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

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

OVERVIEW

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

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

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

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

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.

SELECTED DATA

millions of Russian roubles except as stated	Three months ended 31 March: 2009	2008	Change %
Financial results			
Total revenues (net of VAT and export duties)	16,981	20,876	(18.7%)
Operating expenses	(11,379)	(11,023)	3.2%
Profit attributable to NOVATEK shareholders	2,134	7,503	(71.6%)
EBITDA [(1)]	6,899	10,908	(36.8%)
EBITDAX [(2)]	6,998	11,138	(37.2%)
Earnings per share (in Russian roubles)	0.70	2.47	(71.7%)
Operating results			
Natural gas sales volumes (mmcm)	8,563	8,391	2.0%
Stable gas condensate sales volumes (thousand tons)	393	441	(10.9%)
Liquefied petroleum gas sales volumes (thousand tons)	156	158	(1.3%)
Crude oil sales volumes (thousand tons)	56	77	(27.3%)
Oil product sales volumes (thousand tons)	3	8	(62.5%)
Oil product export trading volumes (thousand tons)	-	18	(100.0%)
Cash flow results			
Net cash provided by operating activities	5,432	9,613	(43.5%)
Capital expenditures	3,871	6,537	(40.8%)

[(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 31 March: 2009	2008	Change %
At the beginning of the period	29.38	24.55	19.7%
At the end of the period	34.01	23.52	44.6%
Average for the period	33.93	24.26	39.9%

Crude oil prices, USD / bbl	Three months ended 31 March: 2009	2008	Change %
WTI [1]			
At the end of the period	49.7	101.6	(51.1%)
Average for the period	43.3	97.8	(55.7%)
Brent [2]			
At the end of the period	46.5	102.7	(54.7%)
Average for the period	44.5	96.7	(54.0%)
Urals [2]			
At the end of the period	45.5	99.8	(54.4%)
Average for the period	43.7	93.2	(53.1%)

[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 31 March: 2009	2008	Change %
Crude oil, stable gas condensate			
At the end of the period	115.3	333.8	(65.5%)
Average for the period	111.8	314.3	(64.4%)
LPG			
At the end of the period	0.0	237.2	(100.0%)
Average for the period	0.0	224.1	(100.0%)

[1] Export duties determined by the government of the Russian Federation.

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Current financial market conditions

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

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

In a period of limited access to the capital markets for funding purposes, we have reviewed our capital expenditure program for the next twelve months 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, we have not made any major adjustments to our capital expenditure program as of the 31 March 2009.

Management will continue to closely monitor the economic environment in Russia as well as the domestic and international capital markets to determine if any other further corrective and/or preventive measures are required to sustain the business through the financial and liquidity crisis.

Natural gas prices

As an independent natural gas producer, we are not subject to the government's regulation of natural gas prices. Historically, we have sold most of our natural gas at prices higher than the regulated prices set by the government for Gazprom's domestic gas sales, although the prices we can achieve are strongly influenced by the prices regulated by the Federal Tariffs Service (FTS), a governmental agency, and market conditions. In the three months ended 31 March 2009, the weighted average FTS price for the primary regions where we delivered our natural gas increased by RR 46 per mcm, or 3.0%, to RR 1,602 per mcm compared to RR 1,556 per mcm in the 2008 period. The specific terms for delivery of natural gas affect our average realized prices. Natural gas sold "ex-field" is sold primarily to wholesale gas traders, in which case the buyer is responsible for the payment of gas transportation tariffs. Sales to wholesale traders allow us to diversify our natural gas sales without incurring additional commercial expenses. However, we historically have realized higher prices and net margins for natural gas volumes sold directly to end-customers, as the gas transportation tariff is included in the contract price and no retail margin is lost to wholesale gas traders. In the three months ended 31 March 2009, the average netback margin differential we received on end-customer sales compared to ex-field sales (average end-customer netback less average ex-field price) decreased by RR 8 per mcm, or 7.3%, compared to the corresponding period in 2008. The decrease in the average netback margin differential was mainly due to the slower growth in the natural gas market prices we received than the regulated prices set by the FTS in the first quarter 2009 compared to the corresponding period in 2008. In the three months ended 31 March 2009, our average natural gas price ex-field increased by 0.4% whereas our average natural gas netback price on end-customer sales decreased by 0.4%, compared to the respective prices in the corresponding period in 2008 (see "Natural gas sales" and "Transportation expenses" below). Nevertheless, we continued to optimize our revenues from the sales of natural gas by increasing our volumes sold to end-customers from whom we received a higher netback price compared to ex-field sales.

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.

The following table shows our average realized natural gas sales prices (net of VAT) for the three months ended 31 March 2009 and 2008:

Russian roubles per mcm	**Three months ended 31 March: 2009**	**2008**	**Change %**
Average natural gas price to end-customers [(1)]	1,799	1,791	0.4%
Average natural gas transportation expense for sales to end-customers	713	701	1.7%
Average natural gas netback price on end-customer sales	1,086	1,090	(0.4%)
Average natural gas price ex-field (wholesale traders)	984	980	0.4%
Average netback margin differential	102	110	(7.3%)

[(1)] Includes cost of transportation.

In the three months ended 31 March 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. Our average natural gas netback prices on electronic trading (e-trading) in the 2008 period are shown in the table below:

Russian roubles per mcm	**Three months ended 31 March: 2009**	**2008**	**Change %**
Average natural gas price to customers on e-trading sales [(1)]	-	1,728	n/m
Average natural gas transportation expense on e-trading sales	-	140	n/m
Average natural gas netback on e-trading sales	-	1,588	n/m

[(1)] Includes cost of transportation.

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

Crude oil, stable gas condensate, liquefied petroleum gas ("LPG") and oil products prices on international markets have historically been volatile depending on, among other things, the balance between supply and demand fundamentals, 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. The various factors affecting the movement of these benchmark crude oil prices are beyond the scope of management's control. In the three months ended 31 March 2009, benchmark crude oil prices were more than 50% lower than in the corresponding period in 2008.

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

In the three months ended 31 March 2009, our stable gas condensate export delivery terms were delivery to the port of destination ex-ship (DES), while in the corresponding period in 2008, our delivery terms were delivery to the port of destination ex-ship (DES) or priced at cost and freight (CFR). Our average export stable gas condensate contract price, including export duties, in the three months ended 31 March 2009 was approximately USD 308 per ton compared to approximately USD 861 per ton in the corresponding period in 2008.

In the three months ended 31 March 2009, our crude oil export delivery terms were delivery at frontier (DAF Adamova Zastava, Germany) and our average crude oil export contract price, including export duties, was approximately USD 304 per ton. In the corresponding 2008 period, we did not deliver our crude oil to international markets due to our ability to achieve higher margins on the domestic market.

The following table shows our average realized stable gas condensate and crude oil sales prices (net of VAT and export duties, where applicable) for the three months ended 31 March 2009 and 2008:

Russian roubles (RR) or US dollars (USD) per ton	**Three months ended 31 March: 2009**	**2008**	**Change %**
Stable gas condensate			
Net export price, RR per ton	6,787	13,488	(49.7%)
Net export price, USD per ton	200.0	556.0	(64.0%)
Domestic price, RR per ton	6,189	-	n/a
Crude oil			
Net export price, RR per ton	6,412	-	n/a
Net export price, USD per ton	189.0	-	n/a
Domestic price, RR per ton	3,668	7,257	(49.5%)

Our LPG export delivery terms during the three months ended 31 March 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 31 March 2009, our average export LPG contract price, including export duties, was approximately USD 312 per ton compared to USD 758 per ton in the corresponding period in 2008. In the three months ended 31 March 2009, as well as in the corresponding period in 2008, our LPG CIS delivery terms were delivery at frontier (DAF) at the border of the customer’s country. During 2008, we were obliged to sell a portion of our LPG domestic sales volumes at regulated prices while the remaining portion of our sales was sold under commercial terms. In the 2009 period, we were not obliged to sell LPG volumes at regulated prices. In the three months ended 31 March 2009, we sold 74 thousand tons at a commercial price of RR 5,236 per ton in the domestic market, compared to 8 thousand tons at the regulated price of RR 4,500 per ton and 116 thousand tons at a commercial price of RR 9,420 per ton in the corresponding period in 2008.

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

In the three months ended 31 March 2009, we sold one thousand tons of oil products (light distillate) received from the refining process at the Surgutsky refinery through our foreign trading subsidiary on European markets. The delivery terms were free on board (FOB) at the Port of Vitino, and our average export contract price, including export duties, was approximately USD 385 per ton.

In the three months ended 31 March 2009, our wholly-owned subsidiary, OOO “NOVATEK-Refuelling Complexes”, purchased 239 tons of liquefied petroleum gas, diesel fuel and petrol from third parties and subsequently resold 199 tons of these volumes through its retail station for approximately RR 17,579 per ton. There were no such sales in the corresponding period in 2008 since the operations of this wholly-owned subsidiary commenced in July 2008.

The following table shows our average realized liquefied petroleum gas and oil products sales prices (net of VAT and export duties, where applicable) for the three months ended 31 March 2009 and 2008 (excluding trading activities):

	Three months ended 31 March:		Change
Russian roubles (RR) or US dollars (USD) per ton	**2009**	**2008**	**%**
LPG			
Net export price, RR per ton	10,504	13,032	(19.4%)
Net export price, USD per ton	309.6	537.2	(42.4%)
CIS price, RR per ton	8,644	10,817	(20.1%)
Domestic price, RR per ton	5,236	9,085	(42.4%)
Oil products			
Net export price, RR per ton	9,498	-	n/a
Net export price, USD per ton	279.9	-	n/a
Domestic price, RR per ton	4,495	4,126	8.9%

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 January 2009 is RR 24.18 to RR 1,350.23 (excluding VAT) per mcm) and includes a constant rate of RR 20.97 (excluding VAT) per mcm for end-customers using Gazprom’s gas distribution systems. The constant rate is deducted from the utilization rate for end-customers using non-Gazprom gas distribution systems. The second component of the transportation rate for natural gas delivered within the customs territory of the Russian Federation and the member states of the Customs Union Agreement was set at RR 7.23 (excluding VAT) per mcm per 100 km effective 1 January 2008 and was increased by 4.7% to RR 7.57 (excluding VAT) per mcm per 100 km effective 1 January 2009.

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

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

Our stable gas condensate (to the Port of Vitino on the White Sea), LPG and oil products are transported by rail which is owned and operated by Russian Railways, Russia’s state-owned monopoly railway operator. Our transportation tariffs for transport by rail are also set by the FTS and vary depending on product and length of transport route. On 27 March 2009, the FTS announced a reduction in the 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).

There is no set timetable for reviews or changes in transportation tariffs set by the FTS, and thus changes in transportation tariffs occur on an irregular basis.

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

Transportation transactions with related parties

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

Our tax burden

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

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

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

OPERATIONAL HIGHLIGHTS

Hydrocarbon sales volumes

Our natural gas sales volumes increased primarily due to strong organic production growth at our Yurkharovskoye field that was partially offset by a reduction in purchases from third parties and reductions in production from our East-Tarkosalinskoye and Khancheyskoye fields. Despite an increase in our unstable gas condensate production, our liquids sales volumes (crude oil, stable gas condensate, LPG and oil products) decreased primarily due to an increase in our liquids inventory balances and "goods in transit".

Natural gas sales volumes

millions of cubic meters	Three months ended 31 March: 2009	2008	Change %
Production from:			
Yurkharovskoye field	4,213	2,532	66.4%
East-Tarkosalinskoye field	3,132	3,917	(20.0%)
Khancheyskoye field	824	1,121	(26.5%)
Other fields	4	8	(50.0%)
Total natural gas production	**8,173**	**7,578**	**7.9%**
Purchases from:			
Gazprom	-	503	n/m
Other	290	44	559.1%
Total natural gas purchases	**290**	**547**	**(47.0%)**
Total production and purchases	**8,463**	**8,125**	**4.2%**
Purovsky Plant and own usage	(13)	(9)	44.4%
Decrease (increase) in pipeline and underground gas storage facilities	113	275	(58.9%)
Total natural gas sales volumes	**8,563**	**8,391**	**2.0%**
Sold to end-customers	*4,596*	*4,070*	*13.0%*
E-trading sales	*-*	*91*	*(100.0%)*
Subtotal sold to end-customers	***4,596***	***4,161***	***10.5%***
Sold ex-field	***3,967***	***4,230***	***(6.2%)***

In the three months ended 31 March 2009, our total consolidated natural gas production increased by 595 mmcm, or 7.9%, compared to the 2008 period due to an increase in production at our Yurkharovskoye field as a result 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 reduced production was due to a decrease in ex-field natural gas demand and was largely attributable to reductions in natural gas consumption on the domestic, CIS and European markets.

At 31 March 2009, our cumulative natural gas volumes stored in Gazprom's underground gas storage facilities (UGSF) totaled 137 mmcm compared to 300 mmcm at 31 December 2008. We also recorded a natural gas balance of 96 mmcm in the UGSS at 31 March 2009, compared to 46 mmcm at 31 December 2008. 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 31 March 2009, our natural gas purchases decreased by 257 mmcm, or 47.0%, 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 31 March: 2009	2008	Change %
Production from:			
Yurkharovskoye field	340	184	84.8%
East-Tarkosalinskoye field	219	237	(7.6%)
Khancheyskoye field	140	182	(23.1%)
Other fields	10	28	(64.3%)
Total liquids production	**709**	**631**	**12.4%**
Purchases from:			
Other	-	32	(100.0%)
Total liquids purchases	**-**	**32**	**(100.0%)**
Total production and purchases	**709**	**663**	**6.9%**
Losses and own usage [(1)]	(4)	(6)	(33.3%)
Decreases (increases) in liquids inventory balances	(97)	45	n/m
Total liquids sales volumes	**608**	**702**	**(13.4%)**
Stable gas condensate export	*346*	*441*	*(21.5%)*
Stable gas condensate domestic	*47*	*-*	*n/m*
Subtotal stable gas condensate	***393***	***441***	***(10.9%)***
LPG export	*77*	*18*	*327.8%*
LPG CIS	*5*	*16*	*(68.8%)*
LPG domestic	*74*	*124*	*(40.3%)*
Subtotal LPG	***156***	***158***	***(1.3%)***
Crude oil export	*15*	*-*	*n/m*
Crude oil domestic	*41*	*77*	*(46.8%)*
Subtotal crude oil	***56***	***77***	***(27.3%)***
Oil products export	*1*	*-*	*n/m*
Oil products domestic	*2*	*8*	*(75.0%)*
Oil products export (international trading activities)	*-*	*18*	*(100.0%)*
Subtotal oil products	***3***	***26***	***(88.5%)***

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

In the three months ended 31 March 2009, our liquids production increased by 78 thousand tons, or 12.4%, to 709 thousand tons compared to 631 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 field's second phase of development in September 2008. The increase was offset by a decrease in unstable gas condensate production at our Khancheyskoye and East-Tarkosalinskoye 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 and Khancheyskoye field.

At 31 March 2009, we had 313 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 220 thousand tons as of 31 December 2008. In the three months ended 31 March 2009, our stable gas condensate in transit or storage and recognized as inventory increased by 93 thousand tons compared to a decrease by 52 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 31 MARCH 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 31 March 2009 and 2008. Each line item is also shown as a percentage of our total revenues.

millions of Russian roubles	**Three months ended 31 March: 2009**	**% of total revenues**	**2008**	**% of total revenues**
Total revenues **(net of VAT and export duties)**	**16,981**	***100.0%***	**20,876**	***100.0%***
including:				
natural gas sales	12,171	*71.7%*	11,593	*55.5%*
liquids sales	4,145	*24.4%*	8,574	*41.1%*
Operating expenses	(11,379)	*(67.0%)*	(11,023)	*(52.8%)*
Other operating income (loss)	57	*0.3%*	16	*0.1%*
Profit from operations	**5,659**	***33.3%***	**9,869**	***47.3%***
Finance income (expense)	(2,908)	*(17.1%)*	139	*0.7%*
Share of income (loss) of associated companies	(16)	*(0.1%)*	(22)	*(0.1%)*
Profit before income tax	**2,735**	***16.1%***	**9,986**	***47.8%***
Total income tax expense	(596)	*(3.5%)*	(2,487)	*(11.9%)*
Profit (loss)	**2,139**	***12.6%***	**7,499**	***35.9%***
Non-controlling interest	(5)	*(0.0%)*	4	*0.0%*
Profit attributable to NOVATEK shareholders	**2,134**	***12.6%***	**7,503**	***35.9%***

Total revenues

The following table sets forth our sales (net of VAT and export duties, where applicable) for the three months ended 31 March 2009 and 2008:

millions of Russian roubles	Three months ended 31 March: 2009	2008	Change %
Natural gas sales	**12,171**	**11,593**	**5.0%**
End-customer	*8,268*	*7,290*	*13.4%*
E-trading	-	*157*	*(100.0%)*
Subtotal of end-customers sales	***8,268***	***7,447***	***11.0%***
Ex-field sales	***3,903***	***4,146***	***(5.9%)***
Stable gas condensate sales	**2,641**	**5,943**	**(55.6%)**
Export	*2,350*	*5,943*	*(60.5%)*
Domestic	*291*	-	*n/m*
Liquefied petroleum gas sales	**1,238**	**1,532**	**(19.2%)**
Export	*807*	*236*	*241.9%*
CIS	*44*	*174*	*(74.7%)*
Domestic	*387*	*1,122*	*(65.5%)*
Crude oil sales	**243**	**557**	**(56.4%)**
Export	*93*	-	*n/m*
Domestic	*150*	*557*	*(73.1%)*
Oil products sales	**23**	**542**	**(95.8%)**
Export	*10*	*398*	*(97.5%)*
Domestic	*13*	*144*	*(91.0%)*
Total oil and gas sales	**16,316**	**20,167**	**(19.1%)**
Sales of polymer and insulation tape	397	551	(27.9%)
Other revenues	268	158	69.6%
Total revenues	**16,981**	**20,876**	**(18.7%)**

Natural gas sales

In the three months ended 31 March 2009, our revenues from sales of natural gas increased by RR 578 million, or 5.0%, compared to the corresponding period in 2008. The increase in natural gas revenues was primarily attributable to an increase in sales volumes and, to a lesser extent, prices. Revenues from the sale of natural gas accounted for 71.7% and 55.5% of our total revenues in the three months ended 31 March 2009 and 2008, respectively. The increase in natural gas sales as a percentage of total revenues was primarily due to a significant decrease in liquids sales prices and an increase in stable gas condensate in transit or storage.

In the three months ended 31 March 2009, our average realized natural gas price per mcm increased by RR 39 per mcm, or 2.8%, to RR 1,421 per mcm from RR 1,382 per mcm in the corresponding period in 2008. Our proportion of natural gas sold to end-customers, including e-trading sales, to total natural gas sales volumes, increased from 49.6% in the three months ended 31 March 2008 to 53.7% in the 2009 period due to a 10.5% increase in sales to end-customers and a 6.2% reduction in volumes sold ex-field. The average realized prices of our natural gas sold directly to end-customers (including transportation expense) and sold ex-field were higher by 0.4% and 0.4%, respectively, in the three months ended 31 March 2009 compared to the corresponding period in 2008. In both periods, our sales of natural gas to end-customers were primarily to energy utility companies.

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 current quarter as compared to 91 mmcm in the corresponding 2008 period.

Stable gas condensate sales

In the three months ended 31 March 2009, our revenues from sales of stable gas condensate decreased by RR 3,302 million, or 55.6%, compared to the corresponding period in 2008 primarily due to a decrease in average realized prices and, to a lesser extent, a decrease in volumes sold.

In the three months ended 31 March 2009, we sold 393 thousand tons of stable gas condensate, of which 346 thousand tons, or 88.0%, was exported to the United States, and the remaining 47 thousand tons were sold domestically. In the three months ended 31 March 2008, we delivered 441 thousand tons of stable gas condensate, or 100.0% of our total sales volumes, to markets in the United States and Europe. Despite an increase in our unstable gas condensate production in the 2009 period, our total stable gas condensate sales volumes decreased by 48 thousand tons, or 10.9%, primarily due to an increase in our “goods in transit or storage” balance. The inventory balance increased by 141 thousand tons from 172 thousand tons at 31 March 2008 to 313 thousand tons at 31 March 2009, primarily as a result of three tankers in transit at 31 March 2009 compared to only two tankers in the corresponding 2008 period. The increase in tankers in transit accounted for 68 thousand tons of the total while increases in inventory balances at the Port of Vitino and the Purovsky Plant accounted for 45 thousand tons and 21 thousand tons, respectively. The remaining balance of seven thousand tons related to an increase in stable gas condensate volumes in rail cisterns.

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 31 March 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 356.0 per ton, or 64.0%, to USD 200.0 per ton (DES) from USD 556.0 per ton (DES and CFR) in the corresponding period in 2008. The decrease in the average realized export price was the result of a 64.2% decrease in our average export contract price that was partially offset by a 61.9% decrease in our average export duty per ton. The decrease in our average realized contract price was due to an overall decrease in crude oil and related commodity prices on international markets in the 2009 period compared to 2008.

Liquefied petroleum gas sales

In the three months ended 31 March 2009, our revenues from the sales of LPG decreased by RR 294 million, or 19.2%, compared to the corresponding period in 2008, due primarily to a decrease in average realized sales prices.

In the three months ended 31 March 2009, we marginally decreased our sales volumes of LPG by two thousand tons, or 1.3%, to 156 thousand tons from 158 thousand tons in the 2008 period, of which 47.4% was sold domestically at an average price of RR 5,236 per ton (FCA excluding VAT). This represents a decrease in the average domestic sales price of RR 3,849 per ton, or 42.4%, compared to the corresponding period in 2008. The remaining volumes of LPG were sold as follows: 49.4% was sold to the export market for an average price of USD 309.6 per ton (DAF and CPT excluding export duties and translated into US dollars) and 3.2% was sold to the CIS for an average price of RR 8,644 per ton (DAF). In the three months ended 31 March 2009, our average LPG sales prices on the export market and in the CIS decreased by USD 227.6 per ton, or 42.4%, and by RR 2,173 per ton, or 20.1%, respectively, compared to the corresponding period in 2008. The decrease in our average realized export prices (excluding export duties) was primarily due to a 58.8% decrease in our average contract prices which was partially offset by a 97.1% decrease in our average export duty per ton in the 2009 period (although export duties for LPG were set to zero effective 1 January 2009, we had unsold volumes recorded as inventory at 31 December 2008 for which export duties were charged).

In the three months ended 31 March 2008, we sold 78.5% of our LPG volumes domestically, 11.4% to the export markets and 10.1% to the CIS. The increase in our share of LPG deliveries to export markets from 11.4% in the three months ended 31 March 2008 to 49.4% in the 2009 period was primarily the result of optimizing our netback prices. In 2009, we took the opportunity to compete with other international LPG producers to expand and market our LPG sales volumes as a result of the abolishment of the export duties.

Crude oil sales

In the three months ended 31 March 2009, our revenues from the sales of crude oil decreased by RR 314 million, or 56.4%, compared to the 2008 period, due to a decrease in both our sales volumes and prices.

In the three months ended 31 March 2009, our crude oil volumes available for sale decreased by 21 thousand tons, or 27.3%, to 56 thousand tons from 77 thousand tons in the 2008 period primarily due to a decrease in our crude oil production. In the 2009 period, 73.2% of crude oil volumes were sold domestically at an average price of RR 3,668 per ton (excluding VAT) representing a decrease of RR 3,589 per ton, or 49.5%, 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 26.8% of crude oil volumes were sold to the export markets at an average price of USD 189.0 per ton (DAF excluding export duties, translated into US dollars). In the three months ended 31 March 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 31 March 2009, our revenue from the sales of oil products decreased by RR 519 million, or 95.8%, 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 31 March 2009, we did not sell oil products (naphtha) to the international markets compared to sales of 18 thousand tons in the corresponding period in 2008 for an average contract price of USD 901.9 per ton (DES).

In the three months ended 31 March 2009, we sold one thousand tons of oil products (light distillate) produced from our unstable gas condensate to the international market through our foreign trading subsidiary at an average realized price, excluding export duties and translated into US dollars, of USD 279.9 per ton (FOB Vitino).

Our domestic oil products sales (produced from our unstable gas condensate and purchased from third parties) in the three months ended 31 March 2009 decreased by RR 131 million, or 91.0%, to RR 13 million from RR 144 million in the 2008 period, primarily due to a decrease in sales volumes.

In the three months ended 31 March 2009, our revenues from trading operations with oil products on the domestic market decreased to RR 3 million compared to RR 138 million in the corresponding period in 2008. In the 2009 period, we sold 199 tons of oil products for an average price of RR 17,579 per ton through our retail station. We sold seven thousand tons of oil products purchased for resale on the domestic market for RR 21,027 per ton in the corresponding period in 2008.

In the three months ended 31 March 2009, our revenues from oil products produced at the Surgutsky refinery increased to RR 10 million from RR 6 million in the corresponding period in 2008. Oil products sales volumes produced from our unstable gas condensate were two thousand tons in the 2009 period compared to one thousand tons in the corresponding period in 2008. Our oil products sales price increased by RR 369 per ton, or 8.9%, to RR 4,495 per ton in the three months ended 31 March 2009 from RR 4,126 per ton in the 2008 period, as the output we received from the refining process resulted in higher value products.

Sales of polymer and insulation tape

Our revenues from the sales of polymer and insulation tape decreased by RR 154 million, or 27.9%, to RR 397 million in the three months ended 31 March 2009, compared to RR 551 million in the 2008 period mainly due to a decrease in BOPP film wrap and pipe insulation products production.

Revenues from our sales of BOPP film wrap decreased by RR 94 million, or 27.3%, from RR 344 million in the three months ended 31 March 2008 to RR 250 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 0.6% to 63.0% in the three months ended 31 March 2009 compared to 62.4% in the 2008 period.

Our revenues from pipe insulation product sales decreased by RR 57 million, or 32.2%, from RR 177 million in the three months ended 31 March 2008 to RR 120 million in the 2009 period mainly due to a decrease in volumes sold. Revenues from polymer pipes sales decreased by RR 3 million, or 13.0%, from RR 23 million in the three months ended 31 March 2008 to RR 20 million in the 2009 period primarily due to a decrease in sale prices. The remaining RR 7 million and RR 6 million in the three months ended 31 March 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 31 March 2009, other revenues increased by RR 110 million, or 69.6%, to RR 268 million from RR 158 million in the corresponding period in 2008. The increase in other revenues was primarily related to geological and geophysical research services to our associates which accounted for RR 236 million in the three months ended 31 March 2009, compared to RR 59 million in the corresponding period in 2008.

In the three months ended 31 March 2009, our revenues from transportation handling and polymer tolling decreased by RR 27 million and RR 19 million, respectively. The remaining decrease of RR 21 million in other revenues was composed of various immaterial items.

Operating expenses

In the three months ended 31 March 2009, our total operating expenses increased by RR 356 million, or 3.2%, to RR 11,379 million compared to RR 11,023 million in the 2008 period, largely due to increases in transportation costs and general and administrative expenses, that were partially offset by a decrease in our purchases of crude oil, gas condensate and natural gas. As a percentage of total operating expenses, our non-controllable expenses, such as transportation and taxes other than income tax, increased by 5.9% in the three months ended 31 March 2009 to 63.2% compared to 57.3% in the corresponding period in 2008. Total operating expenses increased as a percentage of total revenues to 67.0% in the three months ended 31 March 2009 compared to 52.8% 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 a decrease in our liquids sales revenues.

	Three months ended 31 March:			
millions of Russian roubles	**2009**	**% of total revenues**	**2008**	**% of total revenues**
Transportation expenses	5,273	*31.1%*	4,556	*21.8%*
Taxes other than income tax	1,921	*11.3%*	1,763	*8.4%*
Non-controllable expenses	**7,194**	***42.4%***	**6,319**	***30.3%***
Materials, services and other	1,492	*8.8%*	1,469	*7.0%*
Depreciation, depletion and amortization	1,182	*7.0%*	993	*4.8%*
General and administrative expenses	1,100	*6.5%*	837	*4.0%*
Purchases of oil, gas condensate and natural gas	293	*1.7%*	1,171	*5.6%*
Exploration expenses	99	*0.6%*	230	*1.1%*
Net impairment expense	(1)	*n/m*	6	*n/m*
Change in natural gas, liquid hydrocarbons, and polymer products and work-in-progress	20	*n/m*	(2)	*n/m*
Total operating expenses	**11,379**	***67.0%***	**11,023**	***52.8%***

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 31 March 2009, non-controllable expenses of transportation and taxes other than income tax increased by RR 875 million, or 13.8%, to RR 7,194 million from RR 6,319 million in the corresponding period in 2008. The change in transportation expenses was primarily due to increases in the natural gas volumes sold to end-customers and LPG export sales volumes, as well as the railroad tariff for liquids transportation. 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 12.1% to 42.4% in the three months ended 31 March 2009 compared to 30.3% in the corresponding period in 2008.

Transportation expenses

In the three months ended 31 March 2009, our total transportation expenses increased by RR 717 million, or 15.7%, compared to the corresponding period in 2008.

	Three months ended 31 March:		**Change**
millions of Russian roubles	**2009**	**2008**	**%**
Natural gas transportation to customers	3,277	2,865	14.4%
Stable gas condensate, liquefied petroleum gas and oil products transportation by rail	1,332	1,069	24.6%
Stable gas condensate transported by tankers	547	527	3.8%
Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines	78	43	81.4%
Crude oil transportation to customers	37	28	32.1%
Other transportation costs	2	24	(91.7%)
Total transportation expenses	**5,273**	**4,556**	**15.7%**

In the three months ended 31 March 2009, our transportation expenses for natural gas increased by RR 412 million, or 14.4%, to RR 3,277 million from RR 2,865 million in the corresponding period in 2008. The increase was mainly due to a 13.0% increase in our sales volumes of natural gas sold directly to end-customers, where the cost of transportation is included in the sales, and, to a lesser extent, a higher transportation tariff effective from 1 January 2009 (see “Transportation tariffs” above). We are not able to influence the transportation route of natural gas sold to end-customers and therefore we have no control over our average delivery distance. Our average transportation distance for natural gas sold to end-customers fluctuates period-to-period.

Total expenses for transportation by rail increased by RR 263 million, or 24.6%, due to higher rail transportation tariffs which were offset by a decrease in liquids volumes sold. In the three months ended 31 March 2009, our combined volumes of stable gas condensate, LPG and oil products sold and transported via rail decreased by 48 thousand tons, or 8.0%, to 551 thousand tons from 599 thousand tons in the corresponding 2008 period.

Our expense for stable gas condensate transported by rail to export markets decreased by RR 80 million, or 11.9% to RR 590 million from RR 670 million in the three months ended 31 March 2008 primarily due to a 21.5% decrease in volumes transported which was offset by an increase in per the unit transportation tariff. In the three months ended 31 March 2009, our transportation rate per ton for stable gas condensate increased to RR 1,704 from RR 1,521 in the corresponding period in 2008, primarily due to a tariff increases of 5.0% effective 1 January 2009. Following the formal announcement by the FTS (see “Transportation tariffs” above), we will apply a co-efficient of 0.72 to the existing rail tariff for stable gas condensate delivered to export markets from 7 April 2009 and throughout 2009, resulting in an average tariff reduction of approximately 28%.

In the three months ended 31 March 2009, we incurred RR 68 million of railroad transportation expenses related to stable gas condensate sales on the domestic market for an average transportation rate per ton of RR 1,439. There were no such domestic sales recorded in the 2008 period.

In the three months ended 31 March 2009, our expense for LPG transported by rail increased by RR 273 million, or 68.8%, primarily due to an increase in export volumes and rail tariffs. In the 2009 period, our expense for LPG transported by rail amounted to RR 670 million, of which RR 471 million was related to export sales, RR 16 million to CIS sales, and RR 183 million to domestic sales, or RR 6,127 per ton, RR 3,203 per ton, and RR 2,478 per ton, respectively. In the three months ended 31 March 2008, transportation expenses for LPG amounted to RR 397 million, of which RR 93 million was related to export sales, RR 44 million to CIS sales, and RR 260 million to domestic sales, or RR 5,155 per ton, RR 2,708 per ton and RR 2,104 per ton, respectively. Following the formal announcement from the FTS (see “Transportation tariffs” above), we will apply a co-efficient of 0.35 to the existing rail tariff for LPG export deliveries for volumes in excess of 90 thousand tons (effective from the middle of April 2009) and throughout 2009, resulting in an average tariff reduction of approximately 65%.

The remaining RR 4 million of transportation expenses by rail in the three months ended 31 March 2009, and RR 2 million in the corresponding period in 2008, were related to the transportation of oil products sold on the export and 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 20 million, or 3.8%, to RR 547 million from RR 527 million in the three months ended 31 March 2008. The change was primarily due to an increase in average freight rates and longer average distances to customers in the three months ended 31 March 2009, which was partially offset by a 21.5% decrease in volumes sold. In the three months ended 31 March 2009, we delivered 100.0% of our stable gas condensate export volumes to United States markets compared to 86.0% in the 2008 period.

Taxes other than income tax

millions of Russian roubles	Three months ended 31 March: 2009	2008	Change %
Unified natural resources production tax (UPT)	1,635	1,655	(1.2%)
Property tax	255	142	79.6%
Other taxes	31	15	106.7%
Subtotal	1,921	1,812	6.0%
Less: reversal of provision for additional taxes (UPT)	-	(49)	n/m
Total taxes other than income tax	**1,921**	**1,763**	**9.0%**

In the three months ended 31 March 2009, taxes other than income tax increased by RR 158 million, or 9.0%, primarily due to an increase in property tax expense.

In the three months ended 31 March 2009, our UPT for natural gas and gas condensate increased by RR 83 million and RR 66 million, respectively, due to an increase in our production volumes. The decrease in our UPT for crude oil of RR 169 million was the result of a decrease in our average crude oil production tax rate, which is linked to the Urals benchmark crude oil price, and the reduction of crude oil volumes produced. Our average UPT rate for crude oil decreased from RR 3,304 per ton in the three months ended 31 March 2008 to RR 1,527 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 31 March 2009, our property tax expense increased by RR 113 million, or 79.6%, to RR 255 million from RR 142 million in the corresponding period in 2008, primarily due to additions of property, plant and equipment (PPE) at our production subsidiaries.

In the three months ended 31 March 2009, other taxes increased by RR 16 million, or 106.7%, primarily due to marginal increases in several different taxes classified within “other taxes” expense.

Materials, services and other

In the three months ended 31 March 2009, our materials, services and other expenses increased by RR 23 million, or 1.6%, to RR 1,492 million compared to RR 1,469 million in the 2008 period. The main components of this expense were employee compensation and materials and supplies, which comprised 41.0% and 15.7%, respectively, of total materials, services and other expenses in the 2009 period.

millions of Russian roubles	Three months ended 31 March: 2009	2008	Change %
Employee compensation	612	561	9.1%
Materials and supplies	234	429	(45.5%)
Tolling and processing fees	122	60	103.3%
Repair and maintenance services	129	78	65.4%
Electricity and fuel	86	81	6.2%
Fire safety and security expense	46	41	12.2%
Other	42	91	(53.8%)
Subtotal materials, services and other	**1,271**	**1,341**	**(5.2%)**
Operator services expense	221	128	72.7%
Total materials, services and other	**1,492**	**1,469**	**1.6%**

In the three months ended 31 March 2009, our materials, services and other expenses, excluding operator services expense, decreased by RR 70 million, or 5.2%, to RR 1,271 million compared to RR 1,341 million in the corresponding period in 2008.

Our employee compensation increased by RR 51 million, or 9.1%, to RR 612 million compared to RR 561 million in the 2008 period, primarily due to an increase in average salaries and additional staffing at our subsidiaries, mainly OOO “NOVATEK-YURKHAROVNEFTEGAS” and the Purovsky Plant, both of which experienced significant growth in their activities.

Materials and supplies expense decreased by RR 195 million, or 45.5%, 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 152 million, or 77.9%, of the total decrease in materials and supplies.

Tolling and processing fees increased by RR 62 million, or 103.3%, primarily due to an 84.8% increase in volumes de-ethanized and a 10.4% increase in third party processing tariffs related to de-ethanization of unstable gas condensate produced at the Yurkharovskoye field, which accounted for RR 61 million of the total change. The remaining RR 1 million related to the processing of our unstable gas condensate at the Surgutsky refinery.

Operator services expense represented 14.8% of total materials, services and other expense in the 2009 period and refers to the geological and geophysical research provided primarily to our associated companies and, to a lesser extent, third parties. In the three months ended 31 March 2009, we provided services totaling RR 221 million to our associated companies at the Severo Russkiy, Anomalniy, Zapadno-Tazovskiy, Sredniy Chaselskiy and Yuzhno-Zapolyarniy license areas, as compared to RR 124 million for services rendered in the corresponding period in 2008. Corresponding revenues received from our associates and third parties are shown as other revenues in the consolidated statement of income.

Depreciation, depletion and amortization

In the three months ended 31 March 2009, our depreciation, depletion and amortization (“DDA”) expense increased by RR 189 million, or 19.0%, compared to the corresponding period in 2008, primarily due to an increase in depreciation and depletion of our oil and gas properties accrued using the “units of production method” by RR 137 million, or 15.6% as a result of increased natural gas and liquids production, and, to lesser extent, by an increase in straight-line depreciation.

In the 2009 period, our DDA per barrel of oil equivalent (boe) was RR 17.1 compared to DDA per boe of RR 16.0 in the corresponding period in 2008. The increase in our DDA calculated on a boe basis was due to an increase in our natural gas and liquids production, as well as an increase in our depletable cost base resulting from the completion of the capital expansion program at the Yurkharovskoye field in September 2008.

General and administrative expenses

In the three months ended 31 March 2009, our general and administrative expenses increased by RR 263 million, or 31.4%, to RR 1,100 million compared to RR 837 million in the corresponding period in 2008. The main components of these expenses were employee compensation, maintenance of social infrastructure and charitable contributions, and concession management services which, on aggregate, comprised 73.6% and 67.7% of total general and administrative expenses in the three months ended 31 March 2009 and 2008, respectively.

	Three months ended 31 March:		**Change**
millions of Russian roubles	**2009**	**2008**	**%**
Employee compensation	555	474	17.1%
Maintenance of social infrastructure and charitable contributions	160	88	81.8%
Concession management services	95	5	n/m
Rent expense	56	37	51.4%
Legal, audit, and consulting services	54	50	8.0%
Fire safety and security expense	34	34	0.0%
Depreciation – administrative buildings	34	21	61.9%
Business trip expenses	24	41	(41.5%)
Insurance expense	17	19	(10.5%)
Other	71	68	4.4%
Total general and administrative expenses	**1,100**	**837**	**31.4%**

Our employee compensation increased by RR 81 million, or 17.1%, to RR 555 million compared to RR 474 million in the corresponding period in 2008 primarily due to an increase in average salaries effective from July 2008.

In the three months ended 31 March 2009, our maintenance of social infrastructure and charitable contributions increased by RR 72 million, or 81.8%, to RR 160 million compared to RR 88 million in the corresponding period in 2008 primarily due to our continuing support for charities and social programs in the regions where we operate. This expense will continue to fluctuate period-on-period depending on the funding needs and implementation schedules of specific programs.

Concession management services represent administrative expenses incurred by Tharwa Petroleum Company S.A.E (the operator for El Arish concession area located in Egypt). In the three months ended 31 March 2009, our expenses related to concession management services increased by RR 90 million, or 19 times, due to the start of exploration activities in this concession area from the second half of 2008.

In the three months ended 31 March 2009, our rent expense increased by RR 19 million, or 51.4%, primarily due to the relocation of our Moscow office in July 2008 and the renting of additional office space to accommodate the consolidation of our Moscow head office operations.

Insurance expense decreased by RR 2 million, or 10.5%, to RR 17 million compared to RR 19 million in the 2008 period. The decrease was primarily due to lower Group insurance rates which are the result of a reduction in accident claims.

In the three months ended 31 March 2009, other general and administrative expenses increased by RR 3 million, or 4.4%, compared to the corresponding period in 2008. The increase in these expense items was mainly due to an increase in repair and maintenance and remuneration paid to our Board of Directors, which accounted for RR 4 million and RR 3 million, respectively, of the increase, which was partially offset by a decrease in staff training expense by RR 3 million. The remaining increase 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 878 million, or 75.0%, to RR 293 million in the three months ended 31 March 2009, from RR 1,171 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 2009 period. In the three months ended 31 March 2008, our purchases of naphtha amounted to RR 540 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 203 million, or 41.2%, from RR 493 million in the three months ended 31 March 2008 to RR 290 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 31 March 2009, we recorded a charge of RR 20 million to change in inventory expense, compared to a reversal of RR 2 million in the corresponding period in 2008.

In the three months ended 31 March 2009, we recorded a charge of RR 91 million to change in inventory due to a decrease in our inventory balances of polymers and insulation tape products. In addition, in the 2009 period, our natural gas inventory balance decreased by 113 mmcm resulting in a charge of RR 42 million. The charge was mainly offset by an increase in our inventory balance of stable gas condensate in transit and storage by 93 thousand tons in the three months ended 31 March 2009 resulting in a reversal of RR 136 million to change in inventory expense. The remaining expense of RR 23 million to the change in inventory expense related to a change in other products balances and work-in-progress.

In the three months ended 31 March 2008, we recorded a reversal of RR 163 million to change in inventory expense due to an increase in naphtha inventory balance during the period. In addition, we charged RR 90 million and RR 89 million to change in inventory expense due to a decrease in natural gas inventory balance by 275 mmcm and a decrease in our balance of stable gas condensate in transit and storage by 52 thousand tons, respectively. The remaining reversal of RR 18 million to change in inventory expense related to a change in other products balances and work-in-progress.

Other operating income (loss)

In the three months ended 31 March 2009, we realized other operating income of RR 57 million, of which RR 22 million was related to commodity derivative instruments that did not qualify as hedge transactions under IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). In addition, in the 2009 period, we recognized other income of RR 20 million from our equipment suppliers in the form of penalties due to non-compliance of their contractual obligations. The remaining RR 15 million of other operating income was related to the disposals of fixed assets, equipment and materials.

In the three months ended 31 March 2008, our other operating income of RR 16 million was related to the disposals of fixed assets, equipment and materials.

Profit from operations

As a result of the factors discussed above, our profit from operations decreased by RR 4,210 million, or 42.7%, to RR 5,659 million in the three months ended 31 March 2009, compared to RR 9,869 million in the corresponding period in 2008. In the three months ended 31 March 2009, our profit from operations as a percentage of total revenues decreased to 33.3% compared to 47.3% in the 2008 period primarily due to a significant decline in international and domestic benchmark crude oil prices as well as the overall global and domestic economic slowdown.

Finance income (expense)

In the three months ended 31 March 2009, we recorded a net finance loss of RR 2,908 million compared to net finance income of RR 139 million in the corresponding period in 2008. The reversal was mainly due to a significant non-cash foreign exchange loss in the 2009 period, due to the devaluation of the Russian rouble relative to the US dollar.

In the three months ended 31 March 2009, interest income increased by RR 110 million, or 157.1%, primarily due to an increase in interest income received on funds held on account as bank deposits. In the three months ended 31 March 2009, interest expense increased by RR 6 million, or 10.5%.

We recorded a net foreign exchange loss of RR 3,025 million compared to a net foreign exchange gain of RR 126 million in the corresponding period in 2008. The net foreign exchange non-cash loss we recorded in the 2009 period was primarily due to a 15.8% strengthening of the US dollar against the Russian rouble and its effect on our foreign currency denominated borrowings.

Share of income (loss) of associated companies

In the three months ended 31 March 2009, we recognized our proportionate share in the loss of associated companies of RR 16 million compared to the loss of RR 22 million in the 2008 period. The loss recognized by our associated companies was due to 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 21.7% and 24.9% for the three months ended 31 March 2009 and 2008, respectively. Our effective income tax rate, after excluding the effect of foreign subsidiaries, was 21.8% and 25.2% in the 2009 and 2008 periods, respectively. In the three months ended 31 March 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 decreased by 5,360 million, or 71.5%, to RR 2,139 million in the three months ended 31 March 2009 from RR 7,499 million in the corresponding period in 2008. The profit attributable to NOVATEK shareholders decreased by RR 5,369 million, or 71.6%, to RR 2,134 million in the three months ended 31 March 2009 from RR 7,503 million in the corresponding period in 2008.

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to NOVATEK shareholders, decreased by RR 1.77 per share, or 71.7%, to RR 0.70 per share in the 2009 period from RR 2.47 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 31 March 2009 and 2008:

millions of Russian roubles	Three months ended 31 March: 2009	2008	Change %
Net cash provided by operating activities	5,432	9,613	(43.5%)
Net cash used in investing activities	(3,977)	(6,942)	(42.7%)
Net cash used in financing activities	(83)	(108)	(23.1%)

Liquidity ratios	31 March 2009	31 December 2008	Change, %
Current ratio	1.59	1.79	(11.2%)
Total debt to equity	0.31	0.27	14.8%
Long-term debt to long term debt and equity	0.164	0.172	(4.7%)
Net debt to total capitalization (1)	0.12	0.12	0.0%

(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 31 March 2009, our net cash provided by operating activities decreased by RR 4,181 million, or 43.5%, to RR 5,432 million compared to RR 9,613 million in the corresponding period in 2008. The decrease was mainly attributable to lower operating profit from our liquids sales as a result of decreases in our realized prices and a reduction in liquid volumes sold domestically and internationally, as well as a decrease in accounts payable and accrued liabilities.

Net cash used in investing activities

Net cash used in investing activities decreased by RR 2,965 million, or 42.7%, to RR 3,977 million in the three months ended 31 March 2009 compared to RR 6,942 million in the corresponding period in 2008. The change in the 2009 period was primarily due to the completion of two major capital expansion programs at the Yurkharovskoye field and the Purovsky Plant during 2008.

Net cash used in financing activities

Net cash used for financing activities decreased by RR 25 million to RR 83 million in the three months ended 31 March 2009 compared to RR 108 million in the corresponding period in 2008. The change was primarily due to a decrease in repayments of long-term borrowings that was partially offset by an increase in interest paid in the 2009 period.

Working capital

Our net working capital position (current assets less current liabilities) at 31 March 2009 was RR 10,467 million compared to RR 11,259 million at 31 December 2008. The reduction in our net working capital position by RR 792 million was mainly due to an increase in the current portion of our syndicated term loan facility that was partially offset by an increase in cash and cash equivalents.

Capital expenditures

Total capital expenditures on property, plant and equipment for the three months ended 31 March 2009 and 2008 are as follows:

millions of Russian roubles	Three months ended 31 March: 2009	2008	Change %
Exploration, production and marketing	3,870	6,479	(40.3%)
Polymer production and marketing	1	58	(98.3%)
Total	**3,871**	**6,537**	**(40.5%)**

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 31 March 2009, we spent RR 230 million, RR 357 million, RR 1,912 million and RR 309 million for further field development at the Khancheyskoye, East-Tarkosalinskoye, Yurkharovskoye and Sterkhovoye fields, respectively, and RR 800 million on further construction work at the Purovsky Plant.

Debt obligations

On 21 April 2008, the Group obtained an USD 800 million three-year unsecured syndicated term loan facility for general corporate purposes including funding capital expenditure programs. At 31 March 2009, RR 27,025 million (USD 795 million) was withdrawn under this facility agreement.

At 31 March 2009, the Group had short-term credit facilities for available use in the aggregate amount of RR 4,631 million (USD 136 million) on either fixed or variable interest rates subject to the specific type of credit facility. In addition, the Group had an unused two-year credit line facility obtained from “UniCredit Bank” in November 2007 up to the maximum amount of RR 3,401 million (USD 100 million) with interest rates negotiated at 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 31 March 2009, RR 19,251 million, or 100.0%, of our long-term debt was denominated in US dollars (out of RR 30,898 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 19.2% in the three months ended 31 March 2009, is denominated in US dollars. As of 31 March 2009, the Russian rouble had depreciated by approximately 15.8% 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 31 March 2009 would have resulted in an estimated foreign exchange gain of approximately RR 9,269 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 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 31 March 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.