	(1)	*(0.0%)*
Profit attributable to NOVATEK shareholders	**5,119**	***33.7%***	**4,086**	***31.2%***

Total revenues and other income

The following table sets forth our sales (net of VAT and export duties, where applicable) and other income for the three months ended 30 September 2007 and 2006:

	Three months ended 30 September:		Change
millions of Russian roubles	**2007**	**2006**	**%**
Natural gas sales	**7,359**	**6,471**	**13.7%**
End-customer	*4,622*	*3,728*	*24.0%*
incl. e-trading	*98*	*-*	*n/a*
Ex-field	*2,737*	*2,743*	*(0.2%)*
Stable gas condensate sales	**5,232**	**4,762**	**9.9%**
Export	*5,232*	*4,748*	*10.2%*
Domestic	*-*	*14*	*n/a*
Liquefied petroleum gas sales	**1,530**	**1,021**	**49.9%**
Export	*241*	*87*	*177.0%*
CIS	*144*	*90*	*60.0%*
Domestic	*1,145*	*844*	*35.7%*
Crude oil sales	**504**	**467**	**7.9%**
Export	*164*	*145*	*13.1%*
Domestic	*340*	*322*	*5.6%*
Oil products sales	**55**	**28**	**96.4%**
Export	*28*	*-*	*n/a*
Domestic	*27*	*28*	*(3.6%)*
Total oil and gas sales	**14,680**	**12,749**	**15.1%**
Sales of polymer and insulation tape	413	276	49.6%
Other revenues	103	73	41.1%
Total revenues	**15,196**	**13,098**	**16.0%**
Other income (loss)	(1)	42	n/a
Total revenues and other income	**15,195**	**13,140**	**15.6%**

Natural gas sales

In the three months ended 30 September 2007, our revenues from sales of natural gas increased by RR 888 million, or 13.7%, compared to the corresponding period in 2006. The increase in natural gas revenues was primarily attributable to an overall increase in prices that was partially offset by a decrease in volumes sold ex-field to wholesale traders.

In the three months ended 30 September 2007, our average realized natural gas price per mcm increased by RR 197 per mcm, or 21.6%, to RR 1,109 per mcm from RR 912 per mcm in the corresponding period in 2006. Our proportion of natural gas sales to end-customers, on a volume basis, increased from 41.3% in the 2006 period to 46.4% in the 2007 period on a volume basis. The average realized prices of our natural gas sold to end-customers and natural gas sold ex-field were higher by 17.8% and 17.0%, respectively, in the 2007 period compared to the corresponding period in 2006.

In November 2006, OAO NOVATEK started participating in the electronic trading of natural gas at non-regulated prices utilizing the electronic trading facilities of Mezhregiongaz, a subsidiary of Gazprom. In the three months ended 30 September 2007, we sold 81 mmcm of natural gas at an average price of RR 1,216 per mcm (netback price RR 1,112 per mcm). These sales were primarily to energy utility companies and are recorded in our end-customer volumes and average end-customer price.

Effective 1 January 2008, the volumes to be sold on the electronic gas exchange will be increased from 5 billion cubic meters each (Independent Producers and Gazprom) to 7.5 billion cubic meters each. We view the success of electronic trading of natural gas as a positive development in the domestic natural gas market.

Stable gas condensate sales

In the three months ended 30 September 2007, our revenues from sales of stable gas condensate increased by RR 470 million, or 9.9%, compared to the corresponding period in 2006 due to an increase in our export contract prices.

In the three months ended 30 September 2007, we exported 436 thousand tons of stable gas condensate, or 100.0% of our sales volumes, to markets in the United States and Europe. In the 2007 period, our average realized price, excluding export duties, translated into US dollars for stable gas condensate sold on the export market increased by USD 63.7 per ton, or 15.7%, to USD 470.2 per ton (DES and CFR) from USD 406.5 per ton (DES and CFR) in the corresponding period in 2006. The increase in the average realized export price was the result of an 11.8% increase in our average export contract price that was partially offset by a 4.8% increase in our average export duty per ton. The increase in our average realized contract prices was due to the overall increase in prices on international markets in the 2007 period.

Liquefied petroleum gas sales

In the three months ended 30 September 2007, our revenues from the sales of LPG increased by RR 509 million, or 49.9%, compared to the corresponding period in 2006, primarily due to increases in export, CIS and domestic prices and to a lesser degree an increase in export volumes.

In the 2007 period, we increased our sales volumes of LPG by 16 thousand tons to 150 thousand tons, of which 78.7% was sold domestically for an average price of RR 9,668 per ton (FCA excluding VAT); an increase of RR 2,379 per ton, or 32.6%, compared to the corresponding period in 2006. The remaining volumes of LPG were sold as follows: 12.6% was sold to the export market for an average price of USD 497.9 per ton (DAF excluding export duties) representing an increase of USD 106.3 per ton, or 27.1%, compared to the corresponding period in 2006; and 8.7% was sold in the CIS for an average price of RR 11,210 per ton (DAF excluding VAT) representing an increase of RR 2,257 per ton, or 25.2%, compared to the 2006 period. The increase in our average realized export prices was primarily due to an increase in our average contract prices by 23.9% that was partially offset by a 6.4% increase in our average export duty per ton in the 2007 period. The increase in our average realized contract prices was due to the general increase in prices in the 2007 period, seasonality affects on demand as well as supply and demand imbalances on the domestic market.

Crude oil sales

In the three months ended 30 September 2007, our revenues from the sales of crude oil increased by RR 37 million, or 7.9%, compared to the corresponding period in 2006, due to an increase in both domestic sales volumes and export prices. The increase in crude oil sales volumes by 5 thousand tons from 68 thousand tons in the three months ended 30 September 2006 to 73 thousand tons in the 2007 period, or 7.4%, was due to an increase in crude oil production.

Our average realized sales price, excluding export duties, translated into US dollars for crude oil exported to international markets increased by USD 52.2 per ton, or 21.1%, to USD 299.2 per ton (DAF) in the three months ended 30 September 2007 compared to USD 247.0 per ton (DAF) in the corresponding period in 2006 as a result of a 11.7% increase in our average realized crude oil export price that was partially offset by a 2.0% increase in our average export duty per ton. The increase in our average crude oil export contract prices was due to the overall increase in crude oil prices on international markets in the 2007 period.

Our average realized crude oil domestic sales price (excluding VAT) decreased by RR 190 per ton, or 2.8%, to RR 6,637 per ton in the 2007 period, compared to RR 6,827 per ton in the corresponding period in 2006. The decrease in domestic crude oil prices was the result of an excess of crude oil available on the domestic market.

Oil products sales

In the three months ended 30 September 2007, our revenue from the sales of oil products increased by RR 27 million, or 96.4%, compared to the corresponding period in 2006, primarily due to the initiation of oil products trading on international markets by our foreign liquids trading subsidiary.

In the three months ended 30 September 2007, we purchased 6 thousand tons of oil products and resold 2 thousand tons to customers in the USA for an average contract price of USD 684.0 per ton (DES). The remaining 4 thousand tons were recorded as inventory until such time as they are delivered to the port of destination.

Sales of polymer and insulation tape

Our revenues from the sales of polymer and insulation tape increased by RR 137 million, or 49.6 %, to RR 413 million in the three months ended 30 September 2007, compared to RR 276 million in the corresponding period of 2006. Our revenues from BOPP film wrap sales increased by RR 106 million from RR 107 million in the 2006 period to RR 213 million in the three months ended 30 September 2007. The proportion of BOPP film wrap sales to total sales of polymer and insulation tape increased by 13.0% to 51.6% in the 2007 period compared to 38.6% in the corresponding period of 2006.

Other revenues

Other revenues include rent, polymer tolling, transportation, handling, storage and other services. In the three months ended 30 September 2007, other revenues increased by RR 30 million, or 41.1%, to RR 103 million from RR 73 million in the corresponding period in 2006. The increase in other revenues was primarily due to an increase in transportation, handling and storage services which accounted for RR 47 million of other revenues in the three months ended 30 September 2007 compared to RR 7 million in the corresponding period in 2006, and a decrease in tolling services and rent services which accounted for RR 20 million and RR 17 million, respectively, of other revenues in the 2007 period compared to RR 39 million and RR 23 million, respectively, in the corresponding period in 2006.

Other income (loss)

In the three months ended 30 September 2007, we realized other net loss of RR 1 million, while in the corresponding period of 2006 we realized other net income of RR 42 million mainly from disposals of fixed assets, equipment and materials.

Operating expenses

In the three months ended 30 September 2007, total operating expenses increased by RR 812 million, or 10.5%, to RR 8,524 million compared to RR 7,712 million in the three months ended 30 September 2006, primarily due to an increase in transportation expenses and purchases of oil, gas condensate and natural gas, and to a lesser extent an increase in materials, services and other and general and administrative expenses. The increases were partially offset by decreases in expenses such as taxes other than income tax, depreciation, depletion and amortization and exploration expenses. As a percentage of total operating expenses, our non-controllable expenses, such as transportation and taxes other than income tax, decreased in the three months ended 30 September 2007 by 1.1% to 55.9% compared to 57.0% in the corresponding period of 2006. Total operating expenses decreased as a percentage of total revenues to 56.1% in the 2007 period compared to 58.9% in the corresponding period in 2006, as shown in the table below.

	Three months ended 30 September:			
millions of Russian roubles	**2007**	**% of total revenues**	**2006**	**% of total revenues**
Transportation expenses	3,344	*22.0%*	2,865	*21.9%*
Taxes other than income tax	1,425	*9.4%*	1,529	*11.7%*
Materials, services and other	1,172	*7.7%*	987	*7.5%*
General and administrative expenses	913	*6.0%*	792	*6.0%*
Depreciation, depletion and amortization	850	*5.6%*	1,048	*8.0%*
Purchases of oil, gas condensate and natural gas	671	*4.4%*	296	*2.3%*
Exploration expenses	48	*0.3%*	180	*1.4%*
Net impairment expense (income)	50	*0.3%*	(21)	*(0.2%)*
Change in inventory	51	*0.3%*	36	*0.3%*
Total operating expenses	**8,524**	***56.1%***	**7,712**	***58.9%***

Non-controllable expenses

A significant proportion of our operating expenses are characterized as non-controllable expenses since we are unable to influence the increase in regulated tariffs for transportation of our hydrocarbons or the rates imposed by federal, regional or local tax authorities. In the three months ended 30 September 2007, non-controllable expenses of transportation and taxes other than income tax increased by RR 375 million, or 8.5%, to RR 4,769 million from RR 4,394 million in the corresponding period in 2006. The increase was primarily due to the increased transportation tariffs set by the FTS for natural gas and transportation by rail of our liquids which was offset by a decrease in taxes other than income tax primarily due to lower natural gas production volumes. As a percentage of total revenues, our non-controllable expenses decreased by 2.1% to 31.4% in the 2007 period compared to 33.5% in the corresponding period in 2006.

Transportation expenses

Our total transportation expenses in the three months ended 30 September 2007, increased by RR 479 million, or 16.7%, compared to the corresponding period in 2006.

	Three months ended 30 September:		Change
millions of Russian roubles	**2007**	**2006**	**%**
Natural gas transportation to customers	1,934	1,564	23.7%
Stable gas condensate, liquefied petroleum gas and oil products transportation by rail	955	788	21.2%
Stable gas condensate transported by tankers	406	475	(14.5%)
Transportation of unstable gas condensate from the fields to the processing facilities through third party pipelines	29	19	52.6%
Crude oil transportation to customers by pipeline	16	14	14.3%
Other transportation costs	4	5	(20.0%)
Total transportation expenses	**3,344**	**2,865**	**16.7%**

In the three months ended 30 September 2007, our transportation expense for natural gas increased by RR 370 million, or 23.7%. The increase in our gas transportation expense was partially due to an increase in the transportation tariff as of 1 August 2006 and 1 March 2007 (see "Transportation tariffs" above) and a 5.3%

increase in our sales volumes of natural gas sold to end-customers, for whom the cost of transportation is included in the sales price.

In the three months ended 30 September 2007, our total expenses for transportation by rail increased by RR 167 million, or 21.2%, due to an increase in volumes sold and an increase in the railroad transportation tariff. During the 2007 period, our combined volumes of stable gas condensate and LPG sold increased by 14 thousand tons, or 2.4%, to 586 thousand tons from 572 thousand tons in the corresponding period in 2006.

Our expense for stable gas condensate transported by rail to international markets increased by RR 69 million, or 12.7%, from RR 548 million to RR 617 million, or from RR 1,257 per ton in the three months ended 30 September 2006 to RR 1,415 per ton in the 2007 period. The increase in the rate per ton was primarily due to a tariff increase of approximately 12.7% in January 2007.

In the three months ended 30 September 2007, our expense for LPG transported by rail amounted to RR 335 million, of which RR 90 million was related to export sales, RR 31 million to CIS sales, and RR 214 million to domestic sales, or RR 4,772 per ton, RR 2,399 per ton, and RR 1,810 per ton, respectively. In the 2006 period, transportation expenses for LPG amounted to RR 236 million, of which RR 42 million was related to export sales, RR 20 million to CIS sales, and RR 174 million to domestic sales, or RR 5,073 per ton, 2,059 per ton and RR 1,505 per ton, respectively. Our LPG rail transportation expense in the 2007 period was also affected by an increase in tariffs which was partially offset by shorter distances for deliveries of LPG to export markets.

The remaining RR 3 million of the transportation expenses by rail in the three months ended 30 September 2007 and RR 4 million in the corresponding period of 2006 were related to the transportation of oil products and other railroad services not allocated between products.

Total transportation expense for delivery of stable gas condensate by tanker to international markets decreased by RR 69 million, or 14.5%, from RR 475 million in the three months ended 30 September 2006, to RR 406 million in the corresponding period of 2007. The change was primarily due to a decrease in our average respective freight rates and a decrease in the average delivery distance to international markets. In the 2007 period, the percentage of stable gas condensate export volumes delivered to markets in the US decreased by 25.0% to 62.3% of total volumes delivered compared to 87.3% in the corresponding period of 2006.

Taxes other than income tax

millions of Russian roubles	**Three months ended 30 September:**		**Change**
	2007	**2006**	**%**
Unified natural resources production tax (UPT)	1,286	1,401	(8.2%)
Property tax	122	108	13.0%
Other taxes	17	20	(15.0%)
Total taxes other than income tax	**1,425**	**1,529**	**(6.8%)**

In the three months ended 30 September 2007, taxes other than income tax decreased by RR 104 million, or 6.8%, of which RR 115 million was due to decreases in the UPT, that was partially offset by an increase in property tax of RR 14 million.

The UPT decrease in 2007 was primarily due to a 17.1% decrease in natural gas production volumes that was partially offset by an increase in our average production tax rate for crude oil from RR 2,430 per ton to RR 2,596 per ton. The natural gas production tax rate in the 2007 and 2006 periods remained unchanged at RR 147 per mcm.

The increase in property tax expense was primarily due to additions of property, plant and equipment (PPE) at the Purovsky Processing Plant and at our production subsidiaries.

Materials, services and other

In the three months ended 30 September 2007, our materials, services and other expenses increased by RR 185 million, or 18.7%, to RR 1,172 million compared to RR 987 million in the corresponding period in 2006. The main components of this expense in the three months ended 30 September 2007 were payroll and materials expenses.

millions of Russian roubles	**Three months ended 30 September:** **2007**	**2006**	**Change %**
Payroll expense	499	356	40.2%
Materials expense	341	293	16.4%
Repair and maintenance services	85	90	(5.6%)
Security and fire safety expense	67	64	4.7%
Energy and fuel expense	47	46	2.2%
Processing services expense	47	44	6.8%
Other expenses	86	94	(8.5%)
Total materials, services and other	**1,172**	**987**	**18.7%**

Payroll expense increased by RR 143 million, or 40.2%, to RR 499 million compared to RR 356 million in the corresponding period in 2006. The increase in our payroll expense was mainly due to an increase in average wages at our production subsidiaries and to a lesser extent by an increase in average number of employees. In the 2007 period, we recorded an additional RR 12 million of payroll expense related to the accrual of pension obligations due to the implementation of a post-employment benefit program in February 2007 (see Note 7 "Pension obligations" in our consolidated interim condensed financial information).

Materials expense increased by RR 48 million, or 16.4%, mainly due to an increase in production of polymers and insulation tape products and the associated increase in purchases of raw materials.

Security and fire safety expenses increased by RR 3 million, or 4.7%, to RR 67 million from RR 64 million in the corresponding period in 2006, and was primarily related to ongoing fire safety activities at our field sites.

General and administrative expenses

In the three months ended 30 September 2007, our general and administrative expenses increased by RR 121 million, or 15.3%, to RR 913 million compared to RR 792 million in the corresponding period in 2006. The main components of these expenses were payroll, social and charitable and legal, audit and consulting expenses which, on aggregate comprised 75.2% and 76.8% of total general and administrative expenses for the three months ended 30 September 2007 and 2006, respectively.

millions of Russian roubles	**Three months ended 30 September:** **2007**	**2006**	**Change %**
Payroll expense	490	430	14.0%
Social and charitable expenses	114	139	(18.0%)
Legal, audit and consulting expenses	83	39	112.8%
Rent expenses	39	32	21.9%
Insurance expense	25	39	(35.9%)
Other expenses	162	113	43.4%
Total general and administrative expenses	**913**	**792**	**15.3%**

In the three months ended 30 September 2007, payroll expense increased by RR 60 million, or 14.0%, to RR 490 million compared to RR 430 million in the corresponding period in 2006. The increase in payroll expense was mainly due to an increase in average salaries and the accrual of pension obligations in the amount of RR 12 million (see Note 7 "Pension obligations" in our consolidated interim condensed financial information) and, to a lesser extent, an increase in the number of employees.

Legal, audit and consulting services expenses increased by RR 44 million, or 112.8%, to RR 83 million compared to RR 39 million in the corresponding period in 2006. The increase was primarily due to ongoing consulting services related to improvements in our information technology systems.

In the three months ended 30 September 2007, rent expenses increased by RR 7 million, or 21.9%, to RR 39 million as compared to RR 32 million in the corresponding period in 2006. The increase in rent expenses was mainly attributable to a general increase in rental rates and additional office space rented in Moscow.

Insurance expense decreased by RR 14 million, or 35.9%, to RR 25 million compared to RR 39 million in the corresponding period in 2006. The decrease was primarily due to lower Group insurance rates due to a reduction in claims for accidents and a re-assessment of items to be insured.

Other general and administrative expenses increased by RR 49 million, or 43.4%, in the three months ended 30 September 2007, compared to the corresponding period in 2006 mostly due to an increase in fire safety and security expenses and bank charges, which accounted for RR 9 million and RR 7 million of the increase respectively.

Depreciation, depletion and amortization

In the three months ended 30 September 2007, our depreciation, depletion and amortization ("DDA") expense decreased by RR 198 million, or 18.9%, compared to the corresponding period in 2006, primarily due to lower natural gas production levels resulting in decreased depletion of our oil and gas properties. In the 2007 period, our DDA per barrel of oil equivalent (boe) was RR 16.6 compared to DDA per boe of RR 18.0 in the corresponding period in 2006 largely due to an increase in our proved developed reserves estimates as of 31 December 2006.

Purchases of oil, gas condensate and natural gas

Our purchases of hydrocarbons increased by RR 375 million, or 126.7%, to RR 671 million in the three months ended 30 September 2007 from RR 296 million in the corresponding period in 2006 primarily due to an increase in natural gas volumes purchased from third parties to maximize end-customer sales during the period and our purchases of oil products on international markets for resale which, amounted to RR 117 million in the 2007 period.

Profit from operations

As a result of the factors discussed above, our profit from operations increased by RR 1,243 million, or 22.9%, in the three months ended 30 September 2007 compared to the corresponding period in 2006. In the 2007 period, our profit from operations as a percentage of total revenues increased to 43.9% as compared to 41.4% in the corresponding period in 2006.

Finance income (expense)

Our total finance expense increased from a net expense of RR 13 million in the three months ended 30 September 2006 to a net expense of RR 19 million in the corresponding period in 2007 mainly due to foreign exchange losses that were offset by a decrease of interest expense and higher interest income received in the 2007 period.

In the three months ended 30 September 2007, we recorded a net foreign exchange loss of RR 43 million while in the same period in 2006 we recognized a net exchange gain of RR 61 million. The foreign exchange loss was due to the combination of a higher proportion of US dollar denominated assets than liabilities and the strengthening of the Russian rouble against US dollar in the 2007 period. In the three months ended 30 September 2007, interest income increased by RR 42 million, or 91.3%, due to an increase in interest income on funds held on account as bank deposits.

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 23.3% and 24.6% for the three months ended 30 September 2007 and 2006, respectively. Our effective income tax rate, after excluding the effect of foreign subsidiaries, was 24.0% and 25.6% in the 2007 and 2006 periods, respectively. Russian statutory income tax rate for both periods was 24%. The difference between our effective and statutory income tax rates is primarily due to certain non-deductible expenses.

Profit attributable to shareholders and earnings per share

As a result of the factors discussed above, profit attributable to shareholders of OAO NOVATEK increased by RR 1,033 million, or 25.3%, to RR 5,119 million in three months ended 30 September 2007 from RR 4,086 million in the corresponding period in 2006.

Our weighted average basic and diluted earnings per share increased to RR 1.69 per share, or 25.2%, in the three months ended 30 September 2007 from RR 1.35 per share in the corresponding period in 2006.

LIQUIDITY AND CAPITAL RESOURCES

The following table shows our net cash flows from operating, investing and financing activities for the three months ended 30 September 2007 and 2006:

millions of Russian roubles	Three months ended 30 September: 2007	2006	Change %
Net cash provided by operating activities	6,876	4,269	61.1%
Net cash used in investing activities	(6,234)	(881)	607.6%
Net cash used in financing activities	(533)	(2,334)	(77.2%)

Liquidity ratios	30 September 2007	31 December 2006	Change %
Current ratio	2.27	3.10	(26.8%)
Total debt to equity	0.04	0.05	(20.0%)
Long-term debt to long term debt and equity	0.001	0.008	(87.5%)
Net debt to total capitalization [1]	(0.05)	(0.03)	66.7%

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

Net cash provided by operating activities

Net cash provided by operating activities increased by RR 2,607 million, or 61.1%, to RR 6,876 million in the three months ended 30 September 2007 compared to RR 4,269 million in the corresponding period in 2006. The increase was mainly attributable to higher operating income from our oil and gas sales as a result of increases in our natural gas and liquids realized prices and a decrease in trade and other receivables and prepayments.

Net cash used in investing activities

Net cash used in investing activities increased by RR 5,353 million to RR 6,234 million in the three months ended 30 September 2007 compared to RR 881 million in the corresponding period in 2006. The increase in the 2007 period was primarily due to an increase in capital expenditures related to further development of our three core fields and the construction activities for the second phase of the Purovsky Processing Plant.

Net cash used in financing activities

Net cash used for financing activities decreased by RR 1,801 million, or 77.2 %, to RR 533 million in the three months ended 30 September 2007 compared to RR 2,334 million in the corresponding period in 2006. The decrease was primarily due to additional US dollar denominated bank borrowings received in the 2007 period compared to the repayment of short-term debt during the 2006 period that was partially offset by an increase in dividends paid.

Working capital

At 30 September 2007, our net working capital position (current assets less current liabilities) was RR 9,694 million compared to RR 10,720 million at 31 December 2006. The decrease by RR 1,026 million, or 9.6%, was mainly due to increases in trade payables and accrued liabilities and the decrease in prepayments in the 2007 period.

Capital expenditures

Total capital expenditures on property, plant and equipment for the three months ended 30 September 2007 and 2006 are as follows:

millions of Russian roubles	Three months ended 30 September:		Change
	2007	**2006**	**%**
Exploration and production	5,648	1,063	431.3%
Other	260	35	642.9%
Total	**5,908**	**1,098**	**438.1%**

Exploration and production expenditures represent our investments in exploring for and developing our oil and gas properties. During both reporting periods, the majority of our capital expenditures related to ongoing development and exploration activities at our three core fields. During the three months ended 30 September 2007, we spent RR 108 million, RR 314 million and RR 4,145 million for field development at the Khancheyskoye, East-Tarkosalinskoye and Yurkharovskoye fields, respectively, and RR 610 million on construction of the second phase at the Purovsky Processing Plant.

Debt obligations

In the three months ended 30 September 2007, the Group repaid RR 1,076 million (USD 41.7 million) of long-term debt to BNP PARIBAS Bank ahead of its maturity schedule and received additional short-term debt in the amount of RR 2,495 million (USD 100 million).

At 30 September 2007, the Group had unused credit facilities in the aggregate amount of RR 6,237 million (USD 250 million) at either fixed or variable interest rates subject to the specific type of credit facility.

QUALITATIVE AND QUANTITATIVE DISCLOSURES AND MARKET RISKS

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

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the Russian rouble relative to the US dollar and Euro. As of 30 September 2007, RR 85 million, or 2.9%, of our long-term debt was denominated in US dollars (out of RR 2,930 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 37.3% in the 2007 period, is denominated in US dollars. As of 30 September 2007, the Russian rouble had appreciated by approximately 5% against the US dollar since 1 January 2007.

A hypothetical and instantaneous 10% strengthening in the Russian rouble in relation to the US dollar as of 30 September 2007 would have resulted in an estimated foreign exchange gain of approximately RR 258 million on foreign currency denominated borrowings held at that date.

Commodity risk

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

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

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

Pipeline access

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

Ability to reinvest

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

Off balance sheet activities

At 30 September 2007, 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.