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 2009 and 2008 together with our unaudited consolidated interim condensed financial information as of and for the three and nine months ended 30 September 2009. The unaudited consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. This consolidated interim condensed financial information should be read together with the audited consolidated financial statements for the year ended 31 December 2008 prepared in accordance with International Financial Reporting Standards (IFRS).

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

OVERVIEW

We are Russia's largest independent natural gas producer and the second-largest producer of natural gas in Russia after Gazprom. In terms of proved natural gas reserves, we are the fourth largest holder of natural gas resources in Russia after Gazprom, Rosneft and LUKOIL, under the Petroleum Resources Management System (PRMS) reserve reporting methodology.

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

In 2009, we geographically expanded our sales of stable gas condensate through deliveries to the Asian-Pacific region, namely South Korea, China and Singapore. The continuous diversification of our stable gas condensate sales provides us with revenue stability, access to new markets and opportunities for higher margins.

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

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

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

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

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

SELECTED DATA

millions of Russian roubles except as stated	**Three months ended 30 September:**		**Change**
	2009	**2008**	**%**
Financial results			
Total revenues (net of VAT and export duties)	21,971	20,463	7.4%
Operating expenses	(13,638)	(11,936)	14.3%
Profit attributable to NOVATEK shareholders	7,353	5,682	29.4%
EBITDA [(1)]	9,960	9,633	3.4%
EBITDAX [(2)]	9,977	9,852	1.3%
Earnings per share (in Russian roubles)	2.43	1.87	29.9%
Operating results			
Natural gas sales volumes (mmcm)	7,763	8,226	(5.6%)
Stable gas condensate sales volumes (thousand tons)	467	329	41.9%
Liquefied petroleum gas sales volumes (thousand tons)	189	153	23.5%
Crude oil sales volumes (thousand tons)	48	63	(23.8%)
Oil product sales volumes (thousand tons)	3	7	(57.1%)
Oil product export trading volumes (thousand tons)	-	25	(100.0%)
Cash flow results			
Net cash provided by operating activities	10,523	6,759	55.7%
Capital expenditures	3,933	9,784	(59.8%)

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

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

SELECTED MACRO-ECONOMIC DATA

Exchange rate of Russian rouble to US dollar	Three months ended 30 September: 2009	2008	Change %
At the beginning of the period	31.29	23.46	33.4%
At the end of the period	30.09	25.25	19.2%
Average for the period	31.33	24.25	29.2%

Crude oil prices, USD / bbl	Three months ended 30 September: 2009	2008	Change %
WTI (1)			
At the end of the period	70.6	100.6	(29.8%)
Average for the period	68.2	118.2	(42.3%)
Brent (2)			
At the end of the period	65.7	93.7	(29.9%)
Average for the period	68.1	115.1	(40.8%)
Urals (2)			
At the end of the period	65.8	92.4	(28.8%)
Average for the period	67.8	113.4	(40.2%)

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

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

Export duties, USD / ton (1)	Three months ended 30 September: 2009	2008	Change %
Crude oil, stable gas condensate			
At the end of the period	238.6	495.9	(51.9%)
Average for the period	224.4	463.3	(51.6%)
LPG			
At the end of the period	0.0	346.4	(100.0%)
Average for the period	0.0	324.4	(100.0%)

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

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Current financial market conditions

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

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

In a period of limited access to the capital markets for funding purposes, we have reviewed our capital expenditure program for 2009 and have concluded that we have sufficient liquidity, through current internal cash flows and short-term borrowing facilities, to fund our core natural gas business operations and planned capital expenditure program. As a result of this assessment, we have not made any major adjustments to our capital expenditure program as of the 30 September 2009.

Management will continue to closely monitor the economic environment in Russia as well as the domestic and international capital markets to determine if any other further corrective and/or preventive measures are required to sustain the business through the duration of the financial and liquidity crisis. In addition, we will continue to assess the trends in the capital markets for opportunities to access long-term funding at reasonable cost to the Company commensurate with our credit rating and our capital requirements.

Natural gas prices

As an independent natural gas producer, we are not subject to the government's regulation of natural gas prices. Historically, we have sold most of our natural gas at prices higher than the regulated prices set by the government for Gazprom's domestic gas sales, although the prices we can achieve are strongly influenced by the prices regulated by the Federal Tariffs Service (FTS), a governmental agency, and present market conditions. In the three months ended 30 September 2009, the weighted average FTS price for the primary regions where we delivered our natural gas increased by RR 284 per mcm, or 18.0%, to RR 1,861 per mcm compared to RR 1,577 per mcm in the 2008 period. The specific terms for delivery of natural gas affect our average realized prices. Natural gas sold "ex-field" is sold primarily to wholesale gas traders, in which case the buyer is responsible for the payment of gas transportation tariffs. Sales to wholesale traders allow us to diversify our natural gas sales without incurring additional commercial expenses. Historically we have realized higher prices and net margins for natural gas volumes sold directly to end-customers, as the gas transportation tariff is included in the contract price and no retail margin is lost to wholesale gas traders. However, our recent shift in our sales mix has demonstrated that the historical norm may or may not prevail in the present market situation.

In April 2009, we renegotiated the sales terms for natural gas volumes sold to one of our large traders. Under the new sales terms, natural gas sales volumes are purchased by the trader on a delivered basis to the regions where the natural gas is to be consumed. These volumes are now classified as end-customers' sales under a separate category, 'traders in remote points'. The new terms contributed to an overall decrease in our total average natural gas netback price (excluding transportation expense) of 2.8% in the third quarter 2009 compared to the corresponding period in 2008, and was primarily due to additional transportation expense incurred for these volumes and distances delivered (see "Transportation expenses" below). In an environment of continued economic uncertainty and its affect on the demand for natural gas, the change in the terms for this classification of sales allowed us to continue growing our natural gas production volumes by 3.0% during the 2009 reporting period over the corresponding 2008 production levels and also enabled us to increase our stable gas condensate and LPG sales volumes.

In November 2006, the FTS approved and published a plan to liberalize the price of natural gas sold on the Russian domestic market by the year 2011. As part of the liberalization plan, in December 2008, the FTS approved four quarterly increases in the regulated price for natural gas in 2009 for an average total increase of 15.9%, rising by 5% in the first quarter, 7% in the second quarter, 7% in the third quarter and 6.2% in the fourth quarter. We expect further increases in the regulated price for natural gas as part of the Russian Federation government's efforts to liberalize the price of natural gas on the Russian domestic market. The FTS will continue to approve the effective increase on an annual basis and reserves the right to modify the percentages published as well as potentially prolong the timetable toward market price liberalization based on market conditions and other factors.

As a result of continued economic instability, in both global and domestic markets, our pricing strategy for natural gas emphasized increasing market share and maintaining production growth during the 2009 reporting period. In the three months ended 30 September 2009, our average natural gas price to end-customers, excluding traders in remote points, and ex-field price increased by 8.4% and 8.7%, respectively, compared to the corresponding period in 2008 (see "Natural gas sales" below).

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

	Three months ended 30 September:		**Change**
Russian roubles per mcm	**2009**	**2008**	**%**
Average natural gas price [(1)]:			
End-customers	*2,006*	*1,850*	*8.4%*
Traders in remote points	*1,767*	*-*	*n/a*
E-trading	*-*	*1,382*	*n/a*
Average natural gas price to end-customers	**1,897**	**1,847**	**2.7%**
Average natural gas transportation expense:			
End-customers	*(870)*	*(756)*	*15.1%*
Traders in remote points	*(942)*	*-*	*n/a*
E-trading	*-*	*(131)*	*n/a*
Average natural gas transportation expense for sales to end-customers	**(903)**	**(753)**	**19.9%**
Average natural gas netback price:			
End-customers	*1,136*	*1,094*	*3.8%*
Traders in remote points	*825*	*-*	*n/a*
E-trading	*-*	*1,251*	*n/a*
Average natural gas netback price on end-customer sales	**994**	**1,094**	**(9.1%)**
Average natural gas price ex-field (wholesale traders)	**1,083**	**996**	**8.7%**
Total average natural gas price excluding transportation expense	**1,016**	**1,045**	**(2.8%)**

[(1)] Includes cost of transportation.

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

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

Crude oil, stable gas condensate, liquefied petroleum gas ("LPG") and oil products prices on international markets have historically been volatile depending on, among other things, the balance between supply and demand fundamentals, the ability and willingness of oil producing countries to sustain or change production levels to meet changes in global demand and potential disruptions in global crude oil supplies due to war, geopolitical developments, terrorist activities or natural disasters. Crude oil, stable gas condensate, LPG and oil products prices on the domestic market also fluctuate depending on supply and demand fundamentals amongst other factors. Crude oil that we sell bound for international markets is transported through the Transneft pipeline system where it is blended with other crude oil of varying qualities to produce an export blend commonly referred to as "Urals blend", which normally trades at a discount to the international benchmark Brent crude oil. The actual prices we receive for our liquid hydrocarbons on both the domestic and international markets are dependent on many external factors beyond the control of management.

Volatile movements in benchmark crude oil prices can have a positive and/or negative impact on the ultimate prices we receive for our liquid volumes sold on both the domestic and international markets, amongst many other factors. In the three months ended 30 September 2009, average benchmark crude oil prices were more than 40% lower than in the corresponding period in 2008.

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

In the three months ended 30 September 2009, our stable gas condensate export delivery terms were delivery to the port of destination ex-ship (DES) or priced at cost and freight (CFR), while in the corresponding period in 2008, our delivery terms were delivery to the port of destination ex-ship (DES). Our average export stable gas condensate contract price, including export duties, in the three months ended 30 September 2009 was approximately USD 571 per ton compared to approximately USD 1,014 per ton in the corresponding period in 2008.

In the three months ended 30 September 2009, our crude oil export delivery terms were delivery at frontier (DAF Feneshlitke, Hungary) and our average crude oil export contract price, including export duties, was approximately USD 483 per ton. In the corresponding 2008 period, we did not deliver our crude oil to international markets due to our ability to achieve higher margins on the domestic market.

In the three months ended 30 September 2009, we purchased from third parties six thousand tons of crude oil at an average price of RR 6,706 per ton. We sold these volumes in the domestic market in the 2009 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 2009 and 2008:

Russian roubles (RR) or US dollars (USD) per ton	**Three months ended 30 September: 2009**	**2008**	**Change %**
Stable gas condensate			
Net export price, RR per ton	11,224	14,251	(21.2%)
Net export price, USD per ton	358.2	587.8	(39.1%)
Domestic price, RR per ton	10,014	10,050	(0.4%)
Crude oil			
Net export price, RR per ton	8,321	-	n/a
Net export price, USD per ton	265.6	-	n/a
Domestic price, RR per ton	7,705	9,632	(20.0%)

Our LPG export delivery terms during the three months ended 30 September 2009 were delivery at frontier (DAF) at the border of the customer's country and carriage paid to (CPT) the Port of Temryuk, southern Russia. In the three months ended 30 September 2009, our average export LPG contract price, including export duties, was approximately USD 490 per ton compared to USD 946 per ton in the corresponding period in 2008. In the three months ended 30 September 2009, as well as in the corresponding period in 2008, our LPG CIS delivery terms were delivery at frontier (DAF) at the border of the customer's country. During 2008 and the third quarter 2009, we were obliged to sell a portion of our LPG domestic sales volumes at regulated prices while the remaining portion of our sales was sold under commercial terms. In the three months ended 30 September 2009, we sold 74 thousand tons at an average commercial price of RR 9,547 per ton and 5 thousand tons at the regulated price of RR 5,750 per ton in the domestic market, compared to 107 thousand tons at an average commercial price of RR 12,331 per ton and 16 thousand tons at the regulated price of RR 4,500 per ton in the corresponding period in 2008. In addition, in the third quarter 2009, we sold five thousand tons of LPG produced at the Purovsky Plant through our subsidiary OOO "NOVATEK-Refuelling Complexes" at an average price of RR 11,415 per ton.

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

In the three months ended 30 September 2009, our wholly-owned subsidiary, OOO "NOVATEK-Refuelling Complexes", purchased 653 tons of liquefied petroleum gas, diesel fuel and petrol from third parties and subsequently resold 687 tons through its retail stations for approximately RR 21,085 per ton. In the three months ended 30 September 2008, the operations of OOO "NOVATEK-Refuelling Complexes" were insignificant due to the recent commencement of its activities.

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 2009 and 2008 (excluding trading activities):

	Three months ended 30 September:		Change
Russian roubles (RR) or US dollars (USD) per ton	**2009**	**2008**	**%**
LPG			
Net export price, RR per ton	15,292	15,361	(0.4%)
Net export price, USD per ton	488.1	635.7	(23.2%)
CIS price, RR per ton	14,285	14,949	(4.4%)
Domestic price, RR per ton	9,311	11,300	(17.6%)
Domestic price through retail stations, RR per ton	11,415	-	n/m
Oil products			
Domestic price, RR per ton	6,199	7,245	(14.4%)

Transportation tariffs

The methodology of calculating transportation tariffs for natural gas produced in the Russian Federation for shipments to consumers located within the customs territory of the Russian Federation and the member states of the Customs Union Agreement (Belarus, Kazakhstan, Kyrgyzstan and Tajikistan) consists of two parts: a rate for the utilization of the trunk pipeline and a transportation rate per mcm per 100 km. The rate for utilization of the trunk pipeline is based on an "input/output" function which is determined by where natural gas enters and exits the trunk pipeline (the range for the "input/output" rate effective from 1 July 2009 is RR 27.58 to RR 1,540.11 (excluding VAT) per mcm) and includes a constant rate of RR 23.92 (excluding VAT) per mcm for end-customers using Gazprom's gas distribution systems. The constant rate is deducted from the utilization rate for end-customers using non-Gazprom gas distribution systems. The second component of the transportation rate for natural gas delivered within the customs territory of the Russian Federation and the member states of the Customs Union Agreement was set at RR 7.23 (excluding VAT) per mcm per 100 km effective 1 January 2008. In December 2008, the FTS approved an increase in the 2009 transportation tariff for natural gas, which was implemented in four stages: by 4.7% to RR 7.57 (excluding VAT) per mcm per 100 km effective 1 January 2009, by 6.9% to RR 8.09 (excluding VAT) per mcm per 100 km effective 1 April 2009, by 6.8% to RR 8.64 (excluding VAT) per mcm per 100 km effective 1 July 2009 and by a further 5.9% to RR 9.15 (excluding VAT) per mcm per 100 km effective 1 October 2009. The increases in regulated transportation tariffs are passed on to our end-customers pursuant to delivery terms in the majority of our contracts.

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

Our stable gas condensate (to the Port of Vitino on the White Sea), LPG and oil products are transported by rail which is owned and operated by Russian Railways, Russia's state-owned monopoly railway operator. Our transportation tariffs for transport by rail are also set by the FTS and vary depending on product and length of transport route. On 27 March 2009, the FTS announced specific discount co-efficients to be applied to the existing rail road transportation tariffs related to export deliveries of liquefied petroleum gas and stable gas condensate shipped from the Limbey rail station, located in close proximity to our Purovsky Plant (see “Transportation expenses” below).

We deliver our stable gas condensate and oil products produced from our unstable gas condensate to international markets using the loading and storage facilities at the Port of Vitino on the White Sea and tankers for transportation to US, European and countries of the Asian-Pacific region. The costs associated with tanker transportation are determined by the distance to the final destination, tanker availability, seasonality of deliveries and standard shipping terms.

Transportation transactions with related parties

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

Our tax burden

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

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

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

OPERATIONAL HIGHLIGHTS

Hydrocarbon sales volumes

Our natural gas sales volumes decreased marginally due to a reduction in our purchases from third parties for resale and an increase in natural gas volumes injected into underground storage during the reporting period. Our liquids sales volumes (crude oil, stable gas condensate, LPG and oil products) increased primarily due to an increase in our unstable gas condensate production.

Natural gas sales volumes

millions of cubic meters	**Three months ended 30 September: 2009**	**2008**	**Change %**
Production from:			
Yurkharovskoye field	4,147	2,554	62.4%
East-Tarkosalinskoye field	2,899	3,893	(25.5%)
Khancheyskoye field	687	1,077	(36.2%)
Other fields	23	7	228.6%
Total natural gas production	**7,756**	**7,531**	**3.0%**
Purchases from:			
Gazprom	-	467	n/a
Other	250	290	(13.8%)
Total natural gas purchases	**250**	**757**	**(67.0%)**
Total production and purchases	**8,006**	**8,288**	**(3.4%)**
Purovsky Plant and own usage	(8)	(5)	60.0%
Decrease (increase) in pipeline and underground gas storage facilities	(235)	(57)	312.3%
Total natural gas sales volumes	**7,763**	**8,226**	**(5.6%)**
Sold to end-customers	*3,195*	*4,016*	*(20.4%)*
Sold to traders in remote points	*2,664*	*-*	*n/m*
E-trading sales	*-*	*24*	*n/a*
Subtotal sold to end-customers	***5,859***	***4,040***	***45.0%***
Sold ex-field	***1,904***	***4,186***	***(54.5%)***

In the three months ended 30 September 2009, our total consolidated natural gas production increased by 225 mmcm, or 3.0%, compared to the 2008 period due to an increase in production at our Yurkharovskoye field as a result of the first stage of the field's second phase of development launched in September 2008. In the 2009 period, we optimized oil and gas revenues through the management of our fields' operational and production flexibility. By reducing natural gas production, primarily from the dry gas layers at the East-Tarkosalinskoye field and, to a lesser degree, the wet gas layers at both the East-Tarkosalinskoye and Khancheyskoye fields, we were able to grow natural gas production at the Yurkharovskoye field, thus increasing unstable gas condensate production. The decision to reduce production was largely due to a decrease in demand from end-customers, the cessation of sales on the electronic natural gas exchange and normal seasonality consumption patterns.

At 30 September 2009, our cumulative natural gas volumes stored in Gazprom's underground gas storage facilities (UGSF) totaled 476 mmcm, representing an increase of 269 mmcm during the 2009 period, compared to the balance of 300 mmcm at 30 September 2008 and an increase of 90 mmcm in the 2008 period. Our total natural gas inventory balance (including UGSF, UGSS and own pipeline infrastructure) at 30 September 2009 was 503 mmcm compared to 267 mmcm at 30 June 2009. We expect our volumes of natural gas injected into underground gas storage facilities and maintained in the UGSS to continue fluctuating period-to-period depending on market conditions, storage capacity constraints and our development plans to sustain and/or grow production during periods of seasonality.

In the three months ended 30 September 2009, our natural gas purchases decreased by 507 mmcm, or 67.0%, compared to the corresponding period in 2008, primarily due to our ability to meet domestic market demand from our own production.

Liquids sales volumes

thousands of tons	Three months ended 30 September: 2009	2008	Change %
Production from:			
Yurkharovskoye field	356	193	84.5%
East-Tarkosalinskoye field	218	250	(12.8%)
Khancheyskoye field	154	171	(9.9%)
Other fields	10	19	(47.4%)
Total liquids production	**738**	**633**	**16.6%**
Purchases from:			
Other	6	24	(75.0%)
Total liquids purchases	**6**	**24**	**(75.0%)**
Total production and purchases	**744**	**657**	**13.2%**
Losses and own usage [(1)]	(4)	(5)	(20.0%)
Decreases (increases) in liquids inventory balances	(33)	(75)	(56.0%)
Total liquids sales volumes	**707**	**577**	**22.5%**
Stable gas condensate export	*467*	*329*	*41.9%*
Stable gas condensate domestic	*n/m*	*n/m*	*n/m*
Subtotal stable gas condensate	***467***	***329***	***41.9%***
LPG export	*103*	*24*	n/m
LPG CIS	*2*	*6*	*(66.7%)*
LPG domestic	*79*	*123*	*(35.8%)*
LPG sold through domestic retail stations	*5*	-	n/m
Subtotal LPG	***189***	***153***	***23.5%***
Crude oil export	*15*	-	*n/m*
Crude oil domestic	*33*	*63*	*(47.6%)*
Subtotal crude oil	***48***	***63***	***(23.8%)***
Oil products export (international trading activities)	-	*25*	*n/a*
Oil products domestic	*3*	*7*	*(57.1%)*
Subtotal oil products	***3***	***32***	***(90.6%)***

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

In the three months ended 30 September 2009, our liquids production increased by 105 thousand tons, or 16.6%, to 738 thousand tons compared to 633 thousand tons in the 2008 period, due to the expansion of unstable gas condensate production capacity at our Yurkharovskoye field resulting from the launch of the first stage of the field’s second phase of development in September 2008. The increase was offset by a decrease in unstable gas condensate production at our East-Tarkosalinskoye and Khancheyskoye fields due to decreases in their natural gas production (see “Natural gas sales volumes” above) and a decrease in crude oil production at our Ust-Purpeisky license area due to its disposal in April 2009.

At 30 September 2009, we had 202 thousand tons of stable gas condensate in transit or storage and recognized as inventory until such time as it is delivered to the port of destination as compared to 216 thousand tons as of 30 September 2008. In the three months ended 30 September 2009, our stable gas condensate in transit or storage and recognized as inventory increased by 30 thousand tons compared to an increase by 67 thousand tons in the corresponding period in 2008. The remaining change in liquids inventory balances related to changes in other liquid hydrocarbon products.

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

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

	Three months ended 30 September:			
Millions of Russian roubles	**2009**	**% of total revenues**	**2008**	**% of total revenues**
Total revenues **(net of VAT and export duties)**	**21,971**	***100.0%***	**20,463**	***100.0%***
including:				
natural gas sales	13,177	*60.0%*	11,632	*56.8%*
liquids sales	8,040	*36.6%*	7,805	*38.1%*
Operating expenses	(13,638)	*(62.1%)*	(11,936)	*(58.3%)*
Other operating income (loss)	25	*0.1%*	(11)	*(0.1%)*
Profit from operations	**8,358**	***38.0%***	**8,516**	***41.6%***
Finance income (expense)	903	*4.1%*	(976)	*(4.8%)*
Share of income (loss) of associated companies	(23)	*(0.1%)*	(34)	*(0.2%)*
Profit before income tax	**9,238**	***42.0%***	**7,506**	***36.7%***
Total income tax expense	(1,961)	*(8.9%)*	(1,820)	*(8.9%)*
Profit (loss)	**7,277**	***33.1%***	**5,686**	***27.8%***
Non-controlling interest	76	*0.4%*	(4)	*(0.0%)*
Profit attributable to NOVATEK shareholders	**7,353**	***33.5%***	**5,682**	***27.8%***

Total revenues

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

Millions of Russian roubles	**Three months ended 30 September: 2009**	**2008**	**Change %**
Natural gas sales	**13,177**	**11,632**	**13.3%**
End-customer	*6,410*	*7,427*	*(13.7%)*
Traders in remote points	*4,706*	*-*	*n/m*
E-trading	*-*	*34*	*n/a*
Subtotal of end-customers sales	***11,116***	***7,461***	***49.0%***
Ex-field sales	***2,061***	***4,171***	***(50.6%)***
Stable gas condensate sales	**5,247**	**4,687**	**11.9%**
Export	*5,244*	*4,687*	*11.9%*
Domestic	*3*	*n/m*	*n/m*
Liquefied petroleum gas sales	**2,385**	**1,841**	**29.5%**
Export	*1,575*	*366*	*330.3%*
CIS	*19*	*85*	*(77.6%)*
Domestic	*791*	*1,390*	*(43.1%)*
Crude oil sales	**381**	**608**	**(37.3%)**
Export	*127*	*-*	*n/m*
Domestic	*254*	*608*	*(58.2%)*
Oil products sales	**27**	**669**	**(96.0%)**
Export	*-*	*617*	*n/a*
Domestic	*27*	*52*	*(48.1%)*
Total oil and gas sales	**21,217**	**19,437**	**9.2%**
Sales of polymer and insulation tape	475	561	(15.3%)
Other revenues	279	465	(40.0%)
Total revenues	**21,971**	**20,463**	**7.4%**

Natural gas sales

In the three months ended 30 September 2009, our revenues from sales of natural gas increased by RR 1,545 million, or 13.3%, compared to the corresponding period in 2008 due mainly to an increase in prices which was offset by a decrease in natural gas volumes purchased as well as an increase in natural gas inventory balances. Revenues from the sale of natural gas accounted for 60.0% and 56.8% of our total revenues in the three months ended 30 September 2009 and 2008, respectively. The increase in natural gas sales as a percentage of total revenues was primarily due to higher natural gas prices and a decrease in liquids prices that was partially offset by an increase in liquids volumes sold.

In the three months ended 30 September 2009, our average realized natural gas price per mcm increased by RR 283 per mcm, or 20.0%, to RR 1,697 per mcm from RR 1,414 per mcm in the corresponding period in 2008. Our proportion of natural gas sold to end-customers, including traders in remote points and e-trading sales, to total natural gas sales volumes, increased from 49.1% in the three months ended 30 September 2008 to 75.5% in the 2009 period due primarily to the initiation of natural gas sales on a delivered basis to traders in remote points beginning in April 2009. The average realized prices of our natural gas sold directly to end-customers and traders in remote points (including transportation expense) and sold ex-field were higher by 2.7% and 8.7%, respectively, in the three months ended 30 September 2009 compared to the corresponding period in 2008. In the three months ended 30 September 2008, our sales of natural gas to end-customers were primarily to energy utility companies. The majority of natural gas volumes sold to end-customers in the 2009 period were delivered to energy utility companies and traders in remote points (previously recorded as ex-field sales).

As of 1 January 2009, trading on the electronic exchange has been temporarily suspended, pending the prolongation of legislation regulating the electronic trading of natural gas. There were no e-trading sales during the three months ended 30 September 2009 as compared to 24 mmcm in the corresponding 2008 period.

Stable gas condensate sales

In the three months ended 30 September 2009, our revenues from sales of stable gas condensate increased by RR 560 million, or 11.9%, compared to the corresponding period in 2008 primarily due to an increase in volumes sold which were offset by significantly lower average realized prices due primarily to declining benchmark prices.

In the three months ended 30 September 2009, we exported 467 thousand tons of stable gas condensate, or almost 100% of our sales volumes, to markets in the United States, China and Singapore, while in the corresponding period in 2008, we exported 329 thousand tons of stable gas condensate, or 100.0% of our total sales volumes, to markets in the United States and Europe. In the 2009 period, our total stable gas condensate sales volumes increased by 138 thousand tons, or 41.9%, primarily due to an increase in our unstable gas condensate production and, to a lesser extent, by a decrease in stable gas condensate inventory balances.

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

In the three months ended 30 September 2009, our average realized price, excluding export duties and translated into US dollars, for stable gas condensate sold on the export market decreased by USD 229.6 per ton, or 39.1%, to USD 358.2 per ton (DES and CFR) from USD 587.8 per ton (DES) in the corresponding period in 2008. The decrease in the average realized export price was the result of a 43.7% decrease in our average export contract price that was partially offset by a 52.1% decrease in our average export duty per ton. The decrease in our average realized contract price was due to an overall decrease in crude oil and related commodity prices on international markets in the 2009 period compared to 2008.

Liquefied petroleum gas sales

In the three months ended 30 September 2009, our revenues from the sales of LPG increased by RR 544 million, or 29.5%, compared to the corresponding period in 2008, primarily due to an increase in volumes sold. In the three months ended 30 September 2009, our total LPG sales volumes increased by 36 thousand tons, or 23.5%, to 189 thousand tons from 153 thousand tons in the corresponding period in 2008.

In the 2009 period, we were able to compete with other global LPG producers in the international markets due to the abolishment of Russian export duties on LPG. As a result, in the three months ended 30 September 2009, our export sales volumes of LPG increased 4.3 times compared to the corresponding period in 2008, to 103 thousand tons which amounted to 54.5% of our total LPG sales volumes. Our average LPG export price decreased by USD 147.6 per ton, or 23.2%, to USD 488.1 per ton (DAF and CPT excluding export duties and translated into US dollars) in the three months ended 30 September 2009 compared to the corresponding period in 2008. The decrease in our average realized export prices (excluding export duties) was primarily due to a 48.2% decrease in our average contract price which was partially offset by the abolishment of export duties in the 2009 period.

The remaining volumes of LPG were sold as follows: 44.4% was sold domestically at an average price of RR 9,432 per ton (FCA excluding VAT) representing a decrease of RR 1,868 per ton, or 16.5%, compared to the corresponding period in 2008, and 1.1% was sold to the CIS for an average price of RR 14,285 per ton (DAF) representing a decrease of RR 664 per ton, or 4.4%, compared to the corresponding period in 2008.

In the three months ended 30 September 2008, we sold 80.4% of our LPG volumes domestically, 15.7% to the export markets and 3.9% to markets in the CIS. The increase in our share of LPG deliveries to export markets from 15.7% in the three months ended 30 September 2008 to 54.5% in the 2009 period was primarily the result of optimizing our netback prices due to the abolishment of export duties as well as our ability to penetrate new export markets.

Crude oil sales

In the three months ended 30 September 2009, our revenues from the sales of crude oil decreased by RR 227 million, or 37.3%, compared to the 2008 period, due to a decrease in both our sales volumes and prices.

In the three months ended 30 September 2009, our crude oil volumes available for sale decreased by 15 thousand tons, or 23.8%, to 48 thousand tons from 63 thousand tons in the 2008 period primarily due to a decrease in our crude oil production. In the 2009 period, 68.8% of crude oil volumes were sold domestically at an average price of RR 7,705 per ton (excluding VAT) representing a decrease of RR 1,927 per ton, or 20.0%, compared to the corresponding period in 2008. The decrease in our average realized price was due to the overall decrease in crude oil prices in the domestic market in the 2009 period. The remaining 31.2% of crude oil volumes were sold to the export markets at an average price of USD 265.6 per ton (DAF excluding export duties, translated into US dollars). In the three months ended 30 September 2008, we did not deliver our crude oil to the international markets due to our ability to achieve higher margins on the domestic market.

Oil products sales

In the three months ended 30 September 2009, our revenue from the sales of oil products decreased by RR 642 million, or 96.0%, compared to the corresponding period in 2008, primarily due to a temporary suspension of oil products (naphtha) trading activities on international markets by our foreign trading subsidiary beginning in December 2008.

In the three months ended 30 September 2009, we did not sell oil products (naphtha) to the international markets compared to sales of 25 thousand tons in the corresponding period in 2008 for an average contract price of USD 1,027 per ton (DES and FOB).

Our domestic oil products sales (produced from our unstable gas condensate and purchased from third parties) in the three months ended 30 September 2009 decreased by RR 25 million, or 48.1%, to RR 27 million from RR 52 million in the 2008 period, primarily due to a decrease in sales volumes.

In the three months ended 30 September 2009, our revenues from oil products trading operations on the domestic market amounted to RR 13 million compared to nil in the corresponding period in 2008. In the 2009 period, we sold 534 tons of oil products for an average price of RR 23,506 per ton through our retail stations. The same operations were insignificant in the corresponding period in 2008.

In the three months ended 30 September 2009, our revenues from oil products produced at the Surgutsky refinery decreased to RR 14 million from RR 52 million in the corresponding period in 2008. Oil products sales volumes produced from our unstable gas condensate amounted to two thousand tons in the 2009 period compared to seven thousand tons in the corresponding period in 2008. Our oil products sales price decreased by RR 1,046 per ton, or 14.4%, to RR 6,199 per ton in the three months ended 30 September 2009 from RR 7,245 per ton in the 2008 period primarily due to an overall decrease in oil products prices in the domestic market in the 2009 period.

Sales of polymer and insulation tape

Our revenues from the sales of polymer and insulation tape decreased by RR 86 million, or 15.3%, to RR 475 million in the three months ended 30 September 2009, compared to RR 561 million in the 2008 period mainly due to a decrease in both polymer products production volumes and average realized prices.

Revenues from our sales of BOPP film wrap decreased by RR 33 million, or 8.9%, from RR 369 million in the three months ended 30 September 2008 to RR 336 million in the 2009 period due to a decrease in demand on both domestic and CIS markets. The proportion of BOPP film wrap sales to total sales of polymer and insulation tape increased by 4.9% to 70.7% in the three months ended 30 September 2009 compared to 65.8% in the 2008 period.

Our revenues from pipe insulation product sales decreased by RR 27 million, or 23.5%, from RR 115 million in the three months ended 30 September 2008 to RR 88 million in the 2009 period due to a decrease in volumes sold. Revenues from polymer pipes sales decreased by RR 26 million, or 36.1%, from RR 72 million in the three months ended 30 September 2008 to RR 46 million in the 2009 period primarily due to both a decrease in volumes sold and prices. The remaining RR 5 million and RR 5 million in the three months ended 30 September 2009 and 2008, related to sales of other polymer products.

Other revenues

Other revenues include geological and geophysical research services, rent, polymer tolling, transportation, handling, storage and other services. In the three months ended 30 September 2009, other revenues decreased by RR 186 million, or 40.0%, to RR 279 million from RR 465 million in the corresponding period in 2008. The decrease in other revenues was primarily related to revenues from geological and geophysical research services provided to our associates which, accounted for RR 165 million in the three months ended 30 September 2009, compared to RR 386 million in the corresponding period in 2008.

In the three months ended 30 September 2009, our revenues from transportation, handling and storage services decreased by RR 45 million, while our revenues from rent services increased by RR 79 million compared to the corresponding period in 2008.

Operating expenses

In the three months ended 30 September 2009, our total operating expenses increased by RR 1,702 million, or 14.3%, to RR 13,638 million compared to RR 11,936 million in the 2008 period, largely due to an increase in transportation costs that was partially offset by a decrease in our purchases of natural gas and liquid hydrocarbons. As a percentage of total operating expenses, our non-controllable expenses, such as transportation and taxes other than income tax, increased by 12.7% in the three months ended 30 September 2009 to 67.1% compared to 54.4% in the corresponding period in 2008. Total operating expenses increased as a percentage of total revenues to 62.1% in the three months ended 30 September 2009 compared to 58.3% in the corresponding period in 2008, as shown in the table below.

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

	Three months ended 30 September:			
millions of Russian roubles	**2009**	**% of total revenues**	**2008**	**% of total revenues**
Transportation expenses	7,190	*32.7%*	4,565	*22.3%*
Taxes other than income tax	1,955	*8.9%*	1,928	*9.4%*
Non-controllable expenses	**9,145**	***41.6%***	**6,493**	***31.7%***
Materials, services and other	1,594	*7.3%*	1,642	*8.0%*
Depreciation, depletion and amortization	1,467	*6.7%*	1,085	*5.3%*
General and administrative expenses	1,308	*6.0%*	1,336	*6.5%*
Purchases of natural gas and liquid hydrocarbons	310	*1.4 %*	1,126	*5.5%*
Exploration expenses	17	*0.1%*	219	*1.1%*
Net impairment expense (reversal)	(4)	*n/m*	30	*n/m*
Change in natural gas, liquid hydrocarbons, and polymer products and work-in-progress	(199)	*n/m*	5	*n/m*
Total operating expenses	**13,638**	***62.1%***	**11,936**	***58.3%***

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 2009, non-controllable expenses of transportation and taxes other than income tax increased by RR 2,652 million, or 40.8%, to RR 9,145 million from RR 6,493 million in the corresponding period in 2008. The change in transportation expenses was primarily due to an increase in the aggregate amount of natural gas volumes delivered to end-customers, including traders in remote points, which were previously recorded as ex-field sales with no responsibility to incur transport related costs, the increase in the natural gas transportation tariff and an increase in liquids export sales volumes. Taxes other than income tax increased primarily due to higher property tax expense. As a percentage of total revenues our non-controllable expenses increased by 9.9% to 41.6% in the three months ended 30 September 2009 compared to 31.7% in the corresponding period in 2008.

Transportation expenses

In the three months ended 30 September 2009, our total transportation expenses increased by RR 2,625 million, or 57.5%, compared to the corresponding period in 2008.

millions of Russian roubles	Three months ended 30 September: 2009	2008	Change %
Natural gas transportation to customers	5,288	3,040	73.9%
Stable gas condensate and liquefied petroleum gas transportation by rail	1,264	996	26.9%
Stable gas condensate transported by tankers	511	421	21.4%
Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines	82	50	64.0%
Crude oil transportation to customers	39	29	34.5%
Other transportation costs	6	29	(79.3%)
Total transportation expenses	**7,190**	**4,565**	**57.5%**

In the three months ended 30 September 2009, our transportation expenses for natural gas increased by RR 2,248 million, or 73.9%, to RR 5,288 million from RR 3,040 million in the corresponding period in 2008. The change was mainly due to a 45.0% increase in our sales volumes of natural gas delivered directly to end-customers, including traders in remote points, where the cost of transportation is included in the sales price, as well as increases in the natural gas transportation tariff effective 1 January, 1 April and 1 July 2009 (see “Transportation tariffs” above). Our average transportation distance for natural gas sold to end-customers fluctuates period-to-period and depends on the location of end-customers and the specific routes of transportation.

Total expenses for transportation by rail increased by RR 268 million, or 26.9%, primarily due to higher liquids volumes sold. In the three months ended 30 September 2009, our combined volumes of stable gas condensate and LPG sold and transported via rail increased by 174 thousand tons, or 36.1%, to 656 thousand tons from 482 thousand tons in the corresponding period in 2008.

Our expense for stable gas condensate transported by rail to export markets increased by RR 72 million, or 12.7% to RR 639 million from RR 567 million in the three months ended 30 September 2008 due to a 41.9% increase in volumes sold. In the three months ended 30 September 2009, our average transportation rate per ton for stable gas condensate decreased by 20.6% to RR 1,368 from RR 1,724 in the corresponding period in 2008, due to the application of a co-efficient of 0.72 to the existing rail tariff for stable gas condensate delivered to export markets from 7 April 2009. In accordance with the FTS announcement, the co-efficient was applied to the existing rail road transportation tariff related to export deliveries of stable gas condensate shipped from the Limbey rail station, located in close proximity to our Purovsky Plant. The decrease was partially offset by an increase in railroad tariff by 5.0% from 1 January 2009 and by further 5.7% from 1 July 2009. According to the announcement from the FTS (see “Transportation tariffs” above) the co-efficient applied against the existing rail tariff will be applicable throughout 2009.

In the three months ended 30 September 2009, our expense for LPG transported by rail increased by RR 195 million, or 45.7%, primarily due to an increase in volumes sold. In the 2009 period, our expense for LPG transported by rail amounted to RR 622 million, of which RR 399 million was related to export sales, RR 3 million to CIS sales, and RR 220 million to domestic sales, or RR 3,874 per ton, RR 2,238 per ton, and RR 2,619 per ton, respectively. In the three months ended 30 September 2008, transportation expenses for LPG transported by rail amounted to RR 427 million, of which RR 130 million was related to export sales, RR 17 million to CIS sales, and RR 280 million to domestic sales, or RR 5,472 per ton, RR 3,002 per ton and RR 2,278 per ton, respectively. Following the formal announcement from the FTS (see “Transportation tariffs” above), we applied a co-efficient of 0.35 to the existing rail tariff for LPG export deliveries for volumes in excess of 90 thousand tons which we reached in the middle of April 2009. According to the announcement from the FTS the co-efficient applied against the existing rail tariff will be applicable throughout 2009.

The remaining RR 3 million of transportation expenses by rail in the three months ended 30 September 2009, and RR 2 million in the corresponding period in 2008, were related to the transportation of oil products sold on the domestic markets and other railroad services not allocated between products.

Total transportation expense for delivery of stable gas condensate by tanker to international markets increased by RR 90 million, or 21.4%, to RR 511 million in the 2009 period from RR 421 million in the three months ended 30 September 2008. The change was primarily due to a 41.9% increase in volumes sold that was partially offset by a slight decrease in average freight rates. In the three months ended 30 September 2009, we delivered 100.0% of our stable gas condensate export volumes to United States and Asian-Pacific region markets..

Taxes other than income tax

millions of Russian roubles	**Three months ended 30 September: 2009**	**2008**	**Change %**
Unified natural resources production tax (UPT)	1,633	1,660	(1.6%)
Property tax	266	232	14.7%
Other taxes	56	36	55.6%
Total taxes other than income tax	**1,955**	**1,928**	**1.4%**

In the three months ended 30 September 2009, taxes other than income tax increased by RR 27 million, or 1.4%, primarily due to an increase in property tax expense and other taxes.

In the three months ended 30 September 2009, our UPT for gas condensate and natural gas increased by RR 61 million and RR 29 million, respectively, due to an increase in our production volumes. The decrease in our UPT for crude oil of RR 117 million was due to both a reduction in volumes produced, and a decrease in our average crude oil production tax rate, which is linked to the Urals benchmark crude oil price. Our average UPT rate for crude oil decreased from RR 4,158 per ton in the three months ended 30 September 2008 to RR 2,663 per ton in the 2009 period. The natural gas production tax rate in the 2009 and 2008 periods remained unchanged at RR 147 per mcm.

In the three months ended 30 September 2009, our property tax expense increased by RR 34 million, or 14.7%, to RR 266 million from RR 232 million in the corresponding period in 2008, primarily due to additions of property, plant and equipment (PPE) at our production subsidiaries.

In the three months ended 30 September 2009, other taxes increased by RR 20 million, or 55.6%, primarily due to marginal increases in several different taxes classified within “other taxes” expense category.

Materials, services and other

In the three months ended 30 September 2009, our materials, services and other expenses decreased by RR 48 million, or 2.9%, to RR 1,594 million compared to RR 1,642 million in the 2008 period. The main components of this expense were employee compensation and materials and supplies, which comprised 39.3% and 24.3%, respectively, of total materials, services and other expenses in the 2009 period.

millions of Russian roubles	**Three months ended 30 September: 2009**	**2008**	**Change %**
Employee compensation	626	562	11.4%
Materials and supplies	388	490	(20.8%)
Tolling and processing fees	128	74	73.0%
Repair and maintenance services	121	98	23.5%
Electricity and fuel	68	70	(2.9%)
Fire safety and security expense	48	40	20.0%
Other	106	129	(17.8%)
Subtotal materials, services and other	**1,485**	**1,463**	**1.5%**
Operator services expense	109	179	(39.1%)
Total materials, services and other	**1,594**	**1,642**	**(2.9%)**

In the three months ended 30 September 2009, our materials, services and other expenses, excluding operator services expense, increased by RR 22 million, or 1.5%, to RR 1,485 million compared to RR 1,463 million in the corresponding period in 2008.

Our employee compensation increased by RR 64 million, or 11.4%, to RR 626 million compared to RR 562 million in the 2008 period. The increase was primarily due to an increase in additional staffing at our subsidiaries, mainly OOO "NOVATEK-YURKHAROVNEFTEGAS" and the Purovsky Plant, both of which experienced significant growth in their activities. The increase in employee compensation at our production subsidiaries was partially offset by a decrease in payroll expenses due to the disposal of our non-core subsidiary, OOO "Purovsky Terminal", in December 2008.

Materials and supplies expense decreased by RR 102 million, or 20.8%, mainly due to the reduction in production of polymers and insulation tape products and the associated decrease in purchases of raw materials, which accounted for RR 70 million, or 68.6%, of the total decrease in materials and supplies expense.

Tolling and processing fees increased by RR 54 million, or 73.0%, primarily due to an 84.5% increase in volumes and a 10.0% increase in third party processing tariffs both related to the de-ethanization of unstable gas condensate produced at the Yurkharovskoye field, which accounted for RR 63 million of the total change in tolling and processing fees. The increase was offset by a decrease of RR 9 million in tolling and processing fees at the Surgutsky refinery as a result of lower volumes of unstable gas condensate sent to the refinery.

In the three months ended 30 September 2009, operator services expense represented 6.8% of total materials, services and other expenses and refers to the geological and geophysical research provided to our associated companies. In the three months ended 30 September 2009, we provided services totaling RR 109 million to our associated companies at the Severo-Russkiy and Zapadno-Tazovskiy license areas, as compared to RR 179 million of services at Anomalniy, Sredniy Chaselskiy, Severo-Russkiy, Zapadno-Tazovskiy and Yuzhno-Zapolyarniy license areas in the corresponding period in 2008. Corresponding revenues received from our associates are shown as other revenues in the unaudited consolidated interim condensed statement of income.

Depreciation, depletion and amortization

In the three months ended 30 September 2009, our depreciation, depletion and amortization ("DDA") expense increased by RR 382 million, or 35.2%, compared to the corresponding period in 2008. Depreciation and depletion of our oil and gas properties accrued using the "units of production" method increased by RR 302 million, or 31.6%, as a result of an increase in our depletable cost base as well as an increase in our natural gas and liquids production by 4.5%. Straight-line depreciation increased by RR 80 million, or 64.5%, primarily due to the completion of the Purovsky Plant's second phase in the fourth quarter 2008.

In the 2009 period, our DDA per barrel of oil equivalent (boe) was RR 22.1 compared to DDA per boe of RR 17.6 in the corresponding period in 2008. The increase in our DDA calculated on a boe basis was primarily due to an increase in our depletable cost base as a result of completing the capital expansion program related to the first stage of the second phase of development at the Yurkharovskoye field in September 2008.

Our reserve base used as a denominator in the calculation of DDA under the "units of production" method is only appraised on an annual basis and does not fluctuate during the year, whereas our depletable cost base does change each quarter due to the capitalization of our costs.

General and administrative expenses

In the three months ended 30 September 2009, our general and administrative expenses decreased by RR 28 million, or 2.1%, to RR 1,308 million compared to RR 1,336 million in the corresponding period in 2008. The main components of these expenses were employee compensation and maintenance of social infrastructure and charitable contributions, which, on aggregate, comprised 64.4% and 70.6% of total general and administrative expenses in the three months ended 30 September 2009 and 2008, respectively.

	Three months ended 30 September:		Change
millions of Russian roubles	**2009**	**2008**	**%**
Employee compensation	705	798	(11.7%)
Maintenance of social infrastructure and charitable contributions	138	145	(4.8%)
Rent expense	67	50	34.0%
Legal, audit, and consulting services	66	61	8.2%
Concession management services	52	35	48.6%
Bank charges	47	15	213.3%
Business trip expenses	39	51	(23.5%)
Depreciation – administrative buildings	38	26	46.2%
Fire safety and security expense	37	36	2.8%
Insurance expense	23	22	4.5%
Other	96	97	(1.0%)
Total general and administrative expenses	**1,308**	**1,336**	**(2.1%)**

Our employee compensation decreased by RR 93 million, or 11.7%, to RR 705 million compared to RR 798 million in the corresponding period in 2008 primarily due to a decrease in accrual of performance-related bonuses and a 3.6% reduction in the number of administrative employees.

In the three months ended 30 September 2009, our maintenance of social infrastructure and charitable contributions expense decreased by RR 7 million, or 4.8%, to RR 138 million compared to RR 145 million in the corresponding period in 2008, and were primarily related to our continued support for charities and social programs in the regions where we operate. This expense will continue to fluctuate period-on-period depending on the funding needs and implementation schedules of specific programs.

In the three months ended 30 September 2009, our rent expense increased by RR 17 million, or 34.0%, primarily due to an increase in rental rates for our Moscow office from July 2009.

Legal, audit, and consulting services expenses increased by RR 5 million, or 8.2%, to RR 66 million compared to RR 61 million in the 2008 period. The increase was largely due to information technology system support and maintenance.

Concession management services represent administrative expenses incurred by Tharwa Petroleum Company S.A.E (the operator for El Arish concession area located in Egypt). In the three months ended 30 September 2009, our expenses related to concession management services increased by RR 17 million, or 48.6%, compared to the corresponding period in 2008 primarily due to an increase in bonuses paid to the operator.

In the three months ended 30 September 2009, bank charges increased by RR 32 million, or 213.3%, to RR 47 million from RR 15 million in the corresponding period in 2008. The increase was primarily attributable to RR 37 million in arrangement fees which was paid by the Group to banks for new credit lines opened in the 2009 period. Previously, bank charges were included under “Other” general and administrative expenses.

In the three months ended 30 September 2009, other general and administrative expenses decreased by RR 1 million, or 1.0%, compared to the corresponding period in 2008. The decrease in these expense items was mainly due to a decrease in materials expense used for administrative purposes by RR 9 million and a decrease in repair and maintenance expense by RR 7 million that was offset by an increase in remuneration of board of directors by RR 8 million. The remaining increase of RR 7 million was spread among different expense categories within other general and administrative expenses which, taken individually, increased immaterially during the period.

Purchases of natural gas and liquid hydrocarbons

Purchases of natural gas and liquid hydrocarbons decreased by RR 816 million, or 72.5%, to RR 310 million in the three months ended 30 September 2009, from RR 1,126 million in the 2008 period, primarily due to temporary suspension of trading operations with oil products, namely naphtha, by our foreign trading subsidiary on the international markets. In the three months ended 30 September 2008, our purchases of naphtha amounted to RR 457 million.

We also reduced our purchases of natural gas due to increases in our own natural gas production. Purchases of natural gas decreased by RR 411 million, or 61.6%, from RR 667 million in the three months ended 30 September 2008 to RR 256 million in the 2009 period, primarily due to a decrease in volumes purchased from other producers that was partially offset by an increase in purchase prices.

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

In the three months ended 30 September 2009, we recorded a reversal of RR 199 million to change in inventory expense, compared to a charge of RR 5 million in the corresponding period in 2008.

In the three months ended 30 September 2009, we recorded a reversal of RR 93 million and RR 85 million to change in inventory due to an increase in our inventory balance of stable gas condensate in transit and storage by 30 thousand tons and an increase in our inventory balance of natural gas in UGSF by 236 mmcm. During the same period, we recorded a charge of RR 27 million due to a decrease in work-in-progress. The remaining reversal of RR 48 million to the change in inventory expense related to changes in our balances of other products.

In the three months ended 30 September 2008, we recorded a charge of RR 181 million and RR 124 million to change in inventory due to a decrease in work-in-progress for operator services provided to our associates and a decrease in cost of naphtha purchased for resale at 30 September 2008 as compared to 30 June 2008. The charge was partially offset by a 67 thousand tons increase in our inventory balance of stable gas condensate in transit and storage resulting in a reversal of RR 192 million to change in inventory expense in the three months ended 30 September 2008. During the same period, we recorded a reversal of RR 33 million and RR 18 million to change in inventory expense due to an increase in inventory balance of polymers and insulation tape products and natural gas, respectively. The remaining reversal of RR 58 million to the change in inventory expense related to a change in other products balances.

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

In the three months ended 30 September 2009, we realized other operating income of RR 25 million, of which RR 15 million was related to penalties to our customers due to non-compliance of their contractual obligations. The remaining other income of RR 10 million was primarily related to the disposal of equipment and materials.

In the three months ended 30 September 2008, we realized other operating loss of RR 11 million mainly from disposal of fixed assets and assets under construction.

Profit from operations

As a result of the factors discussed above, our profit from operations decreased by RR 158 million, or 1.9%, to RR 8,358 million in the three months ended 30 September 2009, compared to RR 8,516 million in the corresponding period in 2008. In the three months ended 30 September 2009, our profit from operations as a percentage of total revenues decreased to 38.0% compared to 41.6% in the 2008 period primarily due to significantly higher transportation expenses due to an increase in volumes sold as well as a significant decline in international and domestic benchmark crude oil prices.

Finance income (expense)

In the three months ended 30 September 2009, we recorded a net finance income of RR 903 million compared to net finance loss of RR 976 million in the corresponding period in 2008. The reversal was mainly due to a significant non-cash foreign exchange gain in the 2009 period, due to the strengthening of the Russian rouble relative to the US dollar.

In the three months ended 30 September 2009, interest expense increased by RR 361 million, or 4.9 times, primarily due to an increase in our average debt balances. In the three months ended 30 September 2009, interest income increased by RR 53 million, or 67.1%, primarily due to an increase in interest income received on loans issued to third parties.

We recorded a net foreign exchange gain of RR 1,225 million in the 2009 period compared to a net foreign exchange loss of RR 962 million in the corresponding period in 2008. The non-cash net foreign exchange gain recorded in the 2009 period was primarily due to a 3.8% strengthening of the Russian rouble against the US dollar and its effect on our foreign currency denominated borrowings.

Share of income (loss) of associated companies

In the three months ended 30 September 2009, our proportionate share in the loss of associated companies amounted to RR 23 million compared to a loss of RR 34 million in the 2008 period. The losses recognized by our associated companies in both periods were due to the expensing of geological and geophysical research incurred under the successful efforts accounting policy.

Income tax expense

Our overall consolidated effective income tax rates (total income tax expense calculated as a percentage of our reported IFRS profit before income tax) were 21.2% and 24.1% for the three months ended 30 September 2009 and 2008, respectively. Our effective income tax rate, after excluding the effect of foreign subsidiaries, was 21.3% and 24.8% in the 2009 and 2008 periods, respectively. In the three months ended 30 September 2009, the Russian statutory income tax rate was 20% compared to 24% in the corresponding period in 2008. The difference between our effective and statutory income tax rates is primarily due to certain non-deductible expenses.

Profit attributable to shareholders and earnings per share

As a result of the factors discussed above, profit for the period increased by RR 1,591 million, or 28.0%, to RR 7,277 million in the three months ended 30 September 2009 from RR 5,686 million in the corresponding period in 2008. The profit attributable to NOVATEK shareholders increased by RR 1,671 million, or 29.4%, to RR 7,353 million in the three months ended 30 September 2009 from RR 5,682 million in the corresponding period in 2008.

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to NOVATEK shareholders, increased by RR 0.56 per share, or 29.9%, to RR 2.43 per share in the 2009 period from RR 1.87 per share in corresponding period in 2008.

LIQUIDITY AND CAPITAL RESOURCES

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

	Three months ended 30 September:		Change
millions of Russian roubles	**2009**	**2008**	**%**
Net cash provided by operating activities	10,523	6,759	55.7%
Net cash used in investing activities	(15,925)	(9,088)	75.2%
Net cash provided by (used in) financing activities	(102)	11,294	n/m

Liquidity ratios	**30 September 2009**	**31 December 2008**	**Change, %**
Current ratio	0.73	1.79	(59.2%)
Total debt to equity	0.32	0.27	18.5%
Long-term debt to long term debt and equity	0.143	0.172	(16.9%)
Net debt to total capitalization (1)	0.21	0.12	75.0%

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

Net cash provided by operating activities

In the three months ended 30 September 2009, our net cash provided by operating activities increased by RR 3,764 million, or 55.7%, to RR 10,523 million compared to RR 6,759 million in the corresponding period in 2008. The increase was mainly attributable to lower income tax paid and a decrease in trade accounts receivable and prepayments in the 2009 period.

Net cash used in investing activities

Net cash used in investing activities increased by RR 6,837 million, or 75.2%, to RR 15,925 million in the three months ended 30 September 2009 compared to RR 9,088 million in the corresponding period in 2008. In the three months ended 30 September 2009, we used RR 9,526 million in cash for the purchase of shares of OAO "Yamal LNG" which were acquired in the second quarter 2009. The increase was partially offset by a decrease in our cash flow used in investing activities at our three core fields and the Purovsky Plant due to the completion of the first stage of the second phase of development at the Yurkharovskoye field and the second phase expansion of the Purovsky Plant in September and November 2008, respectively.

Net cash provided by (used in) financing activities

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

Working capital

Our net working capital position (current assets less current liabilities) at 30 September 2009 was negative RR 6,808 million compared to positive RR 11,259 million at 31 December 2008. The change in our net working capital position was mainly due to an increase in our short-term debt, as well as a decrease in cash and cash equivalents, prepayments and other current assets that were partially offset by an increase in trade and other receivables.

Due to the high finance costs of debt during the first six months of 2009, the Group decided not to undertake significant borrowings in this period, and instead, used existing cash in the balance sheet to fund certain operational activities as well as the acquisition of the "Yamal LNG" equity stake, although bank financing was available to us. Management believes the Group has the ability and the capacity to raise financing in both the capital markets through the issuance of debt paper, and through additional borrowings via financial institutions. The market environment for raising finance through the issuance of debt has shown signs of improvement in the third quarter 2009, and the Group has taken the following steps to ensure sufficient working capital:

- in August 2009, we borrowed RR 5 billion from Sberbank repayable in 18 months at an annual interest rate of 12.37%;

- in November 2009, we opened a credit facility with OAO "Gazprombank" aggregating RR 10 billion. The credit facility has a three year tenure and an annual interest rate of 13%. We withdrew RR 2.6 billion under this credit facility in November 2009;

- in October 2009, we withdrew USD 200 million under the loan agreement with UniCredit Bank with an annual interest rate of LIBOR plus 6.5 percent repayable in October 2012;

- in October 2009, we opened a credit facility with BNP PARIBAS bank for a total amount of USD 100 million repayable in December 2010 with an annual interest rate of LIBOR plus 4.15%;

- in addition, in October 2009, we registered with the Moscow Interbank Currency Exchange ("MICEX") an offering prospectus for the issuance of non-convertible Russian rouble denominated bonds aggregating RR 30 billion with a three year maturity period.

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

Capital expenditures

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

millions of Russian roubles	**Three months ended 30 September: 2009**	**2008**	**Change %**
Exploration, production and marketing	3,916	9,731	(59.8%)
Polymer production and marketing	17	53	(67.9%)
Total	**3,933**	**9,784**	**(59.8%)**

Exploration, production and marketing expenditures represent our investments in exploring for and developing our oil and gas properties. During both reporting periods, the majority of our capital expenditures related to ongoing development and exploration activities at our three core fields and at our Purovsky Plant. In the three months ended 30 September 2009, we spent RR 97 million, RR 450 million and RR 2,717 million for further field development at the Khancheyskoye, East-Tarkosalinskoye and Yurkharovskoye fields, respectively, and RR 88 million on further construction work at the Purovsky Plant.

Debt obligations

At 30 September 2009, the Group had short-term credit facilities as bank overdrafts available for use in the aggregate amount of RR 5,236 million (USD 174 million) on either fixed or variable interest rates subject to the specific type of credit facility.

In addition, the Group has available funds under two credit line facilities with UniCredit Bank up to the maximum amount of RR 3,009 million (USD 100 million) and of RR 6,018 million (USD 200 million) until February 2010 and October 2012, respectively. However, total funds that can be withdrawn under these two agreements cannot exceed the combined maximum amount of USD 250 million. Interest rates applicable to these credit line facilities are negotiated on each withdrawal date.

The Group also has available funds under agreement with CALYON RUSBANK Corporate and Investment Bank in amount of USD 50 million until July 2010. Interest rates applicable to these credit line facilities are negotiated on each withdrawal date.

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 2009, RR 10,193 million, or 56.7%, of our long-term debt was denominated in US dollars (out of RR 17,986 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 31.6% in the three months ended 30 September 2009, is denominated in US dollars. As of 30 September 2009, the Russian rouble had depreciated by approximately 2.4% against the US dollar since 1 January 2009.

A hypothetical and instantaneous 30% strengthening in the Russian rouble in relation to the US dollar as of 30 September 2009 would have resulted in an estimated foreign exchange gain of approximately RR 7,871 million on foreign currency denominated borrowings held at that date.

Commodity risk

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

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

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

Pipeline access

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

Ability to reinvest

Our business requires significant ongoing capital expenditures in order to grow our production. An extended period of reduced demand for our hydrocarbons available for sale and the corresponding revenues generated from these sales would limit our ability to maintain an adequate level of capital expenditures, which in turn could limit our ability to increase or maintain current levels of production and deliveries of natural gas, gas condensate, crude oil and other associated products; thereby, adversely affecting our financial and operating results.

Off balance sheet activities

As of 30 September 2009, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.