NOVATEK

Annual Review 2009

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Drilling rig at the Yurkharovskoye field

01

OVERVIEW

2009 Financial and Operating Highlights

	Year ended 31 December		Change
millions of Russian roubles except per share amounts and ratios	2009	2008	%
Financial results			
Oil and gas revenues[1]	86, 903	76, 076	14.2%
Total revenues	89, 954	79, 272	13.5%
Operating expenses	56, 130	46, 916	19.6%
Net income	25, 722	22, 927	12.2%
EBITDA[2]	39, 566	36, 702	7.8%
EBITDAX[3]	40, 132	37, 819	6.1%
Earnings per share (EPS), Russian roubles	8.59	7.54	13.9%
Operating results			
Total proved reserves (SEC), mmboe	6, 853	4, 963	38.1%
Natural gas sales volumes by consolidated subsidiaries, bcm	32.937	33.274	(1.0%)
Liquid hydrocarbons sales volumes by consolidated subsidiaries, mt	3,128	2, 630	18.9%
Incl. stable gas condensate sales volumes from Purovsky Processing Plant, mt	2,170	1, 583	37.1%
Equity and liquidity			
Net cash provided by operating activities	36,454	31, 514	15.7%
Capital expenditures	17,872	31, 810	(43.8%)
Net debt[4]	27,171	15, 285	77.8%
Total debt to total equity, %	28.3%	27.2%	4.0%

(1) Net of VAT, excise tax and export duties.
(2) 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.
(3) EBITDAX represents EBITDA as defined above excluding exploration expenses.
(4) Net debt calculated as total debt less cash and cash equivalents,

NATURAL GAS is a mixture of gases formed in the Earth's subsurface as a result of anaerobic decomposition of organic substances.

NOVATEK PRODUCES GAS from conventional gas accumulations as opposed to unconventional shale gas, tight sand or coal bed methane accumulations. Natural gas produced at NOVATEK's fields is approximately 98 % methane which is an elementary hydrocarbon and not toxic to humans.

NATURAL GAS burns more cleanly than other fossil fuels and produces less carbon dioxide per unit energy released. NOVATEK's natural gas is primarily consumed by the power generation and metallurgical industries.

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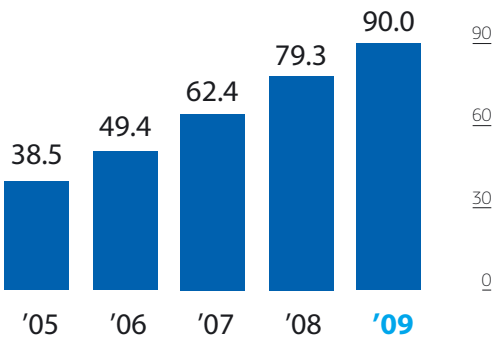
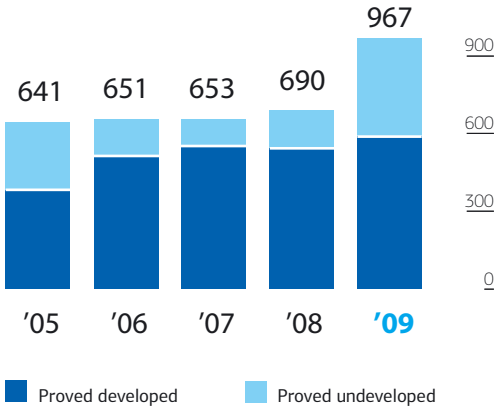
<< Gas condensate infrastructure at the Yurkharovskoye field

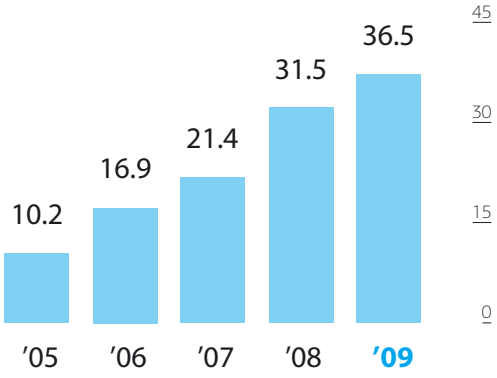
TOTAL REVENUES,
RR billion



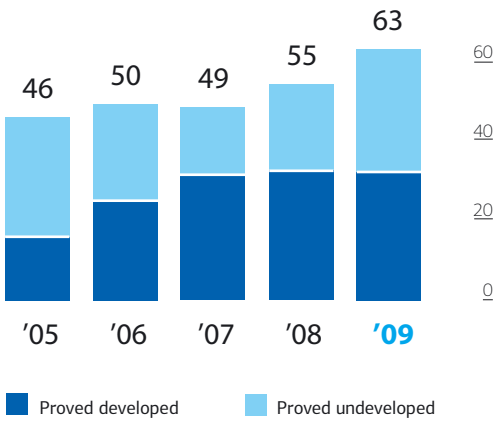
NATURAL GAS RESERVES (SEC),
bcm



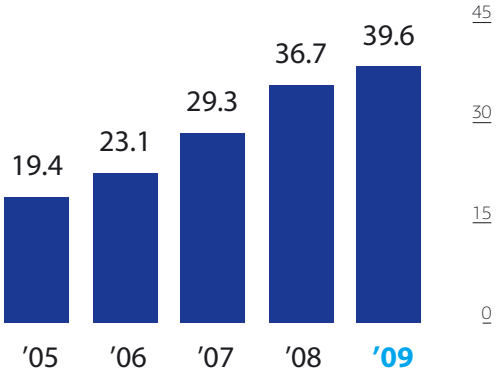
OPERATING CASH FLOW,
RR billion



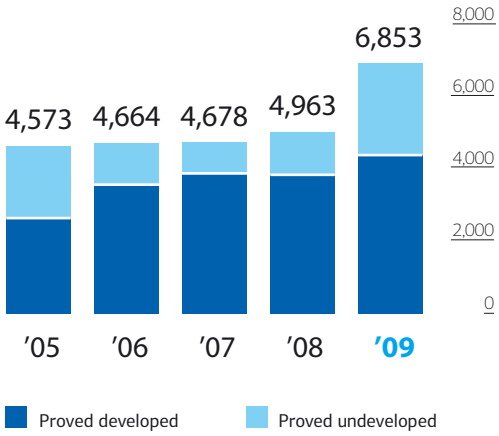
LIQUIDS RESERVES (SEC),
mmt



EBITDA,
RR billion

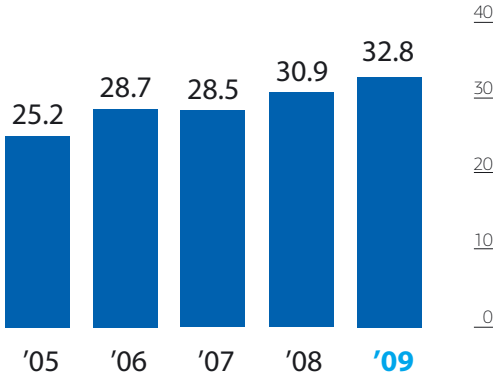


TOTAL RESERVES (SEC),
mmboe

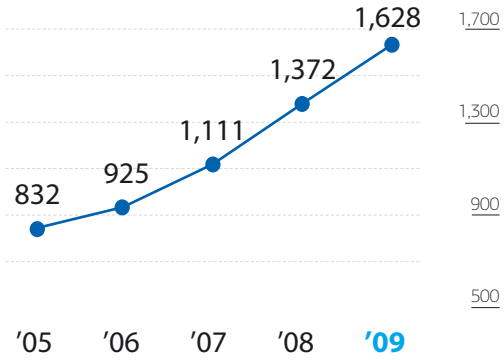


* 2005 EBITDA is normalized and does not include one-time effect from disposal of investments. Inclusive of the disposal of investments effect, EBITDA amounted to 23.02 billion roubles.

NATURAL GAS PRODUCTION,
bcm

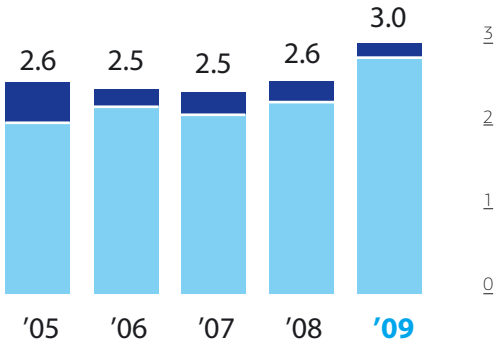


AVERAGE NATURAL GAS PRICES,
RR per mcm*

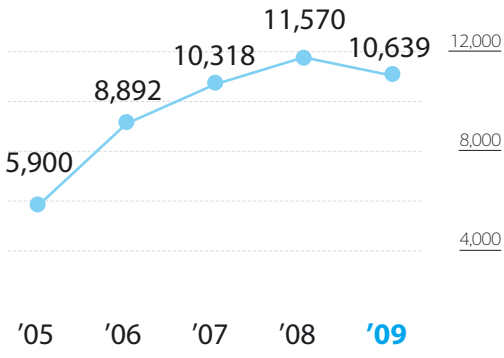


* Net of VAT.

LIQUIDS PRODUCTION,
mmt

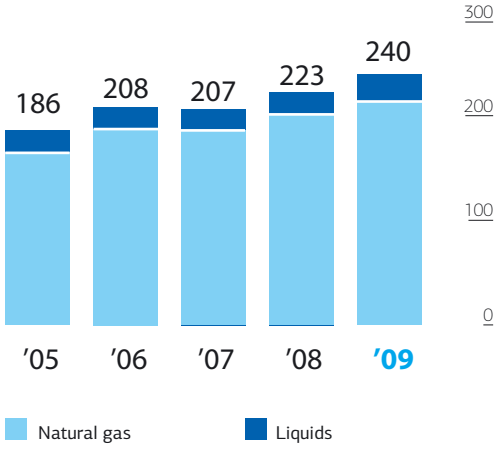


AVERAGE LIQUIDS PRICES,
RR per ton*

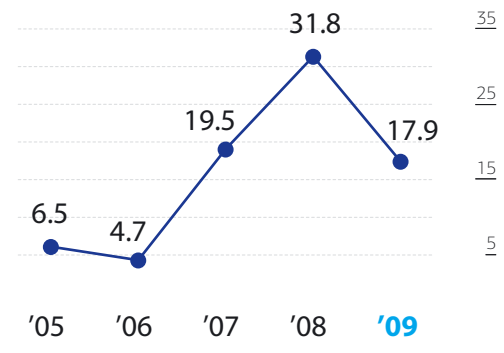


* Net of VAT, excise tax and export duties.

TOTAL PRODUCTION,
mmboe



TOTAL CAPITAL EXPENDITURES,
RR billion



LETTER TO SHAREHOLDERS

To our valued shareholders,

INVESTING STRATEGICALLY, GROWING ORANICALLY has been one of the underlying principles of NOVATEK's development strategy and the hallmark of our success over the past 15 years. The efficacy of our strategy and the commitment to our core principles has never been more evident than in this past year as we continued to grow our business despite operating in a very difficult business environment. Our further development work at our flagship Yurkhavorskoye field, the exploratory successes we achieved at our license areas and the timely acquisition of the South Tambeyskoye field will all contribute to the fulfillment of our long term strategic goals and objectives. Despite the difficult economic environment, we continued investing capital to grow our resource base and optimize our production capabilities to maximize our hydrocarbon revenue streams which, combined with our focus on cost control and the expansion of our commercial trading activities, allowed us to achieve yet another year of record financial and operational results.

IN 2009, THE GLOBAL AND DOMESTIC MARKETS FOR NATURAL GAS EXPERIENCED A CONTRACTION IN DEMAND as a result of the continued economic slowdown. Faced with this difficult operating environment, we made the right decision to continue investing into the second phase development of the Yurkharovksoye gas condensate field in order to increase our natural gas and liquids production capacity. We also were able to optimize natural gas sales channels in order to maintain planned increases in gas condensate production and at the same time slightly increase planned natural gas production. Moreover, we began to penetrate new geographical markets by delivering our increasing volumes of stable gas condensate to the Asian-Pacific region, allowing us to further diversify our customer base and optimize margins. As a result of our focus and commitment to the Company's core principles, we were able to increase 2009 production volumes of natural gas and liquid hydrocarbons by 6.2% and 17.9%, respectively, compared to previous year's volumes.

WE CONTINUED TO MAINTAIN OUR INDUSTRY LEADING POSITION as a low cost producer with our core 2009 lifting costs at just RR 16.0 ($0.50*) per barrel of oil equivalent (boe), the same as in 2008. Throughout the year, our capital investment program also benefited from the cost deflation in materials and services, resulting in another year of industry low finding and development (F&D) costs of RR 20.9 ($0.66*) per boe. Over the past five years, NOVATEK has consistently ranked in the top five oil and gas companies globally in key industry metrics such as our three-year average F&D cost of RR 44.9 ($1.70*) per boe and our reserve replacement costs of RR 26.3 ($0.93*) per boe, reflecting the strategic and prudent allocation of invested capital and the success we have achieved in growing our resource base. Our focus on cost control, combined with our record oil and gas revenues, was largely responsible for our ability to maintain EBITDA and net income margins in line with previous periods and management targets. We also ended the period with positive free cash flow, supporting our Board's recommendation to raise dividends for the sixth consecutive year to RR 2.75 per share.

WITH THE STRATEGIC ACQUISITION of the 51% equity stake in Yamal LNG, holder of the South Tambeyskoye field, in June 2009 we embarked on a new journey that will ultimately transform our core operations in the future. The acquisition of this world-class natural gas field establishes a future platform for production growth and further diversification of our revenue streams. The South Tambeyskoye field, located in the northeast portion of the Yamal Peninsula, is an area of strategic focus for future Russian natural gas development and will compliment our core production in the Nadym-Pur-Taz District. The Russian Government has indicated that the development of liquefied natural gas (LNG) facilities on the Yamal Peninsula is a priority and that NOVATEK's pilot LNG project, based on the resources of the South Tambeyskoye field, is part of the Peninsula's development plan. We are very excited about the prospects of this prolific natural gas field and the opportunity it accords us to develop future LNG facilities and become one of the core players in the Yamal Peninsula.

ONE OF OUR CORE STRATEGIC OBJECTIVES is to continue growing our resource base and we believe that the results achieved in 2009 were exceptional. At year-end, our net proven reserve base aggregated 6.9 billion barrels of oil equivalent, a 38.1% increase (net of 2009 production volumes) over 2008. Moreover, our three-year average reserve replacement rate totaled 431% and we extended our reserve-to-production life from 23 years to 29 years. Our Company now ranks as one of the largest holders of proven natural gas reserves in the world, and currently ranks number two in Russia.

WE ARE COMMITTED TO GROWING OUR COMPANY and delivering industry best metrics through various business and economic cycles. Embedded in this commitment is our fundamental understanding that focusing on cost control, investing wisely in projects providing quick paybacks under various scenarios and diversifying our commercial activities, will collectively contribute to the growth of our Company. Our success in achieving our objectives in 2009 was recognized by the equity markets as our share price increased by 245% since the beginning of the year compared to 129% for the RTS index, a proxy of Russia's domestic stock market. None of our

* Average exchange rate of RR 31.72/USD

ALEXANDER NATALENKO
Chairman of NOVATEK's Board of Directors

LEONID MIKHELSON
Chairman of NOVATEK's Management Board

MARK GYETVAY
Chief Financial Officer

accomplishments in 2009 would have been possible without the commitment and perseverance from our trusted and valued employees. The teamwork and collaboration between our experienced professionals, a corporate culture of success and innovation as well as a coherent and well-executed corporate strategy have been instrumental in delivering the exceptional results we achieved in 2009.

ON BEHALF OF THE BOARD OF DIRECTORS AND THE MANAGEMENT COMMITTEE,
We would like to sincerely thank everyone for their continued support of NOVATEK during this difficult past year. Without question, the ebbs and flows of the markets in 2009 severely tested everyone's resolve and clearly delineated those companies with strong balance sheets and prudent investment programs which, through fiscal discipline were able to deliver above-industry performance. We have remained on course as outlined in our Corporate Strategy and we are strongly committed to sustainable development, corporate governance and creating shareholder value. Looking back, two thousand and nine clearly demonstrated that NOVATEK's business model is based on sound principles and the Company is capable of executing its strategy to deliver growth. As we continue MOVING FORWARD with our development plans we will be providing updates to our shareholders on upcoming activities.

SINCERELY,

ALEXANDER NATALENKO

LEONID MIKHELSON

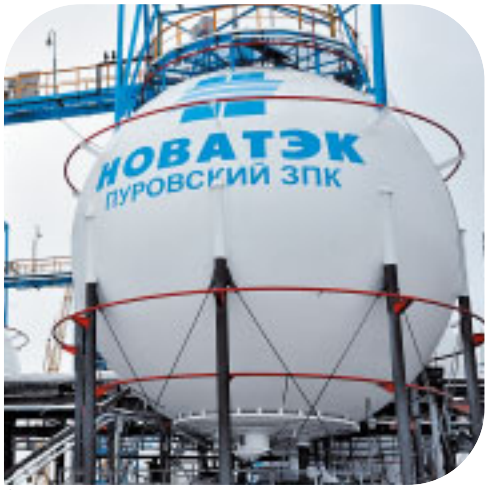
MARK GYETVAY

Highlights in 2009

- The Company received production licenses for four fields at license areas where we previously held exploration licenses. The fields are located in the Yamal-Nenets Autonomous Region and were discovered in 2007 and 2008.
- Acquisition of a 51% equity stake in OAO Yamal LNG, which holds the license for exploration and development of the South Tambeyskoye field.
- NOVATEK and TOTAL signed a sales and purchase and shareholders agreement establishing the framework for joint cooperation in exploring and developing NOVATEK's Termokarstovoye gas condensate field.

- The Company posted record financial and operational results: oil and gas revenues increased by 14.2% and liquids sales volumes grew by 18.9%.
- NOVATEK received an A1 listing on the MICEX Stock Exchange.
- Fitch Ratings assigned the Company a BBB- credit rating (stable outlook).
- NOVATEK's CFO, Mark Gyetvay, received the IR Magazine Russia & CIS Awards 2009 Prize in the category "Best IR by a CEO/CFO".
- The Company signed a Social Partnership and Cooperation Agreement with the Yamalsky District Administration of the Yamal-Nenets Autonomous Region.

- Launch of the second stage of the Yurkharovskoye field's phase two development, increasing field production capacity to 23 bcm of natural gas and 2 million tons of unstable gas condensate per annum.
- The Company reached the aggregate production milestone of 200 bcm of natural gas from its main fields.
- The Purovsky Plant reached the cumulative production milestone of ten million tons of de-ethanized gas condensate since commencing operations in 2005.
- NOVATEK increased total proved reserves according to SEC standards by 38% to 6,853 million boe.



^ LPG storage tank at the Purovsky Plant

02

THE COMPANY

NOVATEK'S SUCCESSFUL STRATEGY OF EXPANDING ITS HYDROCARBON RESOURCE BASE, WHILE AT THE SAME TIME MAINTAINING ITS LOW-COST COMPETITIVE ADVANTAGE HAS CONTINUOUSLY DELIVERED RECORD FINANCIAL RESULTS AS WELL AS INCREASED SHAREHOLDER VALUE.

NOVATEK Today

NOVATEK is the largest Russian independent natural gas producer and the second largest producer of natural gas in Russia after OAO Gazprom. The Company is ranked among the top ten publicly traded companies in terms of natural gas reserves with 967 billion cubic meters (bcm) of net proved reserves, according to US Securities and Exchange Commission reserves reporting standards (SEC), and is also recognized as one of the lowest cost producers globally.

NOVATEK'S PRIMARY BUSINESS ACTIVITIES include exploration and production, processing, transportation and marketing of natural gas and liquid hydrocarbons. The Company's primary production and processing assets are located in the Yamal-Nenets Autonomous Region (YNAO) and their close proximity to each other and transportation infrastructure has provided the basis for their cost effective development.

OVER THE YEARS, NOVATEK has successfully grown its natural gas and liquid hydrocarbon production and consistently replaced over 100% of its annual production volumes. In 2009, the Company's reserve replacement rate was 898% and its five year average reserve replacement rate is 315%. NOVATEK's total net proved reserves (SEC) as of the 31 December 2009 totaled 6,853 million barrels of oil equivalent (boe), of which approximately 92% was natural gas, and its reserve to production life was 29 years.

IN 2009, THE COMPANY ACCOUNTED for approximately six percent of total Russian natural gas production and 27% of natural gas produced by Russian independent producers. NOVATEK plays a significant role in Russia's energy balance providing 9.7% of total 2009 natural gas deliveries through the Unified Gas Supply System (UGSS) to the domestic market.

C_5H_{12}

NATURAL GAS CONDENSATE is a low-density mixture of hydrocarbon liquids that are present as gaseous components in the raw natural gas produced from many natural gas fields.

IT CONDENSES INTO UNSTABLE GAS CONDENSATE OUT of the raw gas if the temperature is reduced to below the hydrocarbon dew point temperature of the raw gas. Natural gas condensate is primarily made up of C5+ hydrocarbons, but also contains propane-butane fractions in the form of dissolved gases.

DUE TO THE HIGH CONCENTRATION OF LIGHT FRACTIONS in NOVATEK's stable gas condensate it is primarily consumed by the petrochemical and oil refining industries.

NOVATEK INVESTED 16.7 billion Russian roubles (RR) in exploration and development activities at its fields and license areas in 2009 resulting in an industry leading finding and development cost of approximately RR 20.9 per boe ($0.66 per boe)*.

DESPITE THE UNSTABLE ECONOMIC ENVIRONMENT in both the global and Russian domestic markets during 2009, NOVATEK was able to increase gross natural gas and liquid hydrocarbon production by 6.2% and 17.9%, respectively, compared to respective production volumes in 2008. In 2009, the Company's gross production totaled 32.8 bcm of natural gas and 3.0 million tons of liquid hydrocarbons, while total revenues reached RR 86.9 billion.

A LARGE PORTION of NOVATEK's reserve base is concentrated in deeper gas condensate bearing layers and requires additional processing capacity to be successfully developed. In order to realize its development strategy, NOVATEK has constructed a gas condensate processing facility, the Purovsky Gas Condensate Stabilization Plant (Purovsky Plant), near the Company's production assets. The plant has allowed NOVATEK to more effectively develop its fields and maximize the quality of hydrocarbons produced.

THE PUROVSKY PLANT has the capacity to process up to five million tons of unstable gas condensate per annum and produces both stable gas condensate and liquid petroleum gases (LPG) which meet the highest international quality standards. The Purovsky Plant currently provides NOVATEK with sufficient processing capacity to continue developing its gas condensate fields without having to rely on third party processing facilities.

NOVATEK has been able to effectively diversify its hydrocarbon sales both geographically and by customer segment allowing the Company to adapt to changes in market conditions and optimize its marketing channels for natural gas and liquid hydrocarbon sales.

NOVATEK'S FIELDS are located in close proximity to the UGSS through which the Company delivers natural gas to end-customers. In 2009, NOVATEK delivered natural gas to over 35 regions of the Russian Federation. The largest volumes, or approximately 82% of total end-customer sales, were delivered to the Yamal-Nenets and Khanty-Mansiysk Autonomous Regions, the Chelyabinsk and Moscow Regions, the Perm territory, the republics of Bashkortostan and Tatarstan as well as the city of Moscow.

NOVATEK'S SUBSIDIARY, OOO NOVATEK-TRANSERVICE, operates a fleet of leased and wholly-owned rail tank cars for transporting stable gas condensate and LPG from the Purovsky Plant to export and domestic markets. Stable gas condensate volumes bound for export markets are transported to the all season Port of Vitino located in the Murmansk Region on the White Sea. In 2009, NOVATEK geographically expanded its stable gas condensate deliveries to the Asian-Pacific region to customers in South Korea, Singapore and China. The Company also significantly increased its sales volumes of LPG to export markets thereby capitalizing on the Russian government's decision to temporarily cancel export duties on LPG export sales.

DURING 2009, NOVATEK has continued the expansion of its network of domestic retail refueling stations which provide dedicated marketing channels for LPG produced at the Purovsky Plant. At the end of 2009, the Company owned five multi-fuel auto refueling stations, six conventional gas stations, one wholesale commercial refueling station and operated another wholesale commercial refueling station under a lease agreement.

DESPITE THE DECLINE IN 2009 domestic industrial output and the subsequent decrease in overall Russian demand for natural gas, NOVATEK was able to maintain natural gas sales volumes in-line with those of 2008. The Company increased sales volumes of liquid hydrocarbons by approximately 19% by taking advantage of the increased production capacity for gas and gas condensate at the Yurkharovskoye field as a result of the launch of the second stage of the field's second phase of development. The share of NOVATEK's liquid hydrocarbons sold to the export market increased to 83% of total liquid hydrocarbons sold in 2009 compared to 68% in 2008.

CONSISTENT WITH THE COMPANY'S STATED STRATEGY to expand its resource base through strategic acquisitions of greenfield projects, NOVATEK acquired 51% of the shares in OAO Yamal LNG in June 2009. Yamal LNG holds the license for exploration and production activities at the South Tam-

* Average exchange rate of RR 31.72/USD ($)

beyskoye field which, according to the latest reserve appraisal report as at 31 December 2009, holds 194 bcm of net proved (SEC) natural gas reserves or approximately 20% of the Company's total 2009 net proved natural gas reserves.

THE COMPANY has continued its strategy of forming joint ventures with strategic partners to expand geographically and to facilitate knowledge and technology transfers. Since 2007, NOVATEK has held a 50% participation interest in the concession for exploration and development of the El-Arish off-shore block in the Arab Republic of Egypt. In December 2009, NOVATEK and Total Termokarstovoye B.V. (an affiliated company of TOTAL) signed a sales and purchase agreement and shareholder agreement providing for the acquisition of up to 49% of the shares of ZAO Terneftegas (100% subsidiary of NOVATEK) by Total Termokarstovoye BV by the end of 2010. ZAO Terneftegas holds the license for geological exploration and production of hydrocarbons at the Termokarstovoye field.

Strategy

IN TODAY'S VOLATILE ENERGY environment NOVATEK has positioned itself to continue to deliver long-term value to shareholders by adhering to the strategic principles which have allowed the Company to grow into a world class hydrocarbon producer. Our strategy is to expand our hydrocarbons production on a sustainable and profitable basis, while efficiently increasing our resource base and operating in a socially and environmentally responsible manner. Specifically, we intend to:

- **Substantially increase our production of natural gas and associated hydrocarbons.** Natural gas will remain the fuel of choice in the twenty first century. Despite the current conditions of demand uncertainty in the global and Russian domestic markets industry experts maintain that long-term demand for natural gas will be greater than current supply. We believe we are well positioned to supply a significant portion of the expected growth in incremental natural gas demand on the Russian domestic market. NOVATEK has continued to make the required investments to remove production constraints and has prioritized its investment program to focus on core natural gas and gas condensate production capacity.
- **Maintain our low cost structure.** Through the continued use of modern technology and production techniques across our prolific hydrocarbon resource base, we intend to maintain our low cost track record. In 2009, our weighted average lifting cost and our reserve replacement costs remained among the lowest in the industry. The geographic concentration of our resource base and the resulting economies of scale will continue to be a major factor in helping us maintain our low cost structure. Moreover, we strive to maintain consistently low costs in all other areas of our business.
- **Capture maximum margins on natural gas and liquids sales.** Our marketing and sales team continues to optimize our product distribution among customer and market segments to realize superior risk adjusted margins. Today, we supply gas to 35 regions of the Russian Federation. We intend to maintain our leadership among independent gas producers by penetrating new regional markets and expanding our portfolio of long-term supply agreements with end users. In addition, as we increase the production of liquid hydrocarbons we will continue to geographically diversify our stable gas condensate and LPG markets and expand our customer base, while at the same time developing deeper refining capabilities.
- **Increase our resource base and manage reserves effectively.** We intend to continue to manage our resource base in order to grow our proved reserves as we develop our fields. We believe our established resource base in the Nadym-Pur-Taz District, and its proximity to the region's existing gas transportation and processing infrastructure, as well as our newly acquired resources in the Yamal Peninsula will enable the Company to leverage its experience in developing complex gas condensate reserves to expand its resource base.

Gas condensate well

03

OPERATIONS IN REVIEW

NOVATEK HAS BEEN ABLE TO EXPAND ITS RESOURCE BASE THROUGH GEOLOGICAL EXPLORATION WORKS AT FIELDS AND LICENSE AREAS IN CLOSE PROXIMITY TO EXISTING TRANSPORTATION AND PRODUCTION INFRASTRUCTURE. THE COMPANY CONTINUES TO EFFICIENTLY DEVELOP ITS RESERVE BASE AND INCREASE THE ULTIMATE LEVEL OF HYDROCARBON RECOVERY AT ITS FIELDS AS A RESULT OF MANY YEARS OF OPERATIONAL EXPERIENCE IN THE YNAO AND BY UTILIZING STATE-OF-THE-ART EXPLORATION AND DEVELOPMENT TECHNOLOGIES.

Exploration and Development

IN 2009, NOVATEK achieved significant growth in its reserves due to a combination of exploration and development work carried out at the Yurkharovskoye field and the strategic acquisition of the South Tambeyskoye field; a greenfield development project located on the northeastern portion of the Yamal Peninsula. The acquisition of the field increased NOVATEK's net total proved natural gas reserves (SEC) by 194 bcm, or 70% of the total increase in 2009 net proved natural gas reserves.

AT 31 DECEMBER 2009, NOVATEK's net proved natural gas and liquid hydrocarbon reserves (SEC) amounted to 967 bcm and 63.4 mmt, respectively, while total net proved reserves (natural gas and liquid hydrocarbons) on a boe basis increased by 38% or by 1,890 mmboe, to 6,853 mmboe. In 2009, NOVATEK's reserve replacement rate, based on reserves appraised under SEC methodology was 898%. NOVATEK's five year (2005-2009) average reserve replacement rate amounted to 315% and the Company's 2009 reserve to production ratio was 29 years for all hydrocarbons and 30 years for natural gas.

NOVATEK CONTINUED to deliver low cost reserve growth in 2009 through strategically investing capital in exploration and development activities and maintained its position as one of the lowest cost producers in the industry. The Company's total 2009 consolidated investments in exploration and development activities totaled RR 56.6 billion which resulted

<< LPG scrubbing unit at the Purovsky Plant

C_3H_8

LIQUEFIED PETROLEUM GAS (LPG) is a mix of compressed light hydrocarbons which become gaseous at temperatures ranging from –50 to 0 °C.

NOVATEK PRODUCES LPG as a result of the stabilization process of natural gas condensate which produces a propane butane mix. LPG is safely and easily transported and stored in gas cylinders and gas tanks.

AS A LOW CARBON, low polluting fossil fuel LPG is recognized for its ability to reduce greenhouse gas emissions and is widely used as a fuel for cooking, heating and motor transport.

in a reserve replacement cost of RR 16.6 per boe ($0.52 per boe)* compared to RR 61.9 per boe ($2.5 per boe) in 2008. The decrease in NOVATEK's reserve replacement cost in 2009, as compared to 2008, was primarily due to the addition of reserves through the acquisition of 51% of Yamal LNG, which is the license holder for the South Tambeyskoye field.

AS PART of its field development process, NOVATEK relies on the experience and expertise of the specialists in its geology department. The Company's geologists use a systematic approach to exploration and development of new fields, beginning with the collection and interpretation of seismic data to the creation of dynamic field models and the placement of exploration and production wells. In 2009, NOVATEK invested approximately RR 770 million in exploration activities at consolidated subsidiaries which, included 4.2 thousand meters of exploration drilling and 310 square kilometers of 3D seismic. The exploration activities at our fields targeted gas condensate and crude oil bearing Lower Cretaceous and Jurassic deposits at depths of between 2,300 to 4,300 meters. The Company also invested approximately RR 624 million on exploration activities at fields and license areas of associate companies.

AS A RESULT of exploration work carried out in 2009, NOVATEK discovered the Severo-Yubileynoye gas condensate and oil field and nine new deposits, including one gas condensate and oil deposit at the Severo-Yubileynoye field, one gas condensate and oil deposit at the Yarudeyskoye field and seven gas condensate deposits at other existing fields.

IN 2009, NOVATEK's gross production from all fields amounted to 240 mmboe of which, approximately 89% was natural gas.

IN 2009, total gross production amounted to 32.8 bcm of natural gas and 3,049 mt of liquid hydrocarbons. Natural gas production increased by 1.9 bcm, or 6.2%, while liquids production increased by 463 mt, or 17.9%, compared to the respective production volumes in 2008, while lifting costs on a Russian rouble basis remained unchanged at RR 16.0 per boe but decreased on a dollar basis from $0.64 per boe in 2008 to $0.50 per boe in 2009. The Company's total gas preparation capacity at the end of 2009 amounted to 120 mmcm per day or over 44 bcm per annum.

THE LAUNCH OF THE FIRST STAGE of the second phase of development at the Yurkharovskoye field in the fourth quarter of 2008 has enabled the Company to optimize production and revenues from its fields. In order to maximize its 2009 revenue streams of natural gas and gas condensate NOVATEK decreased the production of dry gas from the cenomanian layers of the East-Tarkosalinskoye and Khancheyskoye fields and increased the production of natural gas from the gas condensate layers of the Yurkharovskoye field.

Core Fields

NOVATEK'S FIELDS AND LICENSE AREAS are located in the YNAO of the Russian Federation which, is the world's largest natural gas producing region and accounts for approximately 18% of global natural gas production and approximately 87% of Russian natural gas production. The concentration of the Company's producing and prospective fields, license areas and processing facilities in this region combined with the region's overall oil and gas infrastructure have allowed NOVATEK to minimize the risks associated with developing its assets and expanding its resource base. The Company has many years of experience working in this region, which has enabled it to effectively capitalize on the growth opportunities resident there to increase shareholder value.

IN 2009, the Company's three core fields, Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye accounted for approximately 99% of NOVATEK's total gross production and 75% of its proved reserves. The three fields are located in close proximity to the UGSS the largest gas transportation system in the world which is owned and operated by OAO Gazprom. The resources of the Company's three core fields form the foundation for NOVATEK's current production and mid-term production growth.

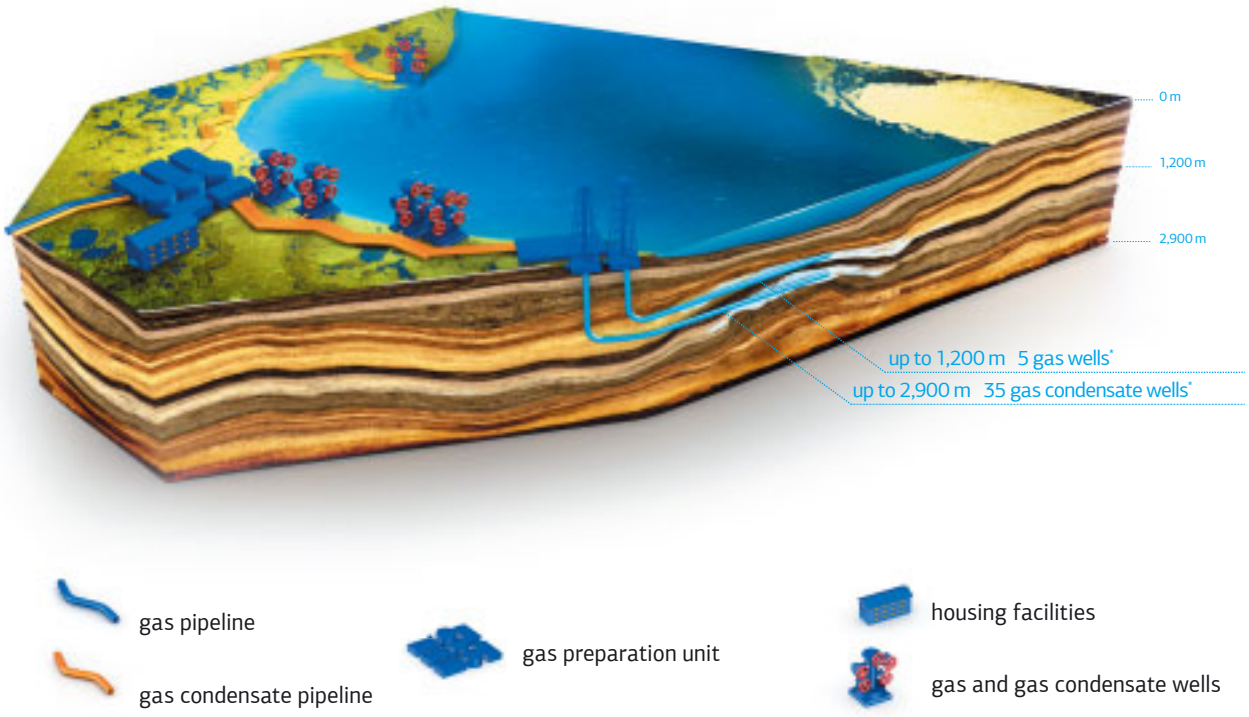
* Average exchange rate of RR 31.72/USD ($)

NOVATEK's Fields and License Areas (LA)

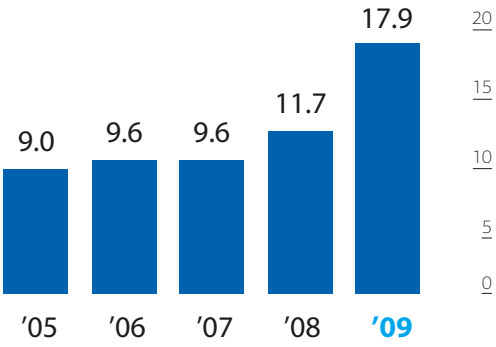
1. Yurkharovskoye field
2. East-Tarkosalinskoye field
3. Khancheyskoye field
4. Olimpiyskiy LA (Sterkhovoye field)
5. South Tambeyskoye field
6. Termokarstovoye field
7. West Yurkharovskoye field
8. North-Khancheyskoye field
9. Yarudeyskoye field
10. Raduzhnoye field
11. New Yurkharovskiy LA
12. Yumantilskiy LA
13. Zapadno-Urengoiskiy LA
14. Severo-Yubileyniy LA
15. Severo-Termokarstoviy LA
16. Severo-Russkiy LA
17. Sredniy Chaselskiy LA
18. Zapadno-Tazovskiy LA
19. Anomalniy LA
20. Severo-Yamsoveyskiy LA
21. Pilyalkinskiy LA*

* Exploration and production license for the license area was acquired in January 2010.

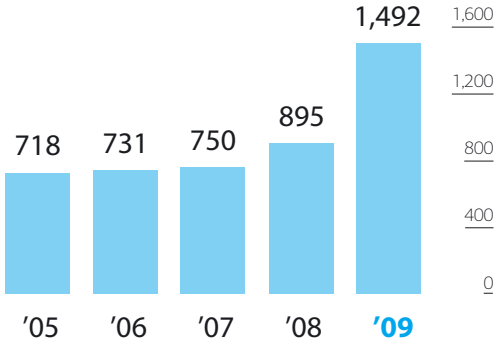
Yurkharovskoye Field



YURKHAROVSKOYE FIELD NATURAL GAS PRODUCTION,
bcm



YURKHAROVSKOYE FIELD GAS CONDENSATE PRODUCTION,
mt



* production wells as of 31 December 2009.

THE FIELD WAS DISCOVERED in 1970 and is located within the polar circle on the southeast shore of the Tazov Peninsula. The Company's wholly-owned subsidiary OOO NOVATEK-Yurkharovneftegas holds the license for exploration and production of hydrocarbons at the field which is valid until 2034. The field has been producing natural gas and gas condensate since 2003 and is connected to the UGSS via pipeline which enables the transport of up to 34 bcm of natural gas per annum. In September 2008, an 87 kilometer natural gas pipeline with diameter of 1,420 mm was launched which, together with the existing pipeline with diameter of 1,220 mm, covers the 103 kilometers from the field to the UGSS.

IN 2009, the Yurkharovksoye field became the largest of the Company's exploration and production assets in terms of reserves and production and is the driver for NOVATEK's mid-term production growth. The field has 22 productive hydrocarbon layers including one dry gas layer, 18 gas condensate layers and three gas condensate and oil layers which range in approximate depths of 1,000 meters to 2,950 meters.

IN OCTOBER 2009, NOVATEK launched the second stage of the second phase of development at the Yurkharovskoye field, which added additional production capacity of approximately seven bcm of natural gas and approximately 600 thousand tons of unstable gas condensate. As a result, the field's annual natural gas and gas condensate production capacity at the end of 2009 aggregated 23 bcm of natural gas and two million tons of gas condensate.

NOVATEK EMPLOYS state-of-the-art equipment and technologies in order to maintain its industry leading cost advantage and to increase the productivity of its fields. In 2009, the Company modernized the field's gas condensate separator unit, which was part of the first phase of the field's development and increased unstable gas condensate production capacity by approximately 5 mt per annum. NOVATEK plans to continue with the modernization of the remaining six technological lines which should increase gas condensate production capacity by 36 mt per annum.

IN 2009, NOVATEK completed the site preparation work and began assembling the Gas Condensate De-ethanization unit at the Yurkharovskoye field with capacity of three million tons per annum. The Company also continued work on the gas condensate pipeline from the Yurkharovskoye field to the Purovsky Plant. Both projects are expected to be completed in the third quarter of 2010 and will eliminate third party transportation and de-ethanization costs associated with gas condensate production at the field.

IN THE FIRST QUARTER OF 2010, the Company launched a 40 thousand ton per annum methanol plant located on the territory of the Yurkharovskoye field eliminating the need to transport methanol to the field; thereby decreasing operating costs and the associated environmental risks related to its transportation. The plant's capacity may provide the Company with the opportunity to market methanol to other producers in the region. NOVATEK has used the experience gained from the launch of the 12.5 thousand ton per annum pilot methanol production plant to improve the design of the new plant; specifically the new plant uses higher quality anti-corrosive steel as well as a more efficient gas compressor unit.

NOVATEK PLANS TO LAUNCH the third stage of the second phase of the Yurkharovskoye field development in 2010, consistent with the Company's strategic objectives. The third stage will increase production capacity at the field by approximately seven bcm per annum.

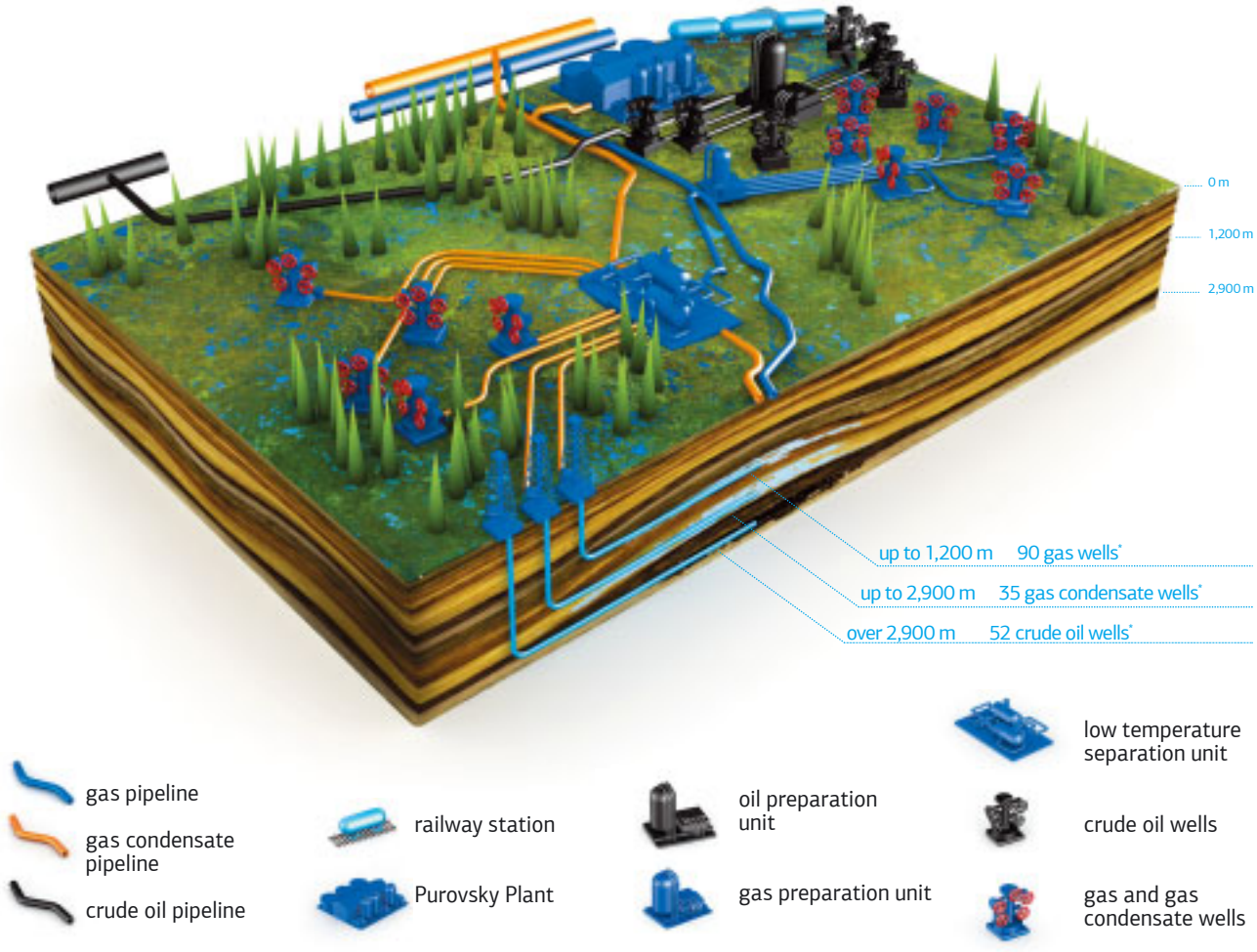
Total marketable (sales) production in 2009:	
Natural gas:	17.7 bcm (626.2 bcf)
Liquid hydrocarbons:	1,484 mt (12.8 mmboe)
Total production:	128.7 mmboe

Proved reserves (SEC) at 31 December 2009:	
Natural gas:	443.6 bcm (15.7 tcf)
Liquid hydrocarbons:	22.4 mmt (192.8 mmboe)
Total reserves:	3,094 mmboe

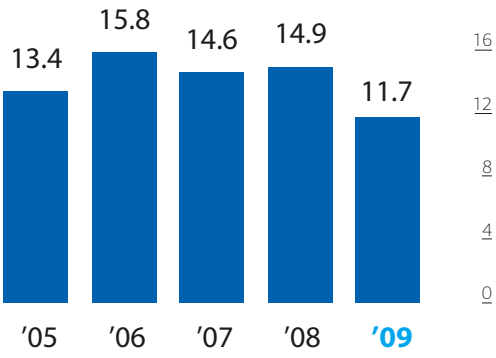
ABC1+C2 reserves* at 31 December 2009:	
Natural gas:	672.6 bcm (23.8 tcf)
Liquid hydrocarbons:	47.9 mmt (411.9 mmboe)
Total reserves:	4,810.8 mmboe

* Russian reserve classification system

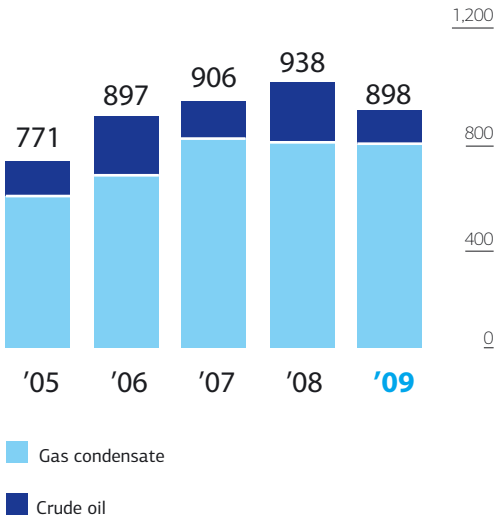
East-Tarkosalinskoye Field



EAST-TARKOSALINSKOYE FIELD NATURAL GAS PRODUCTION,
bcm



EAST-TARKOSALINSKOYE FIELD LIQUIDS PRODUCTION,
mt



* production wells as of 31 December 2009.

THE EAST-TARKOSALINSKOYE FIELD was discovered in 1971 and is located 40 kilometers to the east of the city of Tarko-Sale. The field's license for exploration and production of hydrocarbons is held by NOVATEK's wholly-owned subsidiary OOO NOVATEK-Tarkosaleneftegas and is valid until 2043. The field began producing crude oil in 1994 and natural gas and gas condensate in 1998 and 2001, respectively. Currently, the East-Tarkosalinskoye field has reached its peak production capacity for natural gas and gas condensate production. The Company's field development plan will focus on maintaining production levels and developing new crude oil layers. The field is connected to the UGSS by a 22.4 kilometer natural gas pipeline with diameter of 1,020 mm which enables the transport of up to 20 bcm of natural gas per annum.

THE EAST-TARKOSALINSKOYE FIELD HAS one dry gas layer with an area of approximately 950 square kilometers, the top of which occurs at a depth of approximately 1,200 meters. The field also has 13 gas condensate layers which occur at approximate depths of 2,850 meters to 3,000 meters, the largest of which has an area of approximately 125 square kilometers. The field's 11 crude oil layers occur at approximate depths of between 3,000 meters to 3,200 meters over an area of approximately 1,100 square kilometers.

IN DECEMBER 2009, the Company launched the second stage of the compressor booster station at the East-Tarkosalinskoye's cenomanian (dry) gas field with capacity of 48 MW allowing NOVATEK to maintain dry gas production levels at the field despite decreasing reservoir pressure.

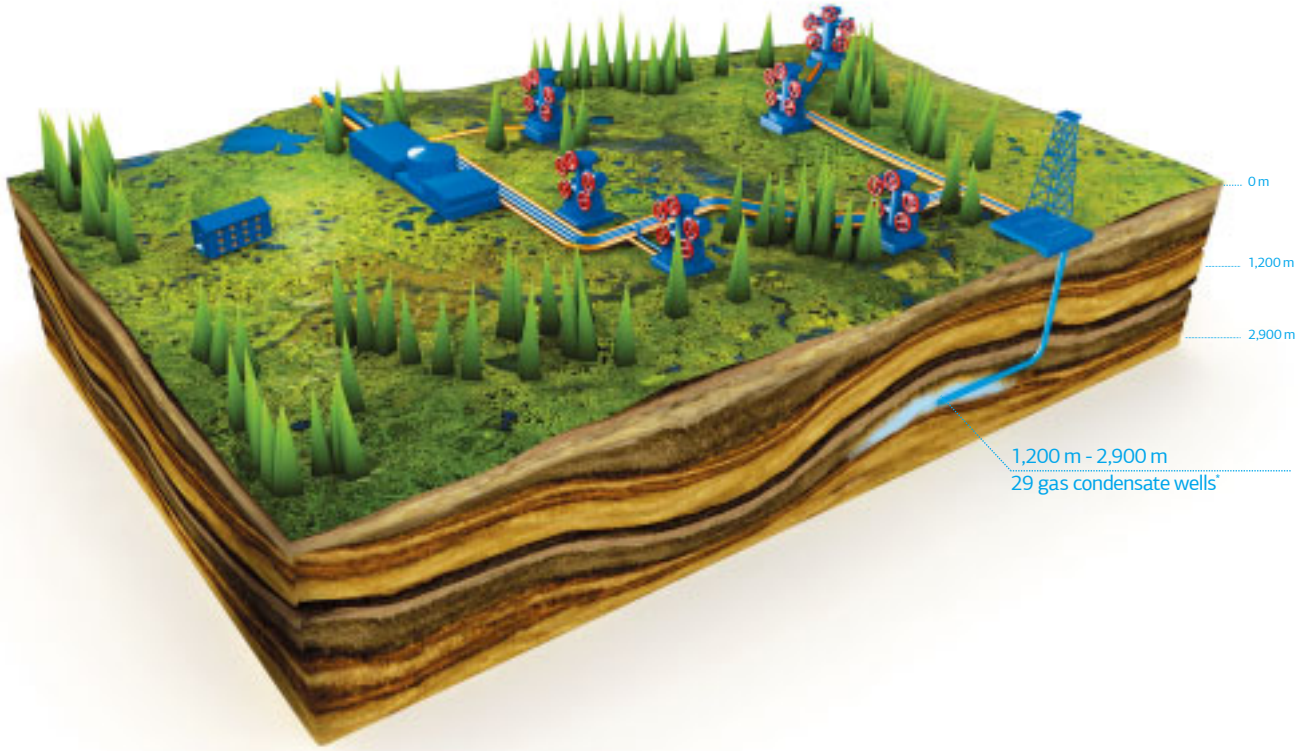
Total marketable (sales) production in 2009:	
Natural gas:	11.5 bcm (406.4 bcf)
Liquid hydrocarbons:	896 mt (7.2 mmboe)
Total production:	82.5 mmboe

Proved reserves (SEC) at 31 December 2009:	
Natural gas:	246.8 bcm (8.7 tcf)
Liquid hydrocarbons:	18.6 mmt (148.8 mmboe)
Total reserves:	1,762.9 mmboe

ABC1+C2 reserves* at 31 December 2009:	
Natural gas:	334.4 bcm (11.8 tcf)
Liquid hydrocarbons:	69.9 mmt (541.0 mmboe)
Total reserves:	2,728.3 mmboe

* Russian reserve classification system

Khancheyskoye Field



gas pipeline

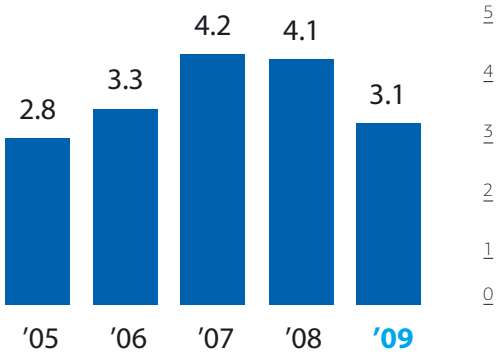
gas condensate pipeline

gas preparation unit

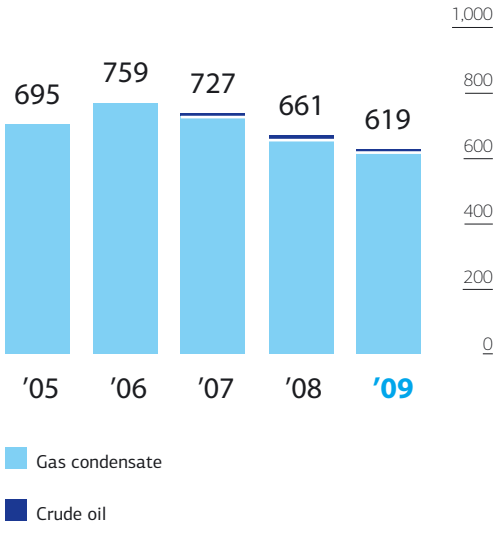
housing facilities

gas condensate wells

KHANCHEYSKOYE FIELD NATURAL GAS PRODUCTION, bcm



KHANCHEYSKOYE FIELD LIQUIDS PRODUCTION, mt



* production wells as of 31 December 2009.

THE KHANCHEYSKOYE FIELD was discovered in 1990 and is located 65 kilometers to the east of the East-Tarkosalinskoye field. The license for exploration and production of hydrocarbons at the field is valid through 2019 and is held by OOO NOVATEK-Tarkosaleneftegas. The field began producing natural gas and gas condensate in 2001 and crude oil in 2007. The field is connected to the transportation infrastructure of the East-Tarkosalinskoye field by way of a 70 kilometer natural gas pipeline with diameter of 720 mm which enables the field to transport up to 7.5 bcm per annum.

THE FIELD HAS 32 HYDROCARBON LAYERS including two dry gas layers, 23 gas condensate layers, five crude oil layers and two gas condensate and crude oil layers. The layers occur at depths of approximately 1,100 meters to 3,200 meters and the overall area of the layers is approximately 113 square kilometers.

IN NOVEMBER 2009, the Company's gas condensate de-ethanization units servicing the East-Tarkosalinskoye and Khancheyskoye fields were upgraded resulting in an increase in capacity of approximately 1.8 million tons per annum, or by 10%, and a related increase in the quality of de-ethanized gas condensate produced. The upgrades have also delayed the scheduled maintenance period for the units by one to two years.

Total marketable (sales) production in 2009:	
Natural gas:	3.0 bcm (107.5 bcf)
Liquid hydrocarbons:	618 mt (5.0 mmboe)
Total production:	24.9 mmboe

Proved reserves (SEC) at 31 December 2009:	
Natural gas:	41.2 bcm (1.5 tcf)
Liquid hydrocarbons:	5.1 mmt (41.7 mmboe)
Total reserves:	311.1 mmboe

ABC1+C2 reserves* at 31 December 2009:	
Natural gas:	89.2 bcm (3.4 tcf)
Liquid hydrocarbons:	12.6 mmt (100.3 mmboe)
Total reserves:	683.9 mmboe

* Russian reserve classification system

Prospective Fields and License Areas

NOVATEK continued exploration work at its other fields and license areas located within the territory of the YNAO. Currently, the most perspective of these assets are the South Tambeyskoye and Termokarstovoye fields, the Olimpiyskiy license area and the El-Arish off-shore block in the Arab Republic of Egypt. These assets have the potential to increase production and reserves and diversify marketing channels in the mid- to long-term.

South Tambeyskoye Field

THE SOUTH TAMBEYSKOYE FIELD was discovered in 1974 and is located in the north-eastern portion of the Yamal Peninsula. The license for exploration and production at the field is held by NOVATEK's subsidiary Yamal LNG and is valid until 2045. The field has been extensively explored with a total of 55 exploration wells, 1,060 square kilometers of three-dimensional (3D) seismic data as well as two-dimensional (2D) seismic data. The field currently consists of 72 commercially productive layers within 33 horizons including five shallow dry gas horizons and 28 deeper gas condensate horizons. The depth of the horizons varies from between 900 to 2,850 meters. Approximately 80% of the reserves are ready for commercial development. In 2009, the Company carried out additional 2D seismic activities which, are scheduled to continue in 2010 in order to complete the exploration of the field and develop a comprehensive geological field development model.

Net proved reserves (SEC) at 31 December 2009:	
Natural gas:	193.8 bcm (6.8 tcf)
Liquid hydrocarbons:	7.0 mmt (60.0 mmboe)
Total reserves:	1,327.5 mmboe

Net ABC1+C2 reserves* at 31 December 2009:	
Natural gas:	640.6 bcm (22.6 tcf)
Liquid hydrocarbons:	26.3 mmt (226.2 mmboe)
Total reserves:	4,415.6 mmboe

Termokarstovoye Field

THE TERMOKARSTOVOYE FIELD was discovered in 1988 and is located 30 kilometers from the town of Krasnoselkup in the YNAO. The license for exploration and production of gas and gas condensate at the field is held by NOVATEK's wholly-owned subsidiary ZAO Terneftegas. The field currently consists of five gas condensate layers with depths of between 2,550 and 3,000 meters, the largest of which has an area of approximately 80 square kilometers. In June 2009, NOVATEK and TOTAL signed a heads of agreement establishing the framework for joint cooperation in exploring and developing the Termokarstovoye gas condensate field. The joint venture has two years to create an exploitation and development project for the field after which a Final Investment Decision will be made at the end of 2011. In accordance with the subsequent sales and purchase and shareholder agreements signed in December 2009 between NOVATEK and Total Termokarstovoye B.V. (an affiliated company of TOTAL) the Company's share in ZAO Terneftegas will be reduced to 51% by the end of 2010.

Proved reserves (SEC) at 31 December 2009**:	
Natural gas:	24.6 bcm (0.9 tcf)
Liquid hydrocarbons:	4.6 mmt (39.6 mmboe)
Total reserves:	200.8 mmboe

ABC1+C2 reserves* at 31 December 2009:	
Natural gas:	47.3 bcm (1.7 tcf)
Liquid hydrocarbons:	10.2 mmt (87.5 mmboe)
Total reserves:	396.8 mmboe

** On the base of 100% ownership

* Russian reserve classification system

Olimpiyskiy License Area

THE LICENSE FOR EXPLORATION AND PRODUCTION of hydrocarbons at the Olimpiyskiy license area is valid through 2026 and is held by OOO NOVATEK-TARKOSALE-NEFTEGAS. The Sterkhovoye field and part of the Urengoiskoye field are located within the Olimpiyskiy license area and are included in our annual independent reserve appraisals.

THE PORTION of the Urengoiskoye field located within the Olimpiyskiy license area has six gas condensate layers occurring at approximate depths of between 3,600 meters to 3,900 meters while the Sterkhovoye field consists of two gas condensate layers which occur at approximate depths of between 3,400 and 3,600 meters. We are currently interpreting seismic data from the northern portion of the license area and plan to increase development drilling over the next two years.

THE COMPANY HAS CONSTRUCTED and launched a complex gas preparation unit at the Sterkhovoye field with capacity of 0.7 bcm per annum which enabled commercial production at the field to commence in April 2009. The field is connected to the UGSS by way of a 14 kilometer natural gas pipeline with diameter of 530 mm and annual transportation capacity of 3.1 bcm per annum. De-ethanized gas condensate from the Sterkhovoye field is sent to the Purovsky Plant by way of 12 kilometer pipeline with diameter of 219 mm.

Total marketable (sales) production in 2009:	
Natural gas:	63.0 mmcm (2.2 bcf)
Liquid hydrocarbons:	32.4 mt (0.3 mmboe)
Total production:	676.3 mboe

ABC1+C2 reserves* at 31 December 2009:	
Natural gas:	79.6 bcm (2.8 tcf)
Liquid hydrocarbons:	15.5 mmt (124.9 mmboe)
Total reserves:	645.6 mmboe

Proved reserves (SEC) at 31 December 2009:	
Natural gas:	13.4 bcm (0.5 tcf)
Liquid hydrocarbons:	5.1 mmt (41.6 mmboe)
Total reserves:	129.5 mmboe

El-Arish Off-Shore Block

NOVATEK OWNS a 50% participation interest in the concession agreement for exploration and production of hydrocarbons at the El-Arish off-shore block. In 2009, the Company invested approximately RR 3.7 million for interpretation and processing of seismic data from the off-shore block located in the Arab Republic of Egypt's territorial waters in the Mediterranean Sea.

NOVATEK PLANS to complete the 3D seismic processing and interpretation work as well as the necessary environmental impact studies and the off-shore drilling technical studies required to begin drilling the first exploratory well at the El-Arish off-shore block in 2010. The Company will also begin preparations for the drilling of a second exploration well.

* Russian reserve classification system

Other Fields and License Areas

AT THE END OF 2009, NOVATEK held licenses for prospecting, exploration and production at the Yumantilskiy and Zapadno-Urengoiskiy license areas as well as three licenses for prospecting at the Severo-Termokarstoviy, Severo-Yubileyniy and New Yurkharovskiy license areas. In 2009, NOVATEK received confirmation from the Natural Resources Ministry of the Russian Federation of the successful conversion of four exploration licenses to production licenses for the North-Khancheyskoye, West Yurkharovskoye, Yarudeyskoye and Raduzhnoye fields which were initially discovered in the period from 2007 to 2008.

THE NORTH-KHANCHEYSKOYE, West Yurkharovskoye and Yarudeyskoye fields as well as the Zapadno-Urengoiskiy license area were included in our 2009 independent reserve appraisal and their total aggregated proved (SEC) reserves amounted to 27.4 mmboe. The total aggregated reserves for these fields and license areas under the Russian reserve classification, ABC1+C2, totaled 468.1 mmboe.

IN 2009, the Severo-Yubileynoye field was discovered and the resources attributable to this discovery have been confirmed by the Russian State Committee for Reserves. Currently, the Company is in the process of filing for a change in the license terms from prospecting to production.

TOTAL RESERVES FOR THE SEVEN FIELDS and license areas (Yarudeyskoye, Raduzhnoye, North-Khancheyskoye, Severo-Yubileynoye and West Yurkharovskoye as well as the Yumantilskiy and Zapadno-Urengoiskiy license areas) under the Russian reserve classification ABC1 + C2 totaled 115.0 bcm of natural gas and 52.0 mmt of liquid hydrocarbons.

NOVATEK ALSO HAS A 25% participation interest in associate companies that hold exploration licenses to the Sredniy Chaselskiy, Severo-Russkiy, Zapadno-Tazovskiy, Anomalniy and Severo-Yamsoveyskiy license areas. NOVATEK's wholly owned subsidiaries, NOVATEK-Tarkosaleneftegas and NOVATEK-Yurkharovneftegas, are acting as operators for exploration works at the license areas. In 2008, NOVATEK discovered the Zapadno-Chaselskoye field within the Sredniy Chaselskiy license area and in 2009 the Company completed an exploratory well and carried out geophysical work at the Severo-Russkiy license area.

POST BALANCE SHEET, we have increased our participation interest in five of the associate license areas in the first quarter of 2010, as part of the Company's strategy to develop assets where we maintain operational and financial control.

Processing

NOVATEK'S PRIMARY PROCESSING asset is the Purovsky Gas Condensate Stabilization Plant (Purovksy Plant) which is located in the YNAO and in close proximity to the East-Tarkosalinskoye field.

IN LINE WITH ITS STRATEGY to further develop its capacity for hydrocarbon processing and increase sales volumes of higher value added products NOVATEK launched the first phase of the Purovsky Plant in June 2005 providing the Company with two million tons per annum of unstable gas condensate processing capacity.

IN NOVEMBER 2008, the plant's processing capacity was expanded to five million tons per annum allowing it to produce approximately 3.7 million tons of stable gas condensate and approximately 1.3 million tons of liquefied petroleum gas (LPG) per annum. The expansion also included increasing the plant's storage capacity for stable gas condensate to 90 thousand cubic meters.

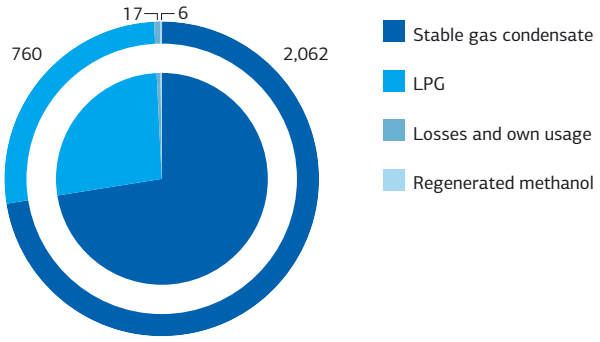
IN 2009, the Purovsky Plant processed 2.8 million tons of de-ethanized unstable gas condensate, or 28% more than in 2008, resulting in the commercial production of 2.1 million tons of stable gas condensate and 760 thousand tons of LPG as well as 6.3 thousand tons of methanol produced during the LPG scrubbing process. The Purovsky Plant operated at approximately 60% of full capacity during 2009 providing the Company with the ability to continue developing its geologically complex fields.

IMPROVEMENTS TO THE PUROVSKY PLANT in 2009 included the launch of an LPG scrubber with capacity of 1.3 million tons per annum, which is the first of its kind to be used in Russia, and a doubling of the plant's LPG storage capacity to 15,600 cubic meters. The LPG scrubber strips out water and methanol during LPG processing resulting in a cleaner end product that meets the highest European quality standards. The methanol stripped out during the scrubbing process is reused during the production process at NOVATEK's fields resulting in a decrease in methanol purchase costs as well as minimizing environmental risks and costs associated with its transportation.

AS PART OF ITS GOAL to eliminate dependence on third party service providers the Company continued construction in 2009 of a gas condensate pipeline from the Yurkharovskoye field to the Purovsky Plant. The pipeline will allow NOVATEK to increase the quality of its processed products by eliminating the quality dilution which currently occurs when gas condensate from the Yurkharovskoye field is mixed with other producers' gas condensate as it is transported to the Purovsky Plant using Gazprom's trunk pipeline.

THE LAUNCH OF THE PUROVSKY PLANT has allowed the Company to optimize its gas condensate marketing channels and establish a platform for realizing its strategy to move further down the hydrocarbon processing chain. In 2009, NOVATEK continued site preparation work for the Ust-Luga transshipment and fractionation facility for processing stable gas condensate produced from the Purovsky Plant. The facility is located on the Baltic Sea and has a total planned capacity of six million tons per annum. The fractionation unit's production slate will be comprised of kerosene, diesel fuel, naphtha and other light distillates.

PUROVSKY PLANT OUTPUT 2009, mt



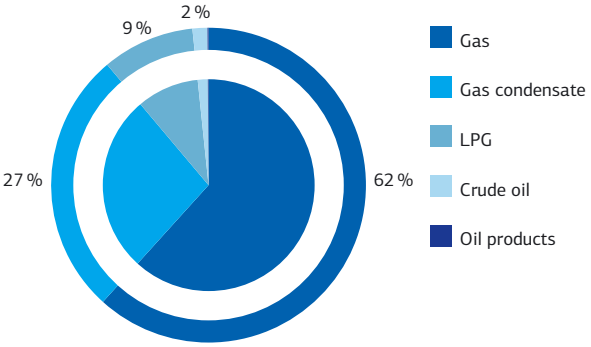
Marketing

IN 2009, the Company demonstrated significant flexibility in optimizing its sales channels for natural gas and liquid hydrocarbons enabling it to boost its five year total revenue compound annual growth rate to 30.1%. During 2009, NOVATEK supplied natural gas to 35 regions of the Russian Federation, expanded deliveries of stable gas condensate to customers in the Asian-Pacific region and increased export sales of LPG to optimize netback margins due to the cessation of export duties. The Company also geographically expanded its LPG sales to include markets in Turkey, Slovakia and Romania.

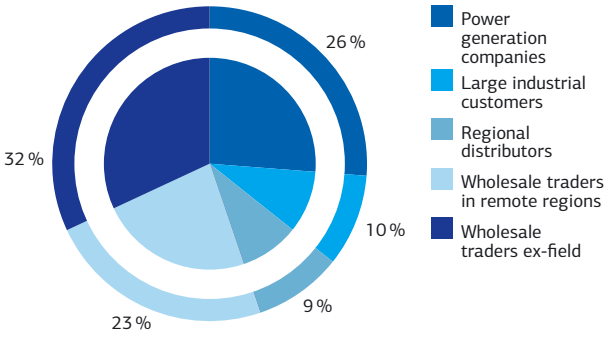
Natural Gas Sales

TOTAL RUSSIAN NATURAL GAS PRODUCTION decreased by 12.3% in 2009; however, despite this decrease, Russia remained the second largest consumer of natural gas in the world consuming approximately 394 bcm in 2009. The largest Russian consumer of natural gas is the power generation sector where over 50% of its primary energy supply comes from natural gas. In 2009, NOVATEK's share in natural gas deliveries to the domestic market through the UGSS increased to 9.7% from 9.4% in 2008.

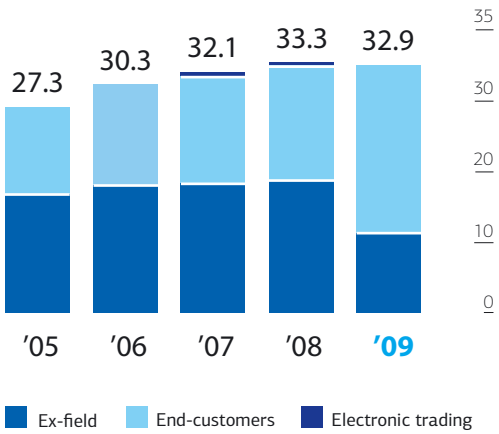
2009 BREAKDOWN OF OIL&GAS SALES, %



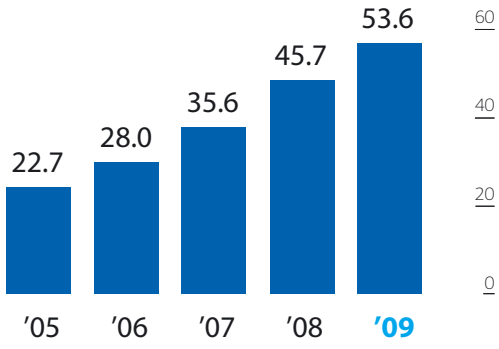
2009 BREAKDOWN OF NATURAL GAS SALES VOLUMES, %



NATURAL GAS SALES VOLUMES, bcm

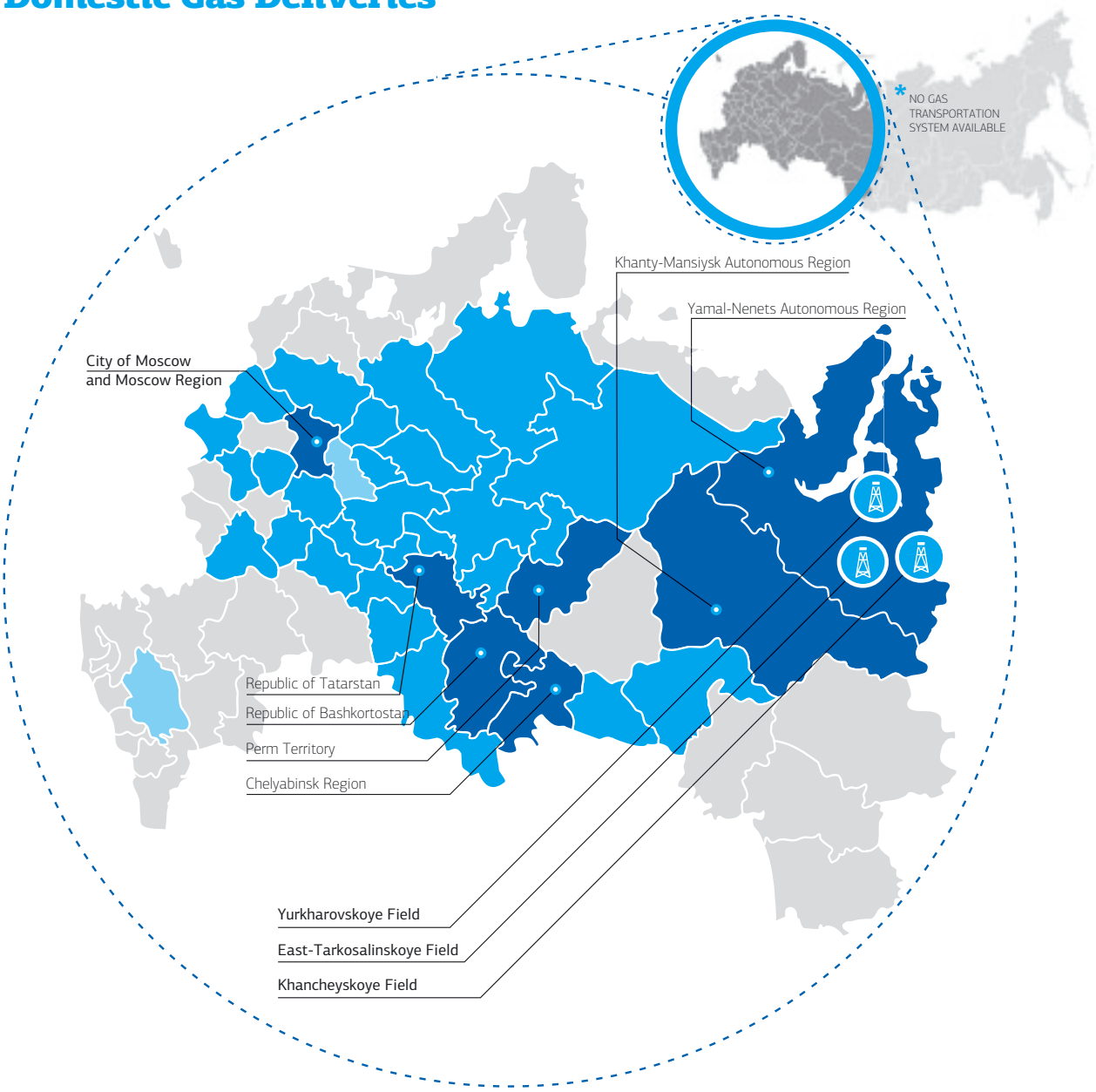


NATURAL GAS SALES REVENUE, RR billion*



* Net of VAT

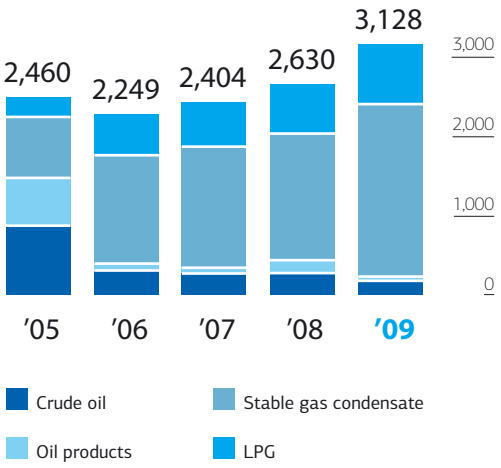
Domestic Gas Deliveries



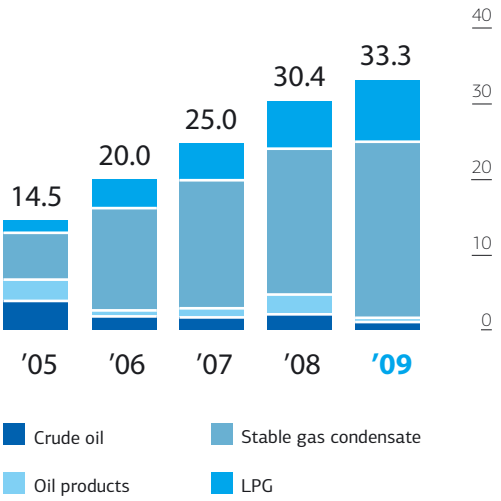
IN 2009, NOVATEK's natural gas sales volumes amounted to 32.9 bcm, a decrease of 1% compared to 2008 sales volumes of 33.3 bcm, of which 22.4 bcm was sold to the end-customer segment and 10.5 bcm was sold ex-field to the wholesale trader segment. The decrease in sales volumes was primarily due to an increase in natural gas inventory balances in underground storage facilities and a decrease in purchases from third parties. The decrease in purchases was offset by a 6.2% increase in the Company's own gross production volumes in 2009 to 32.8 bcm compared to 30.9 bcm in 2008.

IN APRIL 2009, the Company renegotiated the terms of its natural gas supply agreement with OOO Mezhregiongaz, on a temporary basis, from ex-field to delivered to the regions where the gas is sold. As a

LIQUIDS SALES VOLUMES,
mt

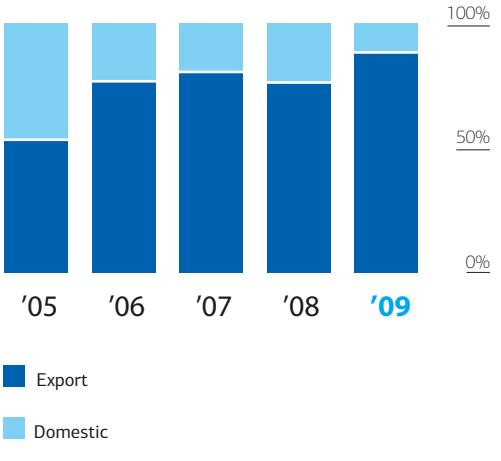


LIQUIDS SALES REVENUE,
RR billion*



* Net of VAT, excise tax and export duties.

LIQUIDS SALES REVENUE MARKET DISTRIBUTION,
%



result, sales to end-customers increased in 2009 to 68% of total natural gas sales from 47% in 2008.

THE FOLLOWING REGIONS, territory, republics and city made up the majority of our natural gas deliveries to end-customers in 2009; the Yamal-Nenets and Khanty-Mansiysk Autonomous Regions, the Chelyabinsk and Moscow Regions, the Perm territory, the republics of Bashkortostan and Tatarstan as well as the city of Moscow. The primary consumers were the power generation and metallurgical sectors as well as other industrial users and regional gas distributors.

TOTAL REVENUES from natural gas sales increased to RR 53.6 billion, or by 17.5%, in 2009 as compared to 2008.

IN ORDER TO MAINTAIN PRODUCTION levels during periods of seasonality in demand NOVATEK has entered into an agreement with OAO Gazprom for the use of the latter's underground storage facilities on a space available basis. Historically, natural gas is injected into underground storage facilities during warmer periods when demand is lower and later withdrawn during periods of colder weather and increased demand.

IN 2009, NOVATEK withdrew 225 mmcm of natural gas from underground storage facilities during periods of high demand and injected 509 mmcm when space was available. At the end of 2009, the Company had 584 mmcm of natural gas in storage and available for withdraw in future periods.

Liquid Hydrocarbon Sales

THE COMPANY'S PRIMARY LIQUID hydrocarbon sales volumes are comprised of stable gas condensate and liquefied petroleum gases (LPG). The stable gas condensate is primarily used in the petrochemical and oil refining industries as an alternative to naphtha and ultra-light crude oil, respectively. Our LPG is sold to both the chemical processing industry, as a feedstock, and the retail and wholesale fuel markets where its high energy content, environmental safety and ease of storage and transportation make it an attractive fuel source for automobiles and residential usage.

THE COMPANY'S LIQUID HYDROCARBON SALES results demonstrate its success in

Liquid Hydrocarbon Sales

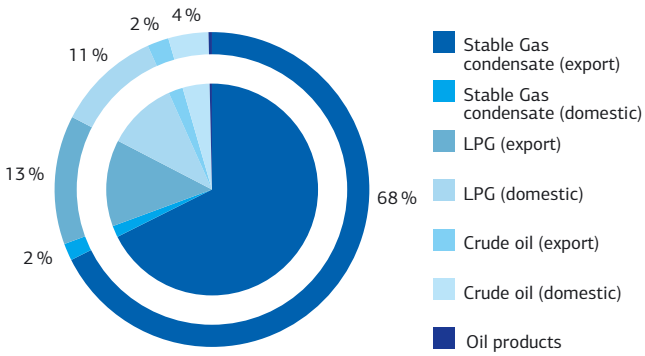
STABLE GAS CONDENSATE EXPORT SALES
USA
Singapore
China
Netherlands
South Korea

LPG EXPORT SALES
Poland
Turkey
Hungary
Finland
Slovakia
Latvia
Lithuania
Romania

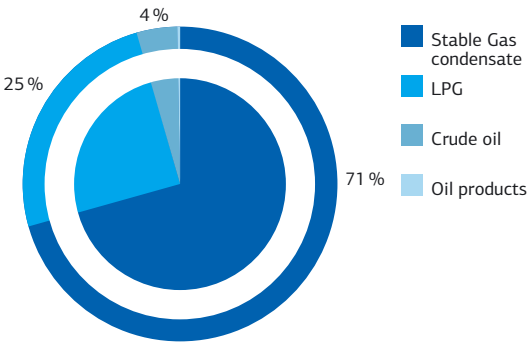
LPG DOMESTIC SALES
49 Russian regions

CRUDE OIL EXPORT SALES
Hungary
Germany

2009 BREAKDOWN OF LIQUIDS SALES VOLUMES, %



2009 BREAKDOWN OF LIQUIDS SALES REVENUES, %



diversifying both its product slate, to higher value added products, and geographic markets. The launch of the Purovsky Plant has enabled NOVATEK to optimize its marketing strategy based on the reliable supply of high quality processed hydrocarbons to both the domestic and export markets. Based on this strategy, the Company has developed stable relationships with off-takers of stable gas condensate in Europe and the US and in 2009 expanded its marketing reach to include off-takers in the Asian-Pacific region. The Company capitalized on the temporary cessation in export duties on LPG sales during 2009 to penetrate new markets in Turkey, Slovakia and Romania in addition to increasing sales volumes to its existing markets in Eastern Europe and the CIS countries.

TOTAL SALES VOLUMES of liquid hydrocarbons in 2009 amounted to 3,128 mt, a 19% increase over 2008 volumes while total revenues from liquids sales increased to RR 33.3 billion, or by 9.4%, in 2009 as compared to 2008.

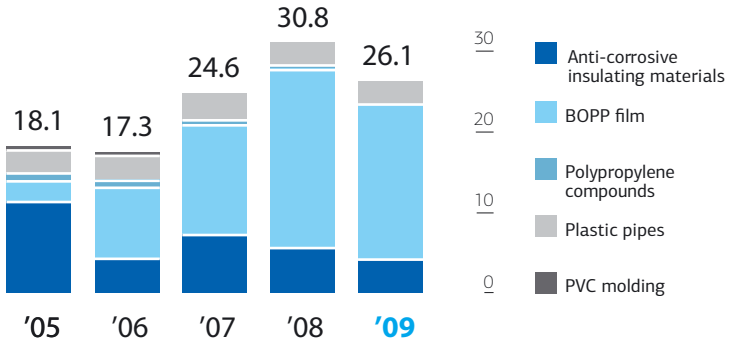
DURING 2009, NOVATEK sold 36 tankers of stable gas condensate of which 67% were sold to markets in the USA, 25% to markets in the Asian-Pacific region and eight percent to markets in Europe. Over 97% of our 2009 stable gas condensate sales volumes were sold to the export market.

THE COMPANY SELLS ITS LPG VOLUMES to both the export and domestic markets. In 2009, export sales volumes, including sales to the CIS, of LPG accounted for 55% of total LPG sales volumes and were primarily sold to markets in Eastern Europe. In 2009, NOVATEK actively expanded domestic sales of LPG through its network of retail and small wholesale stations. At the end of 2009, the Company owned five multi-fuel auto refueling stations, six conventional gas stations, one wholesale commercial refueling station and operated another wholesale commercial refueling station under a lease agreement. Sales of LPG and oil products through NOVATEK's owned and leased stations amounted to 14.4 thousand tons and 1.6 thousand tons, respectively.

AT THE END OF 2009, the Company's total rolling stock for transportation of liquid hydrocarbons totaled 4,536 rail cisterns of which, 2,387 were used for LPG transport (420 of which are owned by the Company) and the remaining were used for transporting stable gas condensate.

STABLE GAS CONDENSATE is transported by rail from the Purovsky Plant to the loading and storage facilities we have constructed, together with OAO Belomorskaya Neftebaza, at the all season Port of Vitino. In 2009, we loaded 2,060 mt at the port or 40% more than in 2008.

POLYMER PRODUCTION VOLUMES, mt



Industrial

NOVATEK-POLIMER is the core subsidiary in our industrial manufacturing business segment and one of the largest Russian producers of anti-corrosive insulating materials used on underground pipelines in the oil and gas industry. It produces more than a dozen types of polyethylene based insulating tape, including polymer tape and wrap, heat–shrinkable tape and sleeves to protect welded pipe joints.

IN JUNE 2005, we commissioned a modern BOPP (Biaxially Oriented Polypropylene) Film plant for the production of film wrap, which is widely used as a packaging material in the food, tobacco, perfume, pharmaceutical and textile industries.

AT PRESENT, sales of cold applied tape are decreasing while the demand for heat–shrinkable tape is continuing to grow in line with the overall trend on the insulation materials market. In 2009, insulation materials production volumes decreased by 26% due to the changes in timing of capital projects for the domestic oil and gas industry and the general decline in industrial output during the period. The main consumers of our insulation materials are Russian oil and gas producing companies while our polymer products are exported to Uzbekistan and Kazakhstan.

THE MAIN CONSUMERS of our BOPP film wrap are large print shops in Russia, Belorussia and Kazakhstan. In 2009, production of BOPP film wrap decreased significantly, by approximately 13% compared to 2008 due to the slowdown in economic activities. During the year, NOVATEK increased its marketing activities to attract new consumers and wholesale traders and started production of three new film types.

PLASTIC PIPES USED FOR GAS, water supply and plumbing are sold mainly on the domestic market. In 2009, our main consumers of plastic pipes were located in the Samara and Ulyanov regions, the republic of Bashkortostan and Kazakhstan. The Company significantly increased its production of large diameter pipes in 2009 compared to the previous year.

ALTHOUGH POLYMER PRODUCTION is not our core business, we continue to expand our production capacity and improve the range and quality of our products. We see our diversification into polymer production as complementary and value-additive to our overall strategy in the industrial manufacturing sector.

Drilling mud recycling plant at the Yurkharovskoye field

04

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

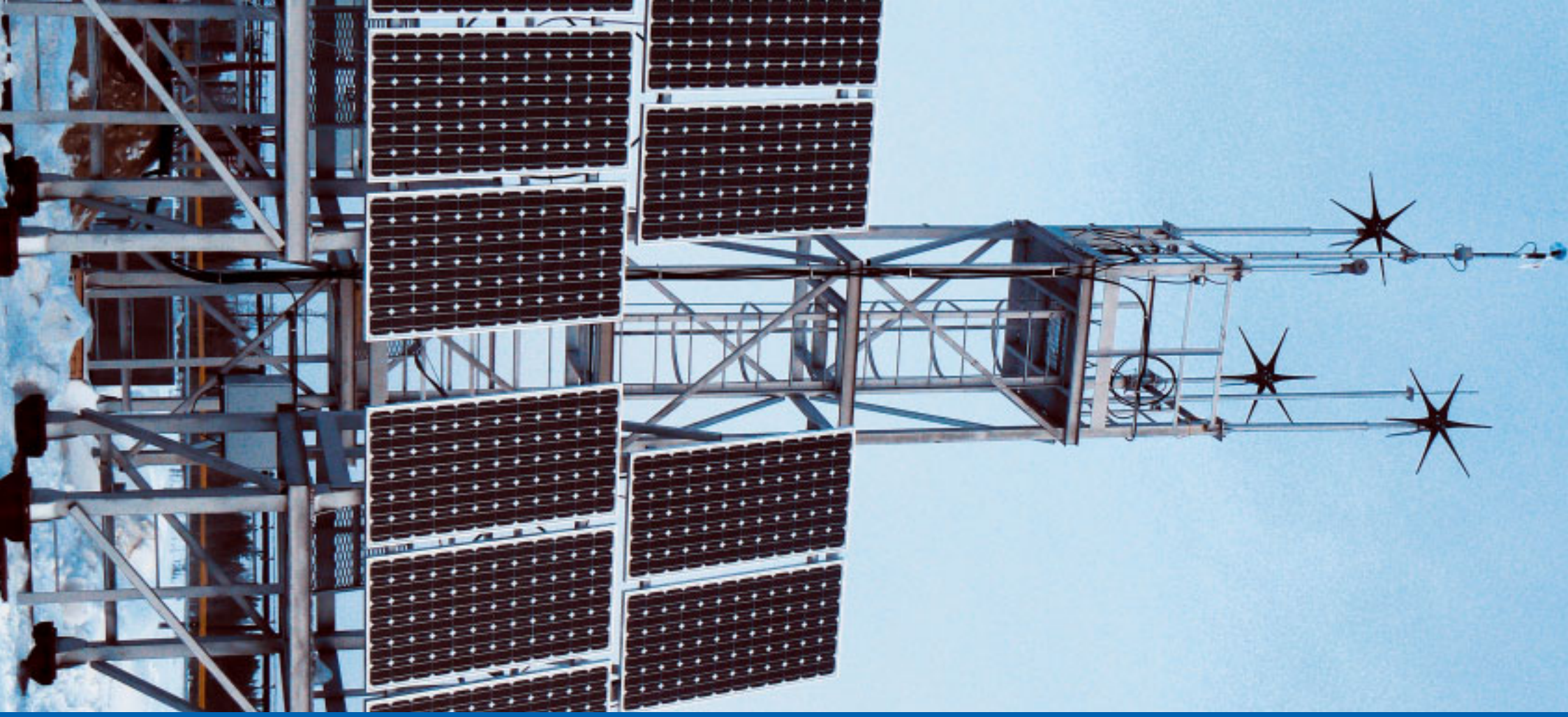
NOVATEK ADHERES TO ITS SOCIAL RESPONSIBILITY POLICY AND OBSERVES THE HIGHEST STANDARDS OF HUMAN RESOURCES MANAGEMENT, ENVIRONMENTAL PROTECTION AND INDUSTRIAL, HEALTH AND SAFETY.

NOVATEK ADHERES TO THE PRINCIPLES OF EFFECTIVE and responsible business conduct and considers the welfare of its employees and their families, environmental and industrial safety, the creation of a stable and beneficial social environment as well as contributing to Russia's economic development as priorities and responsibilities of the Company. In 2009, the Company invested approximately RR 533 million on projects and activities related to the support of indigenous peoples, charitable contributions and educational programs.

Human Resources

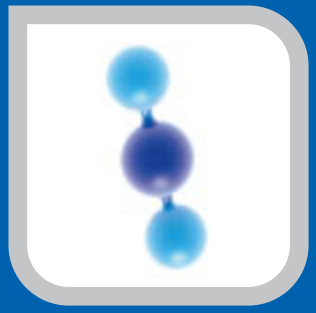
IN ASSESSING ITS CURRENT ACTIVITIES and future development plans, NOVATEK considers its employees as the Company's most valuable resource. The Company's human resource management system is based on the principles of fairness, respect, equal opportunity and an open dialogue between management and personnel. NOVATEK also provides continuous, comprehensive training and professional development opportunities for the Company's employees at all levels.

AS OF THE END OF 2009, NOVATEK had 4,417 employees, 46% of whom worked in exploration and production and 42% in plant operations, processing, transportation and sales.



<< Solar powered battery at the Yurkharovskoye field

CO_2



CARBON DIOXIDE GAS is a gas without any color or flavor and a slightly sour taste. It is toxic to humans and is one of the primary and most abundant of the greenhouse gases which greatly affect the temperature of the Earth.

NOVATEK is one of the first Russian companies to participate in the Carbon Disclosure Project and has taken the initiative to implement renewable energy sources at its production facilities.

A MAJORITY of the Company's products are considered to be clean burning energy sources with low carbon emissions which are helping to lower the concentration of green house gases in the atmosphere.

Personnel Training and Development

NOVATEK HAS CREATED a multilevel system of training and professional development within which target programs are implemented for on-the-job development of the Company's employees. Training takes place at both its own training centers as well as off-site centers in specialized Russian educational institutions, including; Skolkovo Moscow School of Management, Gubkin Russian State University of Oil and Gas, PricewaterhouseCoopers Russia as well as institutions and training facilities located abroad. The training and professional development programs are equally accessible to all Company employees in accordance with their professional specialization.

IN 2009, NOVATEK continued its efforts to increase employee training, improve working conditions and ensure a safe environment at its production facilities. More than 27% of employees have completed employee certification and industrial safety courses and 21% of engineers, technicians, specialists and line workers have upgraded their respective qualifications.

NOVATEK CONTINUED the implementation of the "Leadership Horizons" program for developing future managers and in 2009, 110 employees underwent training in two modules: "Task Management" and "Basics of Finance and Management Decisions".

THE IV INTERREGIONAL RESEARCH-TO-PRACTICE CONFERENCE for NOVATEK's young specialists was held in Moscow in September 2009 where 28 of the Company's employees participated. Based on the results of the competition, six winners were awarded a trip to an oil and gas training center in Norway and the second- and third-place winners were given cash awards. The top projects advanced to the Fuel and Energy Complex (FEC) 2009 Competition of Youth Projects sponsored by the Ministry of Energy of the Russian Federation.

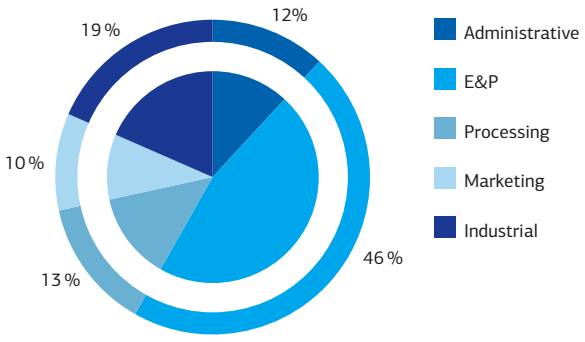
IN 2009, three of NOVATEK's young specialists who were winners of the FEC 2008 Competition of Youth Projects received commendations from the Ministry of Energy of the Russian Federation.

Social Programs

THE CENTRAL FEATURE of NOVATEK's social policy is a systematic approach to solving social problems and supporting workers and their families. According to the Core Concept of the Company's Social Policy which was adopted in 2006, the social benefits package for employees includes the following programs:

- Voluntary medical insurance for employees;
- Therapeutic resort and spa treatment for employees and members of their families;
- Provision of special-purpose short-term loans;
- Special-purpose compensation and social support payments;
- Provision of special-purpose interest-free loans to purchase housing; and
- Pension program.

2009 BREAKDOWN OF PERSONNEL
as at 31 December 2009



Social Policy and Charity

NOVATEK CONTINUED to implement its socio-economic development strategy in the regions where it operates throughout 2009. Special priority was given to the performance of our long-term agreements with municipalities of the Yamal-Nenets Autonomous Region (YNAO) and the Samara Region for financing programs targeting education and youths, development and modernization of social infrastructure and preservation of the cultural heritage of the indigenous peoples of the North and Russia as a whole.

COOPERATION WITH INDIGENOUS PEOPLES OF THE FAR NORTH. During 2009, NOVATEK financed projects aimed at preserving the culture and way of life of the minority populations of indigenous peoples of the North and developing community infrastructure, including the construction of housing, social and cultural facilities.

THROUGHOUT THE YEAR the Company provided sponsorship assistance to the following organizations:

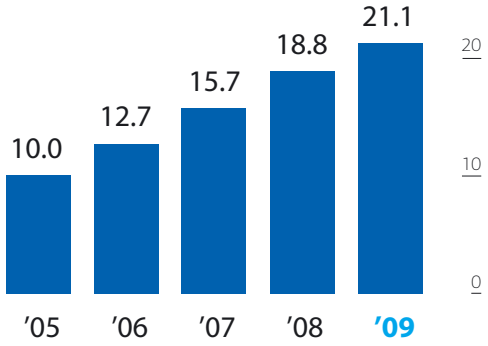
- The Association of Minority Populations of Indigenous Peoples of the Far North, Siberia, and Far East of the Russian Federation, including support for their participation in the UN Permanent Forum and other international conferences;
- The Administration of the YNAO in order to implement the program "Culture, Language and Traditional Ways of Life of Minority Populations of Indigenous Peoples of the Far North" that will create the conditions enabling a shift to sustainable development based on comprehensive solutions to problems of spiritual and cultural development, strengthening traditional means of subsistence and promoting employment;
- The Yamal for Descendants Association and its district branches to support an Adaptation Center for students from the native villages of the indigenous peoples of the Far North; and
- The Icha Territorial Agricultural Community in order to purchase fuel.

IN SEPTEMBER 2009, NOVATEK signed a Social Partnership Agreement with the Yamalsky District of the YNAO in connection with the planned development of the South Tambeyskoye field.

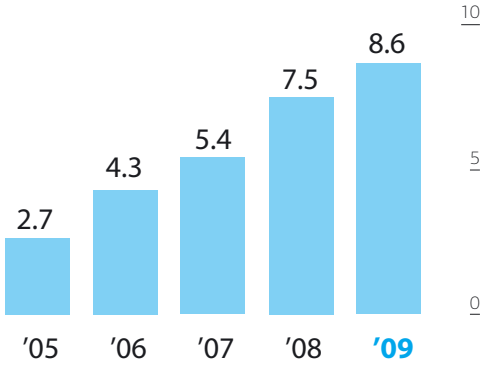
EDUCATIONAL PROGRAMS. Under the "Gifted Children" program initiated by NOVATEK in 1999, special classes are formed on a competitive basis from the most talented students in the cities of Tarko-Sale and Novokuybyshevsk. The program is designed for students in grades 10 and 11 who have above-average test scores and allows them to participate in regional, district and national contests in major school subjects.

THE "GRANTS" PROGRAM is another of the Company's initiatives to support the education and wellbeing of schoolchildren. Since 2004, students in grades five through 11 living in the Purovsky District of the YNAO have been awarded grants from the Company to support their academic and creative development and encourage a responsible attitude towards their studies.

TOTAL REVENUES PER EMPLOYEE,
RR million



NET CASH PROVIDED BY OPERATING ACTIVITIES PER EMPLOYEE,
RR million



THE "GRANTS" PROGRAM for teachers of the Purovsky District was launched in 2008 to raise the prestige of the teaching profession and create favorable conditions for developing new and talented teachers.

IN ITS EFFORTS TO CREATE the conditions for effective use of university and college resources in preparing students for future professional activities, the Company has developed and successfully implemented the NOVATEK-VUZ program in cooperation with St. Petersburg State Mining Institute and the Gubkin Russian State University of Oil and Gas. The NOVATEK-VUZ program operates on the basis of mutually beneficial cooperation agreements that include support for pre-university preparation of students, subject competitions and professional orientation.

SUPPORT OF CULTURAL TRADITIONS. The strengthening of partnership relations between the Company and Russia's leading cultural and educational institutions, creative groups and charity funds has continued during 2009.

NOVATEK REMAINS A GENERAL PARTNER of the Moscow Soloists Chamber Ensemble under the direction of soloist and conductor Yuri Bashmet. The Company also continued its long-term cooperation with the Russian State Museum (St. Petersburg), the Samara Regional Art Museum, the Moscow Kremlin Museum, the Tsaritsyno Estate Museum, the Moscow House of Photography Museum and Exhibition Complex and the Moscow Museum of Modern Art.

IN 2009, the Company organized and sponsored a number of exhibitions jointly with the Russian State Museum, Samara Regional Art Musem, the Moscow Kremlin Museum, the Moscow House of Photography and the Moscow Museum of Modern Art. NOVATEK was also a major sponsor of the Russian exhibit at the 2009 Venice Biennale in Venice, Italy.

SPORTS PROJECTS. NOVATEK has continued its support for semi-professional and high-level amateur sports programs. The Company is the General Partner of the Spartak Basketball Club (St. Petersburg), the NOVA Volleyball Team (Novokuybyshevsk), and the MVD Hockey Club (Moscow).

CHARITABLE ACTIVITIES. The Company is expanding its cooperation with the "Gift of Life" charity fund founded by Chulpan Khamatova. Funds raised from events are directed to children's hospitals in order to purchase modern medical equipment.

IN 2009, NOVATEK also continued its active support of the fund's blood donor movement whereby twice a year the Company's Moscow office hosts blood donor sessions to benefit children from the Russian Children's Clinical Hospital.

VOLUNTEER WORK. In 2008, NOVATEK created the volunteer movement "All Together" in which the Company's employees take part in charitable events and projects. The group has been active in a number of causes including; supporting orphans and children with various illnesses as well as supporting the blood donor sessions and the organization of various other charitable programs. Since the beginning of 2008, the volunteer movement has been a regular supporter of an orphanage in the Tver region and since September 2009 it has been a regular supporter of orphaned animals.

Corporate Culture

NOVATEK HAS INITIATED a program aimed at developing and promoting the Company's corporate culture in order to ensure that each employee has a sense of involvement in the Company's activities. The program also focuses on developing personal initiative, competitiveness and creative thinking among the Company's employees. In 2009, particular attention was paid to the development and expansion of internal communication channels in order to support the program's implementation.

CORPORATE MEDIA. The main objectives of NOVATEK's corporate media are to increase employee and family members' interest in Company life and audience expansion. NOVATEK's corporate newspaper has become a significant means of communication inside the Company and in 2009 the newspaper was registered as a federal mass media outlet enabling us to increase its print run and optimize its circulation.

WE HAVE ALSO INTRODUCED a new concept, "NOVATEK-FAMILY", which is designed for the family members of our employees and is published as a supplement to our corporate newspaper.

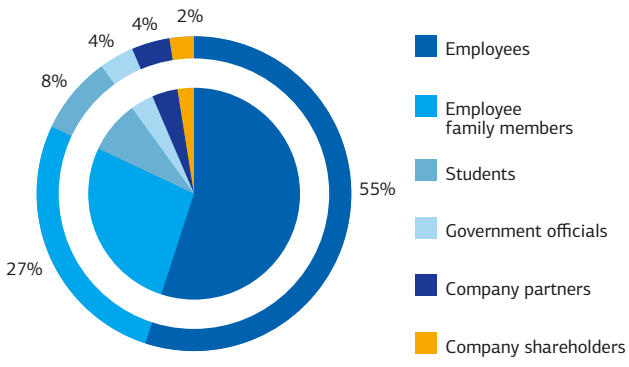
WE ARE IN THE PROCESS of developing a social website and have officially registered the domain name "NOVATEKPLUS.RU". The website will run in parallel with our corporate website to provide information on NOVATEK's social activities and envisages a feed-back mechanism for users to interact with the Company.

EMPLOYEE ACCESS TO SENIOR MANAGEMENT. In 2009, we increased the number of opportunities for employees to meet directly with the Company's senior management. During the year, these meetings were attended by the Chairman of the Management Board, Mr. Leonid Mikhelson, First Deputy Chairman of the Management Board, Mr. Mikhail Popov, Deputy Chairman of the Management Board, Mr. Vladimir Smirnov, and other members of the Management Board including Mr. Kirill Yanovsky, Mr. Alexander Fridman and Mr. Victor Guiria.

CORPORATE EVENTS, SPORTS, CULTURE AND EDUCATION. We have continued to provide our employees with regular opportunities to participate in recreational and sporting activities including competitions and social events conducted at both the subsidiary and Group levels.

IN 2009, the number of employees which took part in corporate events increased by more than 10%.

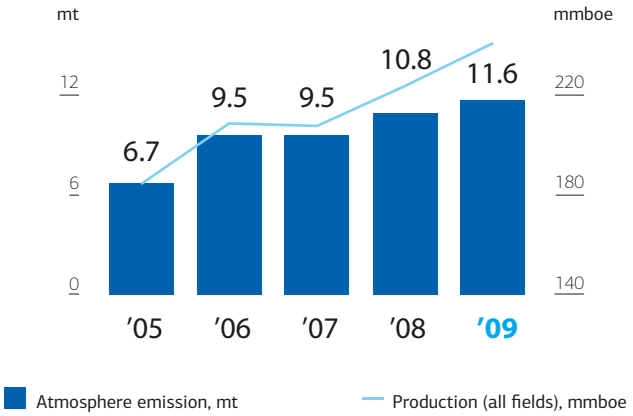
NOVATEK CORPORATE NEWSPAPER READERS



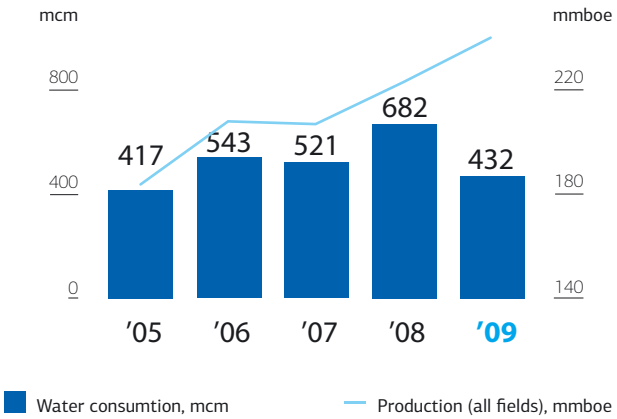
Main page of NOVATEKPLUS.RU

Environmental Protection

AIR POLLUTION OF NOVATEK E&P COMPANIES



WATER CONSUMPTION OF NOVATEK E&P COMPANIES



NOVATEK IS COMMITTED to conducting its operations in full compliance with Russian legislation and international standards for environmental protection. In line with this commitment, the Company promotes the rational use of natural resources, efficient energy usage and the reduction of adverse environmental effects throughout its operations.

UNDER THE COMPANY'S APPROVED ENVIRONMENTAL POLICY, NOVATEK does not operate on lands and water bodies designated as nature preserves, national parks, game reserves, natural monuments, UNESCO biosphere reserves and Ramsar wetlands.

THE DEVELOPMENT of the energy sector, a global increase in energy consumption and increased public interest in the problem of climate change are creating fast-growing markets for low-hydrocarbon energy sources. NOVATEK considers its participation in these markets as an important part of its business strategy and in 2009 NOVATEK became one of the first Russian companies to take part in the Carbon Disclosure Project. This project is an international investment partnership, in close cooperation with the Global Reporting Initiative, which is intended to simplify the dialogue between shareholders and corporations by providing high-quality information on operations and energy-efficient production.

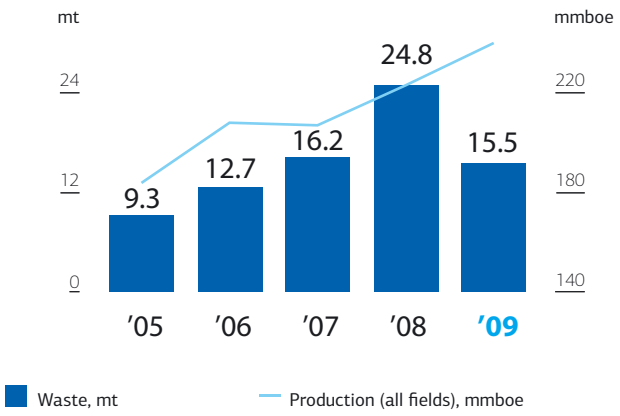
NOVATEK IS ACTIVELY incorporating alternative energy sources into its producing activities, for example, wind generators and solar panels will generate the necessary power to run the telemechanic system of the gas condensate pipeline from the Yurkharovskoye field to the Purovsky Plant. Implementation of this project has allowed the Company to abandon construction of a power line to service the 300 km system.

IN 2009, NOVATEK's producing and processing facilities successfully passed compliance and recertification audits of their environmental management systems in accordance with ISO14001:2004 standards. Based on the audit results, it was recommended to extend certification of the environmental management systems.

IN ORDER TO PROMOTE ADVANCED TRAINING and assimilation of new problem-solving methods in the area of environmental safety, 105 of the Company's specialists and managers underwent training and certification in environmental safety in 2009.

NOVATEK'S ACHIEVEMENTS in environmental protection, industrial safety and energy efficiency have received high ratings from public organizations. At the end of 2009, several employees from the Company's Environmental Department were awarded the title of European Environmentalist of the Year which is conferred annually by the European Scientific Society.

WASTE GENERATION OF NOVATEK E&P COMPANIES



Drilling rig at the Yurkharovskoye field

Labor Protection and Industrial Safety

IN 2009, the Company's industrial safety and labor protection activities were based on programs developed in conformance with the Company's own internal policy and accepted standards of the Integrated Environmental Protection, Industrial Safety and Labor Protection Management System.

A COMPLIANCE AUDIT CARRIED OUT at NOVATEK and its operating subsidiaries confirmed their compliance with the OHSAS 18001-2007 standards.

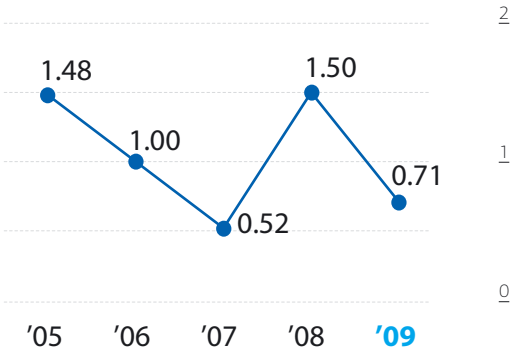
PURSUANT TO THE REQUIREMENTS of the laws of the Russian Federation and the implementation of the Environmental Protection, Industrial Safety and Labor Protection Policy at NOVATEK and its operating subsidiaries, the following regulations, measures and programs have been developed, approved and implemented:

- Regulations on organizing and carrying out in-process control over the observance of industrial safety requirements at hazardous production facilities;
- Measures to improve and enhance working conditions in the workplace taking in to consideration occupational risks;
- Workplace certification measures; and
- Production facility monitoring programs.

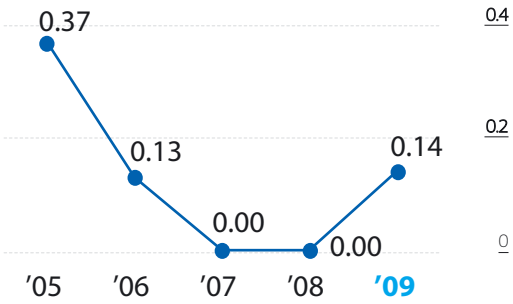
THE PREPAREDNESS of NOVATEK and its operating subsidiaries for possible accidents and incidents and the adequate response to them as well as the observation of legislative requirements for labor protection and industrial and fire safety are verified by annual comprehensive inspections at the production facilities.

IN ORDER TO REDUCE THE RISK of fires and increase fire fighting effectiveness, the emergency response services successfully carried out fire safety team exercises, including a readiness evaluation for the flood- and fire-hazardous spring and summer seasons.

INJURY FREQUENCY RATE
(no. of injuries / million working hrs)



SERIOUS INJURY FREQUENCY
(no. of serious injuries / million working hrs)

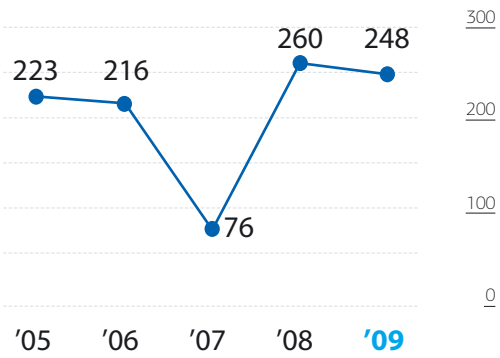


The exercises enable the fire safety team to develop measures to ensure the safety of employees and implement up-to-date fire prevention and fire suppression techniques.

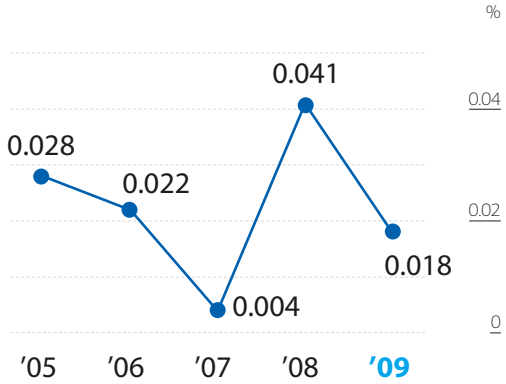
AS A RESULT of the Company's efforts to bring its production and processing assets into compliance with the requirements of fire safety regulations, there were no fires or serious fire safety violations at NOVATEK in 2009.

IN 2009, all of NOVATEK's emergency response services' personnel underwent training in salvage and cleanup of localized oil and petroleum product spills and the Purovsky Plant was certified to carry out emergency response and cleanup operations for onshore oil spills.

ACCIDENT SEVERITY RATE
(total no. of employee working hrs lost per accident / no. of accidents)



PERCENTAGE OF TIME LOST DUE TO INJURIES
(number of hrs lost / total working hrs)



05

MANAGEMENT AND CORPORATE GOVERNANCE

OUR COMMITMENT TO TRANSPARENCY AND CORPORATE GOVERNANCE HAS BEEN APPROPRIATELY NOTED BY THE INVESTMENT COMMUNITY AND CLEARLY DISTINGUISHES NOVATEK FROM OUR COMPETITORS.

Corporate Governance

NOVATEK AND ITS BOARD of Directors are committed to the highest standards of corporate governance. We believe that such standards are essential to business integrity and performance and provide a framework for transparent and responsible management which in turn enables us to create value for our shareholders. This section sets out the policies and practices of the Company, more information on our corporate governance practices can be found on our website at www.novatek.ru/eng.

IN ORDER TO ENSURE that the highest standards of corporate governance are observed we have adopted an internal NOVATEK Corporate Governance Code which provides a framework that governs the execution of our business activities. We expect all of our employees to conduct business in a socially responsible manner, adhere to our corporate governance and transparency commitments, and strive to identify ways to improve the efficiency of our work in each of our respective roles. The NOVATEK Code of Corporate Governance is also available on the Company's website.

WE ARE INCORPORATED in the Russian Federation and our shares are listed on the Russian Trading System and MICEX exchanges. As such, we are required to comply with the laws and regulations promulgated under the Russian Federation's Corporate Governance Code, approved on 28 November 2001 (minutes No. 49). The NOVATEK Corporate Governance Code is in full compliance with the provisions of the Russian Federation's Corporate Governance Code.

Our shares are also listed on the London Stock Exchange (LSE) in the form of Global Depository Receipts (GDR's) and we recognize the value of the UK Financial Reporting Council's Combined Code on Corporate Governance and have applied the recommendations in so far as it is practicable and appropriate, and does not contradict those of the Russian Federation. We support high standards of corporate governance and will progressively adopt best practices in line with the Combined Code on Corporate Governance

Board of Directors

NOVATEK'S BOARD of Directors (the Board) is responsible for directing and managing the business activities of the Company under the provisions stipulated by the Federal Law on Joint Stock Companies and NOVATEK's charter documents. The Board is accountable to NOVATEK's shareholders for creating and delivering sustainable shareholder value by executing its managerial responsibilities in an effective and efficient manner.

AS WELL as oversight responsibility for financial performance, internal controls and risk management, the Board has a formal schedule of matter's specifically reserved to it for decision. These matters include, but are not limited to; defining the Company's strategy and ensuring that capital and human resources are properly allocated in order to execute it, optimization of corporate and capital structure, review of significant contracts, approval of long-term and yearly business plans and investment projects, recommendations on dividends and the convening of Annual and Extraordinary General Meetings of Shareholders. The full list of matters reserved to the Board for decision is available on the Company's website.

THE BOARD CONSISTS of nine members. NOVATEK's Board is chaired by Mr. Alexander Natalenko. The Chairman is responsible for leading the Board and its effectiveness. The Board has a strong independent element and currently comprises, in addition to the Chairman, two executive directors and six non-executive directors who together with the Chairman are considered independent according to the definition contained in the Corporate Governance Code of the Russian Federation.

NOVATEK'S DIRECTORS HAVE a wide range of expertise as well as significant experience in strategic, financial, commercial and oil and gas activities. Following appointment

BOARD OF DIRECTORS

DIRECTOR	COMMITTEE MEMBERSHIP
Alexander Y. Natalenko[1, 2]	Strategy and Investments Committee (chairman) Corporate Governance and Remuneration Committee
Leonid V. Mikhelson	
Andrei I. Akimov[2]	Audit Committee
Burkhard Bergmann[2]	Corporate Governance and Remuneration Committee Strategy and Investments Committee Sub-committee for LNG projects (chairman)
Mark A. Gyetvay	Strategy and Investments Committee Sub-committee for LNG projects
Vladimir A. Dmitriev[1, 2]	Audit Committee (chairman)
Kirill G. Seleznev[2]	Strategy and Investments Committee
Ruben Vardanian[1, 2]	Corporate Governance and Remuneration Committee (chairman), Audit Committee
Gennady N. Timchenko[2]	Strategy and Investments Committee Sub-committee for LNG projects

1 Denotes independent Board Member according to the definition contained in the UKLA Combined Code.
2 Denotes independent Board Member according to the definition contained in the Russian Federal "Law on Joint-Stock Companies.

to the Board, Directors receive a comprehensive induction tailored to their individual needs. This includes meetings with senior management to enable them to acquire a detailed understanding of NOVATEK's business activities and strategy, and the key risks and issues that we face as a business. In addition to these formal processes Directors have access to the Company's senior executives for both formal and informal discussions to ensure regular exchange of information between non-executive directors and management. Directors receive timely, regular and necessary management and other information to enable them to fulfill their duties and have access to the services and advice of the Board's secretary.

BOARD ACTIVITIES DURING THE YEAR

TO ENSURE an efficient process the Board meets regularly, but not less than once every two months, and in 2009, held 14 meetings, eight of which were by proxy.

DURING 2009, the Board discussed and made decisions on the following key issues.

Operating and Financial Performance

THE BOARD REVIEWED and approved the Company's 2008 full year operating and financial results, the 2009 half year financial statements and operating results and amended the 2009 business plan accordingly. The Board also reviewed and approved NOVATEK's business plan for 2010.

THE BOARD ALSO APPROVED the regulatory filing and potential issuance of interest-bearing, non-convertible Russian rouble bonds with a total maximum nominal amount of RR 30 billion.

Transactions

THE BOARD APPROVED an acquisition of 51% of the shares in OAO Yamal LNG, which holds the license for exploration and production at the South Tambeyskoye field.

BOARD AND COMMITTEE MEETINGS ATTENDANCE

Member	Board of Directors	Audit Committee	Corporate Governance and Remuneration Committee	Strategy and Investments Committee
Alexander Y. Natalenko[1]	14/14		2/2	5/5
Leonid V. Mikhelson	14/14			
Andrei I. Akimov	13/14	5/5		
Burkhard Bergmann[2]	13/14		2/2	1/1
Mark A. Gyetvay[3]	14/14		3/3	4/4
Vladimir A. Dmitriev	14/14	5/5		
Kirill G. Seleznev	10/14			4/5
Ruben Vardanian	13/14	5/5	5/5	
Gennady N. Timchenko[4]	10/10			4/4
Ilya A. Yuzhanov[5]	4/4		3/3	1/1

1 Mr. Natalenko was elected to the Corporate Governance and Remuneration Committee on 27 May 2009.
2 Dr. Bergmann was elected to the Corporate Governance and Remuneration Committee on 27 May 2009. Dr. Bergmann served on the Strategy and Investments Committee from 2 October 2008 to 27 May 2009 and was re-elected on the 3 December 2009.
3 Mr. Gyetvay was a member of the Corporate Governance and Remuneration Committee until 27 May 2009 at which time he was elected to the Strategy and Investments Committee.
4 Mr. Timchenko was elected to the Board of Directors and the Strategy and Investments Committee on 27 May 2009.
5 Mr. Yuzhanov ceased to be a Member of the Board of Directors as of 27 May 2009.

Dividends

THE BOARD RECOMMENDED a full year dividend for 2008, based on full year financial results, and an interim dividend for first half 2009, based on interim financial results for that period.

Board Committees

ON 25 MARCH 2005, NOVATEK's Board of Directors approved the implementation and establishment of three Board committees: Audit; Strategy and Investments; and Corporate Governance and Remuneration, in accordance with corporate governance best practices and standards.

ON 4 DECEMBER 2009, the Board approved the establishment of a sub-committee within the Strategy and Investments Committee to oversee the development of LNG projects and natural gas markets.

THE COMMITTEES PLAY A VITAL ROLE IN ENSURING that the high standards of corporate governance are maintained throughout the Company and that specific decisions are analyzed prior to general Board discussions. The specific terms of reference for each of the Board Committees are available on our website. The minutes of the committee meetings are circulated to the Board and are accompanied by oral reports.

Audit Committee

THE AUDIT COMMITTEE is governed by a Charter which has been approved by the Board. The Charter is available on the Company's website and is summarized below.

THE PRIMARY FUNCTION of the Audit Committee is to assist the Board in exercising effective control by assessing:

- the accuracy, transparency, and completeness of the Company's financial statements prepared in accordance with Russian and International accounting standards;
- the candidature of the Company's external auditor;
- the independent auditor's report which is presented at the Company's Annual General Meeting of Shareholders (AGM);
- the efficiency of the Company's internal control procedures and proposals for their improvement; and
- the Company's compliance with applicable laws of the Russian Federation.

IN CARRYING OUT its responsibilities the Audit Committee has full authority to investigate all matters that fall within its Charter. Accordingly, the Audit Committee may:

- obtain independent professional advice in the satisfaction of its duties within the Committee's budget;
- request and receive information from Company managers and senior executives; and
- review reports from and conduct meetings with the Company's external auditors.

COMMITTEE MEMBERSHIP AS OF 31 DECEMBER 2009

	Audit Committee	Corporate Governance and Remuneration Committee	Strategy and Investments Committee	Sub-committee for LNG projects
Chairman	Vladimir Dmitriev	Ruben Vardanian	Alexander Natalenko	Burkhard Bergmann
Members	Ruben Vardanian	Alexander Natalenko	Mark Gyetvay	Mark Gyetvay
	Andrei Akimov	Burkhard Bergmann	Burkhard Bergmann	Gennady Timchenko
			Gennady Timchenko	
			Kirill Seleznev	

THE AUDIT Committee develops recommendations to the Board with respect to the candidature of the Company's auditor and the cost of its services. On the basis of the Committee's recommendations, the Board proposes the candidate auditor company to NOVATEK's AGM for approval. In selecting proposed candidates, the Audit Committee takes into account a prospective auditor's expertise and independence, the risk of conflicts of interest, contract terms and conditions and remuneration. The Audit Committee exercises control over the independence and objectiveness of the external auditor and the efficiency and quality of the audit. The Audit Committee annually informs the Board regarding its appraisal of the independent auditor's report.

The Audit Committee meets with representatives of the external auditor no less than once a year.

To ensure the Audit Committee discharges its responsibilities, it meets not less than four times per year and in 2009, the Audit Committee met five times. The Company's Chief Financial Officer and other senior financial management are available to attend the meetings.

The Audit Committee reviews the Company's Annual Report and develops recommendations to the Board with respect to preliminary approval of the report by the Board.

NOVATEK'S MANAGEMENT ACKNOWLEDGES and recognizes the requirement to uphold the independence of the Company's principal external auditors by limiting their engagement to provide a wide range of non audit services. The remuneration of the Company's principal auditors for audit services and other services has been set out in disclosure note 21 to the Company's 2009 IFRS consolidated financial statements.

Internal Audit

NOVATEK'S INTERNAL AUDIT DIVISION, in cooperation with the Board of Directors and the Company's management, takes part in providing objective assurance on the adequacy and effectiveness of the Company's systems for risk management and internal control and provides recommendations to improve those systems. The Internal Audit Division has adopted the Institute of Internal Auditors' Code of Ethics as well as international auditing standards and international professional standards of internal audit.

IN PERFORMING ITS FUNCTIONS, the Internal Audit Division is guided by the principles of independence and objectiveness. NOVATEK's internal standards envisage full access of the Internal Audit Division employees to all functions, records, property and personnel of the Company in implementing their audit tasks. The Division's employees regularly update their qualifications and professional development as an integral part of the internal audit quality assurance.

A RISK BASED APPROACH is used to plan the internal audits. In preparing reports on performance of audit tasks, the principles of accuracy, objectiveness, completeness and timeliness are observed.

THE HEAD of the Internal Audit Division annually provides reports on the Company's internal audit performance to the Audit Committee members.

IN AUGUST 2009, the Board approved the new Regulations on NOVATEK's Internal Control, which provides a wider disclosure of the functions and procedure of the Company's internal control activities. According to the new Regulations, the number and organizational structure of the Internal Audit Division is to be approved by the Chairman of the Management Committee as agreed upon with the Audit Committee.

Strategy and Investments Committee

THE STRATEGY and Investments Committee is governed by a Charter which has been approved by the Board. The Charter is available on the Company's website and is summarized below.

THE PRIMARY FUNCTION of the Strategy and Investments Committee is to give recommendations to the Board for determining priorities of the Company's operations and assessing the effectiveness of investment projects proposed to the Board for consideration.

THE MAIN OBJECTIVES of the Strategy and Investment Committee are as follows:

- determine strategic priorities for the Company's operations; and
- assess the effectiveness of prospective investment projects and consider how these investments increase shareholder value.

IN CARRYING OUT its responsibilities and assisting the members of the Board in discharging their duties the Strategy and Investments Committee is responsible for but not limited to:

- analyzing concepts, programs and plans for the Company's strategic development and giving recommendations to the Board;
- developing recommendations to the Board with respect to any transactions with assets the value of which exceeds five percent of the Company's assets' book value, as calculated in accordance with the accounting data as of the last reporting date;
- developing recommendations to the Board following the consideration of investment projects proposed by the Company's executive bodies for implementation; and
- developing recommendations to the Board for utilization of the Company's reserves and provisions.

IN ORDER TO CARRY OUT its duties the Strategy and Investments Committee may request information or documents from members of the Company's executive bodies, or heads of the Company's relevant departments, which it requires to efficiently discharge their duties. For the purpose of considering any issues being within the Committee's powers, the Strategy and Investments Committee may engage experts or other specialists having necessary professional knowledge and skills. The manner and terms and conditions of engaging such experts or specialists are to be stipulated in agreements between the Company and such persons.

TO ENSURE the Committee discharges its responsibilities, it meets not less than four times per year and in 2009, the Strategy and Investments Committee met four times.

AT YEAR-END A LNG SUB-COMMITTEE was established within the Strategy and Investments Committee. The Board members on the sub-committee are Burkhard Bergmann (Chairman), Mark Gyetvay and Gennady Timchenko.

Corporate Governance and Remuneration Committee

THE PRIMARY FUNCTION of the Corporate Governance and Remuneration Committee is to review practices and policies of the Company to ensure compliance with applicable standards of corporate governance and best practices. The Corporate Governance and Remuneration Committee is also responsible for determining the policy for executive remuneration and for the remuneration and benefits of individual executive directors and senior executives as well.

THE MAIN OBJECTIVES of the Corporate Governance and Remuneration Committee are as follows:

- develop and regularly review our corporate governance documents and documents regulating corporate conflicts;
- develop recommendations with respect to our dividend policy and distribution;
- evaluate the Company's Investor Relations and Shareholder communications policies;
- develop procedures for and perform an annual evaluation of the work performed by the Board; and
- determine the annual compensation for the Board and Revision Commission members.

TO ENSURE the Committee discharges its responsibilities, it meets not less than four times per year and in 2009, the Corporate Governance and Remuneration Committee met five times.

Revision Commission

IN COMPLIANCE WITH the Russian Federation Law on Joint Stock Companies N 208-FZ and the Company's Charter, the Company's Revision Commission is elected at the AGM by cumulative voting. The Revision Commission is governed by a Charter which has been approved by resolution of the shareholders at the Company's AGM. The Charter is available on the Company's website and is summarized below.

THE REVISION COMMISSION CONSISTS of four persons and is an internal

control body responsible for oversight of the Company's financial and business activities, officers, divisions, departments, branches and representative offices. The Revision Commission audits the Company's financial and business performance for the year, as well as for any other period as may be decided by its members or other persons authorized to do so in accordance with Russian Federation law and the Revision Commission's Charter, and presents the review (revision) results in the form of an opinion.

THE REVISION COMMISSION SHALL, no later than 40 days prior to the AGM, present to the Board its report on the internal audit (review) of the Company's financial and business performance for the year, and its internal audit opinion confirming or denying the reliability of data contained in the Company's Annual Report and Annual Accounting Statement.

Management Committee

NOVATEK'S MANAGEMENT COMMITTEE is responsible for the day-to-day management of the Company's operations within agreed limits set by the Board. More information regarding the general policies governing the Management Committee is available on the Company's website. The Management Committee is comprised of the Executive Directors and the following senior managers of the Company.

Management Committee Members

- Leonid Mikhelson (Chairman)
- Vladimir Baskov
- Victor Girya
- Mark Gyetvay
- Evgeny Kot*
- Tatyana Kuznetsova
- Iosif Levinzon*
- Mikhail Popov
- Sergei Protosenya
- Valery Retivov*
- Vladimir Smirnov
- Nikolai Titarenko
- Lev Feodosiev*
- Alexander Fridman
- Kirill Yanovskiy

IN DECEMBER 2009, NOVATEK increased the size of its Management Committee to 15 members to better reflect the current scale and diversity of NOVATEK's operating activities; previously the Committee consisted of eleven members.

Shareholder Communications

THE COMPANY MAINTAINS an active dialogue with its key financial audiences, including institutional shareholders and sell-side analysts to ensure that trading in its securities takes place in an informed market. The main channels of communication with the investment community are through the Chairman of the Management Committee and the Chief Financial Officer. The Investor Relations and Corporate Affairs departments manage the ongoing dialogue with these audiences.

REGULAR PRESENTATIONS and press releases take place at the time of interim and final results as well as during the rest of the year. The Company also discloses all material facts to shareholders through a Regulatory Information Service, as well through press releases and on its website, in compliance with both Russian and UK listing requirements.

IN ADDITION TO MATERIAL FACTS and statutory documents the Company provides in depth information on the health, safety and environmental impact of its operations and activities on its website. The website also contains general investor information, publications and Company policies and presentation material from major Company events and investor seminars and conferences.

THE BOARD RECOGNIZES the importance of the communication with its shareholders and, as well as giving a balanced report of results and progress at each AGM, the Company regularly meets with, and responds to questions and issues raised by shareholders and the analyst community.

INFORMATION for NOVATEK's shareholders and contact information is available on the Company website.

* were elected in December 2009.

NOVATEK Brand and Media Relations

NOVATEK HAS POSITIONED ITSELF as a transparent Company through the timely disclosure of information on socially significant and relevant topics, as well as by providing prompt answers to questions which are of interest to the public, in order to raise awareness of the NOVATEK brand.

IMAGE AND PUBLICATIONS. NOVATEK's image is based on the key attributes which characterize the Company and how it conducts its operations, which include; confidence in its capabilities, use of innovative and advanced technologies, focused and clear strategy, business integrity and respect for people and the environment.

DURING 2009, NOVATEK has produced and published the following promotional materials which highlight these attributes:

- a Company brochure;
- a Company booklet;
- video clips "Ahead of the Times" and "We produce natural gas in Russia";
- a book "People who are ahead of their time".

EXHIBITIONS AND CONFERENCES. During 2009, NOVATEK employees represented the Company at more than 20 exhibitions, conferences and round tables and spoke at over 12 key industry events.

MEDIA RELATIONS. NOVATEK adheres to the principles of openness and transparency in its relationship with media outlets and the Company maintains a regular dialog with the press. The information disclosed to the media covers all aspects of NOVATEK's activities including, financial and operating results, project implementation and social and environmental information.

IN 2009, NOVATEK was the recipient of the "Best Press-Service in the Industry" award at the inter-industry competition "ConTEXT" sponsored by the Energy Ministry of the Russian Federation.

NOVATEK'S MEDIA RELATIONS are governed by the Company's Regulation on Information Policy which is approved by the Company's Board of Directors.

NOVATEK's stand at the World Gas Congress in Buenos Aires, Argentina

Securities

OUR SHARE CAPITAL is RR 303,603,600 and consists of 3,036,306,000 ordinary shares, each with a nominal value of RR 0.1. In July 2006, we executed a 1:1000 share split, which considerably increased the trading transactions involving the Company's ordinary stock.

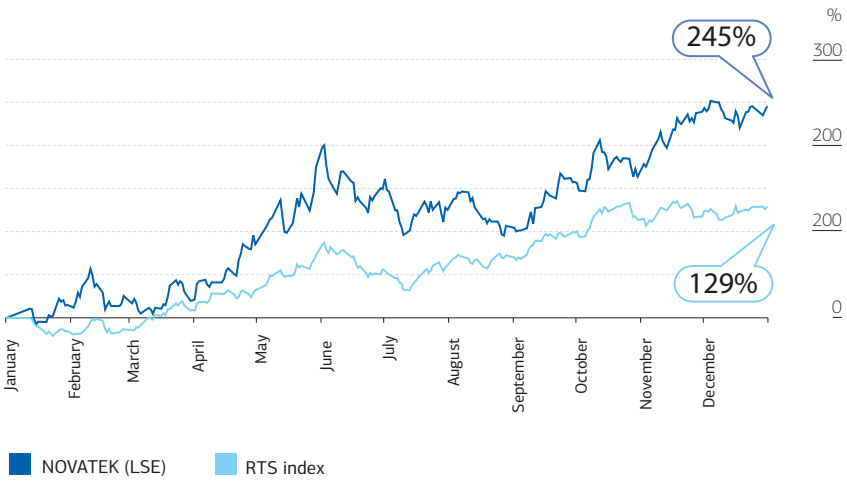
OUR SHARES HAVE TRADED in US dollars on the RTS Stock Exchange (symbol: NVTK), and in Russian roubles on the MICEX Stock Exchange (symbol: NOTK) and on the RTS Stock Exchange (symbol: NVTKG).

IN 2005, we listed Global Depositary Receipts (GDR) on the London Stock Exchange (symbol: NVTK). Each GDR represents 10 ordinary shares. The GDRs are also traded in the United States on NASDAQ PORTAL (symbol: NVATY) under Rule 144A and on the Frankfurt Stock Exchange (symbol: N 10).

Registrar

The National Registry Company
6 Veresaeva Street, Moscow
Russia 121357
Tel: +7-495-440-6324/25/44
Fax: +7-495-440-6355
E-mail: info@nrcreg.ru

NOVATEK SHARE PRICE AND RTS INDEX 2009



NOVATEK GDR PRICE SINCE IPO
(LSE, closing, US dollars)

ACCRUED AND PAID DIVIDENDS ON NOVATEK SHARES FOR THE PERIOD 2004 TO 2009

Dividend Accrual Period	Amount of Dividends, RR per Share	Total Amount of Dividends Accrued, RR	Total Amount of Dividends Paid, RR
2004	898.00	2,221,775,101	2,221,775,101
2005	900.00	2,732,675,400	2,732,675,400
2006*	1.65	5,009,904,900	5,009,904,867
2007	2.35	7,135,319,100	7,135,319,100
2008	2.52	7,651,491,120	7,651,183,381
First 6 months of 2009	1.00	3,036,306,000	3,022,270,396

* In July 2006 the Company executed a share split in proportion of 1:1000

GDR program Administration
Deutsche Bank
Trust Company Americas
60 Wall Street, New York, New York
100056, United States
London +44 20 7547 6500
New York +1 212 250 9100
Moscow +7 501 797 5209

Dividends

NOVATEK'S DIVIDEND POLICY is aimed at keeping a balance between the Company's business goals and shareholder's interests. A decision to pay dividends as well as the size, payment schedule and form of the dividend is passed by the General Meeting of Shareholders according to the recommendation of the Board of Directors. Dividends are normally paid twice a year, and their size depends on market conditions, cash flow and the Company's capital structure.

THE AMOUNT of paid dividends accrued for the years 2006 to 2008, and for the first six months of 2009 is reported as of 31 December 2009. Partial payment of accrued dividends was made due to:

- Provision by shareholders (nominee holders) of incorrect postal and/or banking details; and
- Insufficient information regarding banking or postal details of shareholders.

ON 25 MARCH 2010, the Board of Directors of OAO NOVATEK recommended to the Annual General Meeting of Shareholders to pay dividends for full-year 2009 in the amount of 1.75 Russian roubles per ordinary share, exclusive of 1.0 Russian rouble of interim dividends per ordinary share for the first six months of 2009.

THUS, SHOULD THE GENERAL MEETING of Shareholders approve the above recommended dividend, the dividends for 2009 will total 2.75 Russian roubles per ordinary share, and the total amount of dividends payable for 2009 will be 8, 349, 841, 500 Russian roubles.

06

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

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 as of 31 December 2009 and for the year then ended in conjunction with our audited consolidated financial statements as of and for the years ended 31 December 2009 and 2008. The consolidated financial statements and the related notes thereto have been 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 second largest holder of natural gas resources in Russia after Gazprom, under the Petroleum Resources Management System (PRMS) reserve reporting methodology.

Our exploration, development, production and processing of natural gas, gas condensate, 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, but occasionally engage in limited trading operations through our wholly-owned Swiss based trading subsidiary, RUNITEK, by purchasing and reselling refined products on international markets.

In 2009, we geographically expanded our sales of stable gas condensate through deliveries to the Asian-Pacific region, namely South Korea, China and Singapore. The diversification of our stable gas condensate sales provides us with revenue stability, access to new markets and opportunities for higher margins. The ability to market our stable gas condensate to various geographical regions becomes more crucial as we eventually expand the production of wet gas at our fields and increase the processing at the Purovsky Gas Condensate Processing Plant (Purovsky Plant).

Our ongoing exploration work at existing fields in 2009 resulted in the discovery of two new gas condensate deposits at the Yurkharovskoye field as well as one new gas, gas condensate and oil deposit at the Yarudeyskoye field. We also completed the appraisal of reserves at the North Yubileyny license area in accordance with the Russian reserve classification standards.

In November 2009, we established a wholly-owned subsidiary in Poland named "Novatek Polska Sp.z.o.o." to expand our LPG trading activities within this country. "Novatek Polska Sp.z.o.o." commenced its commercial operations in January 2010.

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

In May 2009, we acquired 51% of the outstanding ordinary shares of OAO "Yamal LNG", the license holder for the exploration and development of the South-Tambeyskoye field, with natural gas and gas condensate proved reserves of 380 billion cubic meters (bcm) and 14 million tons, respectively, in accordance with SEC classifications as of 31 December 2009. The acquisition of the South-Tambeyskoye field significantly increases the Group's resource base consistent with our long-term business strategy as well as serving as a platform for future production growth and diversification of our natural gas sales.

In November 2008, we launched the second phase expansion of our Purovsky Plant, which now enables us to process approximately five million tons of unstable gas condensate per annum.

In September 2008, we completed and launched the first stage of the second phase development at our Yurkharovskoye field with a total natural gas capacity exceeding seven bcm per annum. In October 2009, we launched the second stage of the second phase development at our Yurkharovskoye field, providing the Group with the potential to increase annual productive capacity at the field by another seven bcm of natural gas and approximately 600 thousand tons of unstable gas condensate.

SELECTED DATA

millions of Russian roubles except as stated	Year ended 31 December: 2009	2008	Change %
Financial results			
Total revenues (net of VAT and export duties)	89,954	79,272	13.5%
Operating expenses	(56,130)	(46,916)	19.6%
Profit attributable to NOVATEK shareholders	26,043	22,899	13.7%
EBITDA [(1)]	39,566	36,702	7.8%
EBITDAX [(2)]	40,132	37,819	6.1%
Earnings per share (in Russian roubles)	8.59	7.54	13.9%
Operating results			
Natural gas sales volumes (mmcm)	32,937	33,274	(1.0%)
Stable gas condensate sales volumes (thousand tons)	2,170	1,583	37.1%
Liquefied petroleum gas sales volumes (thousand tons)	749	618	21.2%
Crude oil sales volumes (thousand tons)	198	270	(26.7%)
Oil product sales volumes (thousand tons)	11	66	(83.3%)
Oil product export trading volumes (thousand tons)	-	93	n/a
Cash flow results			
Net cash provided by operating activities	36,454	31,514	15.7%
Capital expenditures	17,872	31,810	(43.8%)
Free cash flow [(3)]	18,582	(296)	n/a

[(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.

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

SELECTED MACRO-ECONOMIC DATA

Exchange rate of Russian rouble to US dollar	1 quarter		2 quarter		3 quarter		4 quarter		Year		Change
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	Y-o-Y, %
At the beginning of the period	29.38	24.55	34.01	23.52	31.29	23.46	30.09	25.25	29.38	24.55	19.7%
At the end of the period	34.01	23.52	31.29	23.46	30.09	25.25	30.24	29.38	30.24	29.38	2.9%
Average for the period	33.93	24.26	32.21	23.63	31.33	24.25	29.47	27.26	31.72	24.85	27.6%

Crude oil prices, USD / bbl	1 quarter		2 quarter		3 quarter		4 quarter		Year		Change
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	Y-o-Y, %
WTI [1]											
At the end of the period	49.7	101.6	69.9	140.0	70.6	100.6	79.4	44.6	79.4	44.6	78.0%
Average for the period	43.3	97.8	59.8	123.8	68.2	118.2	76.1	59.1	62.1	99.8	(37.8%)
Brent [2]											
At the end of the period	46.5	102.7	68.1	138.9	65.7	93.7	77.7	36.6	77.7	36.6	112.3%
Average for the period	44.5	96.7	59.1	121.2	68.1	115.1	74.5	55.5	61.7	97.3	(36.6%)
Urals [2]											
At the end of the period	45.5	99.8	68.0	135.4	65.8	92.4	77.0	35.9	77.0	35.9	114.5%
Average for the period	43.7	93.2	58.5	117.4	67.8	113.4	74.2	54.6	61.2	94.8	(35.4%)

[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]	1 quarter		2 quarter		3 quarter		4 quarter		Year		Change
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	Y-o-Y, %
Crude oil, stable gas condensate											
At the end of the period	115.3	333.8	152.8	398.1	238.6	495.9	271.0	192.1	271.0	192.1	41.1%
Average for the period	111.8	314.3	133.5	359.4	224.4	463.3	247.6	283.9	179.3	355.2	(49.5%)
LPG											
At the end of the period	0.0	237.2	0.0	280.5	0.0	346.4	105.0	141.8	105.0	141.8	(26.0%)
Average for the period	0.0	224.1	0.0	254.4	0.0	324.4	35.0	203.6	8.8	251.6	(96.5%)

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

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Current financial market conditions

The continuation of a global and/or regional financial crisis may negatively affect all borrowers by limiting access to capital markets, despite signs of the financial markets willingness to price recent transactions. Even though expectations of a prolonged economic downturn have receded, the general consensus amongst the international and domestic banking community calls for a continuing period of tight credit market conditions and increasing margin spreads, although there is a willingness in the capital markets to consider quality grade issuers to access funds. Furthermore, there is a heightened awareness over excess borrowings, potential liquidity problems and the ability of a company's balance sheet to withstand a period of prolonged market turbulence.

We have continued to monitor the credit situation very closely and have taken various measures to ensure the integrity of our financial condition and mitigate counter-party credit exposure from our natural gas and liquid hydrocarbon sales. In addition, we 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.

We have reviewed our capital expenditure program for the upcoming year and have concluded that we have sufficient liquidity, through current internal cash flows and short-term borrowing facilities, to adequately fund our core natural gas business operations and planned capital expenditure program. As a result of this assessment, we have not made any major adjustments to our capital expenditure program as of the 31 December 2009. Some of the ongoing capital projects started during 2009 will be completed during 2010.

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

Natural gas prices

As an independent natural gas producer, we are not subject to the Russian 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 on the domestic market are strongly influenced by the prices regulated by the Federal Tariffs Service (FTS), a governmental agency, and present market conditions. In 2009, the weighted average FTS price for the primary regions where we delivered our natural gas increased by RR 213 per mcm, or 13.6%, to RR 1,776 per mcm compared to RR 1,563 per mcm in 2008.

The specific terms for delivery of natural gas affect our average realized prices. Natural gas sold "ex-field" is sold primarily to wholesale gas traders, in which case the buyer is responsible for the payment of gas transportation tariffs. Sales to wholesale gas traders allow us to diversify our natural gas sales without incurring additional commercial expenses. Historically we have realized higher prices and net margins for natural gas volumes sold directly to end-customers, as the gas transportation tariff is included in the contract price and no retail margin is lost to wholesale gas traders. However, the recent shift in our sales mix has demonstrated that the historical norm may or may not prevail in the present or future market situations.

In April 2009, we renegotiated the sales terms for natural gas volumes sold to one of our largest wholesale gas traders. Under the new sales terms, natural gas sales volumes are purchased by the trader on a delivered basis to the regions where the natural gas is to be consumed. These volumes were classified as end-customers' sales under a separate category, 'traders in remote points'. The new terms contributed to an overall decrease in our total average natural gas netback price (excluding transportation expense) of 1.8% in 2009 compared to 2008, and was primarily due to additional transportation expense incurred for these volumes and distances delivered (see "Transportation expenses" below). In an environment of economic uncertainty and its affect on the demand for natural gas, the change in the terms for this classification of sales allowed us to continue growing our natural gas production volumes by 6.3% during 2009 over the 2008 production levels, and also enabled us to correspondingly increase our stable gas condensate and LPG sales volumes. The renegotiated terms were valid through the end of 2009, and we have no current plans to continue natural gas sales to traders in remote points in 2010.

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, the FTS approved four quarterly increases in the regulated price for natural gas in 2009 for an average total increase of 15.9%. Moreover, in December 2009, the FTS approved an increase in the regulated price for natural gas by 15% effective from 1 January 2010. We expect further increases in the regulated price for natural gas as part of the Russian Federation government's efforts to liberalize the price of natural gas on the Russian domestic market. The FTS will continue to approve the effective increase on an annual basis and reserves the right to modify the percentages published as well as potentially prolong the timetable toward market price liberalization based on market conditions and other factors.

As a result of continued economic instability, in both global and domestic markets, our pricing strategy for natural gas emphasized increasing market share and maintaining production growth during 2009. In 2009, our average natural gas price to end-customers, excluding traders in remote points, and ex-field price increased by 6.3% and 7.2%, respectively, as compared to 2008 (see "Natural gas sales" below).

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

	Year ended 31 December:		Change
Russian roubles per mcm	**2009**	**2008**	**%**
Average natural gas price [(1)]:			
End-customers	*1,933*	*1,818*	*6.3%*
Traders in remote points	*1,836*	*-*	*n/a*
E-trading	*-*	*1,412*	*n/a*
Average natural gas price to end-customers	**1,900**	**1,806**	**5.2%**
Average natural gas transportation expense:			
End-customers	*(809)*	*(718)*	*12.7%*
Traders in remote points	*(1,054)*	*-*	*n/a*
E-trading	*-*	*(132)*	*n/a*
Average natural gas transportation expense for sales to end-customers	**(893)**	**(701)**	**27.4%**
Average natural gas netback price:			
End-customers	*1,124*	*1,100*	*2.2%*
Traders in remote points	*782*	*-*	*n/a*
E-trading	*-*	*1,280*	*n/a*
Average natural gas netback price on end-customer sales	**1,007**	**1,105**	**(8.9%)**
Average natural gas price ex-field (wholesale traders)	**1,049**	**979**	**7.2%**
Total average natural gas price excluding transportation expense	**1,020**	**1,039**	**(1.8%)**

(1) Includes cost of transportation.

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

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

Crude oil, stable gas condensate, liquefied petroleum gas ("LPG") and oil products prices on international markets have historically been volatile depending on, among other things, the balance between supply and demand fundamentals, the ability and willingness of oil producing countries to sustain or change production levels to meet changes in global demand and potential disruptions in global crude oil supplies due to war, geopolitical developments, terrorist activities or natural disasters. Crude oil, stable gas condensate, LPG and oil products prices on the domestic market also fluctuate depending on supply and demand fundamentals amongst other factors. Crude oil that we sell bound for international markets is transported through the Transneft pipeline system where it is blended with other crude oil of varying qualities to produce an export blend commonly

referred to as "Urals blend", which normally (or historically) 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. During 2009, the average benchmark crude oil prices were more than 35% lower than 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 2009, our stable gas condensate export delivery terms were delivery to the port of destination ex-ship (DES), priced at cost and freight (CFR) or priced at cost, insurance and freight (CIF), while in 2008, our delivery terms were either DES or CFR. Our average export stable gas condensate contract price, including export duties, in 2009 was approximately USD 530 per ton compared to approximately USD 853 per ton in 2008.

In 2009, our crude oil export delivery terms were delivery at frontier (DAF Feneshlitke, Hungary, and Adamova Zastava, Germany) while in 2008, our delivery terms were DAF Adamova Zastava, Germany. Our average crude oil export contract price, including export duties, was approximately USD 441 per ton compared to USD 419 per ton in 2008. The increase in our average realized contract price was due to the fact that in 2008 we sold 100% of our export volumes in the fourth quarter when the average crude oil price on international markets was significantly lower than the average 2009 price.

During 2009, we purchased 13 thousand tons of crude oil from third parties at an average price of RR 6,423 per ton and resold these volumes in 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 years ended 31 December 2009 and 2008 (prices in US dollars were translated from Russian roubles using the average annual exchange rate):

Russian roubles (RR) or US dollars (USD) per ton	Year ended 31 December: 2009	2008	Change %
Stable gas condensate			
Net export price, RR per ton	10,989	12,249	(10.3%)
Net export price, USD per ton	346.4	492.9	(29.7%)
Domestic price, RR per ton	6,483	8,135	(20.3%)
Crude oil			
Net export price, RR per ton	8,093	2,925	176.7%
Net export price, USD per ton	255.1	117.7	116.7%
Domestic price, RR per ton	6,051	7,881	(23.2%)

Our LPG export delivery terms during 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, while during 2008 the export delivery terms were DAF at the border of the customer's country. In 2009, our average export LPG contract price, including export duties, was approximately USD 439 per ton compared to USD 745 per ton in 2008. In 2009, as well as in 2008, our LPG CIS delivery terms were DAF at the border of the customer's country. During 2008 and the second half of 2009, we were obliged to sell a portion of our LPG domestic sales volumes at regulated prices while the remaining portion of our sales was sold under commercial terms. In 2009, we sold 301 thousand tons at an average commercial price of RR 8,112 per ton and 20 thousand tons at the regulated price of RR 5,750 per ton in the domestic market, compared to 437 thousand tons at an average commercial price of RR 10,393 per ton and 48 thousand tons at the regulated price of RR 4,500 per ton, respectively, in 2008. In addition, in 2009, we sold 14 thousand tons of LPG produced at the Purovsky Plant through our wholly-owned subsidiary OOO "NOVATEK-Refuelling Complexes" at an average price of RR 11,745 per ton.

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

In 2009, OOO "NOVATEK-Refuelling Complexes" purchased 2,361 tons of liquefied petroleum gas, diesel fuel and petrol from third parties and subsequently resold 2,238 tons through its retail and small wholesale stations for approximately RR 19,684 per ton. In 2008, we purchased 77 tons of liquefied petroleum gas, diesel fuel and petrol, from third parties, and subsequently resold 56 tons of these volumes for approximately RR 24,132 per ton.

The following table shows our average realized liquefied petroleum gas and oil products sales prices excluding trading activities with oil products (net of VAT and export duties, where applicable) for the years ended 31 December 2009 and 2008 (prices in US dollars were translated from Russian roubles using the average annual exchange rate):

Russian roubles (RR) or US dollars (USD) per ton	Year ended 31 December: 2009	2008	Change %
LPG			
Net export price, RR per ton	13,416	12,333	8.8%
Net export price, USD per ton	422.9	496.2	(14.8%)
CIS price, RR per ton	10,694	11,853	(9.8%)
Domestic price, RR per ton	7,962	9,810	(18.8%)
Domestic price (retail and small wholesale stations), RR per ton	11,745	-	n/a
Oil products			
Net export price, RR per ton	9,498	3,720	155.3%
Net export price, USD per ton	299.4	149.7	100.0%
Domestic price, RR per ton	5,419	7,026	(22.9%)

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 kilometers (km). The rate for utilization of the trunk pipeline is based on an "input/output" function, which is determined by where natural gas enters and exits the trunk pipeline and includes a constant rate for end-customers using Gazprom's gas distribution systems. The constant rate is deducted from the utilization rate for end-customers using non-Gazprom gas distribution systems.

In December 2008, the FTS approved four quarterly increases in the transportation tariff for natural gas in 2009 for an average total increase of 15.7% for the year.

In December 2009, the FTS approved a 12.3% average increase for the 2010 transportation tariff for natural gas effective 1 January 2010. The increase is applicable to both the rate for utilization of the trunk pipeline and transportation rate per mcm per 100 km, the former had a range of RR 29.21 to RR 1,630.97 (excluding VAT) per mcm and the latter was RR 9.15 (excluding VAT) per mcm per 100 km, as at 31 December 2009. The increases in regulated transportation tariffs are passed on to our end-customers pursuant to delivery terms in the majority of our contracts.

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

Our stable gas condensate (to the Port of Vitino on the White Sea), LPG and oil products are transported by rail which is owned and operated by Russian Railways, Russia's state-owned monopoly railway operator. Our transportation tariffs for transport by rail are also set by the FTS and vary depending on product and length of transport route. On 27 March 2009, the FTS announced specific discount co-efficients to be applied to the existing rail road transportation tariffs related to export deliveries of LPG and stable gas condensate shipped from the Limbey rail station, located in close proximity to our Purovsky Plant. We applied a co-efficient of 0.72 to the existing rail tariff for our stable gas condensate volumes shipped to export markets from 7 April 2009 and a co-efficient of 0.35 for our LPG export deliveries at the Russian Federation cross-border points for volumes in excess of 90 thousand tons which we reached in the middle of April 2009. The specific discount co-efficients remained in effect throughout 2009.

In January 2010, the FTS revised the discount co-efficients to existing rail road transportation tariffs related to export deliveries of LPG and stable gas condensate shipped from the Limbey rail station. The discount co-efficient for stable gas condensate is set of 0.89 for companies with annual shipped volumes of more than 2,235 thousand tons and the discount co-efficient for LPG is set at 0.35 for export volumes in excess of 105 thousand tons. The revised discount co-efficients are expected to remain in effect throughout 2010.

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

Transportation transactions with related parties

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

Our tax burden

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

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

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

OIL AND GAS RESERVES

In December 2008, the US Securities and Exchange Commission (SEC) released the Final Rule for the *Modernization of Oil and Gas Reporting*, which requires the disclosure of oil and gas proved reserves by significant geographic area, using a 12 month average beginning-of-the-month price for the year, rather than year-end prices, and allows the use of reliable technologies to estimate proved oil and gas reserves, if the technologies have demonstrated reliable estimates about reserves. Furthermore, companies are required to report on the independence and qualifications of its reserve preparer or auditor, and file reports when a third party is relied upon to prepare reserve estimates or conduct an audit of the company's reserves.

OAO NOVATEK does not file with the SEC nor is obliged to report its reserves in compliance with these standards. However, we have consistently disclosed proved oil and gas reserves in the Group's IFRS consolidated financial results. As part of management's continued efforts to improve investor confidence and provide transparency regarding the Group's oil and gas reserves, we have provided additional information about our hydrocarbon reserves based on the widely-industry accepted Petroleum Resources Management System (PRMS) reserves reporting classification, which in addition to total proved reserves discloses information on the Group's probable and possible reserves.

Our proved reserves estimates are appraised by the Group's independent petroleum engineers, DeGolyer and MacNaughton (D&M). The Group's total proved reserves, comprised of proved developed and proved undeveloped reserves as of 31 December 2009 and 2008, were appraised using both reporting and disclosure requirements promulgated by the SEC and the recently issued PRMS reserves reporting classification. Proved reserves disclosed in the *Unaudited Supplemental Oil and Gas Disclosures* in the Group's IFRS consolidated financial statements are presented under the SEC reserve reporting methodology, which requires that 100% of the reserves attributable to all consolidated subsidiaries (whether or not wholly owned) shall be included for the reporting year.

The table below provides the comparison of the Group's estimated reserves under SEC and PRMS classifications based on the Group's equity ownership interest in the respective fields.

	Natural gas			
	SEC		PRMS	
Based on our equity ownership interest in the fields	***Billions of cubic feet***	***Billions of cubic meters***	***Billions of cubic feet***	***Billions of cubic meters***
Total proved reserves at 31 December 2007	**23,067**	**653**	**24,856**	**704**
Changes attributable to:				
Revisions of previous estimates, extensions and discoveries	2,363	67	2,154	60
Production	(1,073)	(30)	(1,073)	(30)
Total proved reserves at 31 December 2008	**24,357**	**690**	**25,937**	**734**
Changes attributable to:				
Revisions of previous estimates, extensions and discoveries	4,091	115	2,778	79
Acquisitions	6,844	194	10,551	299
Production	(1,142)	(32)	(1,142)	(32)
Total proved reserves at 31 December 2009	**34,150**	**967**	**38,124**	**1,080**

Based on our equity ownership interest in the fields	Crude oil, gas condensate and natural gas liquids			
	SEC		PRMS	
	Millions of barrels	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*
Total proved reserves at 31 December 2007	**406**	**49**	**497**	**61**
Changes attributable to:				
Revisions of previous estimates, extensions and discoveries	67	8	75	8
Production	(21)	(2)	(21)	(2)
Total proved reserves at 31 December 2008	**452**	**55**	**551**	**67**
Changes attributable to:				
Revisions of previous estimates, extensions and discoveries	42	4	33	4
Acquisitions	60	7	91	11
Production	(25)	(3)	(25)	(3)
Total proved reserves at 31 December 2009	**529**	**63**	**650**	**79**

Based on our equity ownership interest in the fields	Combined natural gas, crude oil, gas condensate and natural gas liquids in millions of barrels of oil equivalent	
	SEC	PRMS
Total proved reserves:		
At 31 December 2007	4,678	5,100
At 31 December 2008	4,963	5,354
At 31 December 2009	6,853	7,711

Unlike the SEC's reserves reporting methodology, which only allows the reporting of proved reserves, the PRMS reserve classification standards allows for the reporting of reserves estimates for probable and possible reserves as presented in the following table:

Under PRMS classification (based on our equity ownership interest in the fields)	Natural gas		Crude oil, gas condensate and natural gas liquids	
	Billions of cubic feet	*Billions of cubic meters*	*Millions of barrels*	*Millions of metric tons*
Probable reserves:				
At 31 December 2007	11,476	325	338	41
At 31 December 2008	9,969	282	298	36
At 31 December 2009	13,520	383	375	46
Possible reserves:				
At 31 December 2007	8,394	238	585	75
At 31 December 2008	8,958	254	612	78
At 31 December 2009	9,416	267	696	89

The Group's PRMS proved reserves aggregated approximately 1.08 trillion cubic meters (tcm) of natural gas and 79 million tons of gas condensate and crude oil as of 31 December 2009. Combined, these proved reserves represent approximately 7.7 billion barrels of oil equivalent.

Our total PRMS proved reserves have increased by 44.0% during 2009, primarily due to the acquisition in May 2009 of our 51% equity stake in OAO "Yamal LNG", the holder of the license to the South-Tambeyskoye field, and ongoing development activities at the Yurkharovskoye field.

The increase in the Group's PRMS probable and possible reserves during 2009 was primarily due to the acquisition of OAO "Yamal LNG", as well as new discoveries at the Yurkharovskoye and Yarudeyskoye fields.

The Group's reserves are all located in the Russian Federation, in the Yamal-Nenets Autonomous Region (Western Siberia), thereby representing one geographical area.

The below table contains information about reserve/production ratios for the years ended 31 December 2009 and 2008 under both reserves reporting methodologies:

	SEC		PRMS	
	At 31 December:		At 31 December:	
Number of years (based on our equity ownership interest in the fields)	**2009**	**2008**	**2009**	**2008**
Total proved reserves to production	29	23	33	24
Total proved and probable reserves to production	-	-	45	34
Total proved, probable and possible reserves to production	-	-	55	45

The Group's oil and gas estimation and reporting process involves an annual independent third party appraisal as well as internal technical appraisals of reserves. The Group maintains its own internal reserve estimates that are calculated by qualified technical staff working directly with the oil and gas properties. The Group periodically updates reserves estimates during the year based on evaluations of new wells, performance reviews, new technical information and other studies.

The Group provides D&M annually with engineering, geological and geophysical data, actual production histories and other information necessary for reserve determinations. The method or combination of methods used in the analysis of each reservoir is tempered by experience with similar reservoirs, stages of development, quality and completeness of basic data, and production history. Our reserves estimates were prepared using standard geological and engineering methods generally accepted in the petroleum industry. The Group's and D&M's technical staffs meet to review and discuss the information provided, and upon completion of the process, senior management reviews and approves the final reserves estimates issued by D&M.

The Reserves Management and Assessment Group (RMAG) is comprised of qualified technical staff from various departments – geological and geophysical, gas and liquids commercial operations, capital construction, production, financial planning and analysis and includes technical and financial representatives from the Group's subsidiaries, which are the principal holders of the mineral licenses. The person responsible for overseeing the work of the RMAG is a member of the Management Board.

The approval of the final reserves estimates is the sole responsibility of senior management.

OPERATIONAL HIGHLIGHTS

Oil and gas production costs

Our oil and gas production costs are derived from our results of operations for oil and gas producing activities as reported in the *Unaudited Supplemental Oil and Gas Disclosures* in our consolidated financial statements for the years ended 31 December 2009 and 2008. Oil and gas production costs do not include general corporate overheads or their associated tax effects. The following tables set forth certain operating information with respect to our oil and gas production costs during the years presented in millions of Russian roubles and on a barrel of oil equivalent (boe) basis in Russian roubles and US dollars:

millions of Russian roubles	Year ended 31 December: 2009	2008	Change %
Production costs:			
Lifting cost	3,797	3,525	7.7%
Taxes other than income tax	7,840	7,062	11.0%
Transportation expenses	28,482	16,013	77.9%
Total production costs before DD&A	**40,119**	**26,600**	**50.8%**
Depreciation, depletion and amortization (DD&A)	5,139	4,234	21.4%
Total production costs	**45,258**	**30,834**	**46.8%**

RR per boe	Year ended 31 December: 2009	2008	Change %
Production costs:			
Lifting cost	16.0	16.0	0.0%
Taxes other than income tax	33.1	32.0	3.4%
Transportation expenses	120.1	72.6	65.4%
Total production costs before DD&A	**169.2**	**120.6**	**40.3%**
Depreciation, depletion and amortization (DD&A)	21.7	19.2	13.0%
Total production costs	**190.9**	**139.8**	**36.6%**

USD per boe	Year ended 31 December: 2009	2008	Change %
Production costs:			
Lifting cost	0.50	0.64	(21.9%)
Taxes other than income tax	1.04	1.29	(19.4%)
Transportation expenses	3.78	2.92	29.5%
Total production costs before DD&A	**5.32**	**4.85**	**9.7%**
Depreciation, depletion and amortization (DD&A)	0.68	0.77	(11.7%)
Total production costs	**6.00**	**5.62**	**6.8%**

Production costs consist of amounts directly related to the extraction of natural gas, gas condensate and crude oil from the reservoir and other related costs; including production expenses, taxes other than income taxes (production taxes), insurance expenses and shipping/transportation/handling costs to end-customers. The average production cost on a boe basis is calculated by dividing the applicable costs by the respective barrel of oil equivalent of our hydrocarbons produced during the year. Natural gas, gas condensate and crude oil volumes produced by our fields are converted to a barrel of oil equivalent based on the relative energy content of each fields' hydrocarbons.

Hydrocarbon sales volumes

Our natural gas sales volumes decreased marginally due to a reduction in our purchases from third parties and an increase in natural gas volumes injected into underground storage during 2009. Our liquids sales volumes (crude oil, stable gas condensate, LPG and oil products) increased primarily due to an increase in our unstable gas condensate production.

Natural gas sales volumes

millions of cubic meters	Year ended 31 December: 2009	2008	Change %
Production from:			
Yurkharovskoye field	17,731	11,540	53.6%
East-Tarkosalinskoye field	11,509	14,744	(21.9%)
Khancheyskoye field	3,043	4,115	(26.1%)
Other fields	70	31	125.8%
Total natural gas production	**32,353**	**30,430**	**6.3%**
Purchases from:			
Gazprom	-	1,905	n/a
Other	1,000	980	2.0%
Total natural gas purchases	**1,000**	**2,885**	**(65.3%)**
Total production and purchases	**33,353**	**33,315**	**0.1%**
Purovsky Plant and own usage	(43)	(39)	10.3%
Decrease (increase) in pipeline and underground gas storage facilities	(373)	(2)	n/m
Total natural gas sales volumes	**32,937**	**33,274**	**(1.0%)**
Sold to end-customers	*14,751*	*15,357*	*(3.9%)*
Sold to traders in remote points	*7,668*	*-*	*n/a*
E-trading sales	*-*	*438*	*n/a*
Subtotal sold to end-customers	***22,419***	***15,795***	***41.9%***
Sold ex-field	***10,518***	***17,479***	***(39.8%)***

In 2009, our total consolidated natural gas production increased by 1,923 mmcm, or 6.3%, compared to 2008 due to an increase in production at our Yurkharovskoye field resulting from the launch of the first two stages of the field's second phase of development in September 2008 and October 2009, respectively. In 2009, we optimized oil and gas revenues through the management of our fields' operational and production flexibility. By reducing natural gas production, primarily from the dry gas layers at the East-Tarkosalinskoye field and, to a lesser degree, the wet gas layers at both the East-Tarkosalinskoye and Khancheyskoye fields, we were able to grow natural gas production at the Yurkharovskoye field, thus increasing unstable gas condensate production. The decision to reduce production was largely due to a decrease in demand from end-customers, the cessation of sales on the electronic natural gas exchange and normal seasonality consumption patterns.

At 31 December 2009, our cumulative natural gas volumes stored in Gazprom's underground gas storage facilities (UGSF) totaled 584 mmcm, representing an increase of 284 mmcm in 2009, compared to the balance of 300 mmcm at 31 December 2008, and an increase of 260 mmcm in 2008. Our total natural gas inventory balance (including UGSF, UGSS and our own pipeline infrastructure) at 31 December 2009 was 744 mmcm compared to 372 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 2009, our natural gas purchases decreased by 1,885 mmcm, or 65.3%, compared to 2008, primarily due to our ability to meet domestic market demand from our own production.

Liquids sales volumes

thousands of tons	Year ended 31 December: 2009	2008	Change %
Production from:			
Yurkharovskoye field	1,484	889	66.9%
East-Tarkosalinskoye field	896	932	(3.9%)
Khancheyskoye field	618	651	(5.1%)
Other fields	40	91	(56.0%)
Total liquids production	**3,038**	**2,563**	**18.5%**
Purchases from:			
Other	13	98	(86.7%)
Total liquids purchases	**13**	**98**	**(86.7%)**
Total production and purchases	**3,051**	**2,661**	**14.7%**
Losses and own usage [(1)]	(21)	(21)	0.0%
Decreases (increases) in liquids inventory balances	98	(10)	n/m
Total liquids sales volumes	**3,128**	**2,630**	**18.9%**
Stable gas condensate export	*2,115*	*1,578*	*34.0%*
Stable gas condensate domestic	*55*	*5*	*n/m*
Subtotal stable gas condensate	***2,170***	***1,583***	***37.1%***
LPG export	*405*	*90*	*350.0%*
LPG CIS	*9*	*43*	*(79.1%)*
LPG domestic	*321*	*485*	*(33.8%)*
LPG sold through domestic retail and small wholesale stations	*14*	*-*	*n/m*
Subtotal LPG	***749***	***618***	***21.2%***
Crude oil export	*69*	*17*	*305.9%*
Crude oil domestic	*129*	*253*	*(49.0%)*
Subtotal crude oil	***198***	***270***	***(26.7%)***
Oil products export (international trading activities)	*-*	*93*	*(100.0%)*
Oil products export	*1*	*20*	*(95.0%)*
Oil products domestic	*10*	*46*	*(78.3%)*
Subtotal oil products	***11***	***159***	***(93.1%)***

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

In 2009, our liquids production increased by 475 thousand tons, or 18.5%, to 3,038 thousand tons compared to 2,563 thousand tons in 2008, due to the expansion of unstable gas condensate production capacity at our Yurkharovskoye field resulting from the launch of the first two stages of the field's second phase of development in September 2008 and October 2009, respectively. The increase was offset by a decrease in unstable gas condensate production at our East-Tarkosalinskoye and Khancheyskoye fields due to decreases in their natural gas production (see "Natural gas sales volumes" above) and a decrease in crude oil production at our Ust-Purpeisky license area due to its disposal in April 2009.

At 31 December 2009, we had 111 thousand tons of stable gas condensate in transit or storage and recognized as inventory until such time as it is delivered to customers as compared to 220 thousand tons as of 31 December 2008. In 2009, our stable gas condensate in transit or storage and recognized as inventory decreased by 109 thousand tons compared to a decrease of four thousand tons in 2008. The remaining change in liquids inventory balances related to changes in other liquid hydrocarbon products.

RESULTS OF OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2009 COMPARED TO THE YEAR ENDED 31 DECEMBER 2008

The following table and discussion is a summary of our consolidated results of operations for the years ended 31 December 2009 and 2008. Each line item is also shown as a percentage of our total revenues.

	Year ended 31 December:			
Millions of Russian roubles	**2009**	**% of total revenues**	**2008**	**% of total revenues**
Total revenues (net of VAT and export duties)	**89,954**	***100.0%***	**79,272**	***100.0%***
including:				
natural gas sales	53,623	*59.6%*	45,650	*57.6%*
liquids sales	33,280	*37.0%*	30,426	*38.4%*
Operating expenses	(56,130)	*(62.4%)*	(46,916)	*(59.2%)*
Other operating income (loss)	(291)	*(0.3%)*	(236)	*(0.3%)*
Profit from operations	**33,533**	***37.3%***	**32,120**	***40.5%***
Finance income (expense)	(831)	*(0.9%)*	(3,384)	*(4.3%)*
Share of income (loss) of associated companies	(202)	*(0.3%)*	(147)	*(0.2%)*
Profit before income tax	**32,500**	***36.1%***	**28,589**	***36.1%***
Total income tax expense	(6,778)	*(7.5%)*	(5,662)	*(7.1%)*
Profit (loss)	**25,722**	***28.6%***	**22,927**	***28.9%***
Non-controlling interest	321	*0.4%*	(28)	*(0.0%)*
Profit attributable to NOVATEK shareholders	**26,043**	***29.0%***	**22,899**	***28.9%***

Total revenues

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

Millions of Russian roubles	Year ended 31 December: 2009	2008	Change %
Natural gas sales	**53,623**	**45,650**	**17.5%**
End-customer	*28,513*	*27,915*	*2.1%*
Traders in remote points	*14,080*	*-*	*n/a*
E-trading	*-*	*619*	*n/a*
Subtotal of end-customers sales	***42,593***	***28,534***	***49.3%***
Ex-field sales	***11,030***	***17,116***	***(35.6%)***
Stable gas condensate sales	**23,599**	**19,374**	**21.8%**
Export	*23,245*	*19,334*	*20.2%*
Domestic	*354*	*40*	*n/m*
Liquefied petroleum gas sales	**8,253**	**6,376**	**29.4%**
Export	*5,429*	*1,112*	*388.2%*
CIS	*99*	*507*	*(80.5%)*
Domestic	*2,725*	*4,757*	*(42.7%)*
Crude oil sales	**1,335**	**2,043**	**(34.7%)**
Export	*554*	*48*	*n/m*
Domestic	*781*	*1,995*	*(60.9%)*
Oil products sales	**93**	**2,633**	**(96.5%)**
Export	*10*	*2,186*	*(99.5%)*
Domestic	*83*	*447*	*(81.4%)*
Total oil and gas sales	**86,903**	**76,076**	**14.2%**
Sales of polymer and insulation tape	1,873	2,098	(10.7%)
Other revenues	1,178	1,098	7.3%
Total revenues	**89,954**	**79,272**	**13.5%**

Natural gas sales

In 2009, our revenues from sales of natural gas increased by RR 7,973 million, or 17.5%, compared to 2008 largely due to an increase in natural gas prices as sales volumes remained relatively consistent year-on-year. Revenues from the sale of natural gas accounted for 59.6% and 57.6% of our total revenues in 2009 and 2008, respectively. The increase in natural gas sales as a percentage of total revenues was primarily due to higher natural gas prices and a decrease in liquids prices that was partially offset by an increase in liquids volumes sold.

In 2009, our average realized natural gas price per mcm increased by RR 256 per mcm, or 18.7%, to RR 1,628 per mcm from RR 1,372 per mcm in 2008. Our proportion of natural gas sold to end-customers, including traders in remote points and e-trading sales, to total natural gas sales volumes, increased from 47.5% in 2008 to 68.1% in 2009 due primarily to the initiation of natural gas sales on a delivered basis to traders in remote points beginning in April 2009. The average realized prices of our natural gas sold directly to end-customers and traders in remote points (including transportation expense) and sold ex-field were higher by 5.2% and 7.2%, respectively, in 2009 compared to 2008. In 2008, our sales of natural gas to end-customers were primarily to energy utility and large industrial companies. The majority of natural gas volumes sold to end-customers in 2009 were delivered to energy utility companies and traders in remote points (previously recorded as ex-field sales).

As of 1 January 2009, trading on the electronic exchange has been suspended, pending the prolongation of legislation regulating the electronic trading of natural gas; therefore, we had no e-trading sales during 2009 as compared to 438 mmcm in 2008.

Stable gas condensate sales

In 2009, our revenues from sales of stable gas condensate increased by RR 4,225 million, or 21.8%, compared to 2008 primarily due to an increase in volumes sold, which were offset by significantly lower average realized prices due primarily to declining benchmark crude oil prices.

In 2009, we sold 2,170 thousand tons of stable gas condensate, of which 2,115 thousand tons, or 97.5%, was exported to the United States, Europe and Asian-Pacific region, and the remaining 55 thousand tons were sold domestically. In 2008, we exported 1,578 thousand tons of stable gas condensate, or 99.7% of our total sales volumes, to markets in the United States and Europe. In 2009, our total stable gas condensate sales volumes increased by 587 thousand tons, or 37.1%, primarily due to an increase in our unstable gas condensate production and, to a lesser extent, a decrease in stable gas condensate inventory balances.

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

In 2009, our average realized price, excluding export duties, for stable gas condensate sold on the export market decreased by USD 146.5 per ton, or 29.7%, to USD 346.4 per ton (DES, CFR and CIF) from USD 492.9 per ton (DES and CFR) in 2008 due to a 37.9% decrease in our average export contract price that was partially offset by a 49.2% 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 2009 compared to 2008.

Liquefied petroleum gas sales

In 2009, our revenues from the sales of LPG increased by RR 1,877 million, or 29.4%, compared to 2008, primarily due to an increase in volumes sold. In 2009, our total LPG sales volumes increased by 131 thousand tons, or 21.2%, to 749 thousand tons from 618 thousand tons in 2008.

In 2009, we were able to compete with other global LPG producers in the international markets due to the abolishment of Russian export duties on LPG effective until 1 December 2009. As a result, in 2009, our export sales volumes of LPG increased 4.5 times to 405 thousand tons as compared to 2008, which aggregated to 54.1% of our total LPG sales volumes. Our average LPG export price decreased by USD 73.3 per ton, or 14.8%, to USD 422.9 per ton (DAF and CPT, excluding export duties) in 2009 compared to USD 496.2 per ton (DAF, excluding export duties) in 2008. The decrease in our average realized export prices (excluding export duties) was primarily due to a 41.1% decrease in our average contract price which was partially offset by the abolishment of export duties throughout most of 2009.

The remaining volumes of LPG were sold as follows: 44.7% was sold domestically at an average price of RR 8,125 per ton (FCA, excluding VAT) representing a decrease of RR 1,685 per ton, or 17.2%, compared to 2008, and 1.2% was sold to the CIS for an average price of RR 10,694 per ton (DAF) representing a decrease of RR 1,159 per ton, or 9.8%, compared to 2008.

In 2008, we sold 78.5% of our LPG volumes domestically, 14.6% to the export markets and 6.9% to markets in the CIS. The increase in our share of LPG deliveries to export markets from 14.6% in 2008 to 54.1% in 2009 was primarily the result of a decrease in domestic consumption, mainly from the petrochemical industry, and a corresponding sequential reduction in domestic margins.

Crude oil sales

In 2009, our revenues from the sales of crude oil decreased by RR 708 million, or 34.7%, compared to 2008, due to a decrease in both our sales volumes and prices.

In 2009, our crude oil volumes available for sale decreased by 72 thousand tons, or 26.7%, to 198 thousand tons from 270 thousand tons in 2008 primarily due to a decrease in crude oil production. In 2009, 65.2% of our crude oil volumes were sold domestically at an average price of RR 6,051 per ton (excluding VAT) representing a decrease of RR 1,830 per ton, or 23.2%, compared to 2008. The decrease in our average realized price was due to the overall decrease in crude oil prices in the domestic market in 2009. The remaining 34.8% of our crude oil volumes were sold to the export markets at an average price of USD 255.1 per ton (DAF, excluding export duties) representing an increase of USD 137.4 per ton, or 116.7%, compared to 2008. The increase in the average realized export price (excluding export duties) was the result of a 5.3% increase in our average export contract price and a 42.0% decrease in our average export duty per ton. The increase in our average realized contract

price was due to the fact that in 2008 we sold 100% of our export volumes in the fourth quarter when the average crude oil price on international markets was significantly lower than the average 2009 price.

Oil products sales

In 2009, our revenue from the sales of oil products decreased by RR 2,540 million, or 96.5%, compared to 2008, primarily due to a suspension of oil products (naphtha) trading activities on international markets by our foreign trading subsidiary beginning in December 2008.

In 2009, we did not sell oil products (naphtha) to the international markets compared to sales of 93 thousand tons in 2008 for an average contract price of USD 938.6 per ton (DES and FOB).

In 2009, we sold one thousand tons compared to 20 thousand tons in 2008 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, FOB Vitino) of USD 299.4 and of USD 149.7 per ton, respectively.

In 2009, our revenues from oil products produced at the Surgutsky refinery decreased to RR 46 million from RR 260 million in 2008. Oil products sales volumes produced from our unstable gas condensate amounted to eight thousand tons in 2009 compared to 37 thousand tons in 2008. Our oil products sales price decreased by RR 1,607 per ton, or 22.9%, to RR 5,419 per ton in 2009 from RR 7,026 per ton in 2008 primarily due to an overall decrease in oil products prices in the domestic market in 2009.

In 2009, our revenues from oil products trading operations sold through our retail stations on the domestic market amounted to RR 36 million compared to RR one million in 2008. In 2009, we sold two thousand tons of oil products (diesel fuel and petrol) for an average price of RR 22,356 per ton through our retail stations. The same operations were insignificant in 2008. In addition, in 2008, we sold nine thousand tons of oil products purchased for resale via our domestic trading operations for an average price of RR 20,794 per ton.

Sales of polymer and insulation tape

Our revenues from the sales of polymer and insulation tape decreased by RR 225 million, or 10.7%, to RR 1,873 million in 2009, compared to RR 2,098 million in 2008 mainly due to a decrease in both polymer products production volumes and average realized prices.

Revenues from our sales of BOPP film wrap decreased by RR 61 million, or 4.6%, from RR 1,335 million in 2008 to RR 1,274 million in 2009 due to a decrease in demand on the domestic market. The proportion of BOPP film wrap sales to total sales of polymer and insulation tape increased by 4.4% to 68.0% in 2009 compared to 63.6% in 2008.

Our revenues from pipe insulation product sales decreased by RR 105 million, or 19.9%, from RR 527 million in 2008 to RR 422 million in 2009 mainly due to a decrease in volumes sold. Revenues from polymer pipes sales decreased by RR 55 million, or 26.8%, from RR 205 million in 2008 to RR 150 million in 2009 due to both a decrease in volumes sold and prices. The remaining RR 28 million and RR 30 million in 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 2009, other revenues increased by RR 80 million, or 7.3%, to RR 1,178 million from RR 1,098 million in 2008. The increase in other revenues was primarily related to the increase in revenues from rent services which accounted for RR 345 million in 2009, compared to RR 111 million in 2008. In addition, our revenues from geological and geophysical research services provided to our associates and third parties increased by RR 34 million, or 4.5%, to RR 798 million in 2009, compared to RR 764 million in 2008.

In 2009, our revenues from transportation, handling and storage services decreased by RR 144 million due to the disposal of our non-core subsidiary OOO “Purovsky Terminal” in December 2008. In addition, our revenues from polymer tolling decreased by RR 33 million. The remaining decrease of RR 11 million in other revenues was composed of various immaterial items.

Operating expenses

In 2009, our total operating expenses increased by RR 9,214 million, or 19.6%, to RR 56,130 million compared to RR 46,916 million in 2008, largely due to an increase in transportation costs and depreciation, depletion and amortization that was partially offset by a decrease in our purchases of natural gas and liquid hydrocarbons. As a percentage of total operating expenses, our non-controllable expenses, such as transportation and taxes other than income tax, increased by 12.0% in 2009 to 66.0% compared to 54.0% in 2008. Total operating expenses increased as a percentage of total revenues to 62.4% in 2009 compared to 59.2% in 2008, as shown in the table below.

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

	Year ended 31 December:			
millions of Russian roubles	**2009**	**% of total revenues**	**2008**	**% of total revenues**
Transportation expenses	29,026	*32.3%*	18,153	*22.9%*
Taxes other than income tax	8,042	*8.9%*	7,186	*9.1%*
Subtotal non-controllable expenses	**37,068**	***41.2%***	**25,339**	***32.0%***
Materials, services and other	6,259	*7.0%*	6,332	*8.0%*
Depreciation, depletion and amortization	5,588	*6.2%*	4,478	*5.6%*
General and administrative expenses	5,126	*5.7%*	5,064	*6.4%*
Purchases of natural gas and liquid hydrocarbons	1,143	*1.3%*	4,665	*5.9%*
Exploration expenses	566	*0.6%*	1,117	*1.4%*
Net impairment expense (reversal)	125	*n/m*	105	*n/m*
Change in natural gas, liquid hydrocarbons, and polymer products and work-in-progress	255	*n/m*	(184)	*n/m*
Total operating expenses	**56,130**	***62.4%***	**46,916**	***59.2%***

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 2009, non-controllable expenses of transportation and taxes other than income tax increased by RR 11,729 million, or 46.3%, to RR 37,068 million from RR 25,339 million in 2008. The change in transportation expenses was primarily due to an increase in the aggregate amount of natural gas volumes delivered to end-customers, including traders in remote points, which were previously recorded as ex-field sales with no responsibility to incur transport related costs, the increase in the natural gas transportation tariff and an increase in liquids export sales volumes. Taxes other than income tax increased primarily due to higher property tax expense. As a percentage of total revenues our non-controllable expenses increased by 9.2% to 41.2% in 2009 compared to 32.0% in 2008.

Transportation expenses

In 2009, our total transportation expenses increased by RR 10,873 million, or 59.9%, compared to 2008.

millions of Russian roubles	Year ended 31 December: 2009	2008	Change %
Natural gas transportation to customers	20,019	11,080	80.7%
Stable gas condensate, liquefied petroleum gas and oil products transportation by rail	5,820	4,384	32.8%
Stable gas condensate transported by tankers	2,675	2,168	23.4%
Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines	340	232	46.6%
Crude oil transportation to customers	160	123	30.1%
Other transportation costs	12	166	(92.8%)
Total transportation expenses	**29,026**	**18,153**	**59.9%**

In 2009, our transportation expenses for natural gas increased by RR 8,939 million, or 80.7%, to RR 20,019 million from RR 11,080 million in 2008. The change was mainly due to a 41.9% increase in our sales volumes of natural gas delivered directly to end-customers, including traders in remote points, where the cost of transportation is included in the sales price, as well as increases in the natural gas transportation tariff (see "Transportation tariffs" above). Our average transportation distance for natural gas sold to end-customers fluctuates period-to-period and depends on the location of end-customers and the specific routes of transportation.

Total expenses for transportation by rail increased by RR 1,436 million, or 32.8%, primarily due to higher liquids volumes sold. In 2009, our combined volumes of stable gas condensate, LPG and oil products sold and transported via rail increased by 695 thousand tons, or 31.2%, to 2,923 thousand tons from 2,228 thousand tons in 2008.

Our expense for stable gas condensate transported by rail to export markets increased by RR 498 million, or 19.0% to RR 3,124 million from RR 2,626 million in 2008 due to a 34.0% increase in volumes sold. In 2009, our average transportation rate per ton for stable gas condensate decreased by 11.2% to RR 1,477 from RR 1,664 in 2008, due to the application of a co-efficient of 0.72 to the existing rail tariff for deliveries to export markets from 7 April 2009 until 31 December 2009. In accordance with the FTS announcement, the co-efficient was applied to the existing rail road transportation tariff related to export deliveries of stable gas condensate shipped from the Limbey rail station, located in close proximity to our Purovsky Plant (see "Transportation tariffs" above). The decrease was partially offset by increases to the railroad tariff of 5.0% and 5.7% from 1 January 2009 and from 1 July 2009, respectively.

In 2009, our expense for LPG transported by rail increased by RR 905 million, or 53.1%, primarily due to an increase in volumes sold. In 2009, our expense for LPG transported by rail amounted to RR 2,608 million, of which RR 1,767 million was related to export sales, RR 26 million to CIS sales, and RR 815 million to domestic sales, or RR 4,365 per ton, RR 2,855 per ton, and RR 2,431 per ton, respectively. In 2008, transportation expenses for LPG transported by rail amounted to RR 1,703 million, of which RR 488 million was related to export sales, RR 125 million to CIS sales, and RR 1,090 million to domestic sales, or RR 5,408 per ton, RR 2,935 per ton and RR 2,247 per ton, respectively. Following the formal announcement from the FTS (see "Transportation tariffs" above), we applied a co-efficient of 0.35 to the existing rail tariff for LPG export deliveries at the cross-border points of the Russian Federation for volumes in excess of 90 thousand tons which we reached in the middle of April 2009 and that remained in effect throughout 2009.

In 2009, we incurred RR 75 million of railroad transportation expenses related to the domestic sales of stable gas condensate compared to RR four million in 2008. The transportation rate per ton increased from RR 761 in 2008 to RR 1,378 in 2009 due to an increase in both the average delivery distance and the railroad tariffs.

In 2009, we incurred RR two million of railroad transportation expenses related to the export sales of oil products produced from our unstable gas condensate production compared to RR 41 million in 2008. The transportation rate per ton was RR 1,383 in 2009 compared to RR 2,057 in 2008.
The remaining RR 11 million of transportation expenses by rail in 2009, and RR 10 million in 2008, were related to the transportation of oil products sold on the domestic market 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 507 million, or 23.4%, to RR 2,675 million in 2009 from RR 2,168 million in 2008. The change was primarily due to a 34.0% increase in volumes sold that was partially offset by a slight decrease in average freight rates. In 2009, we delivered 66.5% of our stable gas condensate export volumes to United States markets compared to 93.0% in 2008.

Taxes other than income tax

millions of Russian roubles	Year ended 31 December: 2009	2008	Change %
Unified natural resources production tax (UPT)	6,699	6,558	2.2%
Property tax	1,155	670	72.4%
Other taxes	188	92	104.3%
Subtotal	8,042	7,320	9.9%
Less: reversal of provision for additional taxes (UPT)	-	(134)	n/a
Total taxes other than income tax	**8,042**	**7,186**	**11.9%**

In 2009, taxes other than income tax increased by RR 856 million, or 11.9%, primarily due to an increase in property tax expense.

In 2009, our UPT for gas condensate and natural gas increased by RR 308 million and RR 265 million, respectively, due to an increase in our production volumes. The decrease in our UPT for crude oil of RR 432 million was due to both a reduction in volumes produced, and a decrease in our average crude oil production tax rate, which is linked to the Urals benchmark crude oil price. Our average UPT rate for crude oil decreased from RR 3,347 per ton in 2008 to RR 2,255 per ton in 2009. The natural gas production tax rate in 2009 and 2008 remained unchanged at RR 147 per mcm.

In 2009, our property tax expense increased by RR 485 million, or 72.4%, to RR 1,155 million from RR 670 million in 2008, primarily due to additions of property, plant and equipment (PPE) at our production subsidiaries.

In 2009, other taxes increased by RR 96 million, or 104.3%, primarily due to the recognition of non-deductible VAT expenses.

Materials, services and other

In 2009, our materials, services and other expenses decreased by RR 73 million, or 1.2%, to RR 6,259 million compared to RR 6,332 million in 2008. The main components of this expense were employee compensation and materials and supplies, which comprised 39.3% and 23.2%, respectively, of total materials, services and other expenses in 2009.

millions of Russian roubles	Year ended 31 December: 2009	2008	Change %
Employee compensation	2,457	2,169	13.3%
Materials and supplies	1,455	1,766	(17.6%)
Tolling and processing fees	556	341	63.0%
Repair and maintenance services	396	405	(2.2%)
Electricity and fuel	331	308	7.5%
Fire safety and security expense	186	168	10.7%
Other	254	454	(44.1%)
Subtotal materials, services and other	**5,635**	**5,611**	**0.4%**
Operator services expense	624	721	(13.5%)
Total materials, services and other	**6,259**	**6,332**	**(1.2%)**

In 2009, our materials, services and other expenses, excluding operator services expense, increased by RR 24 million, or 0.4%, to RR 5,635 million compared to RR 5,611 million in 2008.

Our employee compensation increased by RR 288 million, or 13.3%, to RR 2,457 million compared to RR 2,169 million in 2008. The increase was primarily due to increases in average salaries and the number of employees. The increase in additional staffing at our subsidiaries, mainly the Purovsky Plant, OOO "NOVATEK-Yurkharovneftegas" and OOO "NOVATEK-Refuelling Complexes", was due to the significant growth in their respective activities. The increase in employee compensation at our production subsidiaries was partially offset by a decrease in payroll expenses due to the disposal of our non-core subsidiary, OOO "Purovsky Terminal", in December 2008.

Materials and supplies expense decreased by RR 311 million, or 17.6%, 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 260 million, or 83.6%, of the total decrease in materials and supplies expense. In addition, materials and supplies expense decreased by RR 72 million which was mainly related to a reduction in methanol purchases due to a decrease in natural gas production at the East-Tarkosalinskoye and Khancheyskoye fields.

Tolling and processing fees increased by RR 215 million, or 63.0%, primarily due to a 66.9% increase in volumes and a 10.2% increase in third party processing tariffs both related to the de-ethanization of unstable gas condensate produced at the Yurkharovskoye field, which accounted for RR 236 million of the total change in tolling and processing fees. In addition, in 2009, we also incurred RR 25 million in costs related to the preparation of crude oil produced at our East-Tarkosalinskoye field for transportation. The increase was offset by a decrease of RR 46 million in tolling and processing fees at the Surgutsky refinery as a result of lower volumes of unstable gas condensate sent to the refinery.

Electricity and fuel expenses increased by RR 23 million, or 7.5%, from RR 308 million in 2008 to RR 331 million in 2009 primarily due to an increase in energy consumption at the Yurkharovskoye field and the Purovsky Plant resulting from the commencement of operation of new production assets. The increase was partially offset by a decrease in fuel expense at our East-Tarkosalinskoye and Khancheyskoye fields due to a significant decrease in petrol and diesel fuel prices in the domestic market.

Our fire safety and security expenses increased by RR 18 million, or 10.7%, to RR 186 million from RR 168 million in 2008, primarily due to an increase in the service rates of security companies starting from 1 January 2009.

In 2009, operator services expense represented 10.0% of total materials, services and other expenses and refers to the geological and geophysical research provided mainly to our associated companies. In 2009, we provided operator services totaling RR 624 million to our associated companies at the Anomalny, Severo-Russkiy, Zapadno-Tazovskiy, Sredniy Chaselskiy and Yuzhno-Zapolyarniy license areas as compared to RR 713 million in 2008. The corresponding revenues we received from our associates and third parties for operator services provided are shown as other revenues in the consolidated statement of income.

Depreciation, depletion and amortization

In 2009, our depreciation, depletion and amortization ("DDA") expense increased by RR 1,110 million, or 24.8%, compared to 2008. Depreciation and depletion of our oil and gas properties accrued using the "units of production" method increased by RR 615 million, or 15.5%, as a result of an increase in our depletable cost base as well as a 7.5% increase in our hydrocarbon production in barrels of oil equivalent (boe). Straight-line depreciation increased by RR 495 million, or 104.0%, primarily due to the completion of the work performed and the transfer of the related costs for the Purovsky Plant's second phase expansion in the fourth quarter 2008.

In 2009, our DDA per boe was RR 19.4 compared to DDA per boe of RR 18.1 in 2008, representing a year-on-year increase of 7.2%. The increase in our DDA charge calculated on a boe basis was primarily due to an increase in our depletable cost base as a result of completing the capital expansion program related to the second stage of the second phase of development at the Yurkharovskoye field in October 2009.

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

General and administrative expenses

In 2009, our general and administrative expenses increased by RR 62 million, or 1.2%, to RR 5,126 million compared to RR 5,064 million in 2008. The main components of these expenses were employee compensation, charitable contributions and legal, audit and consulting services, which, on aggregate, comprised 71.7% and 74.0% of total general and administrative expenses in 2009 and 2008, respectively.

millions of Russian roubles	Year ended 31 December: 2009	2008	Change %
Employee compensation	2,840	2,940	(3.4%)
Charitable contributions	533	499	6.8%
Legal, audit, and consulting services	301	309	(2.6%)
Rent expense	245	175	40.0%
Concession management services	225	182	23.6%
Business trip expenses	207	216	(4.2%)
Depreciation – administrative buildings	150	103	45.6%
Fire safety and security expense	143	139	2.9%
Insurance expense	90	90	0.0%
Other	392	411	(4.6%)
Total general and administrative expenses	**5,126**	**5,064**	**1.2%**

Our employee compensation decreased by RR 100 million, or 3.4%, to RR 2,840 million as compared to RR 2,940 million in 2008, which was primarily due to a decrease in the accrual of performance-related bonuses during the year, combined with a 1.7% reduction in the number of administrative employees.

In 2009, our charitable contributions increased by RR 34 million, or 6.8%, to RR 533 million compared to RR 499 million in 2008, and were primarily related to our continued support for charities and social programs in the regions where we operate. Charitable contributions will continue to fluctuate period-on-period depending on the funding needs and the implementation schedule of specific programs we support.

Legal, audit, and consulting services expenses decreased by RR 8 million, or 2.6%, to RR 301 million compared to RR 309 million in 2008. The decrease was largely related to savings on information technology system support and maintenance.

In 2009, our rent expense increased by RR 70 million, or 40.0%, primarily due to an increase in rental rates for our Moscow office effective from July 2009.

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 2009, our expenses related to concession management services increased by RR 43 million, or 23.6%, compared to 2008 primarily due to the start of exploration activities in this concession area during the second half of 2008.

We remained focused on tight cost controls throughout the year, and as a result, our business trip related expenses decreased by RR 9 million, or 4.2%, from RR 216 million in 2008 to RR 207 million in 2009.

In 2009, other general and administrative expenses decreased by RR 19 million, or 4.6%, compared to 2008. The decrease in these expense items was mainly due to a decrease in advertising expenses by RR 15 million, transportation expenses of administrative nature by RR 13 million and materials expense used for administrative purposes by RR seven million. The decrease was offset by an increase in bank charges by RR 26 million and an increase in repair and maintenance expense by RR 23 million. The remaining decrease of RR 33 million was allocated amongst different expense categories within other general and administrative expenses which, taken individually, increased immaterially.

Purchases of natural gas and liquid hydrocarbons

Purchases of natural gas and liquid hydrocarbons decreased by RR 3,522 million, or 75.5%, to RR 1,143 million in 2009, from RR 4,665 million in 2008, primarily due to suspension of trading operations with oil products, namely naphtha, by our foreign trading subsidiary on the international markets. In 2008, our purchases of naphtha amounted to RR 1,886 million.

We also continued to reduce our purchases of natural gas from third parties due to increases in our natural gas production from our own fields. Purchases of natural gas decreased by RR 1,572 million, or 60.6%, from RR 2,593 million in 2008 to RR 1,021 million in 2009, primarily due to a decrease in volumes purchased from third parties that was partially offset by an increase in purchase prices.

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

In 2009, we recorded a charge of RR 255 million to change in inventory expense as compared to a reversal of RR 184 million in 2008.

In 2009, we recorded a charge of RR 281 million to change in inventory due to a decrease in our inventory balance of stable gas condensate in transit and storage by 109 thousand tons. In addition, we recorded a charge of RR 82 million and RR 62 million to change in inventory due to a decrease in the inventory balance of polymers and insulation tape products and a decrease in work-in-progress, respectively. During the same period, we recorded a reversal of RR 127 million due to an increase in our inventory balance of natural gas by 372 mmcm, while the remaining reversal of RR 43 million to the change in inventory expense related to changes in our balances of other products.

In 2008, we recorded a reversal of RR 72 million and RR 70 million to change in inventory expense due to an increase in inventory balances of crude oil and of polymers and insulation tape products. We also recorded a reversal of RR 55 million and RR 20 million to change in inventory due to an increase in the cost of our inventory balance of stable gas condensate and an increase in our inventory balance of natural gas, which was offset by a charge of RR 82 million due to a decrease in the cost of naphtha purchased for resale. The remaining reversal of RR 49 million to the change in inventory expense related to a change in other products balances and work-in-progress.

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

In 2009, we realized other operating loss (net of gain on disposals) of RR 291 million, of which RR 190 million was related to commodity derivative instruments that did not qualify as hedge transactions under IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") and RR 303 million was related to disposal of assets under construction, primarily at our subsidiary JSC "Energy Northern Company". In addition, in 2009, we recognized other income of RR 52 million and RR 63 million due to the disposal of our subsidiary OOO "Purneft" in April 2009 and for penalties from our customers due to non-compliance of their contractual obligations, respectively. The remaining other income of RR 87 million was primarily related to other profit and loss items which, taken individually, increased immaterially.

In 2008, we realized other operating loss of RR 236 million of which, RR 212 million was related to the disposal of our long-term lease with OAO "Gazprom".

Profit from operations

As a result of the factors discussed above, our profit from operations increased by RR 1,413 million, or 4.4%, to RR 33,533 million in 2009, compared to RR 32,120 million in 2008. In 2009, our profit from operations as a percentage of total revenues decreased to 37.3% compared to 40.5% in 2008 primarily due to significantly higher transportation expenses as a result of an increase in volumes sold as well as a significant decline in international and domestic benchmark crude oil prices.

Finance income (expense)

In 2009, we recorded a net finance expense of RR 831 million versus RR 3,384 million in 2008, which was primarily related to a decrease in our foreign exchange loss due to lower average depreciation of Russian rouble against the US dollar in 2009 compared to 2008.

During the year, our interest expense increased by RR 597 million, or 268.9%, primarily due to an increase in our average borrowings and higher financing rates. In 2009, interest income increased by RR 120 million, or 29.5%, primarily due to the receipt of interest income from loans issued to third parties.

We recorded a net foreign exchange loss of RR 539 million as compared to RR 3,569 million in 2008 due to a 2.9% and 19.7% strengthening of the US dollar against the Russian rouble during 2009 and 2008, respectively, and its effect on our foreign currency denominated borrowings.

Share of income (loss) of associated companies

In 2009, our proportionate share in the loss of associated companies amounted to RR 202 million compared to a loss of RR 147 million recorded in 2008. The losses recognized by our associated companies in both periods were due to the expensing of geological and geophysical research expenditures 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 20.7% and 19.7% for 2009 and 2008, respectively. Our effective income tax rate, after excluding the effect of foreign subsidiaries, was 21.3% in 2009. Our effective income tax rate, after excluding the change in the statutory income tax rate in 2008 and the effect of foreign subsidiaries, was 24.5% in 2008. In 2009, the Russian statutory income tax rate was 20% as compared to 24% 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 year increased by RR 2,795 million, or 12.2%, to RR 25,722 million in 2009 from RR 22,927 million in 2008. The profit attributable to NOVATEK shareholders increased by RR 3,144 million, or 13.7%, to RR 26,043 million in 2009 from RR 22,899 million in 2008.

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to NOVATEK shareholders, increased by RR 1.05 per share, or 13.9%, to RR 8.59 per share in 2009 from RR 7.54 per share in 2008.

LIQUIDITY AND CAPITAL RESOURCES

The following table shows our net cash flows from operating, investing and financing activities for the years ended 31 December 2009 and 2008:

millions of Russian roubles	Year ended 31 December: 2009	2008	Change %
Net cash provided by operating activities	36,454	31,514	15.7%
Net cash used in investing activities	(36,025)	(31,886)	13.0%
Net cash provided by (used in) financing activities	(1,006)	8,143	n/a

Liquidity ratios	31 December 2009	31 December 2008	Change, %
Current ratio	1.14	1.79	(36.3%)
Total debt to equity	0.33	0.27	22.2%
Long-term debt to long term debt and equity	0.173	0.172	0.6%
Net debt to total capitalization [(1)]	0.17	0.12	41.7%

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

Net cash provided by operating activities

In 2009, our net cash provided by operating activities increased by RR 4,940 million, or 15.7%, to RR 36,454 million compared to RR 31,514 million in 2008. The increase was mainly attributable to lower income tax paid, which was partially offset by a decrease in cash inflow from working capital changes.

Net cash used in investing activities

In 2009, our net cash used in investing activities increased by RR 4,139 million, or 13.0%, to RR 36,025 million as compared to the RR 31,886 million spent in 2008. In 2009, we used RR 17,096 million in cash for the purchase of 51% shares of OAO "Yamal LNG", as well as spending RR 12,569 million for ongoing work at both our Yurkharovskoye field and the Purovsky Plant. In 2008, we spent approximately RR 22,433 million on capital expenditures at our Yurkharovskoye field (first stage of the second phase of development) and the Purovsky Plant (second phase expansion).

Net cash provided by (used in) financing activities

In 2009, our repayments of borrowings due throughout the year as well as our payments of dividends exceeded the proceeds we received from long-term and short-term borrowings. In 2008, the majority of our net cash provided by financing activities was related to the proceeds we received from long-term borrowings, which was partially offset by repayment of short-term borrowings and dividends. Our net cash provided by or used in financing activities will vary year-to-year depending on the level of borrowings we receive or the repayment of short- and/or long-term debt.

Working capital

Our net working capital position (current assets less current liabilities) at 31 December 2009 decreased from RR 11,259 million at 31 December 2008 to RR 3,274 million at 31 December 2009. The change in our net working capital position was mainly due to an increase in our short-term debt (mostly current portion of long-term debt) and accounts payable and accrued liabilities, as well as a decrease in prepayments and other current assets and prepaid income tax that were partially offset by an increase in trade and other receivables.

Due to the high costs of debt during the first six months of 2009, the Group decided not to undertake significant borrowings in this period, and instead, used existing cash on the balance sheet to fund certain operational activities as well as the acquisition of the "Yamal LNG" equity stake, although bank financing was available to us. Management believes the Group has the ability and the capacity to raise debt financing in both the capital markets and through additional borrowings via financial institutions. The market environment for raising finance through the issuance of debt has shown continued signs of improvement in the second half 2009, and, as a result, the Group has raised long-term debt financing of RR 16,926 million from various international and Russian banks during 2009.

Capital expenditures

Total capital expenditures on property, plant and equipment for the years ended 31 December 2009 and 2008 are as follows:

millions of Russian roubles	Year ended 31 December: 2009	2008	Change %
Exploration, production and marketing	17,823	30,145	(40.9%)
Polymer production and marketing	49	1,665	(97.1%)
Total	**17,872**	**31,810**	**(43.8%)**

Exploration, production and marketing expenditures represent our investments in exploring for and developing our oil and gas properties. During both reporting periods, the majority of our capital expenditures related to ongoing development and exploration activities at our three core fields and at our Purovsky Plant. In 2009, we spent RR 432 million, RR 2,024 million and RR 11,401 million for further field development at the Khancheyskoye, East-Tarkosalinskoye and Yurkharovskoye fields, respectively, and RR 1,168 million on further construction work at the Purovsky Plant. We were able to successfully reduce our total capital expenditures in 2009 due to our ability to negotiate a reduction in services and equipment costs as compared to the works performed in 2008.

Debt obligations

At 31 December 2009, the Group had short-term credit facilities as bank overdrafts available for use in the aggregate amount of RR 6,048 million (USD 200 million) on either fixed or variable interest rates subject to the specific type of credit facility.

In addition, the Group has available funds under two credit line facilities with UniCredit Bank up to the maximum amount of RR 3,024 million (USD 100 million) and RR 6,048 million (USD 200 million) until February 2010 and October 2012, respectively. However, total funds that can be withdrawn under these two credit line facilities cannot exceed the combined maximum amount of USD 250 million. Interest rates applicable to these credit line facilities are negotiated on each withdrawal date. In November 2009, the Group withdrew USD 200 million under these facilities as long-term borrowings.

The Group also has available funds under agreement with CALYON RUSBANK Corporate and Investment Bank in amount of USD 100 million until July 2010, with BNP PARIBAS in the amount of USD 100 million until December 2010 with interest rates negotiated at time of each withdrawal and with Gazprombank in the amount of RR 3,894 million until March 2012 with annual interest rate of 13 percent.

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

QUALITATIVE AND QUANTITATIVE DISCLOSURES AND MARKET RISKS

We are exposed to market risk from changes in commodity prices, foreign currency exchange rates and interest rates. We are exposed to commodity price risk as our prices for crude oil and stable gas condensate destined for export sales are linked to international crude oil prices. 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 December 2009, RR 12,846 million, or 34.1%, of our long-term debt was denominated in US dollars (out of RR 37,703 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 mitigated by the fact that a portion of our total revenues, approximately 32.5% in 2009, is denominated in US dollars. As of 31 December 2009, the Russian rouble had depreciated by approximately 2.9% against the US dollar since 1 January 2009.

A hypothetical and instantaneous 10% strengthening in the Russian rouble in relation to the US dollar as of 31 December 2009 would have resulted in an estimated foreign exchange gain of approximately RR 2,667 million on foreign currency denominated borrowings held at that date.

Commodity risk

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

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

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

Pipeline access

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

Ability to reinvest

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

Off balance sheet activities

As of 31 December 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.

IFRS CONSOLIDATED FINANCIAL STATEMENTS and Independent Auditor's Report for the years ended 31 December 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

To the shareholders and Board of Directors of OAO NOVATEK

1 We have audited the accompanying consolidated financial statements of OAO NOVATEK and its subsidiaries (the "Group") set out on pages 4 to 61 which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of income, consolidated statement of cash flows, consolidated statement of comprehensive income and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
11 March 2010

The firm is an authorized licensee of the tradename and logo of PricewaterhouseCoopers.

OAO NOVATEK

Consolidated Statement of Financial Position

(in millions of Russian roubles)

	Notes	At 31 December: 2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	161,448	108,714
Investments in associates		1,214	1,416
Long-term loans and receivables		933	736
Other non-current assets		2,669	2,712
Total non-current assets		**166,264**	**113,578**
Current assets			
Inventories	8	1,790	2,156
Current income tax prepayments		241	1,765
Trade and other receivables	9	8,504	2,485
Prepayments and other current assets	10	5,800	8,030
Cash and cash equivalents	11	10,532	10,992
Total current assets		**26,867**	**25,428**
Assets held for sale	6	**508**	**901**
Total assets		**193,639**	**139,907**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	12	23,876	19,935
Deferred income tax liabilities	22	7,460	6,720
Other non-current liabilities		3,034	593
Asset retirement obligations		2,232	1,515
Total non-current liabilities		**36,602**	**28,763**
Current liabilities			
Short-term debt and current portion of long-term debt	14	13,827	6,342
Trade payables and accrued liabilities	15	7,335	6,223
Current income tax payable		386	231
Other taxes payable		2,045	1,373
Total current liabilities		**23,593**	**14,169**
Liabilities associated with assets held for sale	6	**4**	**335**
Total liabilities		**60,199**	**43,267**
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(599)	(599)
Additional paid-in capital		30,609	30,433
Currency translation differences		(112)	(91)
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		78,393	60,316
Total equity attributable to OAO NOVATEK shareholders	16	**114,301**	**96,069**
Non-controlling interest		**19,139**	**571**
Total equity		**133,440**	**96,640**
Total liabilities and equity		**193,639**	**139,907**

The accompanying notes are an integral part of these consolidated financial statements.

Approved for issue and signed on behalf of the Board of Directors on 11 March 2010:

L. Mikhelson
General Director

M. Gyetvay
Financial Director

OAO NOVATEK
Consolidated Statement of Income
(in millions of Russian roubles, except for share and per share amounts)

	Notes	Year ended 31 December: 2009	2008
Revenues			
Oil and gas sales	17	86,903	76,076
Sales of polymer and insulation tape		1,873	2,098
Other revenues		1,178	1,098
Total revenues		**89,954**	**79,272**
Operating expenses			
Transportation expenses	18	(29,026)	(18,153)
Taxes other than income tax	19	(8,042)	(7,186)
Materials, services and other	20	(6,259)	(6,332)
Depreciation, depletion and amortization	7	(5,588)	(4,478)
General and administrative expenses	21	(5,126)	(5,064)
Purchases of natural gas and liquid hydrocarbons		(1,143)	(4,665)
Exploration expenses		(566)	(1,117)
Net impairment (expense) reversal		(125)	(105)
Change in natural gas, liquid hydrocarbons, and polymer products and work-in-progress		(255)	184
Total operating expenses		**(56,130)**	**(46,916)**
Net gain (loss) on disposal of interest in subsidiaries		52	8
Other operating income (loss)		(343)	(244)
Profit from operations		**33,533**	**32,120**
Finance income (expense)			
Interest expense		(819)	(222)
Interest income		527	407
Foreign exchange gain (loss)		(539)	(3,569)
Total finance income (expense)		**(831)**	**(3,384)**
Share of profit (loss) of associates, net of income tax		(202)	(147)
Profit before income tax		**32,500**	**28,589**
Income tax expense			
Current income tax expense		(5,896)	(6,892)
Net deferred income tax (expense) benefit		(882)	1,230
Total income tax expense	22	**(6,778)**	**(5,662)**
Profit (loss)		**25,722**	**22,927**
Profit (loss) attributable to:			
Non-controlling interest		(321)	28
Shareholders of OAO NOVATEK		**26,043**	**22,899**
Basic and diluted earnings per share (in Russian roubles)		8.59	7.54
Weighted average number of shares outstanding (in thousands)		*3,032,114*	*3,035,279*

The accompanying notes are an integral part of these consolidated financial statements.

OAO NOVATEK
Consolidated Statement of Cash Flows
(in millions of Russian roubles)

	Notes	Year ended 31 December: 2009	2008
Profit before income tax		**32,500**	**28,589**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		5,738	4,581
Net impairment expense		125	105
Net foreign exchange loss (gain)		539	3,569
Net loss (gain) on disposal of assets		233	315
Share-based compensation	26	176	176
Interest expense		819	222
Interest income		(527)	(407)
Share of loss (profit) in associates, net of income tax		202	147
Net change in other non-current assets		223	467
Other adjustments		(62)	26
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(1,298)	430
Decrease (increase) in inventories		334	(421)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends		992	2,406
Increase (decrease) in other taxes payable		724	100
Total effect of working capital changes		**752**	**2,515**
Income taxes paid		(4,264)	(8,791)
Net cash provided by operating activities		**36,454**	**31,514**
Cash flows from investing activities			
Purchases of property, plant and equipment		(16,218)	(30,455)
Purchases of inventories intended for construction		(20)	(1,141)
Additional capital contribution, acquisition of subsidiaries, associates and non-controlling interests, net of cash acquired		(18,874)	(457)
Proceeds from disposals of assets, subsidiaries, associates and non-controlling interests, net of cash disposed		419	264
Interest paid and capitalized		(1,280)	(474)
Loans provided		(427)	(445)
Repayments of loans provided		80	442
Interest received		295	380
Net cash (used for) provided by investing activities		**(36,025)**	**(31,886)**
Cash flows from financing activities			
Proceeds from long-term debt		16,926	19,308
Proceeds from short-term debt		5,385	6,618
Repayments of long-term debt		(6,758)	(279)
Repayments of short-term debt		(8,348)	(9,134)
Interest paid		(584)	(119)
Purchase of treasury shares	16	-	(599)
Dividends paid	16	(7,627)	(7,652)
Net cash (used for) provided by financing activities		**(1,006)**	**8,143**
Net effect of exchange rate changes on cash, cash equivalents and bank overdrafts		141	635
Net increase (decrease) in cash, cash equivalents and bank overdrafts		**(436)**	**8,406**
Cash and cash equivalents at beginning of the year		10,991	2,614
Cash and cash equivalents reclassified as assets classified as held for sale		(52)	(29)
Net decrease (increase) in cash and cash equivalents reclassified to assets classified as held for sale		(23)	(29)
Cash, cash equivalents and bank overdrafts at end of the year		**10,532**	**10,991**

The accompanying notes are an integral part of these consolidated financial statements.

OAO NOVATEK
Consolidated Statement of Comprehensive Income
(in millions of Russian roubles)

	Notes	Year ended 31 December: 2009	2008
Other comprehensive income (loss) after income tax:			
Currency translation differences		(21)	(91)
Other comprehensive income (loss)		**(21)**	**(91)**
Profit (loss)		**25,722**	**22,927**
Total comprehensive income		**25,701**	**22,836**
Total comprehensive income (loss) attributable to:			
Non-controlling interest		(321)	28
Shareholders of OAO NOVATEK		**26,022**	**22,808**

The accompanying notes are an integral part of these consolidated financial statements.

OAO NOVATEK

Consolidated Statement of Changes in Equity

(in millions of Russian roubles, except for number of shares)

	Number of ordinary shares (in thousands)	Ordinary share capital	Treasury shares	Additional paid-in capital	Asset revaluation surplus on acquisitions	Cumulative currency translation differences	Retained earnings	Equity attributable to OAO NOVATEK shareholders	Non-controlling interest	Total equity
31 December 2007	***3,036,306***	**393**	**-**	**30,257**	**5,617**	**-**	**45,068**	**81,335**	**477**	**81,812**
Currency translation differences	-	-	-	-	-	(91)	-	(91)	-	(91)
Profit (loss)	-	-	-	-	-	-	22,899	22,899	28	22,927
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**(91)**	**22,899**	**22,808**	**28**	**22,836**
Dividends (Note 16)	-	-	-	-	-	-	(7,651)	(7,651)	-	(7,651)
Purchase of treasury shares (Note 16)	*(4,192)*	-	(599)	-	-	-	-	(599)	-	(599)
Impact of additional shares subscription in subsidiaries on non-controlling interest	-	-	-	-	-	-	-	-	108	108
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(42)	(42)
Share-based compensation funded by shareholders	-	-	-	176	-	-	-	176	-	176
31 December 2008	***3,032,114***	**393**	**(599)**	**30,433**	**5,617**	**(91)**	**60,316**	**96,069**	**571**	**96,640**

The accompanying notes are an integral part of these consolidated financial statements.

	Number of ordinary shares (in thousands)	Ordinary share capital	Treasury shares	Additional paid-in capital	Asset revaluation surplus on acquisitions	Cumulative currency translation differences	Retained earnings	Equity attributable to OAO NOVATEK shareholders	Non-controlling interest	Total equity
31 December 2008	***3,032,114***	**393**	**(599)**	**30,433**	**5,617**	**(91)**	**60,316**	**96,069**	**571**	**96,640**
Currency translation differences	-	-	-	-	-	(21)	-	(21)	-	(21)
Profit (loss)	-	-	-	-	-	-	26,043	26,043	(321)	25,722
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**(21)**	**26,043**	**26,022**	**(321)**	**25,701**
Dividends (Note16)	-	-	-	-	-	-	(7,641)	(7,641)	-	(7,641)
Impact of additional shares subscription in subsidiaries on non-controlling interest	-	-	-	-	-	-	-	-	160	160
Acquisition of subsidiaries (Note 5)	-	-	-	-	-	-	-	-	18,729	18,729
Equity call option consideration (Note 5)	-	-	-	-	-	-	(325)	(325)	-	(325)
Share-based compensation funded by shareholders	-	-	-	176	-	-	-	176	-	176
31 December 2009	***3,032,114***	**393**	**(599)**	**30,609**	**5,617**	**(112)**	**78,393**	**114,301**	**19,139**	**133,440**

The accompanying notes are an integral part of these consolidated financial statements.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

OAO NOVATEK (hereinafter referred to as "NOVATEK") and its subsidiaries (hereinafter jointly referred to as the "Group") is an independent oil and gas company engaged in the acquisition, exploration, development, production and processing of hydrocarbons with its core operations of oil and gas properties located and incorporated in the Yamal-Nenets Autonomous Region ("YNAO") of the Russian Federation. A list of the NOVATEK's principal subsidiaries and associates are disclosed in Note 25.

The Group sells its natural gas on the Russian domestic market at both regulated and unregulated market prices; however, the majority of natural gas sold on the domestic market is sold at prices regulated by the Federal Tariff Service, a governmental agency. The Group's stable gas condensate and crude oil sales are sold on both the Russian domestic and international markets, and are subject to fluctuations in benchmark crude oil prices. Additionally, the Group's natural gas sales fluctuate on a seasonal basis due mostly to Russian weather conditions, with sales peaking in the winter months of December and January and decreasing in the summer months of July and August. The Group's liquids sales volumes comprising stable gas condensate, crude oil and oil products remain relatively stable from period to period.

In November 2009, the Group established Novatek Polska, a wholly-owned subsidiary, registered in Poland to manage the administration, marketing and trading of liquefied petroleum gas to European markets. Beginning in January 2010, the Group commenced export sales through this subsidiary.

2 BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. In the absence of specific IFRS guidance for oil and gas producing companies, the Group has developed accounting policies in accordance with other generally accepted accounting principles for oil and gas producing companies, mainly US GAAP, insofar as they do not conflict with IFRS principles. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Most of the Group entities prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The Group's consolidated financial statements are based on the statutory records with adjustments and reclassifications recorded in the consolidated financial statements for the fair presentation in accordance with IFRS. The principal adjustments primarily relate to (1) depreciation, depletion and amortization, and valuation of property, plant and equipment, (2) consolidation of subsidiaries, (3) business combinations, (4) accounting for income taxes, and (5) valuation of unrecoverable assets, expense recognition and other provisions.

Functional and presentation currency. The consolidated financial statements are presented in Russian roubles, the Group's reporting (presentation) currency and the functional currency for the majority of entities. The assets and liabilities (both monetary and non-monetary) of the Group entities whose functional currency is not the Russian rouble are translated into Russian roubles at the closing exchange rate at each balance sheet date. All items included in the shareholders' equity, other than profit or loss, are translated at historical exchange rates. The financial results of these entities are translated into Russian roubles using average exchange rates for each reporting period. Exchange adjustments arising on the opening net assets and the profits for the reporting period are taken to a separate component of equity until the disposal of the foreign operation and reported as currency translation differences in the consolidated statement of changes in equity and the consolidated statement of comprehensive income.

2 BASIS OF PRESENTATION (CONTINUED)

Exchange rates used in preparation of these consolidated financial statements for the entities whose functional currency is not the Russian rouble were as follows:

	At 31 December:		Average annual rate	
For one currency unit to one Russian rouble	2009	2008	2009	2008
US dollar ("USD")	30.24	29.38	31.72	24.85
Polish Zloty ("PLN")	10.32	-	10.64	-

Exchange rates, restrictions and controls. The official rate of exchange of the Russian rouble to the US dollar at 31 December 2009 and 2008 was 30.24 and 29.38 Russian roubles to USD 1.00, respectively. The official rate of exchange of the Russian rouble to the Euro at 31 December 2009 and 2008 was 43.39 and 41.44 Russian roubles to 1.00 Euro, respectively. Any re-measurement of Russian rouble amounts to US dollars or any other currency should not be construed as a representation that such Russian rouble amounts have been, could be, or will in the future be converted into other currencies at these exchange rates.

Reclassifications. The following reclassifications have been made to the comparative figures to conform to the current period presentation. Commencing 1 January 2009, net gain (loss) on disposal of interest in subsidiaries and other operating income (loss) are presented below operating expenses in the consolidated statement of income as such presentation more appropriately reflects the nature of these items. Accordingly, RR 8 million and 244 million of net gain (loss) on disposal of interest in subsidiaries and other operating income (loss), respectively for the year ended 31 December 2008 was reclassified from total revenues and other income to other operating income (loss).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of IAS 1. Effective 1 January 2009, the Group adopted IAS 1, *Presentation of Financial Statements* (revised September 2007) ("IAS 1"). Following the adoption, the Group introduced the statement of financial position instead of the balance sheet, and replaced the income statement by two statements: a separate income statement and a statement of comprehensive income. Also, non-controlling shares in the Group's subsidiaries' net assets and financial results are presented as non-controlling interests (previously "minority interests"). The adoption of IAS 1 affects the formal presentation of the Group's financial statements but has no impact on the recognition or measurement of specific transactions and balances.

Adoption of IFRS 8. Effective 1 January 2009, the Group adopted IFRS 8, *Operating Segments* ("IFRS 8"), which replaces IAS 14, *Segment Reporting*. IFRS 8 introduces new requirements and guidelines regarding the disclosures of operating segments. For periods prior to 1 January 2010, a measure of total segment assets was required to be disclosed for all segments regardless of whether those measures were reviewed by the chief operating decision maker. In December 2007, however, the IASB concluded that IFRS 8 should be changed to state that a measure of segment assets should only be disclosed when such information is provided to the chief operating decision maker. This change was included as part of the IASB's 2009 annual improvement project issued in April 2009 which has been adopted by Group as of 1 January 2009.

Operating segments are defined as components of the Group where separate financial information is available and reported regularly to the chief operating decision maker (hereinafter referred to as "CODM", represented by the Management Committee of NOVATEK), which decides how to allocate resources and assesses operational and financial performance using the information provided.

The Group conducts its normal course of business through its principal business segment "exploration, production and marketing". Substantially all of the Group's business activities are related to the natural gas and gas condensate exploration, production and marketing segment, and includes all headquarter-related costs. To a significantly lesser extent, the Group is engaged in polymer production and marketing activities, which are considered a separately reportable operating segment.

The CODM assesses reporting segments performance based on income before income taxes, since income taxes are not allocated. No business segment assets or liabilities (except for capital expenditures for the period) are provided to the CODM for decision-making.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative figures have been restated to conform to the current period presentation.

Principles of consolidation. The accompanying consolidated financial statements include the operations of all controlled companies in which NOVATEK directly or indirectly owns more than 50 percent of the voting stock or otherwise has the power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is obtained unless the acquisition occurred between entities under common control, which are accounted for from the beginning of the earliest period presented. Subsidiaries are no longer consolidated from the date that control ceases. Except for the acquisition of entities under common control, the purchase method of accounting is used to account for the acquisition of subsidiaries.

Upon achieving a controlling interest in an entity in which the Group previously held a non-controlling interest, the acquiree's identifiable assets, liabilities and contingent liabilities are restated to their fair values as at the date of achieving control. The effect of revaluing previously held interests to current fair values is recorded within asset revaluation surplus in the consolidated statement of changes in equity.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

All intercompany transactions, balances and unrealized gains on transactions between the Group entities are eliminated. Unrealized losses are also eliminated upon consolidation, but in the case where an asset is transferred with a loss amongst the Group entities, this event is considered by management as an impairment indicator for that asset.

Non-controlling interest is the net results and the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests not owned, directly or indirectly, by NOVATEK. Non-controlling interest forms a separate component of the Group's total equity.

Acquisition of non-controlling interests. The difference between the purchase consideration and the carrying amount of non-controlling interests acquired is recognized within equity to account for acquisitions of non-controlling minority stakes.

Investments in associates. Associated companies are entities over which the Group has significant influence, but which it does not control. Generally, significant influence exists when the Group has between 20 and 50 percent of voting rights. The difference between the cost of an acquisition and the share of the fair value of the associate's identifiable net assets represents goodwill upon acquiring the associated company. Associated companies are accounted for using the equity method and are initially recognized at cost. After the date of acquisition the carrying amount of the investment is increased or decreased to recognize the Group's share of the profit or loss of the investee. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the associates' post-acquisition profits or losses is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognized in the consolidated statement of changes in equity. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-current assets held for sale. Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less selling costs. Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment are not depreciated once classified as held for sale.

Property, plant and equipment. Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation, depletion, amortization and impairment.

The Group follows the successful efforts method of accounting for its oil and gas properties and equipment whereby property acquisitions, successful exploratory wells, all development costs and support equipment and facilities are capitalized. Unsuccessful exploratory wells are charged to expense at the time the wells are determined to be non-productive. Production costs, overheads and all exploration costs other than exploratory drilling and license acquisition costs are charged to expense as incurred. Acquisition costs of unproved properties are evaluated periodically and any impairment assessed is charged to expense.

The Group's principal oil and gas reserves have been independently estimated by internationally recognized petroleum engineers whereas other oil and gas reserves of the Group have been determined based on estimates of mineral reserves prepared by management in accordance with internationally recognized definitions. The present value of the estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, are recognized when the obligation is incurred and are included within the carrying value of property, plant and equipment, subject to depletion using the unit-of-production method.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components that extend the life of property, plant and equipment items are capitalized and depreciated over the estimated remaining life of the major part or component. All components that are replaced are written off.

The cost of self-constructed assets includes the cost of direct materials, direct employee related costs, a pro-rata portion of depreciation of assets used for construction and an allocation of the Group's overhead costs.

At each reporting date management assesses whether there is any indication of impairment in respect of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less selling costs and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the consolidated statement of income. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. Gains and losses are recognized in the consolidated statement of income.

Exploration costs. Exploration costs (geological and geophysical expenditures, expenditures associated with the maintenance of non-proven reserves and other expenditures relating to exploration activity), excluding exploratory drilling expenditures and license acquisition costs, are charged to the consolidated statement of income as incurred. License acquisition costs and exploratory drilling costs are recognized as assets until it is determined whether proved reserves justifying their commercial development have been found. If no proved reserves are found, the capitalized drilling costs are charged to the consolidated statement of income. License acquisition costs and exploratory drilling costs recognized as assets are reviewed for impairment on an annual basis.

Depreciation. Depreciation, depletion and amortization of oil and gas properties and equipment (except for processing facilities) is calculated using the unit-of-production method for each field based upon proved developed reserves for development costs, and total proved reserves for costs associated with acquisitions of proved properties. A portion of the reserves used for depreciation, depletion and amortization calculations include reserves expected to be produced beyond license expiry dates. Management believes that there is requisite legislation and past results (or experience) to extend mineral licenses at the initiative of the Group and, as such, intends to extend its licenses for properties expected to produce beyond the current license expiry dates.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment, other than oil and gas properties and equipment, are depreciated on a straight-line basis over their estimated useful lives. Land and assets under construction are not depreciated.

The estimated useful lives of the Group's property, plant and equipment, other than oil and gas properties and equipment, are as follows:

	Years
Machinery and equipment	5-15
Processing facilities	20-30
Buildings	25-50

Derivative instruments. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or
(ii) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

At inception, the Group documents the relationship between the hedging instruments and the items hedged, as well as the Group's risk management objectives and strategy for undertaking various hedging activities. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group enters into commodity derivative instruments with the primary objective of reducing the Group's exposure to fluctuating of oil and gas prices. The Group has not entered into commodity derivative instruments for trading purposes.

During the year ended 31 December 2009, the Group entered into commodity price swap contracts for total notional volume of three million barrels of stable gas condensate. The contractual notional volumes are not physically exchanged, rather they are cash settled on a net basis. None of the contracts executed during this period qualified for hedge treatment under IAS 39, *Financial Instruments: Recognition and Measurement*. All contracts were settled realizing net losses of RR 190 million. The results of the commodity price swap contracts were recorded within other operating income (loss) in the consolidated statement of income.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognized in the consolidated statement of income within finance income (expenses). The gain or loss relating to the ineffective portion is recognized in the consolidated statement of income within other operating income (loss). Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognized in the consolidated statement of income within finance income (expenses).

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity. There were no fair value hedges used throughout 2008 or 2009, or in place at 31 December 2009 and 2008.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in consolidated statement of changes in equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of income within other operating income (loss).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amounts accumulated in equity are recycled in the consolidated statement of income in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the consolidated statement of income within finance income (expenses). The gain or loss relating to the ineffective portion is recognized in the consolidated statement of income within other operating income (loss). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of income within other operating income (loss). No cash flow hedges were used throughout 2008 or 2009, or in place at 31 December 2009 and 2008.

(c) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognized immediately in the consolidated statement of income within other operating income (loss). No net derivative instruments were recorded at fair value through profit or loss throughout 2008 or 2009, or in place at 31 December 2009 and 2008.

Effective interest method. The effective interest method is a method of calculating the carrying value of a financial asset or a financial liability held at amortized costs and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts future cash payments and receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying value of the financial asset or financial liability.

Financial assets. The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Subsequent reclassification of financial assets is made only as a result of a change in intention or ability of management to hold the financial assets. Financial assets are recognized initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial assets depends on their classification.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivative instruments are also categorized as held for trading unless they are designated as hedges. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated statement of income. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated statement of income within other operating income (loss) in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the consolidated statement of income as part of other operating income (loss) when the Group's right to receive payments is established.

Financial assets at fair value through profit or loss are classified as current assets. There were no financial assets designated at fair value through profit or loss held by the Group at the reporting dates.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and are classified as held-to-maturity when the Group has the positive intention and ability to hold these investments to maturity. After initial measurement, the held-to-maturity investments are measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

Held-to-maturity investments are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. There were no such investments held by the Group at the reporting dates.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

(d) Available-for-sale financial assets

Financial assets classified as available-for-sale are non-derivatives financial assets that are either specially designated in this category or are not classified in any of the other categories. After initial recognition, financial assets classified as available-for-sale are measured at fair value, with gains and losses recognized directly in the consolidated statement of changes in equity until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is recognized in consolidated statement of income as profit or loss.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale financial assets are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in consolidated statement of income, while translation differences on non-monetary securities are recognized in consolidated statement of changes in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in consolidated statement of changes in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated statement of income as profit or loss on sales of available-for-sale investments.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in consolidated statement of income) is removed from equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity instruments are not reversed. There were no available-for-sale investments held by the Group at the reporting dates.

Financial liabilities. Financial liabilities are classified at initial recognition as either financial liabilities at fair value through profit or loss, derivative instruments designated as hedging instruments in an effective hedge or as financial liabilities measured at amortized cost. There were no derivative instruments designated as hedging instruments by the Group at the reporting dates. The measurement of financial liabilities depends on their classification, as follows:

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial liabilities at fair value through profit or loss

Derivative instruments, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category. These financial liabilities are carried on the consolidated statement of financial position at fair value with gains or losses recognized in the consolidated statement of income. There were no financial liabilities designated at fair value through profit or loss held by the Group at the reporting dates.

(b) Financial liabilities measured at amortized cost

All other financial liabilities are included in this category and initially recognized at fair value. For interest-bearing debt, the fair value of the liability is the fair value of the proceeds received net of associated issue costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. This category of financial liabilities includes trade and other payables and debt in the consolidated statement of financial position.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted as of end of the reporting period. The income tax charge or benefit comprises current tax and deferred tax and is recognized in the consolidated statement of income unless it relates to transactions that are recognized, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods.

Deferred tax assets and liabilities are recognized in full for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or when the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are netted only with respect to individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories. Natural gas, gas condensate, crude oil and related products inventories are valued at the lower of cost or net realizable value. The cost of inventories includes applicable purchase costs of raw materials, direct operating costs, and related production overhead expenses and is recorded on a first-in-first-out (FIFO) basis. Net realizable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

Materials and supplies inventories are carried at amounts which do not exceed their respective recoverable amounts in the normal course of business.

Trade and other receivables. Trade receivables are represented by amounts due from regular customers in the ordinary course of business (production and marketing of natural gas, gas condensate, crude oil and related products; production and marketing of polymer and insulation tape products). Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method and include value-added taxes. Trade receivables are analyzed for impairment on a debtor by debtor basis. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognized in the consolidated statement of income within operating expenses. Subsequent recoveries of amounts previously written off are credited against the amount of the provision in the consolidated statement of income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents. Cash and cash equivalents comprises cash on hand, cash deposits held with banks, investments which are readily convertible to known amounts of cash and which are not subject to significant risk of change in value and have an original maturity of three months or less. For purposes of the presentation of the statement of cash flows, bank overdrafts are deducted from cash and cash equivalents. Bank overdrafts are shown within short-term debt in current liabilities on the consolidated statement of financial position.

Treasury shares. Where any Group company purchases NOVATEK's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to OAO NOVATEK shareholders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to OAO NOVATEK shareholders. Treasury shares are recorded at weighted average cost. Gains or losses resulting from subsequent sales of shares are recorded in the consolidated statement of changes in equity, net of associated costs including taxation.

Dividends. Dividends are recognized as a liability and deducted from shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements are authorized for issue.

Value added tax (VAT). Output VAT related to sales is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT related to purchases is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which is not settled or recovered at the balance sheet date (VAT payable and VAT recoverable) is recognized on a gross basis and disclosed separately within current assets and current liabilities. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of income over the period of the borrowings using the effective interest method.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Provisions for liabilities and charges. Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be low.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are reassessed at each reporting date and changes in the provisions resulting from the passage of time are recognized in the consolidated statement of income as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Asset retirement obligations. An asset retirement obligation is recognized when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation, determined using discount rates reflecting adjustments for risks specific to the obligation. Changes in the obligation resulting from the passage of time are recognized in the consolidated statement of income as interest expense. Changes in the obligation, reassessed at each balance sheet date, related to a change in the expected pattern of settlement of the obligation, or in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the period. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability.

The Group's exploration, development and production activities involve the use of wells, related equipment and operating sites, oil and gas gathering and treatment facilities and in-field pipelines. Generally, licenses and other regulatory acts require that such assets be decommissioned upon the completion of production, i.e. the Group is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Group's estimates of these obligations are based on current regulatory or license requirements, as well as actual dismantling and related costs.

The Group's management believes that due to the limited history of gas condensate processing and polymer production plants activities, the useful lives of these assets are indeterminable (while certain of the operating components and equipment have definite useful lives). Because of these reasons, and the lack of clear legal requirements as to the recognition of obligations, the fair value of an asset retirement obligation for such processing facilities cannot be reasonably estimated and, therefore, legal or contractual asset retirement obligations related to these assets are not recognized.

Due to continuous changes in the Russian regulatory and legal environment, there could be future changes to the requirements and contingencies associated with the retirement of long-lived assets.

Foreign currency transactions. Transactions denominated in foreign currencies are converted into the functional currency of each entity of the Group at the exchange rates prevailing on the date of transactions. Exchange gains and losses resulting from foreign currency remeasurement into the functional currencies are included in the determination of profit for the reporting period.

Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency of each entity of the Group by applying the year end exchange rate and the effect is stated in the consolidated statement of income. Non-monetary assets and liabilities denominated in foreign currencies valued at cost are converted into the functional currency of each entity of the Group at the initial exchange rate. Non-monetary assets that are remeasured to fair value, recoverable amount or realizable value, are translated at the exchange rate applicable to the date of remeasurement.

Revenue recognition. Revenues represent the fair value of consideration received or receivable for the sale of goods and services in the normal course of business, net of discounts, value-added tax and export duties.

Revenues from oil and gas sales and sales of polymer and insulation tape are recognized when such products are shipped or delivered to customers in accordance with the contract terms, the price is fixed or determinable, and the title has transferred. Services are recognized in the period in which the services are rendered.

Interest income is recognized as the interest accrues as related to the net carrying amount of the financial asset.

General and administrative expenses. General and administrative expenses represent overall corporate management and other expenses related to the general management and administration of the business unit as a whole. They include management and administrative compensation, certain legal and other advisory expenses, insurance of properties, social expenses and other expenses necessary for the administration of the Group.

Employee benefits. Wages and salaries, bonuses, voluntary medical insurance, paid annual and sick leaves are accrued in the period in which the associated services are rendered by the employees of the Group. Compensation at dismissals, vocational support payments, and other allowances are expensed when incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group contributes to the Russian Federation State social insurance fund and State pension plan on behalf of its employees based on gross salary payments. Mandatory contributions to the State social insurance fund and the State pension plan, which is a defined contribution plan, are expensed when incurred and are included in payroll expenses in the consolidated statement of income.

The Group also incurs employee costs related to the provision of benefits such as health and social infrastructure and services, employees meals, transportation, and other services. These amounts principally represent an implicit cost of employing production workers and, accordingly, are charged to payroll expenses in the consolidated statement of income.

Share based compensation. The Group accounts for share-based compensation in accordance with IFRS 2, *Share-based Payment* ("IFRS 2"). The fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted measured at the grant date. For share-based compensation made to employees by shareholders, an increase to additional paid in capital is recorded equal to the associated compensation expense each period.

Pension obligations. The Group operates a non-contributory post-employment defined benefit plan based on employees' years of service and average salary (Note 13).

The liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the balance sheet date, together with adjustments for unrecognized past service costs. The present value of the pension obligations are determined by discounting the estimated future cash outflows. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The discount rate was determined by reference to Russian rouble denominated bonds issued by the Government of the Russian Federation chosen to match the duration of the post-employment benefit obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded to the consolidated statement of income in the period in which they arise. Past-service costs are amortized on a straight-line basis over the vesting period.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to OAO NOVATEK shareholders by the weighted average number of shares outstanding during the reporting period.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Consolidated financial statements prepared in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experiences and other factors considered as reasonable which form the basis for assessing the book values of assets and liabilities. Adjustments to accounting estimates are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected. Management also makes certain judgments, apart from those involving estimations, in the process of applying the Group's accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these consolidated financial statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are described below.

Useful lives of property, plant and equipment. Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Fair values of financial assets and liabilities. The fair value of financial assets and liabilities, other than financial instruments that are traded in an active market, is determined by applying various valuation methodologies. Management uses its judgment to make assumptions based on market conditions existing at each balance sheet date. Discounted cash flow analysis is used for various loans and receivables as well as debt instruments that are not traded in active markets. The effective interest rate is determined by reference to the interest rates of instruments available to the Group in active markets. In the absence of such instruments, the effective interest rate is determined by reference to the interest rates of active market instruments available adjusted for the Group's specific risk premium estimated by management.

Deferred income tax asset recognition. Management assesses deferred income tax assets at each balance sheet date and determines the amount recorded to the extent that realization of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimations based on prior years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Estimation of oil and gas reserves. Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Group estimates its oil and gas reserves in accordance with rules promulgated by the Securities and Exchange Commission (SEC) for proved reserves. Accounting measures such as depreciation, depletion and amortization charges, impairment assessments and asset retirement obligations that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs. Furthermore, estimates of proved reserves only include volumes for which access to market is assured with reasonable certainty. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. As those fields are further developed, new information may lead to further revisions in reserve estimates.

Oil and gas reserves have a direct impact on certain amounts reported in the consolidated financial statements, most notably depreciation, depletion and amortization as well as impairment expenses. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Assuming all variables are held constant, an increase in proved developed reserves for each field decreases depreciation, depletion and amortization expenses. Conversely, a decrease in the estimated proved developed reserves increases depreciation, depletion and amortization expenses. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

Although the possibility exists for changes or revisions in estimated reserves to have a critical effect on depreciation, depletion and amortization charges and, therefore, reported net profit for the year, it is expected that in the normal course of business the diversity of the Group's asset portfolio will mitigate the likelihood of this occurring.

Impairment of non-financial assets. Management assesses whether there are any indicators of possible impairment of all non-financial assets at each reporting date based on events or circumstances that indicate the carrying value of assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes, and for oil and gas properties, significant downward revisions of estimated proved reserves. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

Impairment provision for trade receivables. The impairment provision for trade receivables is based on management's assessment of the probability of collection of individual customer accounts receivable. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates.

When there is no expectation of recovering additional cash for an amount receivable, the expected amount receivable is written off against the associated provision.

Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Pension obligations. The cost of defined benefit pension plans and related current service costs are determined using actuarial valuations. The actuarial valuations involve making demographic assumptions (mortality rates, age of retirement, employee turnover and disability) as well as financial assumptions (discount rates, expected rates of return on assets, inflation forecasts, future salary and pension increases). Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Asset retirement obligations. Management makes provision for the future costs of decommissioning oil and gas production facilities, pipelines and related support equipment based on the best estimates of future cost and economic lives of those assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future. Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

The Group also assesses its liabilities for site restoration at each consolidated statement of financial position period in accordance with the guidelines of IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the balance sheet date based on current legislation where the Group's respective operating assets are located, and is also subject to change because of modifications, revisions and changes in laws and regulations and their interpretation thereof. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs.

5 MERGERS, ACQUISITIONS AND DISPOSALS

In December 2008, the Group disposed of its non-core subsidiary, OOO "Purovsky Terminal", to third parties for RR 235 million, of which RR 186 million were recorded as a receivable at 31 December 2009**.** The Group recognized a loss on the sale of RR 18 million, net of associated income tax of RR 11 million. The Group included balances and results of the operations of the disposed subsidiary within "exploration, production and marketing" in the Group's segment information.

In April 2009, the Group disposed of its wholly-owned subsidiary, OOO "Purneft", to third parties for RR 425 million in cash, all paid in 2009, recognizing a gain on the sale of RR 42 million, net of associated income tax of RR 10 million. Prior to the disposal, the Group included balances and results of the operations of the disposed subsidiary within "exploration, production and marketing" in the Group's segment information.

In June 2009, the Group merged its wholly-owned subsidiary, OOO "PurNovaGaz", which holds the license for exploration and production within the Olimpiyskiy license area into its wholly-owned subsidiary OOO "NOVATEK-Tarkosaleneftegas".

In September 2009, the Group merged its wholly-owned subsidiary, OOO "NOVASIB", which holds the license for exploration and production within the Raduzhniy license area into its wholly-owned subsidiary OOO "NOVATEK-Yurkharovneftegas".

Both of the aforementioned mergers did not affect the Group's consolidated financial and operational results.

Acquisition of OAO "Yamal LNG"

On 26 May 2009, the Group entered into the contract to acquire 51 percent of the outstanding ordinary shares of OAO "Yamal LNG", an exploration stage oil and gas company located in the north-east of the Yamal peninsula, YNAO. This company holds the license for exploration and development of the South-Tambeyskoye field (initial license term expired in 2020 but was extended to 2045 in December 2009) with estimated natural gas and gas condensate reserves in accordance with the Russian reserve classification (categories C1 + C2) amounting to 1.26 tcm and 51.6 mt, respectively. The acquisition of the South-Tambeyskoye field significantly increases the Group's resource base ensuring future natural gas and gas condensate production growth.

OAO "Yamal LNG" has no notable operating activities up to and as at the purchase date and as this entity is in the early exploration stage; consequently, this acquisition is outside the definition of business as defined in IFRS 3, *"Business Combinations"***.** The cost of the acquisition has been allocated based on the relative fair values of the assets (largely comprised of the mineral license), and liabilities of the company acquired.

The following table summarizes the total purchase consideration for the acquisition of OAO "Yamal LNG".

	USD million	Exchange rate	RR million
Cash	250	30.51	7,628
Promissory notes of NOVATEK	300	30.73	9,219
Deferred cash payment	100	30.51	2,546 (*)
Total purchase consideration	**650**		**19,393**

(*) – discounted at 7.5 percent per annum.

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

In accordance with the purchase agreement terms, the Group paid USD 200 million in cash in June 2009, and an additional USD 50 million was paid in October 2009.

On 4 June 2009, NOVATEK issued Russian rouble denominated promissory notes for the aggregated amount of RR 9,219 million (being the equivalent of USD 300 million at an agreed exchange rate of RR 30.73 to 1.00 USD). All notes bore an interest of 14.0 percent per annum and were payable on demand but not earlier than 1 February 2010. On 8 June 2009, the Group repaid RR 320 million of promissory notes ahead of schedule, and re-issued promissory notes for the remaining amount of RR 8,899 million at 13.9 percent per annum payable under the same maturity terms. In September 2009, the Group fully repaid the promissory notes ahead of the maturity schedule in agreement with the holder of the notes.

The contingent consideration arrangement (referred to as the deferred cash payment) requires the Group to pay the former owners of OAO "Yamal LNG" USD 100 million (undiscounted) upon the conclusion of an agreement between OAO "Yamal LNG" and OAO Gazprom, defining the main terms of the LNG sale produced from the South-Tambeyskoye field. This agreement must be concluded not later than 30 December 2011, otherwise the amount will not be paid.

Acquisition-related costs (legal and evaluation services) directly associated with the transaction in the amount of RR 100 million were included in the cost of the asset acquired.

Recognized amounts of identifiable assets acquired and liabilities assumed are presented below.

OAO "Yamal LNG"	**RR million**
Financial assets	886
Property, plant and equipment	818
Other non-financial assets	807
Long-term debt	(2,833)
Other financial liabilities	(271)
Asset retirement obligations	(587)
Other non-financial liabilities	(150)
Total identifiable net liabilities	**(1,330)**

In November 2009, the Group fully repaid the outstanding long-term debt of OAO "Yamal LNG" ahead of its maturity schedule.

The following table shows the total cost of the acquired asset.

	RR million
Total purchase consideration	19,393
Gross up for total value of the asset acquired	18,704
Legal and evaluation services	100
Add: identifiable net liabilities	1,330
Cost of the asset	**39,527**

In May 2009, the Group signed a call option agreement with one of the sellers, which provides the Group with the right, but not the obligation, to purchase an additional 23.9 percent of OAO "Yamal LNG" for USD 450 million within three years following the controlling acquisition. To enter into this call option agreement, the Group paid RR 325 million (USD 10 million) in July 2009, which was recorded as a decrease in retained earnings in the consolidated statement of changes in equity.

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

In accordance with the Russian legislation, in November 2009, the Group issued (via AKB "Bank of Moscow") a bank guarantee for RR 19.4 billion in favor of the minority holders of the ordinary shares of OAO "Yamal LNG". The guarantee is provided as financial support in the case the minority shareholders tender to sell their stakes to the Group at the fixed price, and expires in August 2010. Management does not believe that any of the minority shareholders will tender their shares as a result of this offer and therefore no obligation has been recognized on the balance sheet as of 31 December 2009.

The financial and operational activities of OAO "Yamal LNG" were not material to the Group's revenues and results of operations for the year ended 31 December 2009.

Acquisition of OOO "EkropromStroy"

On 19 June 2009, the Group acquired 100 percent of the participation interest in OOO "EkropromStroy" from several members of key management personnel of the Group for total cash consideration of RR 1,999 million, all paid in 2009. The Group obtained an independent appraisal supporting the purchase price and considers that the amount paid is substantially consistent with the terms that would be agreed in an arm's length transaction. The company manages the construction of the Group's new office building located in Moscow and has no activities other than the management of construction activities and ownership of the constructed building. Accordingly, the purchase is outside the definition of business as defined in IFRS 3, *"Business Combinations"*. The cost of the acquisition has been allocated based on the relative fair values of the assets (largely comprised of the office building), and liabilities of the company acquired.

Recognized amounts of identifiable assets acquired and liabilities assumed are presented below.

OOO "EkropromStroy"	**RR million**
Cash and cash equivalents	75
Property, plant and equipment	562
Other non-financial assets	97
Long-term debt	(468)
Other financial liabilities	(12)
Non-financial liabilities	(10)
Total identifiable net assets	**244**

As a result of the acquisition, the Group assumed the long-term debt of OOO "EkropromStroy" in the amount of RR 468 million. In July 2009, the Group fully repaid the outstanding long-term debt of OOO "EkropromStroy" ahead of its maturity schedule (see Note 26).

The financial and operational activities of OOO "EkropromStroy" were not material to the Group's revenues and results of operations for the year ended 31 December 2009.

6 ASSETS HELD FOR SALE

On 24 June 2009, NOVATEK and TOTAL E&P ACTIVITIES PETROLIERES ("TOTAL") signed a Heads of Agreement (the "Agreement") establishing the framework for joint cooperation in exploring and developing the Group's Termokarstovoye gas condensate field located in the YNAO.

The Agreement provides for the establishment of a joint venture through the acquisition, by TOTAL, of a 49 percent participation interest in ZAO "Terneftegas" (formerly a limited liability company, OOO "Terneftegas"), a wholly-owned subsidiary of the Group and holder of the license for exploration and production of natural gas and gas condensate at the Termokarstovoye field. Under the terms and conditions of the Agreement, the joint venture has two years to complete exploration works and prepare a field development plan, with a final investment decision to proceed further to be taken in 2011. The Agreement also stipulates that:

- funding of the project costs prior to the final investment decision shall be borne 74.5 percent by TOTAL and 25.5 percent by the Group;
- the cost to develop this field will be determined at the point of making a final investment decision, which will continue to be carried at the aforementioned interests; and
- any cost above this amount will be allocated to each party at the joint venture ownership interest.

In November 2009, TOTAL received approval from the Federal Anti-Monopoly Service of the Russian Federation for this transaction and in December 2009, the Group signed a Sales and Purchase contract with Total Termokarstovoye B.V., an affiliate of TOTAL, for:

- sale of a 28 percent interest in ZAO "Terneftegas" for total consideration of USD 24.1 million, of which USD 16 million to be paid at the date of title transfer and the remaining USD 8.1 million (deferred payment) to be paid upon approval by TOTAL of the final investment decision; and
- further increase of TOTAL's equity share to 49 percent through a subscription to the entity's additional shares emission for total consideration of USD 18 million.

As described above, the Group will retain 51 percent interest in ZAO "Terneftegas"; however, the Agreement stipulates that key financial and operational decisions regarding its business shall be subject to unanimous approval by both participants and none of the participants have a preferential voting right. Management believes that upon closing of this transaction, the Group will lose effective control of ZAO "Terneftegas" and, thus, will account for its activities using the equity method.

The transaction was not closed as of the balance sheet date. Management believes this transaction will be completed during 2010; therefore, assets and liabilities related to ZAO "Terneftegas" have been reported as held for sale at 31 December 2009 in these consolidated financial statements. No impairment of assets was necessary as a result of the decision to sell this subsidiary.

Below is a breakdown of major classes of assets and liabilities for assets classified as held for sale:

ZAO Terneftegas	**At 31 December 2009**
Property, plant and equipment	390
Cash and cash equivalents	52
Deferred tax assets	34
Other assets	32
Total assets classified as held for sale	**508**
Other liabilities	4
Total liabilities associated with assets held for sale	**4**

7 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment, for the years ended 31 December 2009 and 2008 are as follows:

	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	71,404	18,842	4,098	94,344
Accumulated depreciation, depletion and amortization	(11,006)	-	(669)	(11,675)
Net book value at 1 January 2008	**60,398**	**18,842**	**3,429**	**82,669**
Additions	3,077	28,723	10	31,810
Transfers	21,517	(22,338)	821	-
Depreciation, depletion and amortization	(4,291)	-	(318)	(4,609)
Disposal of subsidiaries, net	(81)	(77)	(17)	(175)
Reclassified as assets held for sale	(437)	(257)	(2)	(696)
Disposals, net	(107)	(122)	(56)	(285)
Cost	95,242	24,771	4,787	124,800
Accumulated depreciation, depletion and amortization	(15,166)	-	(920)	(16,086)
Net book value at 31 December 2008	**80,076**	**24,771**	**3,867**	**108,714**
Acquisition of subsidiaries	40,141	2,463	4	42,608
Additions	943	16,927	2	17,872
Transfers	21,650	(23,431)	1,781	-
Depreciation, depletion and amortization	(5,221)	-	(578)	(5,799)
Reclassified as assets held for sale	(65)	(323)	(2)	(390)
Disposals, net	(5)	(522)	(1,030)	(1,557)
Cost	157,955	19,885	5,319	183,159
Accumulated depreciation, depletion and amortization	(20,436)	-	(1,275)	(21,711)
Net book value at 31 December 2009	**137,519**	**19,885**	**4,044**	**161,448**

Included within the oil and gas properties and equipment balance at 31 December 2009 and 2008 are proved properties of RR 65,086 million and RR 26,755 million, net of accumulated depreciation, depletion and amortization of RR 7,730 million and RR 6,470 million, respectively.

Oil and gas properties and equipment balance at 31 December 2009 and 2008 include costs to acquire unproved properties in the amount of RR 99 million and RR 75 million, respectively. The Group's management believes these costs are recoverable and has plans to explore and develop the respective properties.

Included within assets under construction are advances to suppliers of equipment of RR 1,217 million and RR 2,720 million at 31 December 2009 and 2008, respectively.

Included in additions to property, plant and equipment for the years ending 31 December 2009 and 2008 is capitalized interest of RR 1,481 million and RR 622 million, respectively. The interest capitalization rates for 2009 and 2008 used for additions were 6.0 percent and 4.0 percent, respectively.

During 2009, the transfers and additions to oil and gas property include the completion of the second phase of the Purovsky Gas Condensate Plant for RR 5,268 million, completion of the second stage of the second phase development at the Yurkharovskoye field in the amount of RR 8,390 million and the completion of the second phase development at the Khancheyskoye field in the amount of the RR 2,412 million.

7 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During 2008, the transfers and additions to oil and gas property and equipment included the completion of the first stage of the second phase of development at the Yurkharovskoye field in the amount of RR 13,492 million, which consisted of a natural gas separation unit, a condensate preparation unit, and 87 kilometers of natural gas pipeline connected to the Unified Gas Supply System. The Group also launched the second phase of the Purovsky Gas Condensate Plant increasing expenditures for RR 3,468 million, this increased processing capacity of the plant by an additional three million tons to five million tons per annum as well as plant storage facilities.

Depreciation, depletion and amortization during the year ended 31 December 2009 comprises a charge of RR 5,588 million included in operating expenses, RR 150 million of depreciation of administrative buildings included in general and administrative expenses (see Note 21), and RR 61 million of depreciation capitalized in the course of intra-group construction services. Depreciation, depletion and amortization for the year ended 31 December 2008 comprises charge of RR 4,478 million included in operating expenses, RR 103 million of depreciation of administrative buildings included in general and administrative expenses (see Note 21), and RR 28 million of depreciation capitalized in the course of intra-group construction services.

At 31 December 2009 and 2008, no property, plant and equipment were pledged as security for the Group's borrowings. No impairment of property, plant and equipment was recognized in both years.

Capital commitments are disclosed in Note 24.

Asset retirement obligations. Estimated costs of dismantling oil and gas production facilities, pipelines and related processing facilities, including abandonment and site restoration costs, amounting to RR 1,235 million and RR 1,284 million at 31 December 2009 and 2008, respectively, are included in the cost of oil and gas properties and equipment. The Group has estimated its liability based on current legislation using estimated costs and timing of when the expenses are expected to be incurred between the end of the reporting period and 2051. Governmental authorities are continually reviewing regulations and their enforcement. Consequently, the Group's ultimate liabilities may differ from the recorded amounts.

8 INVENTORIES

	At 31 December:	
	2009	**2008**
Materials and supplies at net realizable value (net of provisions of RR 29 million and RR 32 million at 31 December 2009 and 2008, respectively)	236	418
Materials and supplies at cost	614	508
Natural gas and hydrocarbon liquids at cost	705	856
Polymer and insulation tape products (net of provisions of RR nil million and RR 4 million at 31 December 2009 and 2008, respectively)	174	253
Other inventories	61	121
Total inventories	**1,790**	**2,156**

The Group recorded an impairment expense of RR 46 million and RR 25 million during the years ended 31 December 2009 and 2008, respectively, to write-down the carrying value of inventory due to obsolescence. No inventories were pledged as security for the Group's borrowings or payables at both dates.

9 TRADE AND OTHER RECEIVABLES

	At 31 December:	
	2009	2008
Trade receivables (net of provision of RR 7 million and RR 9 million at 31 December 2009 and 2008, respectively)	6,440	1,819
Interest on loans receivable	292	-
Other receivables (net of provision of RR nil million and RR 25 million at 31 December 2009 and 2008, respectively)	1,772	666
Total trade and other receivables	**8,504**	**2,485**

The carrying values of trade and other receivables approximate their respective fair values. The related exposure to credit risk at the balance sheet date is the carrying value of each class of receivables mentioned above.

The Group holds letter of credit in banks with investment grade rating as security for trade receivables in amount RR 2,627 million. The Group does not hold any other collateral as security for trade and other receivables (see Note 23 for credit risk disclosures).

Trade and other receivables that are less than three months past due are generally not considered for impairment unless other indicators of impairment exist. Trade and other receivables of RR 188 million and RR 162 million at 31 December 2009 and 2008, respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these past due but not impaired trade and other receivables are as follows:

	At 31 December:	
	2009	2008
Up to 90 days past-due	77	84
91 to 360 days past-due	103	67
Over 360 days past-due	8	11
Total past due but not impaired	**188**	**162**
Not past due and not impaired	8,316	2,323
Total trade and other receivables	**8,504**	**2,485**

Movements on the Group provision for impairment of trade and other receivables are as follows:

	Year ended 31 December:	
	2009	2008
At 1 January	**34**	**55**
Additional provision recorded	51	67
Receivables written off as uncollectible	(72)	(84)
Provision amount reversed into income	(6)	(4)
At 31 December	**7**	**34**

The provision for impaired trade and other receivables has been included in the consolidated statement of income in net impairment expense.

10 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 December:	
	2009	2008
Financial assets		
Short-term loans receivable	1,477	3
Short-term bank deposits	111	5
Non-financial assets		
Recoverable value-added tax	955	1,174
Prepayments and advances to suppliers (net of provision of RR 77 million and RR 4 million at 31 December 2009 and 2008)	1,814	2,808
Deferred export duties for stable gas condensate	-	299
Prepaid taxes other than income tax	660	3,004
Deferred transportation expense for stable gas condensate	78	318
Deferred transportation expense for natural gas	581	351
Other current assets	124	68
Total prepayments and other current assets	**5,800**	**8,030**

11 CASH AND CASH EQUIVALENTS

	At 31 December:	
	2009	2008
Cash in bank accounts	2,944	5,304
Interest bearing bank deposits	7,588	5,614
Other deposits	-	74
Total cash and cash equivalents per the consolidated statement of financial position	**10,532**	**10,992**
Less: bank overdrafts (Note 14)	-	(1)
Cash, cash equivalents and bank overdrafts per the consolidated statement of cash flows	**10,532**	**10,991**

All deposits have original maturities of less than three months (see Note 23 for credit risk disclosures).

12 LONG-TERM DEBT

	At 31 December:	
	2009	2008
US dollar denominated loans	26,673	23,293
Russian rouble denominated loan	11,030	-
Euro denominated loan	-	45
Total	**37,703**	**23,338**
Less: current portion of long-term debt	(13,827)	(3,403)
Total long-term debt	**23,876**	**19,935**

At 31 December 2009 and 2008, the Group's long-term debt by facility is as follows:

	At 31 December:	
	2009	2008
Syndicated term loan facility	20,646	23,293
Gazprombank	6,106	-
UniCredit Bank	6,027	-
Sberbank	4,924	-
Other loans	-	45
Total	**37,703**	**23,338**

Syndicated term loan facility. On 21 April 2008, the Group obtained a USD 800 million unsecured syndicated term loan facility for general corporate purposes including funding capital expenditure programs. The facility has a three year tenure with payments to begin 18 months after 21 April 2008 and is to be repaid in quarterly installments thereafter. The facility pays an initial interest of LIBOR plus 1.25 percent per annum for the first 18 months and increasing to 1.5 percent per annum thereafter (1.78 percent and 3.4 percent at 31 December 2009 and 2008, respectively). The loan facility includes the maintenance of certain restrictive financial covenants. At 31 December 2009, the remaining amount of the loan facility was RR 20,646 million (USD 683 million), net of transaction costs of RR 94 million.

Gazprombank. On 3 November 2009, the Group signed a loan agreement with OAO Gazprombank, which provided the Group with a loan facility of RR 10 billion at annual interest rate of 13 percent until November 2012. At 31 December 2009, RR 6,106 million had been drawn down under this agreement. On 14 January 2010, the Group signed an additional agreement with OAO Gazprombank to reduce the annual interest rate from 13 percent to 11.5 percent.

UniCredit Bank. On 15 November 2009, the Group obtained a USD 200 million loan facility at an annual interest rate of LIBOR plus 6.5 percent (6.73 percent at 31 December 2009) until October 2012 under credit line facilities with UniCredit Bank (Note 14). The loan facility includes the maintenance of certain restrictive financial covenants. At 31 December 2009, RR 6,027 million, net of transaction costs of RR 22 million, had been drawn down. On 25 February 2010, the Group signed an additional agreement with UniCredit Bank to reduce the annual interest rate from LIBOR plus 6.5 percent to LIBOR plus 4.65 percent.

Sberbank. On 28 August 2009, the Group obtained a RR 5 billion loan facility from OAO Sberbank for general corporate purposes including funding capital expenditure programs. The loan bears an interest rate of 12.37 percent per annum and is repayable in January and February 2011. At 31 December 2009, the full amount of RR 4,924 million, net of transaction costs of RR 75 million, had been drawn down under this agreement. On 15 February 2010, the Group signed an additional agreement with OAO Sberbank to reduce the annual interest rate from 12.37 percent to 11 percent.

12 LONG-TERM DEBT (CONTINUED)

Other loans. At 31 December 2008, other loans also included Euro denominated loans totaling RR 45 million (Euro 1.1 million), with a weighted average effective interest rate of 13.6 percent. These loans were repaid during 2009.

The fair values of long-term debt at 31 December 2009 were as follows:

	At 31 December 2009
Syndicated term loan facility	20,092
Gazprombank	7,003
UniCredit Bank	6,222
Sberbank	5,268
Total	**38,585**

The carrying values of long-term debt approximate their fair value at 31 December 2008.

Scheduled maturities of long-term debt at 31 December 2009 were as follows:

Twelve months ended 31 December:	
1 January 2011 to 31 December 2011	11,726
1 January 2012 to 31 December 2012	12,150
Total long-term debt	**23,876**

13 PENSION OBLIGATIONS

In February 2007, the Group announced the implementation of a post-employment benefit program for its retired employees. Under the pension program, employees who are employed by the Group for more than three years and retire from the Group on or after the statutory retirement age will receive monthly payments from NOVATEK for life unless they are actively employed. The amount of payments to be disbursed depends on the average salary, duration and location of employment. The program is effective from 1 January 2007 and applies to employees who retire after that date.

The program represents an unfunded defined benefit plan and is accounted for as such under provisions of IAS 19, *Employee Benefits*. The impact of the program on the consolidated financial statements is disclosed below.

The amounts recognized in the consolidated statement of financial position and included in other non-current liabilities are determined as follows:

	At 31 December:	
	2009	2008
Present value of the defined benefit obligations	620	468
Unrecognized past service cost	(228)	(256)
Defined benefit plan liability recognized in the consolidated statement of financial position	**392**	**212**

13 PENSION OBLIGATIONS (CONTINUED)

The movements in the present value of the defined benefit obligations are as follows:

	Year ended 31 December:	
	2009	2008
At 1 January	**468**	**492**
Interest cost	30	24
Benefits paid	(5)	(2)
Current service cost	60	67
Actuarial (gain) loss	67	(113)
At 31 December	**620**	**468**

The amounts recognized in the consolidated statement of income are as follows:

	Year ended 31 December:	
	2009	2008
Current service cost	60	67
Interest cost	30	24
Actuarial (gain) loss	67	(113)
Amortization of past service cost	28	18
Defined benefit plan (benefits) costs recognized in operating expenses	**185**	**(4)**
of which the following amounts were included as employee compensation in:		
Materials, services and other	85	(2)
General and administrative expenses	100	(2)

The Group recognized a gain of RR 2 million and a loss RR 27 million as a result of experience adjustments on plan liabilities during the years ended 31 December 2009 and 2008, respectively, included in actuarial (gain) loss.

The principal actuarial assumptions used at 31 December 2009 and 2008 are as follows:

	At 31 December:	
	2009	2008
Weighted average discount rate	7.8%	9.6%
Projected annual increase in employee compensation	10%	10%
Expected increases to pension benefits	5%	6.7%

The assumed average salary and pension payment increases for Group employees have been calculated on the basis of inflation forecasts, analysis of increases of past salaries and the general salary policy of the Group. Inflation forecasts have been estimated to reduce from 8.2 percent for 2010 to 6.2 percent in 2014 and on average equal to 6 percent thereafter.

Mortality assumptions are based on the Russian mortality tables published by the State Statistics Committee from the years 1986 to 1987, which management believes are the most conservative and prudent Russian whole-population mortality tables available.

Management has assessed that reasonable changes in the most significant actuarial assumptions will not have a significant impact on the consolidated statement of income or the liability recognized in the consolidated statement of financial position.

14 SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

	At 31 December:	
	2009	2008
US dollar denominated loans	-	2,938
US dollar denominated bank overdrafts	-	1
Total	-	2,939
Add: current portion of long-term debt	13,827	3,403
Total short-term debt and current portion of long-term debt	**13,827**	**6,342**

US dollar denominated loans. At 31 December 2008, the US dollar denominated loans included a loan from BNP PARIBAS in the amount of RR 2,938 million (USD 100 million). This loan was fully repaid in September 2009.

Available credit facilities and bank overdrafts. At 31 December 2008, the Group used RR 1 million of its credit facilities as bank overdrafts. Available funds under these short-term credit lines with various international banks totaled RR 6,048 million (USD 200 million) and RR 4,407 million (USD 150 million) at 31 December 2009 and 2008, respectively, on either fixed or variable interest rates subject to the specific type of credit facility.

In addition, the Group has available funds under two credit line facilities with UniCredit Bank up to the maximum amount of RR 3,024 million (USD 100 million) and of RR 6,048 million (USD 200 million) until February 2010 and October 2012, respectively. However, total funds that can be withdrawn under these two agreements cannot exceed the combined maximum amount of USD 250 million, with interest rates negotiated at time of each withdrawal. In November 2009, the Group withdrew USD 200 million under these agreements as long-term borrowings (Note 12).

The Group also has available funds under agreements with CALYON RUSBANK Corporate and Investment Bank in the amount of USD 100 million until July 2010 (interest rates negotiated at time of each withdrawal), and with BNP PARIBAS in the amount of USD 100 million until December 2010 with annual interest rate of LIBOR plus 4.15 percent and with Gazprombank in the amount of RR 3,894 million until March 2012 with annual interest rate of 13 percent (Note 12).

15 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 December:	
	2009	2008
Financial liabilities		
Trade payables	2,483	3,863
Other payables	1,979	450
Interest payable	100	92
Non-financial liabilities		
Advances from customers	2,041	1,192
Salary payables	719	626
Other payables	13	-
Trade payables and accrued liabilities	**7,335**	**6,223**

16 SHAREHOLDERS' EQUITY

Ordinary share capital. Share capital issued and paid in consisted of 3,036,306,000 ordinary shares at 31 December 2009 and 2008 with a par value of RR 0.1 each. The total authorized number of ordinary shares was 10,593,682,000 shares at both dates.

Treasury shares. In accordance with the share buyback program authorized by the Board of Directors on 11 February 2008, the Group has periodically purchased ordinary shares of OAO NOVATEK in the form of Global Depository Receipts (GDRs) on the London Stock Exchange through the use of independent brokers.

At 31 December 2009, a Group wholly-owned subsidiary, Novatek Equity (Cyprus) Limited, held 419,233 GDRs (4,192 thousand ordinary shares) at total cost of RR 599 million. The Group has decided that these shares do not vote.

Dividends. Dividends (including tax on dividends) declared and paid were as follows:

	Year ended 31 December:	
	2009	**2008**
Dividends payable at 1 January	-	1
Total dividends declared	7,651	7,651
Dividends paid	(7,638)	(7,652)
Dividends payable at 31 December	**13**	**-**
Dividends per share declared during the year (in Russian roubles)	2.52	2.52
Dividends per GDR declared during the year (in Russian roubles)	25.2	25.2

The Group declares and pays dividends in Russian roubles. Dividends declared in 2009 and 2008 were as follows:

Final for 2008: RR 1.52 per share or RR 15.2 per GDR declared in May 2009	4,615
Interim for 2009: RR 1.00 per share or RR 10.0 per GDR declared in October 2009	3,036
Total dividends declared in 2009	**7,651**
Final for 2007: RR 1.52 per share or RR 15.2 per GDR declared in May 2008	4,615
Interim for 2008: RR 1.00 per share or RR 10.0 per GDR declared in October 2008	3,036
Total dividends declared in 2008	**7,651**

Share-based compensation. In 2005, certain shareholders provided share-based compensation to key members of the Group's management team. The fair value of the awards of RR 879 million is being recognized as compensation expense evenly over their five year vesting period beginning the second quarter of 2005. A corresponding increase is recorded to additional paid in capital as expense is recognized to reflect the shareholders contribution in providing the award. The fair value of the awards was determined by reference to the fair value of the limited liability company's net assets estimated by its owners.

Distributable retained earnings. In accordance with Russian legislation, NOVATEK distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. Russian legislation identifies the net profit as basis of distribution. As of the date of preparation of these consolidated financial statements the statutory net profit of NOVATEK for 2009 as determined under Russian Accounting Rules has not been finalized. For 2008, the net statutory profit of NOVATEK as reported in the published annual statutory reporting forms was RR 41,213 million and the closing balance of the accumulated profit including the current year net statutory profit totaled RR 59,853 million.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

17 OIL AND GAS SALES

	Year ended 31 December:	
	2009	2008
Natural gas	53,623	45,650
Stable gas condensate	23,599	19,374
Liquefied petroleum gas	8,253	6,376
Crude oil	1,335	2,043
Oil products	93	2,633
Total oil and gas sales	**86,903**	**76,076**

18 TRANSPORTATION EXPENSES

	Year ended 31 December:	
	2009	2008
Natural gas transportation to customers	20,019	11,080
Stable gas condensate, liquefied petroleum gas and oil products transportation by rail	5,820	4,384
Stable gas condensate transportation by tankers	2,675	2,168
Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines	340	232
Crude oil transportation to customers	160	123
Other	12	166
Total transportation expenses	**29,026**	**18,153**

19 TAXES OTHER THAN INCOME TAX

The Group is subject to a number of taxes other than income tax, which are detailed as follows:

	Year ended 31 December:	
	2009	2008
Unified natural resources production tax	6,699	6,424
Property tax	1,155	670
Other taxes	188	92
Total taxes other than income tax	**8,042**	**7,186**

In 2009 and 2008, the unified natural resources production tax for natural gas production was fixed at a rate of RR 147 per thousand cubic meters.

The unified natural resources production tax rate for gas condensate is set at 17.5 percent of gas condensate revenues recognized by the producing entities.

Under the Tax Code of the Russian Federation, the tax rate for the unified natural resources production tax for crude oil is calculated by reference to an average price for Urals blend and an average exchange rate over the relevant tax period.

20 MATERIALS, SERVICES AND OTHER

	Year ended 31 December:	
	2009	2008
Employee compensation	2,457	2,169
Materials and supplies	1,455	1,766
Third party services (under operator contracts)	624	721
Processing fees	556	341
Repair and maintenance services	396	405
Electricity and fuel	331	308
Fire safety and security expense	186	168
Other	254	454
Total materials, services and other	**6,259**	**6,332**

21 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:	
	2009	2008
Employee compensation	2,840	2,940
Charitable contributions	533	499
Legal, audit, and consulting services	301	309
Rent expense	245	175
Concession management services	225	182
Business trips expense	207	216
Depreciation – administrative buildings	150	103
Fire safety and security expenses	143	139
Insurance expense	90	90
Other	392	411
Total general and administrative expenses	**5,126**	**5,064**

Auditors' fees and services. ZAO PricewaterhouseCoopers Audit has served as the Group's independent external auditors for each of the reported financial years. The independent external auditor is subject to re-appointment at the Annual General Meeting of shareholders based on the recommendations from the Board of Directors. The following table presents the aggregate fees for professional services and other services rendered by ZAO PricewaterhouseCoopers Audit to the Group included within legal, audit, and consulting services:

	Year ended 31 December:	
	2009	2008
Audit services fee (audit of the Group's consolidated financial statements and the statutory audit of the parent company)	37	33
Non-audit services	1	2
Total auditors' fees and services	**38**	**35**

22 INCOME TAX

Reconciliation of income tax. The table below reconciles actual income tax expense and theoretical income tax, determined by applying the statutory tax rate to profit before income tax and share of income in associates.

	Year ended 31 December:	
	2009	**2008**
Profit before income tax (excluding share of profit (loss) of associates, net of income tax)	32,702	28,736
Theoretical income tax expense at statutory rate of 20 percent in 2009 and 24 percent in 2008	6,541	6,896
Increase (decrease) due to:		
Non-deductible expenses	493	509
Foreign entities' taxation at lower income tax rate	(161)	(99)
Change in Russian statutory income tax rate	-	(1,289)
Other non-temporary differences	(95)	(355)
Total income tax expense	**6,778**	**5,662**

Effective income tax rate. The Group's Russian statutory income tax rate for 2008 was 24 percent; however, effective from 1 January 2009, the statutory income tax rate was reduced to 20 percent by the Federal Law of the Russian Federation N224 dated 26 November 2008. Since this reduction in the statutory income tax rate was enacted prior to 31 December 2008, the effect of the change reduced net deferred liability by RR 1,289 million, which has been recognized in these consolidated financial statements. The Group's effective income tax rate for 2008 was 24.2 percent without applying the effect of the reduction in the statutory tax rate.

For the years ended 31 December 2009 and 2008, the Group's effective income tax rate was 20.7 percent and 19.7 percent, respectively.

The Group does not file a consolidated tax return, rather each legal entity files separate tax returns with various authorities, primarily in the Russian Federation.

Deferred income tax. Differences between IFRS and Russian statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes.

Deferred income tax balances are presented in the consolidated statement of financial position as follows:

	At 31 December:	
	2009	**2008**
Long-term deferred income tax asset (other non-current assets)	499	328
Long-term deferred income tax liability	(7,460)	(6,720)
Net deferred income tax liability	**(6,961)**	**(6,392)**

Deferred income tax assets expected to be realized within twelve months of 31 December 2009 and 2008 were RR 26 million and RR 81 million, respectively. Deferred tax liabilities expected to be reversed within twelve months of 31 December 2009 and 2008 were RR 82 million and RR 86 million, respectively.

22 INCOME TAX (CONTINUED)

Movements in deferred income tax assets and liabilities during the years ended 31 December 2009 and 2008 are as follows:

	At 31 December 2009	Reclassification to the (assets) liabilities classified as held for sale	Statement of Income effect	Acquisitions	Disposals	At 31 December 2008
Liabilities						
Property, plant and equipment	(9,262)	(26)	(1,672)	(126)	35	(7,473)
Inventories	(91)	-	(43)	-	8	(56)
Other current assets	-	-	-	-	10	(10)
Trade payables and accrued liabilities	-	-	25	-	-	(25)
Total deferred income tax liabilities	(9,353)	(26)	(1,690)	(126)	53	(7,564)
Assets						
Inventories	517	30	(191)	318	(70)	430
Trade and other receivables	129	-	84	-	-	45
Trade payables and accrued liabilities	734	-	228	117	-	389
Tax losses carried forward	931	29	694	40	(58)	226
Other	81	1	(7)	5	-	82
Total deferred income tax assets	2,392	60	808	480	(128)	1,172
Net deferred income tax liabilities	**(6,961)**	**34**	**(882)**	**354**	**(75)**	**(6,392)**

22 INCOME TAX (CONTINUED)

	At 31 December 2008	Reclassification to the (assets) liabilities classified as held for sale	Statement of Income effect	At 31 December 2007
Liabilities				
Property, plant and equipment	(7,473)	70	1,177	(8,720)
Inventories	(56)	7	(20)	(43)
Other current assets	(10)	-	302	(312)
Trade payables and accrued liabilities	(25)	-	(22)	(3)
Total deferred income tax liabilities	(7,564)	77	1,437	(9,078)
Assets				
Inventories	430	(19)	(112)	561
Trade and other receivables	45	-	21	24
Trade payables and accrued liabilities	389	(93)	(103)	585
Tax losses carried forward	226	(11)	(82)	319
Other	82	(25)	69	38
Total deferred income tax assets	1,172	(148)	(207)	1,527
Net deferred income tax liabilities	**(6,392)**	**(71)**	**1,230**	**(7,551)**

At 31 December 2009, the Group had recognized deferred income tax assets of RR 931 million (31 December 2008: RR 226 million) in respect of unused tax loss carry forwards of RR 4,655 million (31 December 2008: RR 1,130 million). Tax losses can be carried forward for relief against taxable profits for 10 years after they are incurred, subject to certain limitations. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The accounting policies for financial instruments have been applied to the line items below:

Financial assets	***Loans and receivables***	
	At 31 December:	
	2009	**2008**
Non-current		
Long-term loans receivable	-	413
Trade and other receivables	933	323
Long-term deposits and letters of credit	20	52
Current		
Short-term loans receivable	1,477	3
Trade and other receivables	8,504	2,485
Short-term bank deposits and letters of credit	111	5
Cash and cash equivalents	10,532	10,992
Total carrying amount	**21,577**	**14,273**

Financial liabilities	***Measured at amortized cost***	
	At 31 December:	
	2009	**2008**
Non-current		
Long-term debt	23,876	19,935
Other non-current liabilities	2,636	-
Current		
Current portion of long-term debt	13,827	3,403
Short-term debt	-	2,939
Trade and other payables	4,562	4,405
Total carrying amount	**44,901**	**30,682**

Financial risk management objectives and policies. In the ordinary course of business, the Group is exposed to market risks from fluctuating prices on commodities purchased and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on the degree of price volatility, such fluctuations in market prices may create volatility in the Group's financial results. To effectively manage the variety of exposures that may impact financial results, the Group's overriding strategy is to maintain a strong financial position.

The Group's principal risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to these limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Market risk. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices, will affect the Group's financial results or the value of its holdings of financial instruments. The primary objective of mitigating these market risks is to manage and control market risk exposures, while optimizing the return on risk.

The Group is exposed to market price movements relating to changes in commodity prices such as crude oil, gas condensate, liquefied petroleum products and natural gas (commodity price risk), foreign currency exchange rates, interest rates, equity prices and other indices that could adversely affect the value of the Group's financial assets, liabilities or expected future cash flows.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various exposures in the normal course of business, primarily with respect to the US dollar. Foreign exchange risk arises primarily from future commercial transactions, recognized assets and liabilities when assets and liabilities are denominated in a currency other than the functional currency.

23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble or the US dollar. Foreign currency derivative instruments may be utilized to manage the risk exposures associated with fluctuations on certain firm commitments for sales and purchases, debt instruments and other transactions that are denominated in currencies other than the Russian rouble, and certain non-Russian rouble assets and liabilities.

The carrying amounts of the Group's financial instruments are denominated in the following currencies:

At 31 December 2009	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
Trade and other receivables	933	-	-	-	933
Long-term deposits	20	-	-	-	20
Current					
Short-term loans receivable	1,477	-	-	-	1,477
Trade and other receivables	4,461	4,021	-	22	8,504
Short-term bank deposits and letters of credit	43	-	-	68	111
Cash and cash equivalents	7,390	3,128	1	13	10,532
Financial liabilities					
Non-current					
Long-term debt	(11,030)	(12,846)	-	-	(23,876)
Other non-current liabilities	-	(2,636)	-	-	(2,636)
Current					
Current portion of long-term debt	-	(13,827)	-	-	(13,827)
Trade and other payables	(4,312)	(222)	(21)	(7)	(4,562)
Net exposure at 31 December 2009	**(1,018)**	**(22,382)**	**(20)**	**96**	**(23,324)**

At 31 December 2008	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
Long-term loans receivable	413	-	-	-	413
Trade and other receivables	323	-	-	-	323
Long-term deposits and letters of credit	49	1	-	2	52
Current					
Short-term loans receivable	3	-	-	-	3
Trade and other receivables	1,860	602	-	23	2,485
Short-term bank deposits	-	-	5	-	5
Cash and cash equivalents	3,748	7,162	74	8	10,992
Financial liabilities					
Non-current					
Long-term debt	-	(19,935)	-	-	(19,935)
Current					
Current portion of long-term debt	-	(3,358)	(45)	-	(3,403)
Short-term debt	-	(2,939)	-	-	(2,939)
Trade and other payables	(4,162)	(152)	(87)	(4)	(4,405)
Net exposure at 31 December 2008	**2,234**	**(18,619)**	**(53)**	**29**	**(16,409)**

23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The Group has chosen to provide information about market risk and potential exposure to hypothetical loss from its use of financial instruments through sensitivity analysis disclosures in accordance with IFRS requirements.

The sensitivity analysis depicted in the table below reflects the hypothetical loss that would occur assuming a 10 percent change in exchange rates and no changes in the portfolio of instruments and other variables at 31 December 2009 and 2008, respectively.

		At 31 December:	
Effect on pre-tax profit	**Increase in exchange rate**	**2009**	**2008**
RUR / USD	10%	(2,239)	(1,862)

The effect of a corresponding 10 percent decrease in exchange rate is approximately equal and opposite.

(b) Commodity price risk

The Group's overall commercial trading strategy in natural gas, stable gas condensate and crude oil and related products is centrally managed. Changes in commodity prices could negatively or positively affect the Group's results of operations. The Group manages the exposure to commodity price risk by optimizing its core activities to achieve stable price margins.

Natural gas. As an independent natural gas producer, the Group is not subject to the government's regulation of natural gas prices. Nevertheless, the Group's prices for natural gas sold are strongly influenced by the prices regulated by the Federal Tariffs Service (FTS), a governmental agency. 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 of the date of these financial statements, no new announcements regarding price liberalization have been made by the Russian government or the FTS. On 1 January 2008, the FTS increased the regulated price for 2008 by 25 percent. Additional increases of 5 percent, 7 percent, 7 percent and 6.2 percent in the regulated price were effective 1 January 2009, 1 April 2009, 1 July 2009 and 1 October 2009, respectively. In December 2009 the FTS also approved a further increase of 15 percent in the regulated price effective 1 January 2010 for the year 2010. Management believes it has limited downside commodity price risk for natural gas and does not use commodity derivative instruments for trading purposes. However, to effectively manage the margins achieved through its natural gas trading activities, management has established targets for volumes sold to wholesale traders, end-customers and the natural gas exchange.

Liquid hydrocarbons. The Group sells all its crude oil and related products and gas condensate under spot contracts. Gas condensate volumes sold to the US, European and Asian-Pacific Region markets are based on benchmark reference crude oil prices of WTI, Brent IPE and Dubai or Naphtha Japan, respectively, plus a margin or discount, depending on current market situation. Crude oil sold internationally is based on benchmark reference crude oil prices of Brent dated, plus a discount and on a transaction-by-transaction basis for volumes sold domestically. As a result, the Group's revenues from the sales of liquid hydrocarbons are subject to commodity price volatility based on fluctuations or changes in the crude oil benchmark reference prices. Presently, the Group utilizes limited commodity derivative instruments to mitigated risk of crude oil and gas condensate price volatility.

(c) Cash flow and fair value interest rate risk

The Group is subject to interest rate risk on financial liabilities with variable interest rates. To mitigate this risk, the Group's treasury function performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In cases where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favorable interest rate terms.

Changes in interest rates impact primarily debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new debts management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable over the expected period until maturity.

23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The interest rate profiles of the Group's interest-bearing financial instruments at the reporting dates were as follows:

	At 31 December:	
	2009	**2008**
At variable rate	26,673	23,293
At fixed rate	11,030	2,984
Total debt	**37,703**	**26,277**

The Group centralizes the cash requirements and surpluses of controlled subsidiaries and the majority of their external financing requirements, and applies, on its consolidated net debt position, a funding policy to optimize its financing costs and manage the impact of interest rate changes on its financial results in line with market conditions. In this way, the Group is able to ensure that the balance between the floating rate portion of its debt and its cash surpluses has a low level of exposure to any change in interest rates over the short term. This policy makes it possible to significantly limit the Group's sensitivity to interest rate volatility.

The Group's financial results are sensitive to changes in interest rates on the floating rate portion of the Group's debt portfolio. If the interest rates applicable to floating rate debt were to increase by 100 basis points at the reporting dates, assuming all other variables remain constant, it is estimated that the Group's profit before taxation for 2009 would decrease by the amounts shown below.

The Group is examining various ways to manage its cash flow interest rate risk by using floating to fixed interest rate. No swaps or other similar instruments were in place as of 31 December 2009 and 2008, or during 2009 and 2008.

	At 31 December:	
Effect on pre-tax profit	**2009**	**2008**
Increase by 100 basis points	267	233

The effect of a corresponding 100 basis points decrease in exchange rate is approximately equal and opposite.

Credit risk. Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations.

Credit risk is managed on a Group level and arises from cash and cash equivalents, including short-term deposits with banks, as well as credit exposures to customers, including outstanding trade receivables and committed transactions. Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to minimal risk of default.

The Group's trade and other receivables consist of a large number of customers, spread across diverse industries and geographical areas. Most of the Group's international liquid sales are made to customers with independent external ratings; however, if the customer has a credit rating below BBB, the Group requires the collateral for the trade receivable to be in the form of letters of credit from banks with an investment grade rating. All domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis. The Group also requires 100 percent prepayments from small customers for natural gas deliveries and partial advances from others. Although the Group generally does not require collateral in respect of trade and other receivables, it has developed standard credit payment terms and constantly monitors the status of trade receivables and the creditworthiness of the customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The table below highlights the Group's trade and other receivables to published credit ratings of its counterparties.

Moody's and/or Fitch	At 31 December: 2009	2008
Investment grade rating	5,176	1,088
Non-investment grade rating	2,939	51
No external rating	389	1,346
Total trade and other receivables	**8,504**	**2,485**

The table below highlights the Group's cash and cash equivalents balances to published credit ratings of its banks.

Moody's and/or Fitch	At 31 December: 2009	2008
Investment grade rating	9,614	9,985
Non-investment grade rating	846	875
No external rating	72	132
Total cash and cash equivalents	**10,532**	**10,992**

Investment grade ratings classification referred to as Aaa to Baa3 for Moody's and as AAA to BBB- for Fitch, respectively.

Liquidity risk. Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. The Group has entered into a number of short-term credit facilities. Such credit lines and overdraft facilities can be drawn down to meet short-term financing needs. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

All of the Group's financial liabilities represent non-derivative financial instruments. The following tables summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

At 31 December 2009	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Debt at fixed rate				
Principal	-	4,924	6,106	11,030
Interest	619	77	-	696
Debt at variable rate				
Principal	13,827	6,819	6,027	26,673
Interest	570	385	209	1,164
Trade and other payables	4,562	2,636	-	7,198
Total financial liabilities	**19,578**	**14,841**	**12,342**	**46,761**

At 31 December 2008	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Debt at fixed rate				
Principal	2,984	-	-	2,984
Interest	2	-	-	2
Debt at variable rate				
Principal	3,358	13,242	6,693	23,293
Interest	785	477	61	1,323
Trade and other payables	4,405	-	-	4,405
Total financial liabilities	**11,534**	**13,719**	**6,754**	**32,007**

Capital management. The primary objectives of the Group's capital management policy is to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain investor, market and creditor confidence to support its business activities.

At the reporting date, the Group had investment grade credit ratings of Baa3 (stable outlook) by Moody's Investor Services and BBB- (stable outlook) by Fitch Ratings, as well as a credit rating of BB+ (positive) by Standard & Poor's. To maintain its credit ratings, the Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis.

The Group manages its liquidity on a corporate-wide basis to ensure adequate funding to sufficiently meet group operational requirements. All external debts are centralized at the Parent level, and all financing to Group entities is facilitated through inter-company loan arrangements.

The Group has a stated dividend policy that distributes at least 30 percent of its Parent company's non-consolidated statutory net profit determined according to Russian accounting standards. However, the dividend for a specific year is determined after taking into consideration future earnings, capital expenditure requirements, future business opportunities and the Group current financial position. Dividends are recommended by the Board of Directors and approved by the NOVATEK's shareholders.

The Group defines the term "capital" as equity attributable to OAO NOVATEK shareholders minus net debt (total debt less cash and cash equivalents). There were no changes to the Group's approach to capital management during the year.

24 CONTINGENCIES AND COMMITMENTS

Operating environment. The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation, and relatively high inflation. The tax, currency and customs legislation is subject to varying interpretations, frequent changes and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

The Group's business operations are primarily located in the Russian Federation and are thus exposed to the economic and financial markets of the country.

Recent volatility in global and Russian financial markets. The global liquidity crisis which commenced in the middle of 2007 has resulted in numerous stresses to the capital market system, which among other things, has resulted in a lower level of capital market raising activities, a lower level of liquidity across the international and Russian banking sector, and higher interbank lending rates. The uncertainties over the past two years in the global financial market have led to a series of bank failures and bank rescue measures in the United States, Western Europe and in the Russian Federation amongst other countries. Moreover, the US Federal Reserve and Treasury as well as primary Central Banks around the world, including the Central Bank of the Russian Federation have initiated efforts to stimulate the global financial markets and will continue to closely monitor the global markets until signs of sustainable economic recovery is observable. The impact of the ongoing or sustained financial and economic crisis is difficult to predict or anticipate at this stage of the economic business cycle.

Under the present market situation, the Group's ability to obtain new borrowings and/or re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions may be affected. Moreover, the amount of financing available on the market has been reduced since the onset of the economic and financial crisis (often referred to as the "credit crunch"). The Group's debtors may also be affected by the lower liquidity situation which could negatively impact their ability to repay their amounts owed. Deteriorating operating and financial conditions of debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in its impairment assessments.

Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current market environment, and are significantly enabled by the effectiveness of the financial policies and treasury management practices that the Group has employed in recent years. Specifically, the Group has maintained an adequate cash and cash equivalent balance, used diversified funding sources, limited bank concentration of liquid funds, required prepayments for hydrocarbon sales and has adhered to strict liquidity and financial leverage ratios.

Despite these efforts, management acknowledges that there are signs of continued market uncertainties over the direction and duration of the current market volatility and, consequently, is unable to predict the impact of any further deterioration in the global and Russian financial markets.

Commitments. At 31 December 2009, the Group had contractual capital expenditures commitments aggregating approximately RR 10,974 million (at 31 December 2008: RR 16,991 million) for phase two development of the Yurkharovskoye field (through 2012), development of the East-Tarkosalinskoye and Khancheyskoye fields (through 2010), and for continuation of phase two construction of the Purovsky Gas Condensate Plant (through 2011) all in accordance with duly signed agreements. In addition, at 31 December 2009, the Group has capital commitments for exploration activities under the El Arish Concession Agreement aggregating approximately USD 13 million (at 31 December 2008: USD 20 million).

24 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. Furthermore, events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2009, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued.

Mineral licenses. The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its mineral licenses. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitation, suspension or revocation. The Group's management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any material adverse effect on the Group's financial position, statement of income or of cash flows.

The Group's oil and gas fields and license areas are situated on land located in the Yamal-Nenets Autonomous Region. Licenses are issued by the Federal Agency for the Use of Natural Resources under the Ministry of Natural Resources and the Group pays unified natural resources production tax to produce oil and gas from these fields and contributions for exploration of license areas. The principal licenses of the Group and their expiry dates are:

Field	License holder	License expiry date
Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2034
East-Tarkosalinskoye	OOO NOVATEK-Tarkosaleneftegas	2043
Khancheyskoye	OOO NOVATEK-Tarkosaleneftegas	2019
Sterkhovoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2026
South-Tambeyskoye	OAO Yamal LNG	2045
Termokarstovoye	ZAO Terneftegas	2021

Management believes the Group has the right to extend its licenses beyond the initial expiration date under the existing legislation and intends to exercise this right on all of its fields. The Group has plans to submit the appropriate application with the respective Agency for the Use of Natural Resources for the extension of the terms of the licenses for the Khancheyskoye field.

Environmental liabilities. The Group and its predecessor entities have operated in the oil and gas industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations and, as obligations are determined, they are recognized as an expense immediately if no future benefit is discernible. Potential liabilities which might arise as a result of a change in interpretation of existing regulations, civil litigation or changes in legislation cannot be estimated. Under existing legislation, management believes that there are no probable liabilities which will have a material adverse effect on the Group's financial position, statement of income or of cash flows.

Legal contingencies. The Group is subject of, or party to a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the consolidated financial statements.

25 PRINCIPAL SUBSIDIARIES AND ASSOCIATES

The principal subsidiaries and associates of the Group and respective ownership in the ordinary share capital at 31 December 2009 and 2008 are set out below.

	Ownership percent at 31 December		Country of incorporation	Principal activities
	2009	2008		
Subsidiaries				
OOO NOVATEK-Yurkharovneftegas	100	100	Russia	Exploration and production
OOO NOVATEK-Tarkosaleneftegas	100	100	Russia	Exploration and production
ZAO Terneftegas (until September 2009 OOO Terneftegas)	100	100	Russia	Exploration and production
OOO NOVATEK-Purovsky ZPK	100	100	Russia	Gas Condensate Plant
OOO NOVATEK-Transervice	100	100	Russia	Transportation services
OOO NOVASIB (merged into OOO NOVATEK-Yurkharovneftegas in September 2009)	-	100	Russia	Exploration activities
OOO NOVATEK-AZK	100	100	Russia	Wholesale and retail trading
OOO NOVATEK Severo-Zapad	100	100	Russia	Trading and marketing
OOO NOVATEK-Polymer	100	100	Russia	Production of polymer and insulation tape
OOO PurNovaGaz (merged into OOO NOVATEK-Tarkosaleneftegas in June 2009)	-	100	Russia	Exploration and production
OOO Purneft	-	100	Russia	Exploration and production
OOO NOVATEK-Ust-Luga	100	100	Russia	Construction of sea terminal
OOO YARGEO	51	51	Russia	Exploration activities
OAO Yamal LNG	51	-	Russia	Exploration and production
OOO EkropromStroy	100	-	Russia	Construction of office building
Novatek Overseas AG	100	100	Switzerland	Holding company
Runitek GmbH	100	100	Switzerland	Trading and marketing
Novatek Overseas Exploration & Production GmbH	100	100	Switzerland (branch in Egypt)	Exploration activities
Novatek Equity (Cyprus) Limited	100	100	Cyprus	Purchase of the Group's shares
Novatek Polska	100	-	Poland	Trading and marketing
Associates				
OOO Oiltechproduct-Invest	25	25	Russia	Exploration activities
OOO Petra Invest-M	25	25	Russia	Exploration activities
OOO Tailiksneftegas	25	25	Russia	Exploration activities

26 RELATED PARTY TRANSACTIONS

Transactions between the NOVATEK and its subsidiaries, which are related parties of the NOVATEK, have been eliminated on consolidation and are not disclosed in this Note.

For the purposes of these consolidated financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. Management has used reasonable judgments in considering each possible related party relationship with attention directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties. The Group enters into transactions with related parties based on market or regulated prices.

All natural gas producers and wholesalers operating in Russia transport their natural gas volumes through the Unified Gas Supply System (UGSS), which is owned and operated by OAO Gazprom, a State monopoly. As an independent natural gas producer, the Group utilizes the UGSS to transport natural gas to end-consumers at the tariff established by the Federal Tariff Service.

Transactions with OAO Gazprom, a shareholder of significant influence, from October 2006, and its subsidiaries are presented below.

	As at and for the year ended 31 December:	
Related parties – OAO Gazprom and its subsidiaries	**2009**	**2008**
Transactions		
OAO Gazprom:		
Natural gas transportation to customers	19,930	11,238
Purchases of natural gas	-	1,549
Other operating income (loss)	3	221
OOO Mezhregiongaz:		
Natural gas sales	15,791	5,505
Natural gas transportation to customers	-	58
Other Gazprom subsidiaries:		
Natural gas sales	-	639
Polymer product sales	37	-
Other revenues	-	3
Unstable gas condensate transportation	343	248
Processing fees	532	342
Other expenses	33	33
Balances		
OAO Gazprom:		
Prepayments	-	1,036
Trade and other payables	530	159
OOO Mezhregiongaz:		
Trade and other receivables	784	189
Trade and other payables	-	2
Other Gazprom subsidiaries:		
Trade and other receivables	43	43
Prepayments	2	29
Prepayments and advances (capitalized within property, plant and equipment)	-	26
Trade and other payables	157	115

26 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – associates	As at and for the year ended 31 December: 2009	2008
Transactions		
Other revenues	773	805
Interest income	76	51
Balances		
Long-term loans receivable	-	410
Interest on long-term loans receivable	108	33
Trade and other receivables	80	-
Trade payables and accrued liabilities	8	489
Short-term loans receivable	837	-

Related parties – parties under significant influence of key management personnel	As at and for the year ended 31 December: 2009	2008
Transactions		
OOO Nova (formerly SNP NOVA):		
Purchases of construction services (capitalized within property, plant and equipment)	2,245	6,980
Oil products sales	28	245
Other revenues	20	33
OAO Tambeyneftegaz:		
Natural gas sales	5	-
Other expenses	16	-
Finance income (expense)	79	-
Balances		
OOO Nova (formerly SNP NOVA):		
Prepayments	-	21
Trade and other receivables	11	-
Trade payables and accrued liabilities	188	55
OAO Tambeyneftegaz:		
Trade and other receivables	184	-
Prepayments and other current assets	14	-
Short-term loans receivable	636	-
Trade payables and accrued liabilities	2	-

26 RELATED PARTY TRANSACTIONS (CONTINUED)

The related parties presented in the table below were reclassified to related parties under control of key management personnel at the end of March 2009 due to changes in respective ownership. Prior to this change, these related parties were disclosed as under significant influence of key management personnel.

	As at and for the year ended 31 December:	
Related parties – party under control of key management personnel	**2009**	**2008**
Transactions		
OAO Pervobank:		
Other revenues	5	5
Finance income (expense)	30	42
Balances		
OAO Pervobank:		
Cash and cash equivalents	845	337

In addition, the Group has the following balances with related parties as a result of its acquisitions.

As discussed in Note 5, the Group purchased a 51 percent stake in OAO "Yamal LNG". At 31 December 2009 (but not as of the acquisition date), an individual who significantly influences the sellers of the stake is a member of the Group's Board of Directors. Consequently, the sellers are considered a related party at 31 December 2009. The Group included liabilities of RR 2,636 million to this related party in other non-current liabilities, in the consolidated statement of financial position at 31 December 2009.

As discussed in Note 5, the Group purchased 100 percent participation interest of OOO "EkropromStroy" from several members of the Group's key management. As part of this acquisition, the Group consolidated a US dollar denominated long-term debt of RR 468 million (USD 15 million) of OOO "EkropromStroy" to SWGI Growth Fund (Cyprus) Limited, a party under control of key management personnel. The loan bore annual interest of 5.2 percent and was fully repaid in July 2009 ahead of its maturity schedule.

Key management compensation. The Group paid to key management personnel (members of the Board of Directors and the Management Committee, some of whom have also direct and indirect interests in the Group) short-term compensation, including salary, bonuses, and excluding dividends the following amount in cash.

	Year ended 31 December:	
	2009	**2008**
Board of Directors	38	32
Management Committee	624	785
Total compensation	**662**	**817**

Such amounts include personal income tax and are net of unified social tax. The Board of Directors consisted of eight members until 3 October 2008, and was subsequently increased to nine members. The Management Committee consisted of 11 members until 4 December 2009 and was subsequently increased to 15 members.

The remuneration for serving on the Board of Directors is subject to approval by the General Meeting of Shareholders. Key management personnel also receive certain short-term benefits related to healthcare. In addition, RR 176 million was recognized during years ended 31 December 2009 and 2008 as part of the share-based compensation scheme and included in general and administrative expenses.

27 SEGMENT INFORMATION

The Group's activities are considered by the CODM to comprise the following operating segments:

- Exploration, production and marketing – acquisitions, exploration, development, production, processing, marketing and transportation of natural gas, gas condensate and related products; and
- Polymer production and marketing – production and marketing of polymer and tape insulation and other polymer products.

Segment information is provided to the CODM in accordance with Regulations on Accounting and Reporting of the Russian Federation with reconciling items largely representing adjustments and reclassifications recorded in the consolidated financial statements for the fair presentation in accordance with IFRS.

Segment information for the year ended 31 December 2009 is as follows:

For the year ended 31 December 2009	Exploration, production and marketing	Polymer production and marketing	Segment information as reported to CODM	Reconciling items	Total per consolidated financial statements
External revenues	87,588	1,925	89,513	441	89,954
External expenses	(54,088)	(1,824)	(55,912)	(218)	(56,130)
Other operating income (loss)	(1,133)	3	(1,130)	839	(291)
Interest expense	(1,212)	-	(1,212)	393	(819)
Interest income	347	1	348	179	527
Foreign exchange gain (loss)	(736)	(1)	(737)	198	(539)
Segment result	**30,766**	**104**	**30,870**	**1,832**	**32,702**
Share of profit (loss) of associates, net of income tax					(202)
Profit before income tax					**32,500**
Depreciation, depletion and amortization	5,825	36	5,861	(123)	5,738
Capital expenditures	19,557	32	19,589	(1,717)	17,872

Reconciling items mainly related to:

- different methodology of acquisitions calculation under IFRS and RAR of Tarkosaleneftegas and Khancheyneftegas in 2004 with deferred liabilities which gives additional natural gas revenue in the amount of RR 381 million;
- different methodology of depreciation, depletion and amortization calculation for oil and gas properties between IFRS (units of production) and the RAR (straight-line) which gives additional charge for RR 268 million in external expenses;
- different methodology of calculation of net loss on disposal of interest in subsidiaries under IFRS and the RAR which gives RR 279 million and additional depreciation charge for RR 720 million in other operating income (loss);
- adjustment of prior period expenses, which are not recognized under IFRS and resulted in losses reversal in other operation income (loss) in the amount of RR 649 million; and
- different interest capitalization policies under IFRS and RAR, which gives additional interest capitalized for RR 1,078 million and asset retirement obligation calculation for RR 183 million.

27 SEGMENT INFORMATION (CONTINUED)

Segment information for the year ended 31 December 2008 is as follows:

For the year ended 31 December 2008	Exploration, production and marketing	Polymer production and marketing	Segment information as reported to CODM	Reconciling items	Total per consolidated financial statements
External revenues	76,975	2,179	79,154	118	79,272
External expenses	(42,390)	(2,221)	(44,611)	(2,305)	(46,916)
Other operating income (loss)	(548)	16	(532)	296	(236)
Interest expense	(80)	-	(80)	(142)	(222)
Interest income	335	1	336	71	407
Foreign exchange gain (loss)	(3,666)	(2)	(3,668)	99	(3,569)
Segment result	**30,626**	**(27)**	**30,599**	**(1,863)**	**28,736**
Share of profit (loss) of associates, net of income tax					(147)
Profit before income tax					**28,589**
Depreciation, depletion and amortization	2,581	36	2,617	1,964	4,581
Capital expenditures	32,069	-	32,069	(259)	31,810

Reconciling items mainly related to:

- different methodology of depreciation, depletion and amortization calculation for oil and gas properties between IFRS (units of production) and the RAR (straight-line) which gives additional charge for RR 1,861 million; and
- different interest capitalization policies under IFRS and RAR, which gives additional interest capitalized for RR 148 million and asset retirement obligation calculation for RR 102 million.

Geographical information. The Group's two segments operate in four major geographical areas of the world. In the Russian Federation, its home country, the Group is mainly engaged in the exploration, development, extraction and sales of natural gas, crude oil, gas condensate and related products and sales of polymer and insulation tape. Activities outside the Russian Federation are conducted in the United States (sales of stable gas condensate), in Europe (sales of stable gas condensate, liquefied petroleum gas and crude oil), in Asian-Pacific region (hereinafter referred to as "APR") (sales of stable gas condensate) and other areas (sales of liquefied petroleum gas and sales of polymer and insulation tape). Information on the geographical location of the Group's revenues is set out below.

27 SEGMENT INFORMATION (CONTINUED)

Geographical information for the year ended 31 December 2009 and 2008 is as follows:

For the year ended 31 December 2009	Russian Federation	Outside Russian Federation						Total
		Europe	USA	APR	Other	Export duty	Subtotal	
Natural gas	53,623	-	-	-	-	-	-	53,623
Stable gas condensate	354	3,303	21,415	10,324	-	(11,797)	23,245	23,599
Liquefied petroleum gas	2,724	5,533	-	-	100	(104)	5,529	8,253
Crude oil	781	945	-	-	-	(391)	554	1,335
Oil products	83	14	-	-	-	(4)	10	93
Oil and gas sales	**57,565**	**9,795**	**21,415**	**10,324**	**100**	**(12,296)**	**29,338**	**86,903**
Polymer products sales	1,534	-	-	-	339	-	339	1,873
Other revenues	1,178	-	-	-	-	-	-	1,178
Total external revenues	**60,277**	**9,795**	**21,415**	**10,324**	**439**	**(12,296)**	**29,677**	**89,954**

For the year ended 31 December 2008	Russian Federation	Outside Russian Federation						Total
		Europe	USA	APR	Other	Export duty	Subtotal	
Natural gas	45,650	-	-	-	-	-	-	45,650
Stable gas condensate	40	2,337	30,591	-	-	(13,594)	19,334	19,374
Liquefied petroleum gas	4,757	1,682	-	-	512	(575)	1,619	6,376
Crude oil	1,995	184	-	-	-	(136)	48	2,043
Oil products	447	151	2,145	-	-	(110)	2,186	2,633
Oil and gas sales	**52,889**	**4,354**	**32,736**	**-**	**512**	**(14,415)**	**23,187**	**76,076**
Polymer products sales	1,799	-	-	-	299	-	299	2,098
Other revenues	1,098	-	-	-	-	-	-	1,098
Total external revenues	**55,786**	**4,354**	**32,736**	**-**	**811**	**(14,415)**	**23,486**	**79,272**

Revenue from external customers is based on the geographical location of customers although all revenues are generated by assets in the Russian Federation. Substantially all of the Group's assets are located in the Russian Federation.

Major customers. For the year 2009, the Group has one major customer to whom individual revenues represent 18 percent of total external revenues. There were no customers with individual revenues exceeding 10 percent year 2008.

Sales to major customers are included in the results of the Exploration, production and marketing segment.

28 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

The amounts included within the consolidated financial statements associated with the exploration for and evaluation of mineral resources for the years ended 31 December 2009 and 2008 is as follows:

	At 31 December and for the year then ended:	
	2009	**2008**
Assets	44,478	4,995
Liabilities	(2,653)	(22)
Expenses	(566)	(1,117)
Cash flows used for operating activities	(350)	(1,005)
Cash flows used for investing activities	(37,085)	(1,081)

Assets include uncompleted cost of drilling and equipping of exploratory wells on unproved reserves and participation payment for the rights to purchase oil and gas exploration and production licenses. Liabilities include unpaid obligations under the contracts for drilling and equipping exploratory wells. Exploration costs include geological and geophysical expenditures, expenditures associated with the maintenance of non-proven reserves and other expenditures relating to exploration activity. Cash flows used for operating activities and for investing activities include cash paid for geological and geophysical studies performed and cash paid for drilling and equipping exploratory wells and acquiring the right for mineral recourses, respectively.

29 SUBSEQUENT EVENTS

On 15 February 2010, the Group increased its participation interests in associates OOO Oiltechproduct-Invest, OOO Petra Invest-M and OOO Tailiksneftegas to 51 percent through the acquisition of an additional 26 percent participation interests in each company. These entities are all exploration stage oil and gas companies and hold exploration licenses for the Sredniy Chaselskiy, Severo Russkiy, Zapadno-Tazovskiy, Anomalniy and Severo-Yamsoveskiy license area which expire in 2010 and 2013. The Group intends to receive production licenses for these fields based on the exploration activities performed to date. The cost of additional participation interests was RR 1,297 million, which were paid in cash upon signing the agreements.

As described in Note 6, in December 2009, the Group signed the contract for the sale of a 49 percent interest in ZAO “Terneftegas”. In January 2010, subsequent to the balance sheet date, ZAO “Terneftegas” registered with the Federal Service for Financial Markets (FSFM) for an additional shares emission. In February 2010, Total Termokarstovoye B.V. acquired an additional 16.5 percent equity stake in ZAO “Terneftegas” through the subscription for the additional shares emission for cash consideration totaling USD 14 million; however, these shares have not been formally registered by Total Termokarstovoye B.V. with the FSFM as of the date of these financial statements.

In February 2010, the Group transferred a 28 percent interest in ZAO “Terneftegas” to Total Termokarstovoye B.V. and received USD 16 million in cash in accordance with the contractual terms. The remaining 4.5 percent will be transferred through 2010.

In February 2010, all operating bodies of the joint venture were established and the Group’s effective control over ZAO “Terneftegas” ceased. As a result of these changes, the Group’s interest in ZAO “Terneftegas” is now accounted for using the equity method of accounting.

30 NEW ACCOUNTING PRONOUNCEMENTS

Beginning 1 January 2009, in addition to that which is disclosed in Note 3, the Group has adopted the following new standards and interpretations:

- In January 2010, a new oil and gas reserves estimation and disclosure rule for US GAAP was issued and adopted by the Group from the annual reporting period ended 31 December 2009. The new rule amends oil and gas reserves estimation and disclosure requirements to align it with the Securities and Exchange Commission's final rule, Modernization of the Oil and Gas Reporting Requirements, issued in December 2008. This revised the definition of the oil- and gas-producing activities to classify non-traditional resources as reserves. The definition of proved oil and gas reserves was amended, so that the Group now uses the average, first-day-of-the-month price during the reporting period rather than the year-end price in determining reserves quantities which are economical to produce. The adoption of this new rule had no material effect on the Group's results of operations, financial position or liquidity;

- IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values;

- IFRIC 15, *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognize revenue on such transactions;

- Amendment to IAS 32 and IAS 1, *Puttable financial instruments and obligations arising on liquidation* (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability;

- Amendment to IFRS 2, *Share-based Payment* (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment;

- IAS 23 (Revised), *Recognition of Borrowing Costs* (revised March 2007). The main change to IAS 23 is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. This interpretation did not have a significant impact on these consolidated financial statements as the Group previously applied a policy of capitalization of interest costs;

- Amendment to IFRS 1 and IAS 27, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognized in profit or loss rather than as a recovery of the investment;

30 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- *Improvements to International Financial Reporting Standards* (issued in May 2008). In 2007, the IASB decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting;

- Amendment to IFRS 7, *Financial Instruments: Disclosures*. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these consolidated financial statements;

- Amendments to IFRIC 9 and IAS 39. The amendments clarify that on reclassification of a financial asset out of the ‘at fair value through profit or loss’ category, all embedded derivatives have to be assessed and, if necessary, separately accounted for;

- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16; and

- *The International Financial Reporting Standard for Small and Medium-sized Entities* (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognizing and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability.

The adoption of these new standards and interpretations, in case of such operations, had an insignificant effect on the Group’s consolidated financial statement.

30 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Recently, the International Accounting Standards Board published the following new standards and interpretations which have not been early adopted by the Group.

- IFRS 3, *Business Combinations* (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquirer's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone;

- IAS 27, *Consolidated and Separate Financial Statements* (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value;

- Amendments to IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 7, Financial *Instruments: Disclosures*. The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made in the periods beginning before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008. Any reclassification of a financial asset made in periods beginning on or after 1 November 2008 takes effect only from the date when the reclassification is made;

- Amendments to IFRS 2, *Share-based Payment. Group Cash-settled Share-based Payment Transactions*. (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard;

- IFRIC 17, *Distribution of Non-Cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognized. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognized in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners;

30 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- IFRIC 18, *Transfers of Assets from Customers* (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers;

- IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt;

- Amendment to IAS 32 (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives;

- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognized asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; and amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged;

- Amendment to IAS 24, *Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities;

- IFRS 9, *Financial Instruments Part 1: Classification and Measurement* (effective for annual periods beginning on or after 1 January 2013). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

    - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument;

30 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss;

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment; and

- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statement.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In the absence of specific IFRS guidance, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with norms established for the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities but excludes disclosures regarding the standardized measures of discounted cash flows related to oil and gas activities.

The Group's exploration and production activities are mainly within the Russian Federation; therefore, all of the information provided in this section pertains to this country. The Group operates through various oil and gas production subsidiaries, and also has an interest in oil and gas companies that are accounted for under the equity method. These associates have no proved reserves and immaterial capitalized costs.

Oil and Gas Exploration and Development Costs

The following tables set forth information regarding oil and gas acquisition, exploration and development activities. The amounts reported as costs incurred include both capitalized costs and costs charged to expense during the years ended 31 December 2009 and 2008 (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2009	**2008**
Costs incurred in exploration and development activities		
Acquisition cost	39,897	-
Exploration costs	770	2,119
Development costs	15,977	29,063
Total costs incurred in exploration and development activities	**56,644**	**31,182**

	At 31 December:	
	2009	**2008**
Capitalized costs relating to oil and gas producing activities		
Wells and related equipment and facilities	134,538	73,514
Support equipment and facilities	22,509	20,820
Uncompleted wells, equipment and facilities	15,839	23,835
Total capitalized costs relating to oil and gas producing activities	172,886	118,169
Less: accumulated depreciation, depletion and amortization	(20,211)	(15,015)
Net capitalized costs relating to oil and gas producing activities	**152,675**	**103,154**

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Results of Operations for Oil and Gas Producing Activities

The Group's results of operations for oil and gas producing activities are shown below. The results of operations for oil and gas producing activities do not include general corporate overhead or its associated tax effects. Income tax is based on statutory rates. In the following table both transportation and processing costs are included in revenues from oil and gas sales (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2009	**2008**
Revenues from oil and gas sales	86,903	76,076
Lifting costs	(3,646)	(3,581)
Transportation expenses	(28,482)	(16,013)
Taxes other than income tax	(7,840)	(7,062)
Depreciation, depletion and amortization	(5,139)	(4,234)
Exploration expenses	(566)	(1,117)
Total production costs	**(45,673)**	**(32,007)**
Purchases of natural gas, gas condensate and crude oil	(1,143)	(4,665)
Transportation expenses related to purchases of natural gas, gas condensate and crude oil	(533)	(2,114)
Results of operations for oil and gas producing activities before income tax	39,554	37,290
Less: related income tax expense	(7,911)	(8,950)
Results of operations for oil and gas producing activities	**31,643**	**28,340**

Proved Oil and Gas Reserves

The Group's oil and gas reserves estimation and reporting process involves an annual independent third party reserve appraisal as well as internal technical appraisals of reserves. The Group maintains its own internal reserve estimates that are calculated by qualified technical staff working directly with the oil and gas properties. The Group's technical staff periodically updates reserve estimates during the year based on evaluations of new wells, performance reviews, new technical information and other studies.

The Group estimates its oil and gas reserves in accordance with rules promulgated by the Securities and Exchange Commission (SEC) for proved reserves. For the years ended 2007 and 2008, reserves estimates were made on a basis of year-end prices as defined by the disclosure rules effective for those periods and, for year 2009, the reserves estimates were made using first-day-of-the-month price during the reporting period. New rules of determining reserves quantities, which are considered economical to produce, were issued in January 2010 and adopted by the Group from the annual reporting period ended 31 December 2009 (see Note 30). The definition of proved oil and gas reserves was amended, whereby the Group now uses the average, first-day-of-the-month price during the reporting period rather than the year-end price in determining reserves quantities which are economical to produce.

The oil and gas reserve estimates reported below are determined by the Group's independent petroleum reservoir engineers, DeGolyer and MacNaughton ("D&M"), for the Group's fields – Yurkharovskoye, East-Tarkosalinskoye, Khancheyskoye, Sterkhovoye, Termokarstovoye, Urengoyskoe, South-Tambeyskoye, West-Yurkharovskoye, Yarudeiskoye and North Khancheyskoye. The Group provides D&M annually with engineering, geological and geophysical data, actual production histories and other information necessary for the reserve determination. The Group's and D&M's technical staffs meet to review and discuss the information provided, and upon completion of this process, senior management reviews and approves the final reserve estimates issued by D&M.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

The following reserve estimates were prepared using standard geological and engineering methods generally accepted by the petroleum industry. The method or combination of methods used in the analysis of each reservoir is tempered by experience with similar reservoirs, stages of development, quality and completeness of basic data, and production history.

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2009 and 2008.

Extensions of production licenses are assumed to be at the discretion of the Group. Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group's production licenses. The Group's licenses expire between 2019 and 2045, with the most significant license, Yurkharovskoye field and East-Tarkosalinskoye field, expiring in 2034 and 2043, respectively. Management believes that there is requisite legislation to extend mineral licenses at the initiative of the Group and, as such, intends to extend its licenses for properties expected to produce beyond the license expiry dates.

The Group has disclosed information on proved oil and gas reserve quantities for periods up to and past the license expiry dates separately.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves which are expected to be recovered through existing wells with existing equipment and operating methods. Undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to re-complete existing wells and/or install facilities to collect and deliver the production.

Net reserves exclude quantities due to others when produced.

The reserve quantities below include 100 percent of the net proved reserve quantities attributable to the Group's consolidated subsidiaries. A portion of the Group's total proved reserves are classified as either developed non-producing or undeveloped. Of the non-producing reserves, a portion represents existing wells which are to be returned to production at a future date.

For convenience, reserves estimates are provided both in English and Metric units.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Net proved reserves of natural gas are presented below.

	Net proved reserves of natural gas recoverable up to license expiry dates		Net proved reserves of natural gas recoverable past license expiry dates		Total net proved reserves of natural gas	
	Billions of cubic feet	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*
Reserves at 31 December 2007	**22,382**	**634**	**685**	**19**	**23,067**	**653**
Changes attributable to:						
Revisions of previous estimates	211	5	82	3	293	8
Extension and discoveries	2,070	59	-	-	2,070	59
Production	(1,073)	(30)	-	-	(1,073)	(30)
Reserves at 31 December 2008	**23,590**	**668**	**767**	**22**	**24,357**	**690**
Changes attributable to:						
Revisions of previous estimates	(467)	(13)	280	7	(187)	(6)
Acquisitions	13,420	380	-	-	13,420	380
Extension and discoveries	4,278	121	-	-	4,278	121
Production	(1,142)	(32)	-	-	(1,142)	(32)
Reserves at 31 December 2009	**39,679**	**1,124**	**1,047**	**29**	**40,726**	**1,153**
Net proved developed reserves (included above)						
At 31 December 2007	19,290	546	106	3	19,396	549
At 31 December 2008	19,014	538	95	3	19,109	541
At 31 December 2009	20,332	576	280	8	20,612	584
Net proved undeveloped reserves (included above)						
At 31 December 2007	3,092	88	579	16	3,671	104
At 31 December 2008	4,576	130	672	19	5,248	149
At 31 December 2009	19,347	548	767	21	20,114	569

The non-controlling interest shares included in the above total net proved reserves of natural gas were 6,576 billions of cubic feet and 186 billion of cubic meters at 31 December 2009.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Net proved reserves of crude oil, gas condensate and natural gas liquids are presented below.

	Net proved reserves of crude oil, gas condensate and natural gas liquids recoverable up to license expiry dates		Net proved reserves of crude oil, gas condensate and natural gas liquids recoverable past license expiry dates		Total net proved reserves of crude oil, gas condensate and natural gas liquids	
	Millions of barrels	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*
Reserves at 31 December 2007	**397**	**48**	**9**	**1**	**406**	**49**
Changes attributable to:						
Revisions of previous estimates	4	-	2	1	6	1
Extension and discoveries	61	7	-	-	61	7
Production	(21)	(2)	-	-	(21)	(2)
Reserves at 31 December 2008	**441**	**53**	**11**	**2**	**452**	**55**
Changes attributable to:						
Revisions of previous estimates	(34)	(5)	11	1	(23)	(4)
Acquisitions	118	14	-	-	118	14
Extension and discoveries	67	8	-	-	67	8
Production	(25)	(3)	-	-	(25)	(3)
Reserves at 31 December 2009	**567**	**67**	**22**	**3**	**589**	**70**
Net proved developed reserves (included above)						
At 31 December 2007	259	31	4	1	263	32
At 31 December 2008	267	32	5	1	272	33
At 31 December 2009	261	31	11	2	272	33
Net proved undeveloped reserves (included above)						
At 31 December 2007	138	17	5	-	143	17
At 31 December 2008	174	21	6	1	180	22
At 31 December 2009	306	36	11	1	317	37

The non-controlling interest shares included in the above total net proved reserves of crude oil, gas condensate and natural gas liquids were 58 millions of barrels and seven million of metric tons at 31 December 2009.

During 2009, NOVATEK acquired a 51 percent equity stake in OAO "Yamal LNG" (see Note 5), the holder of the South Tambeyskoye license area. Included in the reserves estimates noted above are reserves attributable to 100 percent of the equity in the acquired company as required by US GAAP FASB 69, *Disclosures about Oil and Gas Producing Activities*. The reserves estimates for proved reserves attributable to the non-controlling interest are shown separately for natural gas and crude oil, gas condensate and natural gas liquids.

OAO NOVATEK was incorporated as a joint stock company in accordance with the Russian law and is domiciled in the Russian Federation.

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ADDITIONAL INFORMATION

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Mentions in this Annual Review of **"OAO NOVATEK", "NOVATEK", "THE COMPANY", "WE"** and **"OUR"** refer to OAO NOVATEK and/or its subsidiary enterprises, depending upon the context, in which the terms are used.

NOVATEK's website contains a variety of corporate information including the following:

- Key business and production results
- Press-releases
- Current share prices
- Annual reports
- Information disclosures to regulators
- Investor presentations
- Social and environmental activities

Website: www.novatek.ru (Russian version) and www.novatek.ru/eng (English version)

Abbreviations

barrel	one stock tank barrel, or 42 US gallons of liquid volume
bcm	billion cubic meters
boe	barrels of oil equivalent
km	kilometer(s)
mm	millimeter
mboe	thousand boe
mcm	thousand cubic meters
mt	thousand metric tons
mmboe	million boe
mmcm	million cubic meters
mmt	million metric tons
bcf	billion cubic feet
tcf	trillion cubic feet
ton	metric ton
SEC	United States Securities and Exchange Commission
PRMS	Petroleum Resources Management System
YNAO	Yamal-Nenets Autonomous Region
RR	Russian rouble
LPG	liquid petroleum gases

Forward-Looking Statements

This Annual Review includes 'forward-looking information' within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the US Securities Exchange Act of 1934, as amended. Certain statements included in this Annual Report and Accounts, including, without limitation, statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words "believe," "expect," "anticipate," "intends," "estimate," "forecast," "project," "will," "may," "should" and similar expressions identify forward-looking statements. Forward-looking statements include statements regarding: strategies, outlook and growth prospects; future plans and potential for future growth; liquidity, capital resources and capital expenditures; growth in demand for our products; economic outlook and industry trends; developments of our markets; the impact of regulatory initiatives; and the strength of our competitors. The forward-looking statements in this Annual Review are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies, which are difficult or impossible to predict and are beyond our control. As a result, we may not achieve or accomplish these expectations, beliefs or projections. In addition, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in the balance of oil and gas supply and demand in Russia and Europe;
- the effects of domestic and international oil and gas price volatility and changes in regulatory conditions, including prices and taxes;
- the effects of competition in the domestic and export oil and gas markets;
- our ability to successfully implement any of our business strategies;
- the impact of our expansion on our revenue potential, cost basis and margins;
- our ability to produce target volumes in the event, among other factors, of restrictions on our access to transportation infrastructure;
- the effects of changes to our capital expenditure projections on the growth of our production;
- potentially lower production levels in the future than currently estimated by our management and/or independent petroleum reservoir engineers;
- inherent uncertainties in interpreting geophysical data;
- changes to project schedules and estimated completion dates;
- our success in identifying and managing risks to our businesses;
- the effects of changes to the Russian legal framework concerning currently held and any newly acquired oil and gas production licenses;

* For natural gas, we use the conversion factor of one mcm equals 6.54 barrels. Liquid tons are converted to boe according to ratios found in our reserves appraisal report, ranging between 7.3 to 8.87 boe per ton, due to the differing quality of hydrocarbons at the fields, including differences in calorific content.

- changes in political, social, legal or economic conditions in Russia and the CIS;
- the effects of technological changes;
- the effects of changes in accounting standards or practices

This list of important factors is not exhaustive. When relying on forward-looking statements, one should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. The information and opinions contained in this document are provided as at the date of this review and are subject to change without notice.