

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 2012 and 2011 together with our unaudited consolidated interim condensed financial information as of and for the three and nine months ended 30 September 2012. The unaudited consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard ("IAS") 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 2011 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 each case according to the Central Dispatch Administration of the Fuel and Energy Complex (the "CDU-TEK") for the nine months ended 30 September 2012. In terms of proved natural gas reserves, we are the second largest holder of natural gas resources in Russia after Gazprom, under the Petroleum Resources Management System ("PRMS") reserve reporting methodology.

Our exploration, development, production and processing of natural gas, gas condensate and crude oil have been conducted primarily within the Russian Federation, and, in accordance with Russian law, 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 ("LPG") and crude oil are generally delivered to both international (including the Commonwealth of Independent States ("CIS")) and domestic markets.

RECENT DEVELOPMENTS

On 6th November 2012, the Group signed an agreement with a third party to acquire 49% equity shares of ZAO Nortgas ("Nortgas"), subject to certain conditions to be met by both parties for the total consideration of USD 1,375 million payable upon the title transfer. Nortgas is a Russian oil and gas production company that holds the production license for the North-Urengoykoye field, located in the Yamal Nenets Autonomous Region ("YNAO") (expires in 2018). The field is 25 km south to our Yurkharovskoye field and in close proximity to our production, transport and processing infrastructure. The estimated proved reserves appraised under the PRMS reserve methodology totalled 225 billion cubic meters (bcm) of natural gas and 26 million tons of gas condensate as of 31 December 2011, for combined total of 1.7 billion barrels of oil equivalent.

In October 2012, we launched the fourth stage of the second phase development at our Yurkharovskoye field, which allows achieving design production capacity of the field. The fourth stage complex includes two gas treatment trains with total annual capacity of seven billion cubic meters. The fourth stage launch allows increasing natural gas production at the field to a plateau level of 36.5 bcm per annum.

In the third quarter 2012, the Group signed long-term natural gas purchase and sales contracts with third parties. The gas purchase and sales contracts have been signed for a period of 10 years starting from 1 October 2012 with the total volume of natural gas supplied over this period is estimated to be approximately 20 bcm. The contracts were classified as derivative instruments in accordance with IAS 39 "Financial instruments: recognition and measurement" and recognized at fair value in the consolidated statement of financial position at 30 September 2012. Net gain in the amount of RR 322 million arising from changes in the fair value of derivatives in the three months ended 30 September 2012 was recognized in the consolidated income statement within other operating profit (loss).

In April 2012, our joint venture OOO SeverEnergiya ("SeverEnergiya") launched the first phase of the Samburgskoye field with an annual natural gas production capacity of approximately 2.3 bcm and approximately 550 thousand tons of gas condensate.

In September 2011, the Group increased its equity interest in OAO Yamal LNG (“Yamal LNG”) from 51% to 100% and subsequently disposed of a 20% interest in the company in October 2011 to TOTAL S.A., the Group’s strategic partner in the Yamal LNG project. The Yamal LNG project will construct a natural gas liquefaction plant in three trains of 5.5 million tons per annum to exploit the resources of the South-Tambeyskoye field, located on the Yamal peninsula.

SELECTED DATA

<i>millions of Russian roubles except as stated</i>	Three months ended 30 September:		Change %
	2012	2011	
Financial results			
Total revenues (net of VAT and export duties)	52,731	40,033	31.7%
Operating expenses	(29,845)	(22,921)	30.2%
Profit attributable to shareholders of OAO NOVATEK	20,003	8,322	140.4%
EBITDA ⁽¹⁾	25,252	18,877	33.8%
EBITDAX ⁽²⁾	25,582	19,517	31.1%
Earnings per share (in Russian roubles)	6.59	2.74	140.3%
Operating results			
Natural gas sales volumes (million cubic meters)	13,507	12,266	10.1%
Stable gas condensate sales volumes (thousand tons)	737	658	12.0%
Liquefied petroleum gas sales volumes (thousand tons)	202	208	(2.9%)
Crude oil sales volumes (thousand tons)	123	66	86.4%
Total hydrocarbons production (million barrels of oil equivalent) ⁽³⁾	93.8	95.2	(1.5%)
Total daily production (thousand barrels of oil equivalent per day) ⁽³⁾	1,020	1,035	(1.5%)
Cash flow results			
Net cash provided by operating activities	23,821	12,560	89.7%
Capital expenditures	11,480	7,527	52.5%
Free cash flow ⁽⁴⁾	12,341	5,033	145.2%

⁽¹⁾ EBITDA represents profit (loss) attributable to shareholders of OAO NOVATEK adjusted for the addback of net impairment expenses (reversals), income tax expense, finance income (expense) and income (loss) from changes in fair value of derivative financial instruments from the Consolidated Statement of Income, and depreciation, depletion and amortization from the Consolidated Statement of Cash Flows.

⁽²⁾ EBITDAX represents EBITDA as adjusted for the addback of exploration expenses.

⁽³⁾ Total hydrocarbons production and total daily production are calculated based on net production, including our proportionate share in the production of our joint ventures.

⁽⁴⁾ Free cash flow represents the excess of Net cash provided by operating activities over Capital expenditures.

Reconciliation of EBITDA and EBITDAX to profit (loss) attributable to shareholders of OAO NOVATEK is as follows:

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2012	2011	
Profit (loss) attributable to shareholders of OAO NOVATEK	20,003	8,322	140.4%
Depreciation, depletion and amortization	2,658	2,352	13.0%
Net impairment expenses (reversals)	(15)	51	n/a
Loss (income) from changes in fair value of derivative financial instruments	(322)	-	n/a
Total finance expense (income)	(2,345)	5,890	n/a
Total income tax expense	5,273	2,262	133.1%
EBITDA	25,252	18,877	33.8%
Exploration expenses	330	640	(48.4%)
EBITDAX	25,582	19,517	31.1%

SELECTED MACRO-ECONOMIC DATA

<i>Exchange rate of Russian rouble to US dollar</i>	Three months ended 30 September:		Change %
	2012	2011	
At the beginning of the period	32.82	28.08	16.9%
At the end of the period	30.92	31.88	(3.0%)
Average for the period	32.01	29.05	10.2%
Change of RR to US dollar exchange rate for the period	(5.8%)	13.5%	n/a

<i>Crude oil prices, USD / bbl</i>	Three months ended 30 September:		Change %
	2012	2011	
WTI ⁽¹⁾			
At the end of the period	92.1	79.2	16.3%
Average for the period	92.2	89.5	3.0%
Brent ⁽²⁾			
At the end of the period	111.0	105.2	5.5%
Average for the period	109.5	113.4	(3.4%)
Urals ⁽²⁾			
At the end of the period	109.9	102.3	7.4%
Average for the period	108.9	111.5	(2.3%)

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

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

<i>Export duties, USD / ton ⁽¹⁾</i>	Three months ended 30 September:		Change %
	2012	2011	
Crude oil, stable gas condensate			
At the end of the period	393.8	444.1	(11.3%)
Average for the period	366.6	442.5	(17.2%)
LPG			
At the end of the period	76.2	192.0	(60.3%)
Average for the period	92.7	182.6	(49.2%)

⁽¹⁾ Export duties are determined by the government of the Russian Federation in US dollars and are paid in Russian roubles.

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Current financial market conditions

We continue to witness signs of economic instability in the Euro-Zone that have prolonged a period of market volatility as well as changes in the political landscape with the results of the recent elections. The Greek bailout package, the looming debt crisis in Spain, the proposed “austerity programs” in the Euro-Zone and the potential threat to the European banking community of a sovereign-debt crisis in the European Union has been the main driver of this market volatility. This market uncertainty continues to negatively impact all borrowers by potentially limiting access to the capital markets as well as causing continued volatility in the equity and currency markets, especially for those companies operating in the so-called “emerging markets”.

We will continue to monitor the credit situation very closely and take various measures, we deem necessary, to ensure the integrity of our financial condition and mitigate counter-party credit exposure from our natural gas and liquid hydrocarbon sales. In addition, we continue to take proactive steps to ensure the safety of our excess funds deposited with both domestic and international banks, as well as limit our risk exposure from prepayments to various service providers. Presently, our cash and deposits are diversified and maintained in banks that we believe are well capitalized in accordance with international capital adequacy rules.

We have reviewed our capital expenditure program for the remainder of 2012 and have concluded that we have sufficient liquidity, through current internal cash flows and short-term borrowing facilities, to adequately fund our core natural gas business operations and planned capital expenditure program.

Management will continue to closely monitor the economic environment in Russia, as well as the domestic and international capital markets to determine if any further corrective and/or preventive measures are required to sustain and grow our business. In addition, we will continue to assess the trends in the capital markets for opportunities to access long-term funding at a reasonable cost to the Group commensurate with our investment grade credit ratings and our capital requirements.

Exchange rate volatility between the Russian rouble and the US dollar exchange rate may significantly influence the Group’s reporting financial results due to the fact that a significant portion of our long-term debt is denominated in US dollars (see “Profit attributable to shareholders and earnings per share” below).

Natural gas prices

As an independent natural gas producer, we are not subject to the Russian Government’s regulation of natural gas prices, except for those volumes delivered to residential customers, although the prices we can achieve on the domestic market are strongly influenced by the prices regulated by the Federal Tariffs Service (“FTS”), a governmental agency, and present market conditions.

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. In February 2011, the Government of the Russian Federation announced certain revisions to the domestic natural gas market liberalization plan. According to the revised plan, the target date for full liberalization of the domestic natural gas market is 1 January 2015 but there are various Governmental discussions indicating that this program may be further extended. The regulation of the domestic natural gas price prior to 2015 will be based on the netback parity of natural gas prices on the domestic and export markets. As part of the liberalization plan, the FTS approved the increases in the regulated price for natural gas by 15% effective from 1 January 2011 and 1 July 2012. According to the revised Forecast of Socio-economic Development of the Russian Federation for 2012 announced by Economic Development Ministry of the Russian Federation in September 2011, the regulated natural gas prices will be increased by 15% effective from 1 July 2013 and 2014. We expect that 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 to potentially prolong the timetable toward market price liberalization based on market conditions and other factors.

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 gas 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, the historical norm may or may not prevail in the present or future market situations.

In December 2011, we commenced natural gas sales to residential customers at regulated prices in the Chelyabinsk region as a result of the acquisition of a regional gas trader OOO Gazprom mezhregiongas Chelyabinsk. We disclose such sales within our end-customers category.

In the three months ended 30 September 2012, our average natural gas price to end-customers and ex-field price increased by 15.7% and 16.5%, respectively, whereas our average transportation expense for the delivery of natural gas to end-customers increased by 7.8% primarily due to a 7.0% increase in the average transportation tariff set by the FTS (see “Transportation tariffs” below). As a result, our average netback price on end-customers sales increased by 22.6%, while our total average natural gas price excluding transportation expense increased by 20.3% compared to respective prices in the corresponding period in 2011.

The following table shows our average realized natural gas sales prices (net of VAT) for the three months ended 30 September 2012 and 2011, excluding volumes purchased for resale in the location of our end-customers:

<i>Russian roubles per mcm</i>	Three months ended 30 September:		Change %
	2012	2011	
Average natural gas price to end-customers ⁽¹⁾	3,050	2,637	15.7%
Average natural gas transportation expense for sales to end-customers	(1,334)	(1,237)	7.8%
Average natural gas netback price on end-customer sales	1,716	1,400	22.6%
Average natural gas price ex-field (wholesale traders)	1,619	1,390	16.5%
Total average natural gas price excluding transportation expense	1,679	1,396	20.3%

⁽¹⁾ Includes cost of transportation.

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

Crude oil, stable gas condensate, 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.

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, such as movements in international benchmark crude oil prices. 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 (or historically) trades at a discount to the international benchmark Brent crude oil.

Volatile movements in benchmark crude oil prices can have a positive and/or negative impact on the ultimate prices we receive for our liquids volumes sold on both the domestic and international markets, among many other factors.

Our stable gas condensate, LPG, 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 2012, our stable gas condensate export delivery terms were delivery to the port of destination ex-ship (DES), or cost and freight (CFR), or priced at cost, insurance and freight (CIF), or delivery at point of destination (DAP), while in the corresponding period in 2011 our delivery terms were either DAP, CIF or CFR. Our average stable gas condensate export contract price, including export duties, in the three months ended 30 September 2012, was approximately USD 914 per ton compared to approximately USD 935 per ton in the corresponding period in 2011.

In the three months ended 30 September 2012, as well as in the corresponding period in 2011, our crude oil export delivery terms were DAP (Feneshlitke, Hungary). Our average crude oil export contract price, including export duties, was approximately USD 780 per ton compared to USD 808 per ton in the corresponding period in 2011.

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 2012 and 2011 (prices in US dollars were translated from Russian roubles using the average exchange rate for the period):

<i>Russian roubles or US dollars per ton</i>	Three months ended 30 September:		Change %
	2012	2011	
Stable gas condensate			
Net export price, RR per ton	17,629	14,817	19.0%
Net export price, USD per ton	550.7	510.1	8.0%
Domestic price, RR per ton	12,278	-	n/a
Crude oil			
Net export price, RR per ton	13,133	10,707	22.7%
Net export price, USD per ton	410.3	368.6	11.3%
Domestic price, RR per ton	11,144	9,046	23.2%

Our LPG export delivery terms during the three months ended 30 September 2012 and 2011, were DAP at the border of the customer's country, carriage paid to (CPT) the Port of Temryuk (southern Russia) and free carrier (FCA) at terminal points in Poland. In the three months ended 30 September 2012, our average export contract price for LPG produced at the Purovsky Gas Condensate Plant ("Purovsky Plant"), including export duties, was approximately USD 807 per ton compared to USD 917 per ton in the corresponding period in 2011.

In the three months ended 30 September 2012, we sold 90 thousand tons of our LPG on the domestic market at an average price of RR 14,200 per ton (FCA), including volumes purchased for resale and sold through our wholly owned subsidiary NOVATEK-AZK, compared to 95 thousand tons at an average price of RR 14,173 per ton in the corresponding period in 2011.

In the three months ended 30 September 2012, we sold approximately two thousand tons of methanol produced by our production subsidiaries to our joint ventures and third parties at an average price of RR 10,643 per ton compared to approximately eight hundred tons at an average price of RR 9,998 per ton in the corresponding period in 2011.

The following table shows our average realized LPG and methanol sales prices, excluding LPG trading activities, (net of VAT and export duties, where applicable) for the three months ended 30 September 2012 and 2011 (prices in US dollars were translated from Russian roubles using the average exchange rate for the period):

<i>Russian roubles or US dollars per ton</i>	Three months ended 30 September:		Change %
	2012	2011	
LPG			
Net export price, RR per ton	22,128	21,148	4.6%
Net export price, USD per ton	691.3	728.1	(5.1%)
Domestic price, RR per ton	14,199	14,173	0.2%
Methanol			
Domestic price, RR per ton	10,643	9,998	6.5%

Transportation tariffs

Natural gas

We transport our natural gas through our own pipelines into the Unified Gas Supply System (“UGSS”), which is owned and operated by OAO Gazprom, a Russian government controlled monopoly. Transportation tariffs for the use of the UGSS by independent producers are set by the FTS.

In accordance with 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), the transportation tariff consists of two parts: a rate for the utilization of the trunk pipeline and a transportation rate per mcm per 100 kilometers (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 and includes a constant rate 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.

Effective from 1 January 2011, the FTS approved a 9.3% average increase in the transportation tariff for natural gas and the rate for utilization of the trunk pipeline averaged between RR 44.97 to RR 1,964.13 (excluding VAT) per mcm and the transportation rate was RR 11.23 (excluding VAT) per mcm per 100 km.

Effective from 1 July 2012, the FTS approved a 7.0% average increase of the transportation tariff for natural gas and the rate for utilization of the trunk pipeline averaged between RR 50.78 to RR 1,995.44 (excluding VAT) per mcm and the transportation rate was RR 12.02 (excluding VAT) per mcm per 100 km.

According to the revised Forecast of Socio-economic Development of the Russian Federation for 2012 announced in September 2011 by the Economic Development Ministry of the Russian Federation, the transportation tariff for natural gas produced by independent producers will be increased in 2013 and 2014 as of the same date as the increase in the regulated natural gas prices and will not exceed the forecasted inflation rate.

Crude oil

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. The FTS also sets tariffs for transportation of crude oil through Transneft’s pipeline network, which includes transport, dispatch, pumping, loading, charge-discharge, transshipment and other services. The FTS sets tariffs for each separate route of the pipeline network, so the overall expense for the transport of crude oil primarily depends on the length of the transport route from the producing field to the ultimate destination, transportation direction and other factors.

Crude oil transportation tariffs were increased in September and November 2011 on average by approximately 2.9% and 5.0%, respectively.

Stable gas condensate and LPG

Our stable gas condensate (from the Purovsky Plant to the Port of Vitino on the White Sea) and LPG 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 applied the discount co-efficients to existing rail road transportation tariffs related to export deliveries of stable gas condensate and LPG shipped from the Limbey rail station in 2011 and 2012. In 2011, the discount co-efficient for stable gas condensate was set at 0.89 for companies with annual shipped volumes of 2,600 thousand tons or more, and the discount co-efficient for LPG was set at 0.68 for delivered annual volumes of 415 thousand tons or more. In 2012, the discount co-efficient for stable gas condensate was set at 0.89 for companies with annual shipped volumes of 3,000 thousand tons or more, and the discount co-efficient for LPG was set at 0.71 for delivered annual volumes of 445 thousand tons or more.

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, South American and countries of the APR. The cost of tanker transportation is generally determined by the distance to the final destination, the availability of tankers, the seasonality of deliveries and standard shipping terms, all in accordance with general industry practice.

Our tax burden

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, commonly referred as “MET” – mineral extraction tax), export duties, property tax, payments to non-budget funds and other contributions.

Effective from 1 January 2012, the social insurance tax rate for contributions to the Pension Fund of the Russian Federation decreased from 26% to 22%, but the maximum taxable base per each employee was increased from RR 463 thousand to RR 512 thousand. In addition, a new tax rate of 10% was implemented for amounts above the maximum taxable base of RR 512 thousand.

According to the Russian Tax Code, the UPT rate for natural gas was set at RR 237, RR 251 and RR 265 per mcm for 2011, 2012 and 2013, respectively. During 2012, the Government of the Russian Federation announced possible increases in the UPT rate for natural gas, but no final decision was made during the reporting period. Any change to the UPT rates would be a subject to approval by the State Duma of the Russian Federation.

In 2011, the UPT rate for gas condensate was set at 17.5% of gas condensate revenues recognized by the producing entities. According to the amendments to the Russian Tax Code, approved in November 2011, the UPT rate for gas condensate was set at RR 556, RR 590 and RR 647 per ton for 2012, 2013 and 2014, respectively.

The UPT rate for crude oil is linked to the Urals benchmark crude oil price and changes every month. It is calculated in US dollar and translated and paid in Russian roubles using the monthly average exchange rate established by the Central Bank of Russia.

The Russian tax code provides for reduced or zero UPT rate for crude oil produced in certain geographical areas. We did not use the reduced or zero UPT rates from the production of crude oil prior to 1 January 2012. According to the amendments to the Russian Tax Code, effective from 1 January 2012, a zero UPT rate is set for crude oil produced at fields located in the YNAO to the north of the 65th degree of the northern latitude. Our East-Tarkosalinskoye and Khancheyskoye fields are located in the mentioned geographical area; therefore, we applied the allowed zero UPT rate for crude oil produced at these fields effective from 1 January 2012.

In practice, Russian tax authorities often have their own interpretation of tax laws that rarely favours 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.

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

OPERATIONAL HIGHLIGHTS

Hydrocarbon sales volumes

Our natural gas sales volumes increased primarily due to a combination of purchases from our related party and a lower natural gas volumes injected into Underground Gas Storage Facilities (“UGSF”) in the three months ended 30 September 2012 compared to the 2011 period. Liquids sales volumes increased due to a decrease in liquids inventory balances in the 2012 period, as well as the initiation of unstable gas condensate purchases from the Group’s joint venture SeverEnergiya in April 2012. Our liquids inventory balances tend to fluctuate periodically due to loading schedules and final destinations of stable gas condensate shipments.

Natural gas sales volumes

<i>millions of cubic meters</i>	Three months ended 30 September:		Change %
	2012	2011	
Production from:			
Yurkharovskoye field	7,679	7,759	(1.0%)
East-Tarkosalinskoye field	3,059	3,239	(5.6%)
Khancheyskoye field	855	932	(8.3%)
Other fields	16	20	(20.0%)
Total natural gas production	11,609	11,950	(2.9%)
Purchases from the Group’s joint ventures	1,339	1,329	0.8%
Total production and purchases from Group’s joint ventures	12,948	13,279	(2.5%)
Other purchases	840	-	n/a
Total production and purchases	13,788	13,279	3.8%
Purovsky Plant, own usage and methanol production	(22)	(22)	0.0%
Decrease (increase) in UGSF, UGSS and own pipeline infrastructure	(259)	(991)	(73.9%)
Total natural gas sales volumes	13,507	12,266	10.1%
<i>Sold to end-customers</i>	<i>8,719</i>	<i>6,966</i>	<i>25.2%</i>
<i>Sold ex-field</i>	<i>4,788</i>	<i>5,300</i>	<i>(9.7%)</i>

In the three months ended 30 September 2012, our total natural gas production (including our pro-rata share in production of our joint venture Sibneftegas) decreased by 331 mmcm, or 2.5%, to 12,948 mmcm from 13,279 mmcm in the corresponding period in 2011 primarily due to decreases in production at our core producing fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye). The decrease was primarily due to the planned earlier injection of natural gas into the UGSF from the third quarter to second quarter in 2012 to minimize higher expected transportation expense from the delivery of natural gas to the location of the UGSF after the indexation of natural gas transportation tariffs effective from 1 July 2012. In the three months ended 30 September 2012, our volumes of natural gas injected into the UGSF decreased by 732 mmcm and increased by 870 mmcm in the three months ended 30 June 2012, compared to the corresponding reporting periods in 2011. In addition, in October 2012, we launched the planned fourth stage of the second phase development at our Yurkharovskoye field that will allow us to organically increase natural gas production in the fourth quarter 2012 (see “Recent developments” above).

In January 2012, we commenced purchasing natural gas from OAO SIBUR Holding (“SIBUR”), a related party, which are disclosed as “Other purchases” in the table above.

In the three months ended 30 September 2012, as well as in the corresponding period in 2011, we used 13 mmcm of natural gas as feedstock for the production of methanol. A significant portion of the methanol we produce is used for our own internal purposes to prevent hydrate formation (condensation) during the production, preparation and transportation of hydrocarbons.

Liquids sales volumes

<i>thousands of tons</i>	Three months ended 30 September:		Change %
	2012	2011	
Production from:			
Yurkharovskoye field	599	650	(7.8%)
East-Tarkosalinskoye field	249	200	24.5%
Khancheyskoye field	119	136	(12.5%)
Other fields	5	7	(28.6%)
Total liquids production	972	993	(2.1%)
Purchases from:			
The Group's joint venture	73	-	n/a
Other	4	1	300.0%
Total production and purchases	1,049	994	5.5%
Losses and own usage ⁽¹⁾	(12)	(10)	20.0%
Decreases (increases) in liquids inventory balances	28	(51)	n/a
Total liquids sales volumes	1,065	933	14.1%
<i>Stable gas condensate export</i>	723	658	9.9%
<i>Stable gas condensate domestic</i>	14	-	n/a
Subtotal stable gas condensate	737	658	12.0%
<i>LPG export</i>	112	113	(0.9%)
<i>LPG domestic</i>	62	66	(6.1%)
<i>LPG sold through domestic retail and small wholesale stations</i>	28	29	(3.4%)
Subtotal LPG	202	208	(2.9%)
<i>Crude oil export</i>	43	23	87.0%
<i>Crude oil domestic</i>	80	43	86.0%
Subtotal crude oil	123	66	86.4%
<i>Oil products domestic</i>	3	1	200.0%
Subtotal oil products	3	1	200.0%

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

In the three months ended 30 September 2012, our liquids production decreased by 21 thousand tons, or 2.1%, primarily due to a decrease in gas condensate production at our core producing fields that was partially offset by an increase in crude oil production at the East-Tarkosalinskoye and Khancheyskoye fields. Natural declines in the concentration of gas condensate at our mature fields are expected due to decreasing reservoir pressure at the current gas condensate producing horizons.

In April 2012, we commenced purchasing unstable gas condensate from our joint venture, SeverEnergia, after the launch of the first phase of its Samburgskoye field.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2012 COMPARED TO THE CORRESPONDING PERIOD IN 2011

The following table and discussion is a summary of our consolidated results of operations for the three months ended 30 September 2012 and 2011. Each line item is also shown as a percentage of our total revenues.

<i>millions of Russian roubles</i>	Three months ended 30 September:			
	2012	% of total revenues	2011	% of total revenues
Total revenues (net of VAT and export duties)	52,731	100.0%	40,033	100.0%
<i>including:</i>				
natural gas sales	34,322	65.1%	25,735	64.3%
liquids sales	18,240	34.6%	14,153	35.4%
Operating expenses	(29,845)	(56.6%)	(22,921)	(57.2%)
Other operating income (loss)	339	0.6%	18	0.0%
Profit from operations	23,225	44.0%	17,130	42.8%
Finance income (expense)	2,345	4.5%	(5,890)	(14.7%)
Share of profit (loss) of joint ventures, net of income tax	(301)	(0.6%)	(835)	(2.1%)
Profit before income tax	25,269	47.9%	10,405	26.0%
Total income tax expense	(5,273)	(10.0%)	(2,262)	(5.7%)
Profit (loss)	19,996	37.9%	8,143	20.3%
Non-controlling interest	7	0.0%	179	0.5%
Profit attributable to shareholders of OAO NOVATEK	20,003	37.9%	8,322	20.8%

Total revenues

The following table sets forth our sales (net of VAT and export duties, where applicable) for the three months ended 30 September 2012 and 2011:

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2012	2011	
Natural gas sales	34,322	25,735	33.4%
<i>End-customers</i>	26,571	18,371	44.6%
<i>Ex-field sales</i>	7,751	7,364	5.3%
Stable gas condensate sales	12,925	9,741	32.7%
<i>Export</i>	12,753	9,741	30.9%
<i>Domestic</i>	172	-	n/a
Liquefied petroleum gas sales	3,762	3,728	0.9%
<i>Export</i>	2,481	2,376	4.4%
<i>Domestic</i>	1,281	1,352	(5.3%)
Crude oil sales	1,457	637	128.7%
<i>Export</i>	562	244	130.3%
<i>Domestic</i>	895	393	127.7%
Oil and gas products sales	96	47	104.3%
<i>Domestic</i>	96	47	104.3%
Total oil and gas sales	52,562	39,888	31.8%
Other revenues	169	145	16.6%
Total revenues	52,731	40,033	31.7%

Natural gas sales

In the three months ended 30 September 2012, our revenues from sales of natural gas increased by RR 8,587 million, or 33.4%, compared to the corresponding period in 2011 due primarily to an increase in our average realized natural gas price and, to a lesser extent, due to an increase in our total sales volumes. The increase in our average realized natural gas price was driven by a combination of increases in the regulated FTS price for natural gas by 15% effective from 1 July 2012 and in our proportion of end-customer sales to total natural gas sales volumes.

Our proportion of natural gas sold to end-customers to total natural gas sales volumes increased to 64.6% in the three months ended 30 September 2012 as compared to 56.8% in the corresponding period in 2011. The increase was due to higher natural gas deliveries to the Chelyabinsk region through our regional natural gas trader acquired in November 2011. In the three months ended 30 September 2012, as well as in the corresponding period in 2011, our natural gas sales volumes representing greater than 10% of total end-customers sales volumes were to each of the following regions: Chelyabinsk, Orenburg, Moscow and Perm.

In the three months ended 30 September 2012, our average netback price on end-customers sales, excluding volumes purchased for resale in the location of our end-customers, increased by 22.6% compared to the corresponding period in 2011, while our average realized end-customers sales price increased by 15.7%. The increase in our average realized end-customers sales netback price was primarily due to a 15% increase in the regulated FTS price for natural gas effective from 1 July 2012 combined with a lower 7% increase in the average transportation tariff set by the FTS (see "Transportation tariffs" above). Our average realized ex-field price was higher by 16.5% than in the corresponding period in 2011.

In the three months ended 30 September 2012, as well as in the corresponding period in 2011, our sales of natural gas to end-customers were primarily to energy utility companies and large industrial companies, representing 63.0% and 31.2% of total natural gas sales volumes to end-customers in the reporting period in 2012, respectively.

Stable gas condensate sales

In the three months ended 30 September 2012, our revenues from sales of stable gas condensate increased by RR 3,184 million, or 32.7%, compared to the corresponding period in 2011 primarily due to an increase in our average realized prices resulting from a decrease in our average export duty per ton and, to a lesser extent, due to an increase in volumes sold.

Our total stable gas condensate sales volumes increased by 79 thousand tons, or 12.0%, due to a combination of unstable gas condensate purchases from our joint venture in the 2012 period and a decrease in the stable gas condensate inventory balance in the three months ended 30 September 2012 as compared to an increase in the corresponding period in 2011 (see “Change in natural gas, liquid hydrocarbons and work-in-progress” below), that was partially offset by a decrease in gas condensate production at our three core fields. In the three months ended 30 September 2012, we exported 723 thousand tons of stable gas condensate, or 98.1% of our total sales volumes, to the APR, Europe, the United States and South America with the remaining 14 thousand tons sold domestically. In the corresponding period in 2011, we exported 658 thousand tons of stable gas condensate, or 100.0% of our total sales volumes, to Europe, the United States and the APR.

In the three months ended 30 September 2012, our average realized price, excluding export duties, for stable gas condensate sold on the export market increased by USD 40.6 per ton, or 8.0%, to USD 550.7 per ton (DES, CFR, CIF and DAP) from USD 510.1 per ton (DAP, CIF and CFR) in the corresponding period in 2011 due to a 21.9% decrease in our average export duty per ton, that was partially offset by a 2.2% decrease in our average export contract price. The decrease in our average realized contract price and export duty per ton was due to a decrease in the underlying benchmark crude oil prices used in the price and export duty formulation in the three months ended 30 September 2012 as compared to the corresponding period in 2011.

Liquefied petroleum gas sales

In the three months ended 30 September 2012, our revenues from sales of LPG increased marginally by RR 34 million, or 0.9%, compared to the corresponding period in 2011.

In the three months ended 30 September 2012, we sold 112 thousand tons of LPG, or 55.4% of our total LPG sales volumes, to export markets as compared to 113 thousand tons, or 54.3%, in the corresponding period in 2011. In the three months ended 30 September 2012, as well as in the corresponding period in 2011, our export sales volumes of LPG representing greater than 10% of total LPG export volumes were to Poland and Finland.

Our average realized LPG export price, excluding export duties, decreased by USD 36.8 per ton, or 5.1%, to USD 691.3 per ton in the three months ended 30 September 2012 (DAP, CPT and FCA) compared to USD 728.1 per ton in the corresponding period in 2011 primarily due to a 12.0% decrease in our average contract price that was partially offset by a decrease in our average export duty per ton by 43.1%. The reduction in our average contract price was due to a decrease in the underlying benchmark prices on international markets used in the price formulation in the three months ended 30 September 2012 compared to the corresponding period in 2011.

In the three months ended 30 September 2012, we sold 90 thousand tons of LPG, or 44.6% of our total LPG sales volumes, on the domestic market at an average price of RR 14,200 per ton (FCA, excluding VAT) representing an increase of RR 27 per ton, or 0.2%, compared to the corresponding period in 2011.

Crude oil sales

In the three months ended 30 September 2012, our revenues from sales of crude oil increased by RR 820 million, or 128.7%, compared to the corresponding period in 2011 primarily due to an increase in sales volumes and, to a lesser extent, an increase in our average realized prices. Our crude oil sales volumes increased by 57 thousand tons, or 86.4%, to 123 thousand tons from 66 thousand tons in the corresponding period in 2011 due primarily to an increase in crude oil production at our East-Tarkosalinskoye and Khancheyskoye fields.

The majority of our crude oil sales volumes, representing 65.0% in the three months ended 30 September 2012, was sold domestically at an average price of RR 11,144 per ton (excluding VAT) representing an increase of RR 2,098 per ton, or 23.2%, compared to the corresponding period in 2011. The remaining 35.0% of our crude oil volumes were sold to export markets at an average price of USD 410.3 per ton (DAP, excluding export duties) representing an increase of USD 41.7 per ton, or 11.3%, compared to the corresponding period in 2011.

The increase in the average realized export price (excluding export duties) was the result of a 16.9% decrease in the average export duty per ton that was partially offset by a 3.5% decrease in our average export contract price. The decrease in our average realized contract price was due to a decrease in the underlying benchmark crude oil prices on international markets used in the price formulation in the three months ended 30 September 2012 compared to the corresponding period in 2011.

Oil and gas products sales

In the three months ended 30 September 2012, our revenue from sales of oil and gas products increased by RR 49 million, or 104.3%, to RR 96 million from RR 47 million in the corresponding period in 2011.

Our revenues from oil products trading operations through our retail stations on the domestic market increased by RR 35 million to RR 74 million in the three months ended 30 September 2012 compared to RR 39 million in the corresponding period in 2011 primarily due to an increase in volumes sold. In the three months ended 30 September 2012 and 2011, we sold approximately 2.5 thousand and 1.4 thousand tons of oil products (diesel fuel and petrol) for an average price of RR 29,288 and RR 29,004 per ton, respectively.

In the three months ended 30 September 2012, our revenue from methanol sales increased by RR 14 million, or 175.0%, to RR 22 million from RR eight million in the corresponding period in 2011 primarily due to an increase in volumes sold.

Other revenues

Other revenues include geological and geophysical research services, rent, sublease, transportation, handling, storage and other services. In the three months ended 30 September 2012, other revenues increased by RR 24 million, or 16.6%, to RR 169 million from RR 145 million in the corresponding period in 2011. The increase was primarily comprised of a RR 43 million increase in revenue from transportation, handling and storage services, as well as a RR 14 million increase in revenues from geological and geophysical research services provided primarily to our joint ventures. In addition, in the three months ended 30 September 2012, we recognized RR 25 million of revenue by re-charging a part of icebreaking expenses to the third parties as compared to RR 70 million of revenue for the sublet of a leased tanker in the corresponding period in 2011. The remaining increase of RR 12 million in other revenues was made up of various immaterial items.

Operating expenses

In the three months ended 30 September 2012, our total operating expenses increased by RR 6,924 million, or 30.2%, to RR 29,845 million compared to RR 22,921 million in the corresponding period in 2011 primarily due to an increase in purchases of natural gas and liquid hydrocarbons, as well as transportation expenses. As a percentage of total operating expenses, our non-controllable expenses, such as transportation and taxes other than income tax, decreased to 61.5% in the three months ended 30 September 2012 compared to 70.8% in the corresponding period in 2011.

In the three months ended 30 September 2012, total operating expenses as a percentage of total revenues decreased to 56.6% in the three months ended 30 September 2012 compared to 57.3% in the corresponding period in 2011, as shown in the table below. The decrease in our operating expenses as a percentage of total revenues was primarily due to an increase in our natural gas and liquids prices and sales volumes.

<i>millions of Russian roubles</i>	Three months ended 30 September:			
	2012	% of total revenues	2011	% of total revenues
Transportation expenses	14,235	27.0%	11,795	29.5%
Taxes other than income tax	4,120	7.8%	4,443	11.1%
Subtotal non-controllable expenses	18,355	34.8%	16,238	40.6%
Purchases of natural gas and liquid hydrocarbons	4,832	9.2%	938	2.3%
Depreciation, depletion and amortization	2,560	4.9%	2,291	5.7%
General and administrative expenses	2,245	4.3%	1,760	4.4%
Materials, services and other	1,716	3.3%	1,572	3.9%
Exploration expenses	330	0.6%	640	1.6%
Net impairment expenses (reversals)	(15)	n/m	51	n/m
Change in natural gas, liquid hydrocarbons and work-in-progress	(178)	n/m	(569)	n/m
Total operating expenses	29,845	56.6%	22,921	57.3%

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 2012, non-controllable expenses of transportation and taxes other than income tax increased by RR 2,117 million, or 13.0%, to RR 18,355 million from RR 16,238 million in the corresponding period in 2011. The change in transportation expenses was primarily due to an increase in the natural gas transportation tariff and volumes sold to end-customers in which we incurred transportation expenses, and excluded volumes of natural gas purchased for resale in the location of our end-customers. Taxes other than income tax decreased primarily due to the application of zero UPT rate for crude oil from 1 January 2012 (see "Our tax burden" above) that was partially offset by a 5.9% increase in the natural gas production tax rate effective from 1 January 2012. As a percentage of total revenues, our non-controllable expenses decreased to 34.8% in the three months ended 30 September 2012 compared to 40.6% in the corresponding period in 2011.

Transportation expenses

In the three months ended 30 September 2012, our total transportation expenses increased by RR 2,440 million, or 20.7%, compared to the corresponding period in 2011.

<i>million of Russian roubles</i>	Three months ended 30 September:		Change %
	2012	2011	
Natural gas transportation to customers	10,505	8,618	21.9%
Liquid hydrocarbons transportation by rail	2,617	2,240	16.8%
Liquid hydrocarbons transportation by tankers	940	788	19.3%
Crude oil transportation to customers	147	74	98.6%
Other	26	75	(65.3%)
Total transportation expenses	14,235	11,795	20.7%

In the three months ended 30 September 2012, our transportation expenses for natural gas increased by RR 1,887 million, or 21.9%, to RR 10,505 million from RR 8,618 million in the corresponding period in 2011. The change was mainly due to a 13.1% increase in our natural gas sales volumes to end-customers, for which we incurred transportation expense, and excluded volumes of natural gas purchased for resale in the location of our end-customers, as well as a 7% average increase in the natural gas transportation tariff set by the FTS (see "Transportation tariffs" above). We do not incur transportation expenses in respect of natural gas volumes purchased for resale in the location of our end-customers, as the purchase price includes the cost of transportation. 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.

In the three months ended 30 September 2012, total expenses for liquids transportation by rail increased by RR 377 million, or 16.8%, to RR 2,617 million from RR 2,240 million in the corresponding period in 2011 due to both an increase in our stable gas condensate volumes sold and transported via rail and higher average liquids transportation tariffs. In the three months ended 30 September 2012, our combined liquids volumes sold and transported via rail increased by 72 thousand tons, or 8.3%, to 938 thousand tons from 866 thousand tons in the corresponding period in 2011 due primarily to a decrease in stable gas condensate inventory balance during the 2012 reporting period compared to an increase in the corresponding period in 2011. The transportation costs incurred in respect of liquids volumes recognized as part of our inventory balance or in transit are capitalized as part of current assets until the recognition of such volumes as sold.

In the three months ended 30 September 2012, our weighted average transportation tariff for liquids delivered by rail increased by 7.6% to RR 2,787 per ton from RR 2,589 per ton in the corresponding period in 2011 primarily due to a 6.0% increase in rail tariffs for the domestic market set by the FTS effective 1 January 2012, as well as an increase in rail tariffs for LPG transportation on the territory of CIS to export markets. Our weighted average transportation tariff for liquids delivered by rail fluctuates period-to-period and depends on products type and the geography of deliveries.

Total transportation expense for liquids delivered by tankers to international markets increased by RR 152 million, or 19.3%, to RR 940 million in the three months ended 30 September 2012 from RR 788 million in the corresponding period in 2011. The increase was due to both a 9.9% increase in volumes sold as a result of inventory movements, as well as a change in the mix in geographical regions where we sold our stable gas condensate. In the three months ended 30 September 2012, we sold 75.0% of our total stable gas condensate export volumes to APR, 8.4% to Europe, 8.3% to the United States and 8.3% to the South America, whereas in the corresponding period in 2011, we sold 54.4% to APR, 27.5% to the United States and 18.1% to Europe.

Taxes other than income tax

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change
	2012	2011	%
Unified natural resources production tax	3,402	3,656	(6.9%)
Property tax	429	435	(1.4%)
Excise and fuel taxes	217	276	(21.4%)
Other taxes	72	76	(5.3%)
Total taxes other than income tax	4,120	4,443	(7.3%)

In the three months ended 30 September 2012, taxes other than income tax decreased by RR 323 million, or 7.3%, primarily due to a decrease in the unified natural resources production tax expense.

In the three months ended 30 September 2012, our UPT expense for natural gas increased by RR 84 million, or 2.9%, primarily due to a 5.9% increase in the natural gas production tax rate effective from 1 January 2012 (RR 251 per mcm in the three months ended 30 September 2012 versus RR 237 per mcm in the corresponding period in 2011), which was partially offset by a 2.9% decrease in our natural gas production volumes. In addition, our UPT for gas condensate increased marginally by RR two million, or 0.4%, due primarily to a change in the UPT rate (see “Our tax burden” above).

In the three months ended 30 September 2012, we applied a zero UPT rate for crude oil produced at our East-Tarkosalinskoye and Khancheykoye fields due to changes in the Russian Tax Code effective from 1 January 2012 (see “Our tax burden” above). In the corresponding period in 2011, we incurred RR 340 million of UPT expense for crude oil.

In the three months ended 30 September 2012, our excise and fuel taxes expense in respect of LPG sales through our subsidiary Novatek Polska decreased by RR 59 million, or 21.4%, as a result of an increase in the proportion of sales volumes which are not subject to excise and fuel taxation.

Purchases of natural gas and liquid hydrocarbons

In the three months ended 30 September 2012, our purchases of natural gas and liquid hydrocarbons increased by RR 3,894 million, or more than four-fold, to RR 4,832 million from RR 938 million in the corresponding period in 2011. The increase of RR 3,114 million was related to purchases of natural gas, of which the major part related to purchases of natural gas from SIBUR, a related party, commencing from 1 January 2012.

In April 2012, we commenced purchasing unstable gas condensate from SeverEnergiya, a Group joint venture, which accounted for RR 736 million of the increase as compared to the corresponding period in 2011. The remaining increase of RR 44 million related to oil products (diesel fuel and petrol) and LPG purchases, which were subsequently resold on the domestic market through our wholly owned subsidiary NOVATEK-AZK.

Depreciation, depletion and amortization

In the three months ended 30 September 2012, our depreciation, depletion and amortization (“DDA”) expense increased by RR 269 million, or 11.7%, to RR 2,560 million from RR 2,291 million in the corresponding period in 2011 primarily due to an increase in our depletable cost base. The Group accrues depreciation and depletion using the “units of production” method for producing assets and straight-line method for other facilities.

In the three months ended 30 September 2012, our DDA per boe was RR 25.8 compared to RR 23.0 in the corresponding period in 2011. The increase in our DDA charge calculated on a boe basis was due to capitalization of costs related to ongoing development at our East-Tarkosalinskoye and Yurkharovskoye fields, as well as a decrease in our proved reserves estimates as of 31 December 2011, used as the denominator in the calculation of the DDA under the “units of production” method, at our core producing fields.

Our reserve base, used as the denominator in the calculation of the DDA charge under the “units of production” method, is only appraised on an annual basis as of 31 December and does not fluctuate during the year, whereas our depletable cost base does change each quarter due to the ongoing capitalization of our costs throughout the year.

General and administrative expenses

In the three months ended 30 September 2012, our general and administrative expenses increased by RR 485 million, or 27.6%, to RR 2,245 million compared to RR 1,760 million in the corresponding period in 2011. The main components of these expenses were employee compensation, social expenses and compensatory payments and legal, audit, and consulting services, which, on aggregate, comprised 78.7% and 79.1% of total general and administrative expenses in the three months ended 30 September 2012 and 2011, respectively.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2012	2011	
Employee compensation	1,378	667	106.6%
Social expenses and compensatory payments	225	597	(62.3%)
Legal, audit, and consulting services	164	129	27.1%
Depreciation – administrative buildings	98	61	60.7%
Business trip expenses	87	57	52.6%
Fire safety and security expenses	49	44	11.4%
Repair and maintenance expenses	44	30	46.7%
Rent expense	29	14	107.1%
Insurance expense	22	10	120.0%
Bank charges	18	12	50.0%
Other	131	139	(5.8%)
Total general and administrative expenses	2,245	1,760	27.6%

Employee compensation increased by RR 711 million, or 106.6%, to RR 1,378 million in the three months ended 30 September 2012 as compared to RR 667 million in the corresponding period in 2011. The increase was primarily due to an increase in bonuses accrued to key management for the results achieved for the third quarter 2012 compared to the corresponding period in 2011, an indexation of base salaries by 6.0% effective 1 July 2012, an increase in average number of employees and insurance contributions to the non-budget funds. The increase in average number of employees resulted from an acquisition of regional gas trader in November 2011 and the expansion of activities at NOVATEK-Ust-Luga. Our insurance contributions to the non-budget funds increased in the 2012 period compared to the corresponding period in 2011 due to the change from 1 January 2012 in the taxable base and rates to the Pension Fund of the Russian Federation (see “Our tax burden” above).

In the three months ended 30 September 2012, our social expenses and compensatory payments decreased by RR 372 million, or 62.3%, to RR 225 million compared to RR 597 million in the corresponding period in 2011 and were primarily related to our donations to sport clubs and activities, educational schools, as well as continued support for charities and social programs in the regions where we operate. Social expenses and compensatory payments fluctuate period-on-period depending on the funding needs and the implementation schedules of specific programs we support in the regions where we operate.

Legal, audit, and consulting services expenses increased by RR 35 million, or 27.1%, to RR 164 million compared to RR 129 million in the corresponding period in 2011 largely due to reserve appraisal services and consulting services related to infrastructure development activity at our recently acquired Salmanovskoye (Utrenneye) and Geofizicheskoye fields, as well as an increase in services to prolong and acquire software solutions for our core subsidiaries.

In the three months ended 30 September 2012, depreciation of administrative buildings increased by RR 37 million, or 60.7%, primarily due to depreciation of fixed assets of administrative nature, launched in the nine months ended 30 September 2012. Fixed assets of administrative nature are depreciated on a straight-line basis over their estimated useful lives.

Fire safety and security expenses increased by RR five million, or 11.4%, to RR 49 million in the three months ended 30 September 2012 from RR 44 million in the corresponding period in 2011 due to the increase in rates charged for security services.

Repair and maintenance expenses increased by RR 14 million, or 46.7%, to RR 44 million in the three months ended 30 September 2012 from RR 30 million in the corresponding period in 2011 primarily due to repair works of fixed assets owned by our subsidiaries NOVATEK-Purovsky ZPK and NOVATEK-Chelyabinsk. The increase was consistent with our repair and maintenance schedules.

In the three months ended 30 September 2012, our rent expense increased by RR 15 million, or 107.1%, to RR 29 million from RR 14 million in the corresponding period in 2011 primarily due to the consolidation of the regional gas trader acquired in November 2011, which rents an office space for its employees.

Insurance expenses increased by RR 12 million, or 120.0%, to RR 22 million in the three months ended 30 September 2012 from RR 10 million in the corresponding period in 2011 due to insuring of recently launched fixed assets at our production subsidiaries.

In the three months ended 30 September 2012, other general and administrative expenses decreased by RR eight million, or 5.8%, to RR 131 million from RR 139 million in the corresponding period in 2011 primarily due to the increase in expenses related to our participation in international economic forums and exhibitions, advertising and other immaterial expense items of an administrative nature, which was partially offset by the decrease in expenses related to the termination at the end of 2011 of the concession agreement at El-Arish concession area located in Egypt.

Materials, services and other

In the three months ended 30 September 2012, our materials, services and other expenses increased by RR 144 million, or 9.2%, to RR 1,716 million compared to RR 1,572 million in the corresponding period in 2011. The main components of this expense category were employee compensation and repair and maintenance services, which comprised 47.4% and 22.0%, respectively, of total materials, services and other expenses in the three months ended 30 September 2012.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2012	2011	
Employee compensation	813	717	13.4%
Repair and maintenance services	378	353	7.1%
Materials and supplies	144	144	0.0%
Electricity and fuel	108	93	16.1%
Security expenses	66	61	8.2%
Transportation expenses	49	50	(2.0%)
Processing fees	24	24	0.0%
Rent expenses	20	23	(13.0%)
Other	114	107	6.5%
Total materials, services and other	1,716	1,572	9.2%

In the three months ended 30 September 2012, our employee compensation increased by RR 96 million, or 13.4%, to RR 813 million compared to RR 717 million in the corresponding period in 2011. The increase was primarily due to a 6.0% indexation of base salaries effective from 1 July 2012 and an increase in average number of employees. The increase in average number of employees resulted from an acquisition of a regional gas trader in November 2011 and an expansion of our trading activities at NOVATEK-AZK.

Repair and maintenance services increased by RR 25 million, or 7.1%, to RR 378 million in the three months ended 30 September 2012 compared to RR 353 million in the corresponding period in 2011. The increase was primarily related to on-going repair works at our wholly owned subsidiaries NOVATEK-Tarkosaleneftegas and NOVATEK-Purovsky ZPK and was consistent with our maintenance schedules.

In the three months ended 30 September 2012, electricity and fuel expenses increased by RR 15 million, or 16.1%, to RR 108 million from RR 93 million in the corresponding period in 2011. The increase was primarily due to an increase in electricity volumes used by our production subsidiaries resulting from recently completed infrastructure projects, as well as higher electricity rates in the three months ended 30 September 2012 compared to the corresponding period in 2011.

Security expenses increased by RR five million, or 8.2%, to RR 66 million in the three months ended 30 September 2012 from RR 61 million in the corresponding period in 2011 largely due to additional security services related to recently completed infrastructure projects at our production subsidiaries.

Transportation expenses related to the delivery of materials and equipment to our fields marginally decreased by RR one million, or 2.0%, to RR 49 million in the three months ended 30 September 2012 from RR 50 million in the corresponding period in 2011.

The major part of our rent expenses is primarily related to the storage facilities for LPG inventory balances held by our subsidiary Novatek Polska. In the three months ended 30 September 2012, rent expenses marginally decreased by RR three million, or 13.0%, to RR 20 million from RR 23 million in the corresponding period in 2011.

Exploration expenses

In the three months ended 30 September 2012, we incurred RR 330 million of exploration expenses related to 2-D seismic activities at our fields in early stages of development.

In the corresponding period in 2011, we incurred RR 640 million of exploration expenses of which RR 414 million related to the expensing of capitalized cost of three exploratory wells in accordance with our accounting policy at the Raduzhny and Yarudeiskiy licence areas.

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

In the three months ended 30 September 2012, we recorded a reversal of RR 178 million to change in inventory expense as compared to a reversal of RR 569 million in the corresponding period in 2011:

<i>millions of Russian roubles</i>	Three months ended 30 September:	
	2012	2011
Natural gas	(155)	(433)
Stable gas condensate	6	(131)
Other	(29)	(5)
Increase (decrease) in operating expenses due to change in inventory balances and work-in-progress	(178)	(569)

In the three months ended 30 September 2012, we recorded a reversal to our operating expenses of RR 155 million primarily due to a 259 mmcm increase in our natural gas inventory balance. Our volumes of natural gas injected into Gazprom's underground gas storage facilities 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.

In addition, in the three months ended 30 September 2012, we recorded a charge of RR six million to our operating expenses due to a 27 thousand tons decrease in our inventory balance of stable gas condensate in transit and storage that was partially offset by an increase in cost of inventories.

The following table highlights movements in our inventory balances:

<i>Inventory balances in transit or in storage</i>	2012			2011		
	At 30 September	At 30 June	Increase / (decrease)	At 30 September	At 30 June	Increase / (decrease)
Natural gas (millions of cubic meters)	1,341	1,082	259	1,225	234	991
<i>including Gazprom's UGSF</i>	<i>1,309</i>	<i>1,050</i>	<i>259</i>	<i>1,194</i>	<i>203</i>	<i>991</i>
Liquid hydrocarbons (thousand tons)	374	402	(28)	422	371	51
<i>including stable gas condensate</i>	<i>268</i>	<i>295</i>	<i>(27)</i>	<i>325</i>	<i>274</i>	<i>51</i>

Other operating income (loss)

In the three months ended 30 September 2012, we recognized other operating income of RR 339 million, of which RR 322 million of net income related to a change in a fair value of our long-term natural gas purchase and sales contracts on the European market, which were classified as derivative instruments in accordance with IAS 39 "Financial instruments: recognition and measurement" (see "Recent developments" above). The remaining amount of RR 17 million in other operating income was primarily related to different immaterial items, including profit (loss) on disposal of materials, fixed assets, equipment and other similar transactions.

In the three months ended 30 September 2011, we recognized other operating income of RR 18 million primarily due to a disposal of materials, fixed assets, equipment and other similar transactions.

Profit from operations

As a result of the factors discussed above, our profit from operations increased by RR 6,095 million, or 35.6%, to RR 23,225 million in the three months ended 30 September 2012, compared to RR 17,130 million in the corresponding period in 2011. In the three months ended 30 September 2012, our profit from operations as a percentage of total revenues increased to 44.0% compared to 42.8% in the corresponding period in 2011 primarily due to higher natural gas and liquids sales prices and volumes.

Finance income (expense)

In the three months ended 30 September 2012, we recorded net finance income of RR 2,345 million compared to a net finance expense of RR 5,890 million in the corresponding period in 2011 due primarily to the appreciation of the Russian rouble relative to the US dollar in the 2012 reporting period compared to Russian rouble depreciation in the corresponding period in 2011.

In the three months ended 30 September 2012, our total accrued interest expense on loans amounted to RR 1,424 million compared to RR 1,387 million in the corresponding period in 2011. In the three months ended 30 September 2012 and 2011, we capitalized RR 783 and RR 1,072 million, respectively, of interest expense to the cost of our property, plant and equipment construction account in accordance with the Group's accounting policy. In addition, we recognized RR 56 million and RR 61 million related to the unwinding of the present value discount related to provisions of asset retirement obligations as part of interest expense in the three months ended 30 September 2012 and 2011, respectively.

Interest income decreased by RR 463 million, or 57.8%, to RR 338 million in the three months ended 30 September 2012 from RR 801 million in the corresponding period in 2011 due to a decrease in loans provided to our joint ventures. In February 2012, the loan provided to our joint venture OOO Yamal Development ("Yamal Development"), as well as accrued interest for this loan, were converted to charter capital.

In the three months ended 30 September 2012, we recorded a net foreign exchange gain of RR 2,704 million compared to a net foreign exchange loss of RR 6,315 million in the corresponding period in 2011 due primarily to the revaluation of our US dollar denominated borrowings. The Russian rouble appreciated by 5.8% against the US dollar during the three months ended 30 September 2012 compared to the depreciation of Russian rouble by 13.5% in the corresponding period in 2011. We will continue to record foreign exchange gains and losses each period based on the movements between exchange rates and the currency denomination of our debt portfolio.

Share of profit (loss) of joint ventures, net of income tax

In the three months ended 30 September 2012, our proportionate share in loss of joint ventures decreased to RR 301 million compared to RR 835 million in the corresponding period in 2011 primarily due to net income recognized by our joint ventures Sibneftegas and Yamal Development in the 2012 reporting period compared to losses in the 2011 period.

In the three months ended 30 September 2012, we recognized a share of losses in our joint venture Yamal LNG of RR 658 million compared to RR nil million in the corresponding period in 2011 due to payments to the YNAO government to undertake socio-economic programs related to the Yamal LNG project.

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 20.9% and 21.7% for the three months ended 30 September 2012 and 2011, respectively.

The Russian statutory income tax rate for both periods was 20%. The difference between our effective and statutory income tax rates is primarily due to certain non-deductible expenses or non-taxable income.

Profit attributable to shareholders and earnings per share

As a result of the factors discussed above, profit for the period increased by RR 11,853 million, or 145.6%, to RR 19,996 million in the three months ended 30 September 2012 from RR 8,143 million in the corresponding period in 2011. The profit attributable to shareholders of OAO NOVATEK increased by RR 11,681 million, or 140.4%, to RR 20,003 million in the three months ended 30 September 2012 from RR 8,322 million in the corresponding period in 2011.

Excluding the effect of non-cash foreign gains and losses, the profit attributable to shareholders of OAO NOVATEK increased by RR 2,662 million, or 18.2%, to RR 17,299 million in the three months ended 30 September 2012 from RR 14,637 million in the corresponding period in 2011.

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of OAO NOVATEK, increased by approximately RR 3.85 per share, or 140.3%, to RR 6.59 per share in the three months ended 30 September 2012 from RR 2.74 per share in the corresponding period in 2011.

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 2012 and 2011:

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2012	2011	
Net cash provided by operating activities	23,821	12,560	89.7%
Net cash provided by (used in) investing activities	(14,558)	(8,237)	76.7%
Net cash provided by (used in) financing activities	(3,781)	(2,037)	85.6%

<i>Liquidity and credit ratios</i>	30 September 2012	31 December 2011	Change, %
Current ratio	1.44	1.16	24.1%
Total debt to equity	0.30	0.40	(25.0%)
Long-term debt to long-term debt and equity	0.19	0.24	(20.8%)
Net debt to total capitalization ⁽¹⁾	0.18	0.20	(10.0%)
Net debt to EBITDA ⁽²⁾	0.72	0.84	(14.3%)

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

⁽²⁾ Net debt to EBITDA ratio is calculated as Net debt divided by EBITDA for the last twelve months adjusted for the net gain on disposal of interest in subsidiaries.

Net cash provided by operating activities

In the three months ended 30 September 2012, our net cash provided by operating activities increased by RR 11,261 million, or 89.7%, to RR 23,821 million compared to RR 12,560 million in the corresponding period in 2011 mainly due to higher natural gas and liquids sales volumes and prices. In addition, in the three months ended 30 September 2012, we did not pay current income tax due to the ability to utilize significant current income tax prepayment at 30 June 2012 based on high first quarter 2012 results. In the corresponding period in 2011, we pre-paid RR 3,855 million of current income tax.

Net cash provided by (used in) investing activities

In the three months ended 30 September 2012, our net cash used in investing activities increased by RR 6,321 million, or 76.7%, to RR 14,558 million compared to RR 8,237 million in the corresponding period in 2011 due primarily to an increase in our cash used for purchases of property, plant and equipment and ongoing development activities at our fields by RR 4,693 million. In addition, during the three months ended 30 September 2012, we contributed RR 2,706 million in cash to the charter capital of Yamal LNG.

Net cash provided by (used in) financing activities

In the three months ended 30 September 2012, our net cash used in financing activities increased by RR 1,744 million, or 85.6%, to RR 3,781 million compared to RR 2,037 million in the corresponding period in 2011 primarily due to an increase in repayments of our long-term borrowings.

Working capital

Our net working capital position (current assets less current liabilities) at 30 September 2012 was a positive RR 14,833 million compared to RR 8,202 million at 31 December 2011. The strengthening of our net working capital position was primarily due to the repayment of accounts payable related to our acquisition of Yamal LNG in September 2011, that was partially offset by a decrease in cash and cash equivalents.

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

Capital expenditures

Our total capital expenditures on property, plant and equipment for the three months ended 30 September 2012 and 2011 were as follows:

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2012	2011	
Capital expenditures	11,480	7,527	52.5%
Acquisition of mineral licenses per consolidated statement of cash flows	-	6,888	n/a
Total additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements	11,480	14,415	(20.4%)

Our total capital expenditures (including capitalized 3-D seismic surveys) represent our investments in exploring for and developing our oil and gas properties. The following table shows the expenditures at our main fields and processing facilities for the three months ended 30 September 2012 and 2011:

<i>millions of Russian roubles</i>	Three months ended 30 September:	
	2012	2011
Yurkharovskoye field	4,263	2,796
Gas Condensate Fractionation Complex and Transshipment Facility (Ust-Luga)	3,640	474
East-Tarkosalinskoye field	1,207	835
Purovsky Plant	231	506
Salmanovskoye (Utrenneye) field	184	-
Khancheyskoye field	169	21
North-Russkiy license area	142	215
North-Yamsoveiskiy license area	120	81
Olimpiyskiy license area	113	138
West-Urengoiskiy license area	104	129
South-Tambeyskoye field	-	1,034
Other	1,307	1,298
Capital expenditures	11,480	7,527

Total capital expenditures on property, plant and equipment in the three months ended 30 September 2012 increased by RR 3,953 million, or 52.5%, to RR 11,480 million from RR 7,527 million in the corresponding period in 2011. The increase was primarily related to the ongoing development activities at our Yurkharovskoye field and construction of processing assets at Ust-Luga, as well as further field development on the crude oil layers at the East-Tarkosalinskoye and Khancheyskoye-fields. The increase was partially offset by a decrease in capital expenditures related to South-Tambeyskoye field as a result of a disposal of a 20% interest in Yamal LNG in October 2011 and the consolidation of the company under the equity method starting from that date.

Debt obligations

We utilize a variety of financial instruments to ensure the flexibility of our financing strategy. This includes maintaining a debt portfolio with a balance of short-term and long-term financing, a mix of fixed and floating interest rate instruments and a debt portfolio denominated in either Russian roubles or US dollars.

Recent developments

In October 2012, the Group issued Russian rouble denominated bonds in the amount of RR 20 billion with a three year maturity and an annual coupon rate of 8.35%.

In October 2012, we repaid a final tranche of USD 20 million loan from ZAO UniCredit Bank according to its maturity schedule.

Overview

Our total debt decreased from RR 95,478 million at 31 December 2011 to RR 84,659 million at 30 September 2012, or by RR 10,819 million. We periodically utilize credit facilities to supplement our internally generated cash flows for the financing of capital expenditures related to the development of our fields and to construct and/or expand processing assets such as the Purovsky Plant and Ust-Luga, as well as acquisitions of new oil and gas assets.

Our total debt position (net of unamortized transaction costs) at 30 September 2012 and 31 December 2011 was as follows:

Facility	Amount	Maturity	Interest rate	At 30 September 2012	At 31 December 2011
Eurobonds Ten-Year	USD 650 million	February 2021	6.604%	19,966	20,776
Eurobonds Five-Year	USD 600 million	February 2016	5.326%	18,465	19,206
Sberbank	RR 15 billion	December 2013	7.5%	14,980	14,966
Russian rouble Bonds	RR 10 billion	June 2013	7.5%	9,986	9,971
Sberbank	RR 10 billion	December 2014	8.9%	9,841	-
Nordea Bank	USD 200 million	November 2013	LIBOR+1.9%	6,183	6,439
Sumitomo Mitsui ⁽¹⁾	USD 300 million	December 2013	LIBOR+1.45%	4,620	7,685
UniCredit Bank	USD 200 million	October 2012	LIBOR+3.25%	618	6,435
Gazprombank ⁽²⁾	RR 10 billion	November 2012	8.0%	-	10,000
Total				84,659	95,478

⁽¹⁾ Sumitomo Mitsui Banking Corporation Europe Limited.

⁽²⁾ The loan from OAO Gazprombank was repaid ahead of maturity schedule in January 2012.

Maturities of long-term loans

Scheduled maturities of our long-term debt outstanding (net of unamortized transaction costs) at 30 September 2012 were as follows:

<i>Maturity schedule:</i>	RR million
1 October 2013 to 30 September 2014	17,449
1 October 2014 to 30 September 2015	9,841
1 October 2015 to 30 September 2016	18,465
1 October 2016 to 30 September 2017	-
After 30 September 2017	19,966
Total long-term debt	65,721

Available credit facilities

At 30 September 2012, the Group had available funds under short-term credit lines in the form of bank overdrafts with various international banks in the aggregate amount of RR 7,409 million (USD 175 million and EUR 50 million) on variable interest rates subject to the specific type of credit facility.

The Group also had funds available under credit facilities as follows:

	Par value	Expiring	
		Within one year	Between 1 and 3 years
BNP PARIBAS Bank ⁽¹⁾	USD 100 million	3,092	-
Credit Agricole Corporate and Investment Bank ⁽¹⁾	USD 100 million	3,092	-
UniCredit Bank ⁽¹⁾	USD 330 million	-	10,203
Sberbank ⁽¹⁾	RR 30 billion	30,000	-
Total available credit facilities		36,184	10,203

⁽¹⁾ Interest rates are predetermined or negotiated at time of each withdrawal.

Management believes it has sufficient internally generated cash flows, as well as access to available external borrowings (both short- and long-term) to fund its capital expenditure program, service its existing debt and meet its current obligations as they become due.

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 and other benchmark price references. 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. As of 30 September 2012, total amount of our long-term debt denominated in US dollars was RR 40,886 million, or 48.3% 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 mitigated by the fact that a portion of our total revenues, approximately 27.0% in the three months ended 30 September 2012, is denominated in US dollars. As of 30 September 2012, the Russian rouble appreciated by approximately 4.0% against the US dollar since 31 December 2011.

A hypothetical and instantaneous 10% depreciation in the Russian rouble in relation to the US dollar as of 30 September 2012 would have resulted in an estimated non-cash foreign exchange loss of approximately RR 4,985 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 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 available that is 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 2012, 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.