

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 2006 and 2005 together with our unaudited consolidated interim condensed financial information as of and for the three and nine months ended 30 September 2006. 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 2005 prepared in accordance with International Financial Reporting Standards ("IFRS"). All Russian rouble amounts have been stated at their nominal value for all periods shown.

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.

OVERVIEW

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

Our exploration, development, production, processing and marketing of natural gas, gas condensate, crude oil and related oil products have been conducted primarily within the Russian Federation and, prior to June 2005, most of our revenues were derived from sales within the Russian Federation. However, with the commissioning of the Purovsky Gas Condensate Processing Plant (Purovsky Plant) in June 2005, we now export the majority of our stable gas condensate directly to international markets, significantly increasing the share of our revenues derived from international sales.

In November and December 2005, we established Novatek Overseas AG and Runitek GmbH, respectively, both registered in Switzerland, to manage the administration, marketing and trading of crude oil, stable gas condensate, liquefied petroleum gas, and other oil products to international markets. Effective January 2006, we commenced export sales through our newly established foreign subsidiaries.

In July 2006, we executed a 1,000:1 share split of our ordinary shares outstanding which has been given retroactive effect in the consolidated interim condensed financial information. The weighted average number of our ordinary shares, adjusted for the share split, outstanding for periods shown was 3,036,306,000.

In September 2006, we established OAO Northern Energy Company, a 60 percent owned subsidiary, for the purpose of evaluating potential investment opportunities in the power generation sector.

In October 2006, we established OOO NOVATEK-Refuelling Complexes, a wholly-owned subsidiary, to manage our wholesale and retail trading of liquefied petroleum gas and other oil products. We also established OOO NOVATEK North-West, a wholly-owned subsidiary, to manage the administrative and commercial activities relating to the export of our stable gas condensate.

SELECTED DATA

<i>millions of Russian roubles except as stated</i>	Three months ended		Change %
	30 September:		
	2006	2005	
Financial results			
Total revenues (net of VAT and export duties)	12,918	10,126	27.6%
Operating expenses	7,532	6,080	23.9%
Profit attributable to NOVATEK shareholders	4,086	2,875	42.1%
EBITDA ⁽¹⁾	6,536	5,043	29.6%
Earnings per share of common stock (post share split, in Russian roubles)	1.35	0.95	42.1%
Operating results			
Natural gas sales volumes (mmcm)	7,097	6,826	4.0%
Stable gas condensate sales volumes (thousand tons)	438	309	41.7%
Liquefied petroleum gas sales volumes (thousand tons)	134	96	39.6%
Crude oil sales volumes (thousand tons)	68	82	(17.1%)
Oil product sales volumes (thousand tons)	8	105	(92.4%)
Cash flow results			
Net cash provided by operating activities	4,269	1,244	243.2%
Capital expenditures	1,099	1,117	(1.6%)

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

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Transactions with related parties

During 2005, we had significant transactions with companies related to our shareholders and other related parties in connection with sales of crude oil, stable gas condensate and liquefied petroleum gas and purchases and sales of equity securities. Our reported results of operations, financial position and cash flows may have been different had such transactions been carried out amongst unrelated parties. During 2006, no such sales activities have occurred; however, certain other related party transactions have continued (see Note 14, "Related Party Transactions" in our consolidated interim condensed financial information).

Commencement of Purovsky Plant

Prior to June 2005, all of our unstable gas condensate was transported through our own pipeline network and pipelines owned by Gazprom to the Surgutsky refinery for processing into crude oil and oil products (including diesel fuel and light distillate). The crude oil and oil products mix that we receive from the Surgutsky refinery are then transported to market using a combination of the Transneft crude oil pipeline network and the Russian Railways system.

With the commissioning of our Purovsky Plant in June 2005, we began transporting our unstable gas condensate production volumes from our East-Tarkosalinskoye and Khancheyevskoye fields through our own pipeline network directly to the Purovsky Plant. We have an agreement with Gazprom to access its gas condensate pipeline network to deliver the unstable gas condensate produced at our Yurkharovskoye field to the Purovsky Plant. The commissioning of Purovsky Plant has significantly changed our distribution channel for delivery of stable gas condensate to the market, whereby we now export the majority of our stable gas condensate to international markets via rail and tankers.

Our revenues and margins have increased since prices for stable gas condensate in international markets have historically exceeded prices for Urals blend crude oil on both the export and domestic markets.

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). In the three months ended 30 September 2006, the

weighted average FTS price for the regions where we delivered our natural gas increased by RR 100 per mcm, or 109.7%, to RR 1,129 per mcm compared to RR 1,029 per mcm in the corresponding period in 2005. The terms for delivery of natural gas affect our average realized prices. Natural gas sold “ex-field” is sold primarily to wholesale gas traders, in which case the buyer is responsible for the payment of gas transportation tariffs. Sales to wholesale traders allow us to diversify our gas sales without incurring additional commercial expenses. However, we generally realize higher prices and net margins for natural gas volumes sold directly to the end-customer, as the gas transportation tariff is included in the contract price and no retail margin is lost to wholesale gas traders. During the three months ended 30 September 2006, the average netback margin differential we received on end-customer sales compared to ex-field sales (average end-customer netback less average ex-field price) increased by RR 32 per mcm, or 65.3%, compared to the corresponding period in 2005 despite the increase in the transportation tariff per mcm in October 2005 and the changes in the methodology for calculating transportation tariffs in August 2006.

The following table shows our average realized natural gas sales prices (net of VAT) for the three months ended 30 September 2006 and 2005:

<i>Russian roubles per mcm</i>	Three months ended 30 September:		Change %
	2006	2005	
Average natural gas price to end-customers ⁽¹⁾	1,273	1,113	14.4%
Gas transportation expense for sales to end-customers	534	452	18.1%
Average natural gas netback on end-customer sales	739	661	11.8%
Average natural gas price ex-field (wholesale traders)	658	612	7.5%
Average netback margin differential	81	49	65.3%

⁽¹⁾ Includes cost of transportation.

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

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

Our crude oil, stable gas condensate, LPG and oil products export and CIS prices include transportation expenses in accordance with the terms of delivery while prices for domestic sales do not. Under these agreements, the buyer takes ownership at the named place and responsibility for further transportation of the product to its final destination.

During 2006 and the corresponding 2005 period, our crude oil export delivery terms were delivery at frontier (DAF) at the Polish and Belarusian borders (DAF Poland and Belarussia). In the three months ended 30 September 2006, our average crude oil export contract price, including export duties, was approximately USD 463 per ton compared to approximately USD 403 per ton in the three months ended 30 September 2005.

During 2006, our stable gas condensate export delivery terms were delivery to the port of destination ex-ship (DES) or priced at cost and freight (CFR) while export terms in the 2005 period were primarily carriage paid to (CPT) the Port of Vitino. Our average export stable gas condensate contract price, including export duties, in the three months ended 30 September 2006 was approximately USD 610 per ton compared to approximately USD 442 per ton for the three months ended 30 September 2005.

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 2006 and 2005:

<i>Russian roubles (RR) or US dollars (USD) per ton</i>	Three months ended 30 September:		Change %
	2006	2005	
Stable gas condensate			
Net export price, RR per ton ⁽¹⁾	10,898	8,534	27.7%
Net export price, USD per ton	406.5	299.9	35.5%
Domestic price, RR per ton	8,035	6,164	30.4%
Crude oil			
Net export price, RR per ton ⁽¹⁾	6,621	7,476	(11.4%)
Net export price, USD per ton	247.0	262.8	(6.0%)
Domestic price, RR per ton	6,827	5,426	25.8%

⁽¹⁾ Includes cost of transportation.

Our LPG export and CIS delivery terms during 2006 were delivery at frontier (DAF) at the Belarusian-Polish and Russian-Latvian borders. In the three months ended 30 September 2006, our average export LPG contract price, including export duties, was approximately USD 531 per ton compared to USD 379 in the corresponding period in 2005. We are obliged to sell a portion of our domestic sales volumes of LPG at contract prices which are regulated by the FTS while the remaining portion of our domestic sales are sold under commercial terms. In the 2006 period, we sold 7 thousand tons at the regulated price of RR 1,350 per ton and 109 thousand tons at a commercial price of approximately RR 7,755 per ton, including transportation, compared to 10 thousand tons at RR 1,350 per ton and 74 thousand tons at RR 6,263 per ton, respectively, in the 2005 period. Domestic sales of oil products from Surgutsky refinery are priced free carrier (FCA) at the Surgut railroad station.

The following table shows our average realized liquefied petroleum gas and oil products sales prices (net of VAT and export duties where applicable) for the three months ended 30 September 2006 and 2005:

<i>Russian roubles (RR) or US dollars (USD) per ton</i>	Three months ended 30 September:		Change %
	2006	2005	
LPG			
Net export price, RR per ton ⁽¹⁾	10,498	7,583	38.4%
Net export price, USD per ton	391.6	266.5	46.9%
CIS price, RR per ton ⁽¹⁾	8,953	-	n/a
Domestic price, RR per ton	5,795	5,156	12.4%
Oil products			
Domestic price, RR per ton	3,550	5,699	(37.7%)

⁽¹⁾ Includes cost of transportation.

Transportation tariffs

Transportation tariffs established by the FTS from 1 October 2005 for the transport of natural gas produced in Russia for shipments to consumers located within the customs territory of the Russian Federation and the member states of the Customs Union Agreement (Belarus, Kazakhstan, Kyrgyzstan and Tajikistan) are set at RR 23.84 (excluding VAT) per mcm per 100 km. This represents a 23.1% increase from the tariffs of RR 19.37 (excluding VAT) per mcm per 100 km set on 1 October 2004.

As of 1 August 2006, the general methodology for calculating transportation tariffs for natural gas produced in the Russian Federation was changed by the FTS. Under the new methodology the transportation tariff consists of two parts: a rate for the utilization of the trunk pipeline and a transportation rate per mcm per 100 km. The rate for utilization of the trunk pipeline is based on an "input/output" function which is determined by where natural gas enters and exits the trunk pipeline (the maximum "input/output" rate is RR 931.97 (excluding VAT) per mcm) and includes a constant rate of RR 12 (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 with their own 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 is presently set at RR 5.28 (excluding VAT) per mcm per 100 km.

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

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

Our stable gas condensate, LPG and oil products are transported by rail which is owned and operated by Russian Railways, Russia's state-owned monopoly railway operator. Our transportation tariffs for transport by rail are also set by the FTS and vary depending on product and length of transport route. We deliver our stable gas condensate to international markets using the storage and loading facilities at the Port of Vitino on the White Sea and tankers for transportation to US and European markets. The costs associated with the transportation of stable gas condensate by tanker are determined by the distance to the final destination, tanker availability and standard shipping terms. The majority of our LPG and oil products are sold in Russia and the CIS.

Our tax burden

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

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

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

OPERATIONAL HIGHLIGHTS

Hydrocarbon sales volumes

In the three months ended 30 September 2006, we increased our natural gas and liquids (crude oil, stable gas condensate, LPG and oil products) sales volumes due to steady increases in our production of these hydrocarbons compared to the corresponding period in 2005. Our growth in production was achieved through the efficient exploitation of our existing producing asset base. We expect our total production volumes to continue growing, primarily as a result of the development activities at our existing producing fields and by exploring and developing other oil and gas fields in our asset portfolio.

Natural gas sales volumes

<i>millions of cubic meters</i>	Three months ended 30 September:		Change %
	2006	2005	
Production from:			
Yurkharovskoye field	2,371	2,102	12.8%
East-Tarkosalinskoye field	4,038	3,415	18.2%
Khancheyskoye field	747	685	9.1%
Other fields	6	2	200.0%
Total natural gas production	7,162	6,204	15.4%
Purchases from:			
Gazprom	478	529	(9.6%)
Other	45	169	(73.4%)
Total natural gas purchases	523	698	(25.1%)
Total production and purchases	7,685	6,902	11.3%
Purovsky Plant and own usage	(7)	(5)	40.0%
Decrease (increase) in pipeline and underground storage of natural gas	(581)	(71)	718.3%
Total natural gas sales volumes	7,097	6,826	4.0%
<i>Sold to end-customers</i>	<i>2,929</i>	<i>2,604</i>	<i>12.5%</i>
<i>Sold ex-field</i>	<i>4,168</i>	<i>4,222</i>	<i>(1.3%)</i>

In the three months ended 30 September 2006, our total consolidated natural gas production increased by 958 mmcm, or 15.4%, compared to the corresponding period in 2005. The increase in natural gas production in the three month period was primarily due to organic growth at our three core fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye).

In the three months ended 30 September 2006, purchases decreased by 175 mmcm, or 25.1%, compared to the corresponding period in 2005, primarily due to a decrease in production from the fields of Purgazdobycha and purchases from other third parties during the quarter.

In the three months ended 30 September 2006, the Purovsky Plant's and our own usage of natural gas increased by 2 mmcm, or 40.0% compared to the corresponding period in 2005. The increase was primarily due to increased throughput of unstable gas condensate at the Purovsky Plant in the 2006 period.

As of 30 September 2006, our cumulative natural gas volumes stored in Gazprom's underground gas storage facilities totaled 905 mmcm, increasing by 645 mmcm during the period. We expect our volumes of natural gas injected into underground gas storage facilities to fluctuate period-to-period depending on market conditions, storage capacity constraints and our development plans to sustain and/or grow production during periods of seasonality.

Liquids sales volumes

<i>thousands of tons</i>	Three months ended 30 September:		Change %
	2006	2005	
Production from:			
Yurkharovskoye field	165	168	(1.8%)
East-Tarkosalinskoye field	220	195	12.8%
Khancheyskoye field	176	174	1.1%
Other fields	31	-	100.0%
Total liquids production	592	537	10.2%
Purchases from:			
Purgazdobycha	18	32	(43.8%)
Total liquids purchases	18	32	(43.8%)
Total production and purchases	610	569	7.2%
Losses ⁽¹⁾	(5)	(13)	(61.5%)
Decreases (increases) in liquids inventory balances	43	36	19.4%
Total liquids sales volumes	648	592	9.5%
<i>Stable gas condensate export</i>	436	308	41.6%
<i>Stable gas condensate domestic</i>	2	1	100.0%
<i>LPG export</i>	8	12	(33.3%)
<i>LPG CIS</i>	10	-	n/a
<i>LPG domestic</i>	116	84	38.1%
<i>Crude oil export</i>	22	21	4.8%
<i>Crude oil domestic</i>	46	61	(24.6%)
<i>Oil products domestic</i>	8	105	(92.4%)

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

In the three months ended 30 September 2006, our crude oil and gas condensate production increased by 55 thousand tons, or 10.2%, to 592 thousand tons compared to the corresponding period in 2005. The increase in the three month period was largely attributable to organic growth of gas condensate production at our East-Tarkosalinskoye field and, to a lesser degree, at our Khancheyskoye field, which was partially offset by a decrease in gas condensate production at our Yurkharovskoye field due to natural declines in the concentration of liquids from the current producing horizons at the field.

In the three months ended 30 September 2006, purchases decreased by 14 thousand tons, or 43.8%, compared to the corresponding period in 2005, primarily due to a decrease in production from Purgazdobycha.

During the period, we delivered 530 thousand tons and 21 thousand tons of unstable gas condensate to the Purovsky Plant and Surgutsky refinery, respectively, compared to 406 thousand tons and 146 thousand tons, respectively, in the corresponding period in 2005. Our processed products from the Purovsky Plant are sold separately from the processed products we receive from the Surgutsky refinery. After processing gas condensate at the Surgutsky refinery we receive crude oil and a slate of oil products. The crude oil is sold as Ural's blend and delivered through the Transneft pipeline network. In the three months ended 30 September 2006, our crude oil output comprised 68.9% of the total yield from the Surgutsky refinery compared to 22.9% in the corresponding period in 2005.

Our total liquids sales volumes were affected by the commencement of export sales through our newly established foreign subsidiaries and the terms of delivery for these sales. As of 30 September 2006, we had 141 thousand tons of stable gas condensate in transit and recognized as inventory until such time as it is delivered to the port of destination. Our stable gas condensate in transit and recognized as inventory was reduced by 46 thousand tons as at 30 September 2006.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2006 COMPARED TO THE CORRESPONDING PERIOD IN 2005

The following table and discussion is a summary of our consolidated results of operations for the three months ended 30 September 2006 and 2005. Each line item is also shown as a percentage of our total revenues.

<i>millions of Russian roubles</i>	Three months ended 30 September:			
	2006	% of total revenues	2005	% of total revenues
Total revenues (net of VAT and export duties)	12,918	100.0%	10,126	100.0%
Other income (loss)	42	0.3%	(18)	0.2%
Total revenues and other income	12,960	100.3%	10,108	99.8%
Operating expenses	(7,532)	(58.3%)	(6,080)	(60.1%)
Profit from operations	5,428	42.0%	4,028	39.7%
Finance income (expense)	(13)	(0.1%)	(78)	(0.8%)
Profit before income tax and minority interest	5,415	41.9%	3,950	39.0%
Total income tax expense	(1,330)	(10.3%)	(1,095)	(10.8%)
Profit for the period	4,085	31.6%	2,855	28.2%
Minority interest	(1)	0.0%	(20)	(0.2%)
Profit attributable to NOVATEK shareholders	4,086	31.6%	2,875	28.4%

Total revenues and other income

The following table sets forth our net sales (net of VAT and export duties, where applicable) and other income for the three months ended 30 September 2006 and 2005:

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2006	2005	
Net natural gas sales	6,471	5,482	18.0%
<i>Net end-customer sales</i>	3,728	2,904	28.4%
<i>Net ex-field sales</i>	2,743	2,578	6.4%
Net stable gas condensate sales	4,762	2,629	81.1%
<i>Net export sales</i>	4,748	2,620	81.2%
<i>Net domestic sales</i>	14	9	55.6%
Net liquefied petroleum gas sales	842	524	60.7%
<i>Net export sales</i>	87	92	(5.4%)
<i>Net CIS sales</i>	90	-	n/a
<i>Net domestic sales</i>	665	432	53.9%
Net crude oil sales	467	488	(4.3%)
<i>Net export sales</i>	145	157	(7.6%)
<i>Net domestic sales</i>	322	331	(2.7%)
Net oil products sales	27	612	(95.6%)
<i>Net domestic sales</i>	27	612	(95.6%)
Total oil and gas sales	12,569	9,735	29.1%
Sales of polymer and insulation tape	276	278	(0.7%)
Other revenues	73	113	(35.4%)
Total revenues	12,918	10,126	27.6%
Other income (loss)	42	(18)	(333.3%)
Total revenues and other income	12,960	10,108	28.2%

Natural gas sales

In the three months ended 30 September 2006, our revenues from sales of natural gas increased by RR 989 million, or 18.0%, compared to the corresponding period in 2005. The increase in natural gas revenues was primarily attributable to increases in both prices and sales volumes during the period. Revenues from the sale of natural gas accounted for 50.1% and 54.1% of our total revenues in the 2006 and 2005 periods, respectively. The decrease in natural gas sales as a percentage of total revenues was primarily due to a combination of increased sales volumes of stable gas condensate to international markets, where we are able to realize higher net prices, and the strong prices for liquid hydrocarbons in the 2006 period compared to the corresponding period in 2005. We sell our natural gas volumes exclusively in the Russian domestic market.

In the three months ended 30 September 2006, our average realized natural gas price per mcm increased by RR 109 per mcm, or 13.6%, to RR 912 per mcm from RR 803 per mcm in the corresponding period in 2005, due to an overall increase in prices and an increase in sales volumes to end-customers. During the period, our proportion of natural gas sales to end-customers increased from 38.1% in 2005 to 41.3% in 2006. The average realized prices of our natural gas sold to end-customers and natural gas sold ex-field were higher by 14.4% and by 7.5%, respectively, in the 2006 period compared to the corresponding period in 2005.

Stable gas condensate sales

In the three months ended 30 September 2006, our revenues from sales of stable gas condensate increased by RR 2,133 million, or 81.1%, compared to the corresponding period in 2005. The increase in revenues is directly related to the increased throughput at our Purovsky Plant in 2006. The Purovsky Plant was commissioned in June 2005 and did not operate at full processing capacity during the corresponding 2005 period. In the 2006 period, we increased our sales volumes of stable gas condensate by 129 thousand tons compared to the corresponding period in 2005.

In the three months ended 30 September 2006, we exported 99.5% of our stable gas condensate sales volumes, 436 thousand tons, from the Purovsky Plant to markets in the United States and Europe using the loading and storage facilities at the Port of Vitino on the White Sea and via leased tankers. In the 2006 period, our average realized price, excluding export duties, translated into US dollars for stable gas condensate sold on the export market increased by USD 106.6 per ton, or 35.5%, to USD 406.5 per ton (DES and CFR) from USD 299.9 per ton (CPT) in the corresponding period in 2005. The significant increase was due to the overall strengthening of prices in international markets in 2006 and the change in our delivery terms due to the commencement of sales through our trading subsidiary beginning in January 2006. The average domestic price for stable gas condensate increased by RR 1,871 per ton, or 30.4%, in the 2006 period compared to the corresponding period in 2005 due to the strengthening of prices on the domestic market.

Liquefied petroleum gas sales

In the three months ended 30 September 2006, our revenues from the sales of LPG increased by RR 318 million, or 60.7%. The increase was also directly related to an increase in throughput at our Purovsky Plant in 2006 as explained above. In the 2006 period, we increased our sales volumes of LPG by 38 thousand tons to 134 thousand tons, of which 86.6% was sold domestically for an average price of RR 5,795 per ton (FCA excluding VAT); an increase of RR 639 per ton, or 12.4%, compared to the corresponding period in 2005. The remaining volumes of LPG were sold as follows: 5.9% was sold to the export market for an average price of USD 391.6 per ton (DAF excluding export duties) representing an increase of USD 125.1 per ton, or 46.9%, compared to the corresponding period in 2005; and 7.5% was sold in the CIS for an average price of RR 8,953 per ton (DAF excluding VAT). We had no sales of LPG to the CIS markets in the corresponding period in 2005.

Crude oil sales

In the three months ended 30 September 2006, our revenues from the sales of crude oil decreased by RR 21 million, or 4.3%, compared to the corresponding period in 2005, due to a reduction in the overall volumes of crude oil sold during the 2006 period. The reduction in crude oil sales volumes was partially offset by higher prices received on the domestic market.

Total sales volumes of crude oil decreased in the three months ended 30 September 2006 by 14 thousand tons, or 17.1%, compared to the corresponding period in 2005. The decrease in sales volumes of crude oil in the 2006 period was due to the migration of processing of our unstable gas condensate from the Surgutsky refinery to the Purovsky Plant (a portion of gas condensate processed at the Surgutsky refinery is sold as crude oil) starting in June 2005. In the 2006 period, we received 14 thousand tons of crude oil from the Surgutsky refinery as compared to 31 thousand tons in the corresponding period in 2005.

Our average realized sales price, excluding export duties, translated into US dollars for crude oil exported to international markets decreased by USD 15.8 per ton, or 6.0%, to USD 247.0 per ton (DAF) in the three months ended 30 September 2006 compared to USD 262.8 per ton (DAF) in the corresponding period in 2005 as a result of the growth in our export duties. The growth in the average export duty (55.0%) exceeded the growth in our average crude oil contract price (15.0%) during the 2006 period. Our average realized crude oil domestic sales price (excluding VAT) increased by RR 1,401 per ton, or 25.8%, to RR 6,827 per ton in the 2006 period, compared to RR 5,426 per ton in the corresponding period in 2005.

Oil products sales

In the three months ended 30 September 2006, our revenue from the sales of oil products decreased by RR 585 million, or 95.6%, compared to the corresponding period in 2005. The decrease in oil products revenues was primarily due to a decrease in the volumes of unstable gas condensate delivered to the Surgutsky refinery, which resulted in a decrease in the output of oil products available for sale. In the 2006 period, oil products sales volumes from the Surgutsky refinery amounted to eight (8) thousand tons compared to 105 thousand tons in the corresponding period in 2005. The decrease in sales volumes of 97 thousand tons, or 92.4%, was compounded by a RR 2,149 per ton, or 37.7%, decrease in the average domestic price due to the mix of lower value light fraction oil products we received. In the corresponding 2005 period, we received primarily diesel fuel and light distillate which realized a premium over the light hydrocarbon fraction. We sold 100% of our oil products' volumes to the domestic market in both periods.

Sales of polymer and insulation tape

In the three months ended September 2006, our revenues from the sales of polymer and insulation tape were relatively consistent with revenues in the prior period (RR 276 million in 2006 compared to RR 278 million in the corresponding period in 2005). In June 2005, we commenced production of BOPP film wrap at our subsidiary NOVATEK-Polimer which generated RR 107 million in revenue in the 2006 period compared to RR 18 million in the corresponding period in 2005. Other polymer' sales contributed an additional RR 169 million in revenues compared to RR 260 million in the corresponding period in 2005. The decrease in other polymer sales was due to gradual shift of production to more perspective types of polymer products, including BOPP film wrap, and an overall decrease in the market of pipe insulation tapes.

Other revenues

Other revenues include rent, polymer tolling and other services. In the three months ended 30 September 2006, other revenues decreased by RR 40 million, or 35.4%, to RR 73 million from RR 113 million in the corresponding period in 2005. The decrease was primarily due to a reduction in services provided to third parties.

Other income (loss)

In the three months ended 30 September 2006, we realized other income of RR 42 million primarily attributable to the disposals of fixed assets and equipment (RR 24 million) offset by recorded losses in the amount of RR 18 million which were related to commodity derivative instruments that did not qualify as hedge transactions under IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). In the corresponding period in 2005, we realized a loss of RR 18 million.

Operating expenses

In the three months ended 30 September 2006, total operating expenses increased by RR 1,452 million, or 23.9%, to RR 7,532 million compared to RR 6,080 million in the three months ended 30 September 2005, largely due to increases in non-controllable expenses such as production taxes and transportation costs. Most of our controllable expenses in the 2006 period were lower as a percentage of total revenues as compared with the corresponding period in 2005. Operating expenses decreased as a percentage of total revenues to 58.3% in the 2006 period compared to 60.0% in the corresponding period in 2005, as shown in the table below.

<i>millions of Russian roubles</i>	Three months ended 30 September:			
	2006	% of total revenues	2005	% of total revenues
Transportation expenses	2,685	20.8%	1,696	16.7%
Taxes other than income tax	1,529	11.8%	1,216	12.0%
Depreciation, depletion and amortization	1,048	8.1%	943	9.3%
Materials, services and other	987	7.6%	975	9.6%
General and administrative expenses	792	6.1%	728	7.2%
Purchases of oil, gas condensate and natural gas	296	2.3%	417	4.1%
Exploration expenses	180	1.4%	19	0.2%
Net impairment (reversal) expense	(21)	0.2%	65	0.6%
Change in inventory	36	0.3%	21	0.2%
Total operating expenses	7,532	58.3%	6,080	60.0%

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 2006, non-controllable expenses of transportation and taxes other than income increased by RR 1,302 million, or 44.7%, to RR 4,214 million from RR 2,912 million in the corresponding period in 2005, primarily due to the increase in hydrocarbon production from our three core fields and the change in our delivery terms for stable gas condensate. As a percentage of total revenues, our non-controllable expenses increased by 3.9% to 32.6% in the 2006 period compared to 28.7% in the corresponding period in 2005.

Transportation expense

Our total transportation expense in the three months ended 30 September 2006 increased by RR 989 million, or 58.3%, compared to the corresponding period in 2005.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2006	2005	
Natural gas transportation to customers	1,564	1,177	32.9%
Stable gas condensate and liquefied petroleum gas transported by rail	608	381	59.6%
Stable gas condensate transported by tankers	475	-	n/a
Transportation of unstable gas condensate from the fields to the processing facilities through third party pipelines	19	28	(32.1%)
Crude oil transportation to customers by pipeline	14	37	(62.2%)
Insurance expense	3	65	(95.4%)
Other transportation costs	2	8	(75.0%)
Total transportation expenses	2,685	1,696	58.3%

In the three months ended 30 September 2006, our transportation expense for natural gas increased by RR 387 million, or 32.9%. The increase in our gas transportation expenses was partially due to a 13.2% increase in our sales volumes of natural gas sold to end-customers, for whom the cost of transportation is included in the sales price, and a combination of an increase in transportation tariff per mcm per 100 km and a change in the calculation methodology effective 1 August 2006. The transportation tariff for the month of July 2006 and the corresponding three months ended 30 September 2005 increased by RR 4.47 (excluding VAT) per mcm per 100 km, or 23.1%. As a result of the change in methodology and an increase in the average distance for our end-customer sales, from 2,021 km in July to 2,103 km for the August and September period, our average transportation expense per mcm within the 2006 period increased from RR 481.9 per mcm in July 2006 to

RR 554.0 per mcm in August and September 2006, or by 15.0%. Under the new methodology, the implied gas transportation tariff per mcm per 100 km increased by RR 2.5, or 10.5%, in the August and September period to RR 26.34 compared to RR 23.84 in July.

In the three months ended 30 September 2006, our total expense for transportation by rail increased by RR 227 million, or 59.6%, due to an increase in export and CIS volumes sold. During the period, our combined export and CIS volumes sold increased by 134 thousand tons, or 41.9%, from 320 thousand tons in the corresponding 2005 period to 454 thousand tons in 2006. We did not sell any oil products to the export market in the 2006 and 2005 periods.

Our expense for stable gas condensate transported by rail to export markets increased by RR 200 million, or 58.6%, from RR 341 million to RR 541 million, or from approximately RR 1,109 per ton to approximately RR 1,243 per ton compared to the corresponding period in 2005. The increase in the rate per ton was primarily due to a tariff increase of approximately 12.7% during the period. Transportation expense for LPG amounted to RR 65 million, of which RR 43 million was related to export sales and RR 22 million to CIS sales, or approximately RR 5,144 per ton and RR 2,180 per ton, respectively. Transportation expenses for LPG amounted to RR 40 million in the corresponding period in 2005. The remaining RR 2 million was related to railway infrastructure maintenance and was not allocated between products.

With the commencement of export sales through our foreign subsidiary, as of 1 January 2006, we now incur tanker expense for delivery of stable gas condensate to US and European markets. Total transportation expense for delivery of stable gas condensate by tanker amounted to RR 475 million in the three months ended 30 September 2006 as compared to nil in the corresponding period.

In the three months ended 30 September 2006, our expense for transportation of crude oil to export markets decreased by RR 23 million, or 62.2%, compared to the corresponding period in 2005. The decrease in crude oil transportation expense was primarily due to a reduction in export volumes delivered which was slightly offset by an increase in the expense per ton due to increases in the transportation tariff in the 2006 period compared to the corresponding period in 2005.

Taxes other than income tax

In the three months ended 30 September 2006, taxes other than income tax increased by RR 313 million, or 25.7%, compared to the corresponding period in 2005. The increase was mainly due to increases in UPT and property tax.

<i>millions of Russian roubles</i>	Three months ended		Change %
	30 September:		
	2006	2005	
Unified natural resources production tax (UPT)	1,401	1,080	29.7%
Property tax	108	70	54.3%
Excise tax	-	20	n/a
Other taxes	20	46	56.5%
Total tax other than income tax	1,529	1,216	25.7%

In the three months ended 30 September 2006, the increase in taxes other than income tax resulted primarily from a RR 321 million, or 29.7%, increase in the UPT. The UPT increase in 2006 was primarily due to an increase in natural gas production volumes and an increase in the production tax rate for natural gas and, to a lesser extent, an increase in production and prices for crude oil and gas condensate, both of which affect the UPT tax rates for these products. In the 2006 period, natural gas and liquids production increases at Tarkosalenftegas and natural gas production at Yurkharovneftegas accounted for RR 208 million, or 64.6%, and RR 62 million, or 19.3%, respectively, of the increase in this expense.

In the three months ended 30 September 2006, our property tax expense increased by RR 38 million, or 54.3%, to RR 108 million compared to RR 70 million in the corresponding period in 2005. The increase was primarily due to additions of property, plant and equipment (PPE) at the Purovsky Plant, operated by Nova ZPK, which accounted for RR 18 million of the tax increase, and additions of PPE at Tarkosalenftegas, at Yurkharovneftegas and NOVATEK, which accounted for RR 11 million, RR 2 million and RR 3 million, respectively, of the tax increase.

In the three months ended 30 September 2006, our excise tax expense decreased by RR 20 million, or 100.0%, compared to the corresponding period in 2005. The decrease was due to lower volumes of unstable gas

condensate processed at the Surgutsky refinery in the third quarter due to the launch of Purovsky Plant in June 2005. Also, during the three months ended 30 September 2006, we received light fraction oil products from the Surgutsky refinery, which were not subject to the excise tax, while in corresponding 2005 period, we received diesel fuel and light distillate products which were subject to the excise tax.

Depreciation, depletion and amortization

In the three months ended 30 September 2006, our depreciation, depletion and amortization (DDA) expense increased by RR 105 million, or 11.1%, compared to the corresponding period in 2005. The increase was primarily due to higher production levels which increased depletion of our oil and gas properties. Associated depletion increased by RR 69 million, or 8.0%, compared to the corresponding period in 2005. In the 2006 period, our DDA per barrel of oil equivalent (boe) was RR 18.0 compared to DDA per boe of RR 19.7 in the corresponding period in 2005 as a result of an increase in our proved developed reserves estimates and lower capital expenditures in the 2006 period. The remaining balance was due to increases in straight line depreciation for other assets, including RR 21 million relating to NOVATEK-Polimer, RR 10 million relating to Tarkosalenftegas and RR 5 million relating to other companies.

Materials, services and other expense

In the three months ended 30 September 2006, our materials, services and other expenses increased by RR 12 million, or 1.2%, to RR 987 million compared to RR 975 million in the corresponding period in 2005. The main components of this expense in the three months ended 30 September 2006 were materials and payroll expenses.

<i>millions of Russian roubles</i>	Three months ended		Change
	30 September:		
	2006	2005	%
Payroll expense	356	384	(7.3%)
Materials expense	293	263	11.4%
Security and fire safety expense	64	25	156.0%
Processing services expense	44	102	(56.9%)
Energy expense	27	20	35.0%
Other expenses	203	181	12.2%
Total materials, services and other expenses	987	975	1.2%

Payroll expense decreased by RR 28 million, or 7.3%, to RR 356 million compared to RR 384 million in the corresponding period in 2005. The decrease in our payroll expense was mainly due to net staff reductions at our subsidiaries which were partially offset by salary increases during the period.

Materials expense increased by RR 30 million, or 11.4%, to RR 293 million compared to RR 263 million in the corresponding period in 2005. The increase was mainly due to the commencement of BOPP production at NOVATEK-Polimer, and the associated increase in purchases of raw materials. Materials expense at NOVATEK-Polimer increased from RR 172 million in the corresponding 2005 period to RR 191 million in 2006, or by RR 19 million, accounting for 63.3% of the total increase to materials expense. Materials expense at Tarkosalenftegas and Yurkharovneftegas increased by RR 10 million and by RR 4 million, respectively, due to increased hydrocarbon production volumes. The increases were partially offset by a decrease of RR 10 million at Purneftegasgeologiya.

Processing services expenses decreased by RR 58 million, or 56.9%, to RR 44 million from RR 102 million in the corresponding period in 2005, mainly due to an 85.8% decrease in the volumes of unstable gas condensate processed at the Surgutsky refinery in the 2006 period. Processing expenses at the Purovsky Plant are allocated among our various expense categories.

Security and fire safety expenses increased by RR 39 million, or 156.0%, to RR 64 million from RR 25 million in the corresponding period in 2005, of which RR 22 million related to activities at the Purovsky Plant and the remaining RR 15 million was related to ongoing fire safety activities at our field sites.

In the three months ended 30 September 2006, other materials expenses increased by RR 22 million compared to the corresponding period in 2005. The increase was related to repair and maintenance, transport (not related to the transportation of our products), fuel and rent expenses which increased by RR 19 million, RR 18 million, RR 12 million and RR 4 million, respectively. These increases were partially offset by a decrease in business trips and other expenses in an aggregate amount of RR 31 million.

General and administrative expenses

In the three months ended 30 September 2006, general and administrative expenses increased by RR 64 million, or 8.8%, to RR 792 million compared to RR 728 million in the corresponding period in 2005. The main components of these expenses, comprising 81.8% of the total expenses, were payroll, social and charitable, insurance and legal, audit and consulting expenses.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2006	2005	
Payroll expense	430	373	15.3%
Social and charitable expenses	139	88	58.0%
Insurance expense	39	79	(50.6%)
Legal, audit and consulting expenses	39	103	(62.1%)
Rent expenses	32	6	433.3%
Other expenses	113	79	43.0%
Total general and administrative expenses	792	728	8.8%

Payroll expense increased by RR 57 million, or 15.3%, to RR 430 million compared to RR 373 million in the corresponding period in 2005. Additional employees' wages and staff at NOVATEK accounted for RR 45 million, or 78.9%, of the total increase in payroll expense, of which RR 14 million related to increases in staff wages and RR 31 million related to staff additions. In 2006, we initiated an independent review of our employee compensation levels in an effort to bring the Group's total remuneration packages in line with domestic and international peers as part of a broader human resources initiative to attract, retain and motivate employees. The review process is ongoing and will affect payroll expenses in future periods.

Social and charitable expenses increased by RR 51 million, or 58.0%, to RR 139 million compared to RR 88 million in the corresponding period in 2005, and were primarily related to our continued support for charities and social programs in the regions where we operate.

Insurance expense decreased by RR 40 million, or 50.6%, to RR 39 million compared to RR 79 million in the corresponding period in 2005. The decrease was the result of lower Group insurance rates due to a reduction in claims for accidents and the cessation of insurance related to the processing of liquids at the Surgutsky refinery due to the decrease in volumes delivered in the 2006 period.

Legal, audit and consulting services expenses decreased by RR 64 million, or 62.1%, to RR 39 million compared to RR 103 million in the corresponding period in 2005, due to a decrease in consulting services provided to the Group in the 2006 period. Consulting services expense decreased in the 2006 period due certain one-time expenses incurred in 2005 related to the listing of the Group's shares on the London Stock Exchange in the form of global depositary receipts.

Rent expenses increased by RR 26 million, or approximately fourfold, to RR 32 million as compared to RR 6 million in the corresponding period in 2005. The increase in rent expenses was largely attributable to additional office space rented in Moscow of approximately RR 24 million and RR 2 million for office space used in our international operations.

Other general and administrative expenses increased by RR 34 million, or 43.0%, compared to the corresponding 2005 period. The increase in these items was partially due to the expenses related to the establishment of our representative office in London and our trading subsidiaries in Switzerland.

Purchases of oil, gas condensate and natural gas

Our purchases of hydrocarbons decreased by RR 121 million, or 29.0%, to RR 296 million in the three months ended 30 September 2006 from RR 417 million in the corresponding period in 2005 primarily due to a decrease in volumes produced from fields licensed to Purgazdobycha to which we are entitled to purchase production in the amount of our previous shareholding in those fields.

Profit from operations

As a result of the factors discussed above, our profit from operations increased by RR 1,400 million, or 34.8%, in the 2006 period compared to the corresponding period in 2005. In the 2006 period, our profit from operations as a percentage of total revenues increased to 42.0% as compared to 39.7% in the corresponding period in 2005.

Finance income (expense)

Total finance expense decreased by RR 65 million, or 83.3%, from a net expense of RR 78 million in the three months ended 30 September 2005 to a net expense of RR 13 million in the corresponding period in 2006. The decrease was primarily due to lower interest expense and a slight increase in foreign exchange gain which was offset by a decrease in interest income in the 2006 period compared to the corresponding period in 2005.

In the 2006 period, interest expense decreased by RR 163 million or 57.6% compared to the corresponding period in 2005, due mainly to a reduction in our total debt. The decrease in interest expense was partly offset by a decrease in interest income of RR 102 million, or 68.9%, in the 2006 period, due to the repayment of certain loans provided to related parties in prior periods. Foreign exchange gain slightly increased by RR 4 million to RR 61 million in the 2006 period, compared to RR 57 million in the corresponding period in 2005 due to the strengthening of the Russian rouble against the US dollar and Euro and its affect on our foreign currency denominated borrowings.

Income tax expense

Our overall consolidated effective income tax rates (total tax expense calculated as a percentage of our reported IFRS profit before income tax and share of net income from associates) were 24.6% and 27.7% for the three months ended 30 September 2006 and 2005, respectively. Our effective income tax rate, after excluding the effect of foreign subsidiaries in Switzerland (beginning 1 January 2006), was 25.6% in the 2006 period. Our effective tax rates in 2006 and 2005 correlate closely with our Russian statutory income tax rate of 24%. The differences between our effective and statutory tax rates are primarily due to certain non-deductible expenses.

Profit for the period and earnings per share

As a result of the factors discussed above, profit for the period increased by RR 1,230 million, or 43.0%, to RR 4,085 million in three months ended 30 September 2006 from RR 2,855 million in the corresponding period in 2005. The profit attributable to NOVATEK shareholders increased by RR 1,211 million, or 42.1%, to RR 4,086 million in three months ended 30 September 2006 from RR 2,875 million in the corresponding period in 2005.

Our weighted average basic and diluted earnings per share (post share split) increased to RR 1.35 per share in the three months ended 30 September 2006 from RR 0.95 per share in the corresponding period in 2005. The weighted average number of ordinary shares outstanding during both periods adjusted for the effect of the share split was 3,036,306,000.

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 2006 and 2005, unless otherwise noted:

<i>millions of Russian roubles except ratios</i>	Three months ended 30 September:		Change %
	2006	2005	
Net cash provided by operating activities	4,269	1,244	243.2%
Net cash (used for) provided by investing activities	(881)	7,805	n/a
Net cash used for financing activities	(2,334)	(7,360)	68.3%

<i>Liquidity ratios</i>	30 September 2006	31 December 2005	Change %
Current ratio	2.39	1.14	109.6%
Total debt to equity	0.07	0.16	(56.3%)
Long-term debt to long term debt and equity	0.02	0.02	0.0%
Net debt to total capitalization ⁽¹⁾	(0.01)	0.08	n/a

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

Net cash provided by operating activities

Net cash provided by operating activities increased by RR 3,025 million, or 243.2%, to RR 4,269 million in the three months ended 30 September 2006 compared to RR 1,244 million in the corresponding period in 2005. The increase was mainly attributable to significantly higher operating income from our oil and gas sales as a result of increases in our sales volumes and realized prices in the 2006 period compared to the corresponding period in 2005, partially offset by an increase in income tax payments.

Net cash from investing activities

Net cash used for investing activities increased by RR 8,686 million to RR 881 million in the three months ended 30 September 2006 compared to net cash provided by investing activities of RR 7,805 million in the corresponding period in 2005. The increase was mainly due to the repayment of certain loans provided to related parties in prior periods in the 2005 period.

Net cash from financing activities

Net cash used for financing activities decreased by RR 5,026 million, or 68.3 %, to RR 2,334 million in the three months ended 30 September 2006 compared to RR 7,360 million in the corresponding period in 2005. The decrease is primarily due to a significant reduction in our borrowings resulting from our ability to fund operating, exploration and development activities from cash generated by operations (see "Debt obligations" below).

Working capital

At 30 September 2006, our net working capital position (current assets less current liabilities) was RR 8,573 million compared to RR 1,490 million at 31 December 2005. The strengthening of our working capital position is the result of strong operating activities. The increase was mainly due to the increased in cash and cash equivalents, trade and other receivables, prepayments and other current assets.

Capital expenditures

Total capital expenditures on property, plant and equipment for the three months ended 30 September 2006 and 2005 are as follows:

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2006	2005	
Exploration and production	1,063	902	17.8%
Other	36	215	(83.3%)
Total	1,099	1,117	(1.6%)

Exploration and production expenditures represent our investments in exploring for and developing our oil and gas properties. During both reporting periods capital expenditures in exploration and production were mainly attributable to the further development at our three core fields. During the three months ended 30 September 2006, In 2006, we spent RR 160 million, RR 289 million and RR 506 million for field development at the Khancheyskoye, East-Tarkosalinskoye and Yurkharovskoye fields, respectively, and RR 108 million on construction of the second phase at the Purovsky Plant.

Debt obligations

During the three months ended 30 September 2006, the Group repaid all of its outstanding short-term debt, with the remaining balance of RR 3,163 million comprising the current portion of long-term debt due to be repaid within 12 months proceeding the current reporting period.

At 30 September 2006, the Group had opened a line of credit facility with Bayerische Hypo- und Vereinsbank AG and UBS AG with available borrowing capacity of USD 50 million and USD 100 million, respectively, on either fixed or variable interest rates subject to the specific type of credit facility.

During the three months ended 30 September 2006, the Group repaid RR 224 million (USD 8 million) of its outstanding long-term debt to BNP PARIBAS Bank and had withdrawn an additional RR 1,336 million (USD 50 million) at an interest rate of LIBOR plus 1 percent per annum (6.3% at 30 September 2006), which is repayable monthly in equal parts through March 2008.

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 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 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. At 30 September 2006, RR 2,680 million, or 62.6%, of our long-term debt was denominated in US dollars (out of RR 4,279 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 38.6% in the 2006 period, is denominated in US dollars. As of 30 September 2006, the Russian rouble had strengthened against the US dollar by approximately 7.0% since 1 January 2006.

A hypothetical and instantaneous 10% strengthening in the Russian rouble in relation to the U.S. dollar at 30 September 2006 would have resulted in an estimated foreign exchange gain of approximately RR 268 million on foreign currency denominated borrowings held as of 30 September 2006.

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 interim condensed financial information all derivative instruments are recorded at their fair values. Unrealized gains or losses on derivative instruments are recognized within other income (loss), unless the underlying arrangement qualifies as a hedge.

Pipeline access

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

Ability to reinvest

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

Off balance sheet activities

At 30 September 2006, 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.