

SUSTAINABILITY REPORT

**on the territory of Russian Federation
2008–2009**



NOVATEK

Contents

Letter from the Chief Executive Officer of OAO NOVATEK	4
Company Profile	6
Report Boundary Setting	7
Key Activities and Subsidiaries	7
Key Products and Commercial Markets	9
Strategy	10
Corporate Governance	12
Stakeholder Engagement	16
Economic Performance and Sustainability	18
Overcoming the Economic Crisis	19
Reliability of Supplies	19
Innovations	20
Environmental Protection	22
Integrated Management System for Environmental Protection, Occupational Health and Safety (IMS)	23
Implementation of Environmental Policy	26
Energy Efficiency	28
Air Emissions	29
Climate Change	30
Other Environmental Impacts	32
Impact on Biodiversity and Protected Areas	34
Occupational Health and Safety	36
Occupational Safety	37
Industrial Safety	38
Fire Safety	40
Human Resources and Social Policies	42
Human Resources Management and Labor Resources	43
Company Social Programs	46
Collective Agreements and Interaction with Labor Unions	51
Local Communities	54
Social Investment Management	55
Corporate Social Programs and Regional Development	57
Assurance statement	62
About the Report and Reporting Process	80

Dear Stakeholders,

We are very pleased to present our 2008 — 2009 Sustainability Report for OAO NOVATEK, our third such report prepared in accordance with the Global Reporting Initiative (GRI) guidelines. Despite the onset of the global economic crisis, we have successfully completed a series of initiatives aimed at improving the health and safety of our employees and the communities where we operate as well as strengthening our commitment toward sustainable development principles.

During the reporting period, NOVATEK managed to achieve significantly higher financial and operational results despite volatile and difficult market conditions, contracting demand for energy supplies in both global and domestic markets, increasing competition within the oil and gas industry and substantial volatility in global hydrocarbon prices. Throughout this period, we have continued to invest in sustainable growth and, as such, we are very proud of our accomplishments.

While we have seen recent improvements in both the global and domestic economic and operating environments there are still substantial challenges ahead in regards to future energy demand, climate change and environmental and safety issues. We believe that our sound business practices and prudent investments in production and processing capacity will allow us to meet the challenges ahead and maintain our position as one of the most efficient producers in the oil and gas industry.

To assess our progress, I would like to highlight some of the key elements presented in our 2008 — 2009 Sustainability Report for OAO NOVATEK.

We recognize that our operational activities are potentially hazardous to the environment, our employees and the communities where we operate. Therefore, we

measure our success not only through operational and financial metrics but also on the environmental, employee and social data included in this report.

During this reporting period, we have successfully implemented and completed several projects which are directly related to improving the sustainability of our operations. For example, we completed the launch of an Integrated Management System for Environmental Protection, Occupational Health and Safety at our key operating subsidiaries allowing us to more effectively monitor and measure the impact of our operations in these areas. We also decreased the environmental impact and improved operational efficiencies at our largest production subsidiary through the launch of a drilling cuttings processing plant, allowing us to recycle water, drilling mud and solid wastes.

Climate change has continued to be a key concern in the sustainability of companies operating in the oil and gas industry. We remain committed, as a major producer of the cleanest hydrocarbon energy source, to minimizing our own carbon emissions and continuing our participation in the international climate debate. We have introduced renewable energy sources at our new gas condensate pipeline to power its linear telemechanic system and were one of the first Russian companies to participate in the 2009 Carbon Disclosure Project.

We have always considered our employees one of our most valuable assets and recognize the vital role they play in realizing and supporting our sustainable development initiatives. As such, we have continued to make the necessary investments in educational and professional training programs for our employees. In 2008, we initiated the Personnel Pool Development Program, which offers training courses for promising specialists, and

have high expectations for this Program as a resource for developing and sourcing future managers.

As we invest in the development of our future management personnel we also want to ensure that we are able to maintain the level of professionalism we have achieved in our operations thus far. In recognition of this, we have developed a Share-Based Option Program in 2009 to retain the highly qualified employees who are essential for our future growth.

We are a consistent, supportive partner for sustainable development and are committed to improving the social and economic situation in the regions where we operate regardless of the economic climate.

NOVATEK's long-term view in its relationship and support of the cultural and societal values of local communities and indigenous populations, including their economic and development needs, is not a function of the current economic cycle but a long-term commitment embedded in our operating philosophy. The multi-year agreements we have with regional and local communities ensure the longevity and fair distribution of the benefits of our support during the highs and lows of the economic cycle.

We operate in a transparent and responsible manner and remain accountable for any and all actions affecting our stakeholders. This Sustainability Report is one element of that accountability, and a means to demonstrate the actions we have taken during the 2008 and 2009 reporting period to ensure our long-term sustainable growth. We intend to continue improving our performance in the area of sustainability reporting and welcome the opportunity to engage our stakeholders in an open and honest dialog.

Finally, I would like to thank our readers for your interest in and support for our commitment to sustainable development and the employees of NOVATEK for their energy, dedication and passion, which underpins our success.

**Chief Executive Officer, OAO NOVATEK
Leonid Mikhelson**



1

SUSTAINABILITY REPORT OAO NOVATEK 2008–2009

COMPANY Profile





NOVATEK is an oil and gas company engaged in the exploration, production, processing and marketing of natural gas and liquid hydrocarbons

7

OAO NOVATEK ("NOVATEK" and/or the "Company") is Russia's largest independent natural gas producer and the second largest producer of natural gas in Russia after OAO Gazprom.

The Company's main producing assets are located in the Yamal Nenets Autonomous Region (YNAO), considered one of the world's largest gas producing regions, accounting for 83% of Russia's natural gas production and 16% of global natural gas production.

Report Boundary Setting

In accordance with Global Reporting Initiative (GRI version 3) the report includes in its boundary the following companies:

- OAO NOVATEK
- NOVATEK's subsidiaries generating significant economic, social and ecological impacts include:
 - OOO NOVATEK-Yurkharovneftegas
 - OOO NOVATEK-Tarkosaleneftegas
 - ZAO Terneftegas¹
 - OOO NOVATEK-Purovsky ZPK
 - OOO NOVATEK-Transervice
 - OOO NOVATEK Severo-Zapad
 - OOO NOVATEK-Ust-Luga
 - OOO NOVATEK-AZK
 - OOO NOVATEK-Polymer
- NOVATEK's direct or indirect subsidiaries generating actual or potential significant economic impacts include: NOVATEK Overseas E&P, Runitek GmbH and NOVATEK Polska
- NOVATEK's subsidiaries generating potential significant economic, social and ecological impacts include: OAO Yamal LNG, OOO YARGEO, OOO Oiltechproduct-Invest, OOO Petra Invest-M and OOO Tailiksneftegas

All of the companies mentioned in this Section are included in this Sustainability Report. Any mention of "the Company", "NOVATEK", "we" and "our" refer to companies included in this Report unless otherwise specified.

¹ In October 2009, OOO Terneftegas was reorganized from a limited liability company (OOO) to a closed joint stock company (ZAO) and in December 2009, NOVATEK signed a subscription agreement, a sales and purchase agreement and a shareholders agreement with TOTAL S.A., which reduced the Company's share in ZAO Terneftegas to 51% in 2010.

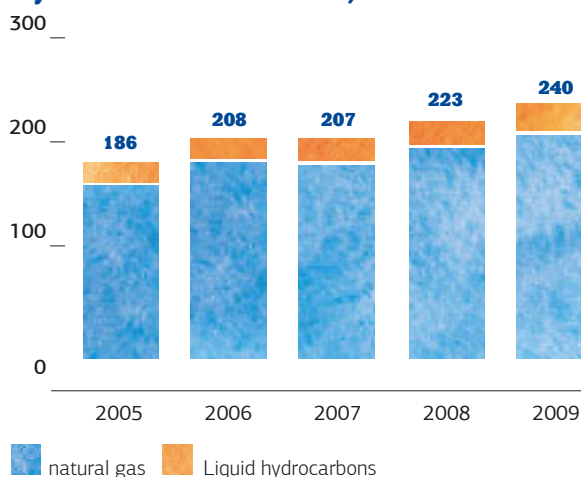
NOVATEK and its subsidiaries are separate legal entities and as such, in certain instances the Company's corporate policies, practices, management systems and programs do not apply to all subsidiaries included in the report boundary. These instances have been noted in the applicable sections of this Report where they occur.

Key Activities and Subsidiaries

NOVATEK is an oil and gas company engaged in the exploration, production, processing and marketing of natural gas and liquid hydrocarbons. Based on 2009 results, the Company accounted for approximately 6% of total natural gas production in Russia, 27% of natural gas produced by Russian independent gas producers and 10% of total natural gas deliveries through the Unified Gas Supply System (UGSS), owned and operated by OAO Gazprom, according to statistics published by the Central Dispatch Agency of the Russian Fuel and Energy Complex, or CDU-TEK. As of the 31 December 2009, the Company's total net proved reserves appraised by DeGolyer and MacNaughton, its independent petroleum engineering firm, using the SEC's reserve methodology totaled 6.85 billion barrels of oil equivalent (boe).

The main producing and processing subsidiaries operate in the Nadym-Pur-Tazovsky Region of the YNAO.

Hydrocarbon Production, mmbœ





The Purovsky Plant is the first gas condensate processing plant built during the past 15 years on the territories of the former Soviet Union

8

NOVATEK's management headquarters is located in Moscow, where decisions on how to allocate resources and assess operational and financial performance are made.

Exploration and Production

NOVATEK's key producing subsidiaries, OOO NOVATEK-Yurkharovneftegas and OOO NOVATEK-Tarkosalneftegas, are responsible for conducting oil and gas operations at the Yurkharovskoye, East-Tarkosalinskoye and Khancheyevskoye fields as well as other smaller fields and license areas. The largest field, in terms of both reserves and production volumes, is the Yurkharovskoye field.

ZAO Terneftegas owns the license for geological exploration and production of gas and gas condensate at the Termokarstovoye field. In 2009, NOVATEK and TOTAL S.A. agreed to establish a joint venture to explore and develop this field and, as a result, NOVATEK reduced its equity stake in ZAO Terneftegas to 51% in 2010.

With the acquisition of a 51% equity stake in OAO Yamal LNG, which holds the license for exploration and production at the South-Tambeyskoye field, the Company has expanded its operations into a new district of the YNAO — the Yamalsky District, located on the Yamal peninsula.

NOVATEK has a 51% shareholding in OAO YARGEO and 100% participation interests in OOO Oiltechproduct-Invest, OOO Petra Invest-M and OOO Tailiksneftegas (equity interests in these limited liability companies were increased from 25% to 100% in 2010), all of which are engaged in geological exploration activities at license areas in the YNAO.

Processing Volumes, mmt

	2008	2009
Unstable gas condensate	2.2	2.8
Processing, including stable gas condensate	1.6	2.1
LPG	0.6	0.7

NOVATEK Overseas E&P is engaged in hydrocarbon exploration at the El Arish off-shore block in the Arab Republic of Egypt.

Processing, Transportation and Sale of Hydrocarbons

NOVATEK's primary processing asset is the Purovsky Gas Condensate Stabilization Plant (Purovsky Plant), which is owned and operated by the Company's wholly-owned subsidiary OOO NOVATEK-Purovsky ZPK and located in the Purovsky District of the YNAO. It is the first gas condensate processing plant built during the past 15 years on the territories of the former Soviet Union. Since NOVATEK's fields primarily produce condensate-bearing gas, or wet gas, the Company has invested in the construction of its own processing plant and related infrastructure to efficiently exploit its gas condensate fields. The Purovsky Plant utilizes the latest technologies and equipment to increase processing efficiencies and represents a tangible contribution to the modernization of both the Russian oil and gas industry and economy. In 2008, the Company launched the second stage expansion of the Purovsky Plant by expanding the processing capacity from two million tons to five million tons, substantially increasing the commercial output of stable gas condensate (SGC) and liquefied petroleum gas (LPG). In 2009, the LPG scrubbing unit at the Purovsky Plant, currently the only one of its kind in Russia, commenced operations. This scrubbing unit increases the quality of the LPG produced by the Purovsky Plant by reducing the LPG methanol content to levels that comply with European Union requirements.

OOO NOVATEK Ust-Luga is engaged in the design and construction of a transshipment and gas condensate fractionation unit, which will further process and fractionate our stable gas condensate into diesel fuel, light and heavy naphtha, jet fuel and other derived products. The completion of this complex will further enhance our logistical chain to export refined products using the feedstock from the Company's production facilities.

OOO NOVATEK Severo-Zapad is engaged in export sales of liquid hydrocarbons and the expansion of the stable gas condensate tank farm at the port of Vitino (on the White Sea) to ensure uninterrupted supplies of SGC to the export market.



The Company's key products sold and delivered to consumers consist of natural gas and liquid hydrocarbons

9

OOO NOVATEK-Transservice, located in the Purovsky District, is responsible for the rolling stock used to transport the Company's SGC and LPG, including: technical operations to close cisterns, execution of transport documents and transporting the hydrocarbons from the Purovsky Plant to end consumers. The Company uses a combination of its own and leased rail car cisterns to transport liquid hydrocarbons from the Purovsky Plant.

The sale and marketing of hydrocarbons is carried out by the Company and its subsidiaries operating in Russia and abroad. NOVATEK's wholly-owned subsidiary OOO NOVATEK-AZK operates a chain of retail and small-scale wholesale filling stations for sales of LPG and other fuels: at the end of 2009, this subsidiary managed five multi-fuel petrol stations, six conventional gas stations, and owned one wholesale gas refueling station and leased another.

The following wholly-owned subsidiaries of the Company carry out marketing operations on international markets: Runitek GmbH is responsible for the purchase and sale of SGC and oil products while NOVATEK Polska, established in 2009, to manage and promote LPG sales in Central and Eastern Europe, beginning in January 2010.

Industrial

Until September 2010, NOVATEK held a 100% participation interest in OOO NOVATEK-Polymer (located in Novokuibyshevsk, Samara Region), which is engaged in the manufacture and sale of polymer products. At the time of this Report, the Company sold its participation interest in OOO NOVATEK-Polymer to SIBUR Holding, due to its status as a non-core asset, and NOVATEK's strategy to focus on its core natural gas and gas condensate production and processing activities.

Key Products and Commercial Markets

The Company's key products sold and delivered to consumers consist of natural gas and liquid hydrocarbons (SGC, LPG, crude oil and oil products). Methanol and recovered methanol are produced by the Company for use in its operations.

Natural Gas

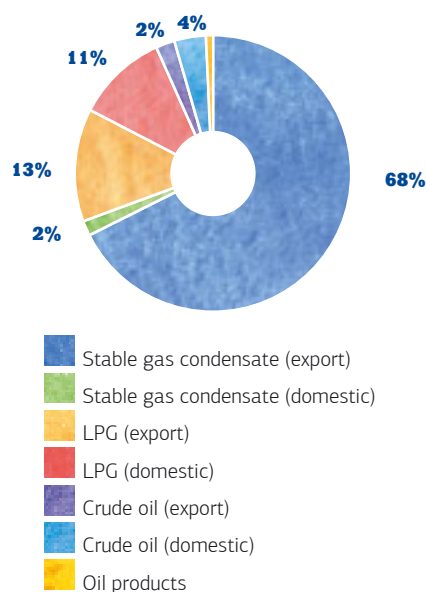
NOVATEK is an independent natural gas producer and as such its operations are not regulated by the Russian government. We sell 100% of our natural gas in the Russian domestic market.

At year-end 2009, the largest regions by volumes of natural gas sold, were the Yamal-Nenets and Khanty-Mansiysk Autonomous Regions, the Chelyabinsk, Perm and Moscow Regions, the Republics of Bashkortan and Tatarstan and the city of Moscow (in total, supplies to these regions amounted to more than 80% of total natural gas sales volumes). The primary consumers of NOVATEK's natural gas are the power generation and metallurgical industries and regional natural gas distributors.

Liquid Hydrocarbons

The Company's SGC is primarily used in the petrochemical and refining industries while consumers of its LPG are primarily utilities and other industrial segments as well as wholesale and retail consumers.

Breakdown of Liquids Sales Volumes, %





The application of modern technologies and innovative approaches to production and marketing provide us with important competitive advantages

10

Both SGC and LPG are sold on domestic and international markets. The key markets for SGC are the USA, Europe and countries of the Asian-Pacific Region; in 2009, NOVATEK commenced shipments of SGC to consumers in South Korea, Singapore and China. LPG, crude oil and oil products are supplied to European and CIS countries; the key markets for LPG are primarily located in Eastern Europe.

Strategy

Strategic Guidelines

Our achievements over the past years have been influenced by general trends in the energy industry as a result of global economic growth and the corresponding increase in demand for hydrocarbon products. Experts forecast a 50% increase in global energy consumption over the current level by 2020; however, the scale of and structure of consumption may significantly change under varying supply and demand scenarios.

The share of natural gas as the primary energy source in the global energy balance continues to grow at a stable rate. The growth in demand for natural gas is expected to exceed forecasted demand for other energy resources within the next ten-year period. This growth forecast is driven by the approximately 2.8% increase in average natural gas consumption per annum.

The primary reasons for this expected growth are largely due to the higher efficiencies and positive environmental properties of natural gas as an energy source. The carbon emission factor for natural gas is equal to 15.3 tons C/TJ¹, which is significantly lower than other types of carbon based fuels. Transitioning to a more environmentally sound energy source, like natural gas, makes it possible to limit the negative environmental impact resulting from increased use of fossil fuels to further industrial development. That is why we believe that natural gas demand will continue to grow.

At the same time, there are still a number of restrictions present on the Russian natural gas market, which

affect both export and domestic supplies of natural gas. For instance, in accordance with the Federal Law No. 117-FZ "On Gas Export", only OAO Gazprom owner of the UGSS, and its wholly-owned subsidiary have the right to export gas.

The Government of the RF regulates the price of natural gas sold on the domestic market through the Federal Tariff Service. Although independent natural gas producers may sell natural gas at non-regulated prices, the actual prices received depend to a large degree on the regulated price. The Russian government also regulates gas transportation tariffs for independent producers' gas transported via the gas transportation facilities of OAO Gazprom. In accordance with the key parameters for social and economic development forecasted for the period up to 2013, the Russian government has provided guidance for the increase in domestic regulated gas prices, with the primary goal to liberalize gas pricing and achieve equal profitability for domestic and export sales by 2014 or 2015.

Strategic Goals

In developing our strategic goals and objectives, we take into account existing and potential factors which may affect our business and, accordingly, run financial and operational models under various scenarios to optimize our development plans. The Company's development model is based on the core assumption of steady demand growth (excluding temporary variations) for our hydrocarbon production and our ability to satisfy that demand. The application of modern technologies and innovative approaches to production and market-

As of 31 December 2009, our proved natural gas² and liquid hydrocarbons' reserves totaled 967 bcm and 63 mmt, respectively. Our total reserves-to-production ratio is approximately 29 years, on a boe basis, and our gas reserves-to-production ratio is approximately 30 years.

¹ tons C/TJ — tons of carbon per terajoule.

² Reserve estimation is carried out by independent appraisal using United States Securities and Exchange Commission (SEC) methodology



NOVATEK remains one of the lowest cost producers in the global oil and gas industry

11

ing provide us with important competitive advantages.

NOVATEK's strategic goals are the following:

- **To increase our production capacity of natural gas and associated hydrocarbons.**

We have prioritized our investment activities to focus on the expansion of natural gas and gas condensate production and processing capacities. The acquisition of assets in combination with active geological exploration provides a stable base for resource and production growth.

- **To maintain our low cost structure.**

NOVATEK remains one of the lowest cost producers in the global oil and gas industry due to the geographic concentration of our resource base and processing facilities in the YNAO, the prolific nature of our resource base and proximity to processing and transportation facilities.

- **To increase our resource base and manage reserves effectively**

Rational use of resources depends on an integrated approach to field development. Using modern exploration and production methods, the Company devel-

ops its reserves in an economically efficient manner and maximizes the hydrocarbon recovery level from its fields. Through the prudent allocation of capital, we are able to find and acquire new hydrocarbon resources while at the same time maintaining one of the lowest reserve replacement costs in the oil and gas industry.

- **Maximize risk-adjusted margins on sales of natural gas and liquids and expand our customer base.**

We strive to expand our presence in regional natural gas markets and establish long-term relations with our consumers. Our SGC and LPG sales are determined by maximizing our net-back margins based on existing price conditions, customer mix and the supply and demand balance in both domestic and international markets.

In June 2010, we signed a cooperation agreement with OAO Gazprom for the implementation of a pilot project to construct liquefied natural gas (LNG) production facilities and infrastructure on the Yamal peninsula. In con-





Our sustainable development activities comply with the requirements of the International Finance Corporation's "Standard on Environmental and Social Sustainability and Operating Directives"

12

junction with the signing of the agreement, a long-term agency agreement was signed between Yamal LNG and Gazprom Export pursuant to which Gazprom Export will act as an agent for export sales of LNG between Yamal LNG and Yamal LNG's wholly-owned international sales subsidiary. LNG is a growing segment of the global gas market providing more flexibility for sales, trading and access to new markets.

NOVATEK's Strategy and Sustainable Development Goals

In developing our strategy, we consider the provisions and practical applications of sustainable development practices, as set out in various international documents,

Report on Performance Conformity, 11 September 2008 (excerpts)

"The environmental protection and labor safety management system is in conformity with the IFC requirements. The Company makes significant efforts aimed at assessment and classification of all impacts of economic activities including greenhouse gas emissions. Data presented provides strong evidence of the conformity of NOVATEK and its subsidiaries' activities with the applicable IFC norms.

The Company makes substantial contributions to support of local communities, carries out special programs in cooperation with local authorities and representatives of indigenous peoples; decisions on social investments are made collectively. Such programs have had a positive impact on local communities...

Based on the results of the analysis of the scale, character and geography of the operations carried out or planned to be carried out in the future by NOVATEK-Yurkharovneftegas, the members of the audit group have concluded that the activities of the Company create no problems for indigenous people and the Company's transport infrastructure does not create obstacles for reindeer migration. The Company provides extensive assistance to indigenous peoples in the territories of its operations..."

to define goals which the Company can realize in the course of its strategy implementation. Our priorities in the field of sustainable development are based on the following principles:

- Rational use of natural resources;
- Improvement of environmental conditions at our production facilities and prevention of accidents;
- Minimization of any negative impacts on the environment and traditional way of life of the indigenous peoples of the Far North; and
- Social responsibility for our employees and the territories where we operate.

NOVATEK's sustainable development activities are regulated by a number of documents covering key functional areas, including:

- Corporate Governance Code;
- Information Policy Regulations;
- Health, Safety and Environmental Policy;
- Social Policy Concept;
- Collective Bargaining Agreements;
- Internal documents and regulations;
- Cooperation agreements with the territories where we operate; and
- Agreements with organizations of indigenous peoples of the Far North.

Our sustainable development activities comply with the requirements of the International Finance Corporation's (IFC) "Standard on Environmental and Social Sustainability and Operating Directives". During the period from 2006 to 2008, the Company's subsidiaries were audited in conformance with the above standard and were found to be in compliance.

Corporate Governance

As at 31 December 2009, based on the information disclosure by nominee shareholders, more than 5,900 shareholders were entered in OAO NOVATEK's share register, most of whom are minority shareholders¹.

¹ In comparison with the same period of 2008, the structure of the share capital of the Company has had no material changes.



The Company's Board of Directors strives to carry out effective and efficient management of NOVATEK's business activities to the benefit of all shareholders and aims to increase the Company's share and asset values

The Company's shares are listed on the following exchanges; Russian Trading System (RTS) stock exchange and Moscow Interbank Currency Exchange (MICEX); the Company's London Stock Exchange listing is in the form of global depository receipts (GDR). GDRs are also listed on the NASDAQ PORTAL system and the Frankfurt Stock Exchange.

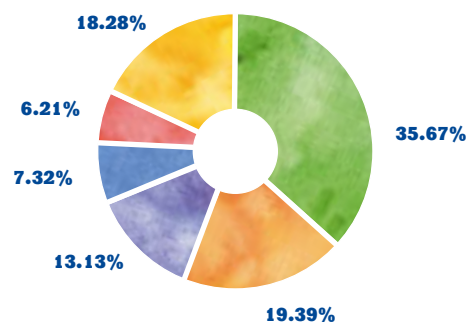
The Company's Board of Directors strives to carry out effective and efficient management of NOVATEK's business activities to the benefit of all shareholders and aims to increase the Company's share and asset values.

Corporate Governance Bodies

The Company's highest management body is the General Meeting of Shareholders, which allows NOVATEK's shareholders to exercise their right to participate in the management of the Company.

The scope of functions of NOVATEK's Board of Directors, a collegial management body, comprises strategic management of the Company and control of operating

Share Capital Structure as of 31.12.2009



- Deutsche Bank (nominee shareholder)
- OAQ Gazprombank (nominee shareholder)
- OOO Santata
- OOO LEVIT
- OOO Belona
- Others





The key principles of our interaction with shareholders are based on timely information disclosure, transparency and maintaining an open and regular dialogue with the investment community

14

activities. During the reporting period, the Board of Directors comprised nine persons including seven independent directors¹. Our intention is that no less than one third of the Board of Directors are independent directors and members have the requisite knowledge in the fields of strategy, finance, management and experience in the oil and gas sector.

The Board of Directors has three Committees: Strategy and Investment Committee, Audit Committee and Corporate Governance and Remuneration Committee; and one Sub-Committee for LNG Projects.

The Management Board (a collegial body) and the Chairman of the Management Board (a single person) are executive bodies, which conduct the daily management of the Company. The Management Board is elected by the Board of Directors from amongst key employees, and the Chairman of the Management Board is approved by the General Meeting of Shareholders.

Composition, authorities and functions of the Board of Directors and the relevant Committees, as well as those of the Management Board, are provided in detail on NOVATEK's corporate website in both the Russian and English languages (www.novatek.ru), and as published in the Company's Annual Reviews.

Corporate Governance Code

NOVATEK has adopted and follows a Corporate Governance Code which provides a framework governing the execution of our business activities. Key points provided for in the Company's Corporate Governance Code are as follows:

- Equal and fair treatment of shareholders, including minority and foreign shareholders, protection of shareholders' rights, such as voting rights, profit participation rights, and the right to information;
- Board of Directors accountability to shareholders;
- Effective control over the Company's top management;
- Transparent and timely operational and financial disclosure;
- Ethical business behavior; and
- Social responsibility.

¹ Directors are considered to be Independent Directors in accordance with the definition contained in the Russian Federal Law "On Joint-Stock Companies".

Control over the observance and amendments to the Corporate Governance Code with respect to new standards of corporate conduct, interests of shareholders, the Company and other stakeholders is carried out by the Corporate Governance and Remuneration Committee of the Board of Directors.

Information Transparency

The key principles of our interaction with shareholders are based on timely information disclosure, transparency and maintaining an open and regular dialogue with the investment community. In addition to mandatory information disclosures, the Company discloses additional data in accordance with its Information Policy Regulations, which were adopted by resolution of the Board of Directors.

Key principles of the Information Policy Regulations include the following:

- Regularity and timeliness of information submission;
- Availability of information disclosures to shareholders and other stakeholders;
- Accuracy and completeness of information disclosures; and
- Maintenance of a reasonable balance between transparency and the commercial interests of the Company.

The Company provides financial and other information in accordance with the Federal Law "On the Securities Market", Regulations on Information Disclosure by Issuers of Equity Securities², Code of Corporate Governance of the Federal Financial Securities Commission, the Charter of OAO NOVATEK and internal corporate documents. We are also governed by the requirements of the Russian and international stock exchanges where the Company's shares are listed, in particular, the Combined Code on Corporate Governance of the Financial Reporting Council of Great Britain.

NOVATEK reports financial information in accordance with the Russian Accounting Standards and International Financial Reporting Standards on a quarterly and annual basis. Information is made available to all shareholders and stakeholders through Company press releases, information agencies in Russia and abroad and on NOVATEK's corporate website.

² Approved by the Decree of the Federal Service for Financial Markets on 10.10.2006 No. 06-117/pz-n.



We strive to have a productive dialogue with all stakeholders in order to better understand their interests, expectations and concerns

15

Insider Information and Prevention of Conflicts of Interest

NOVATEK's Information Policy Regulations define what constitutes insider information, the range of physical and legal entities which have access to such information and measures preventing the misuse of this information.

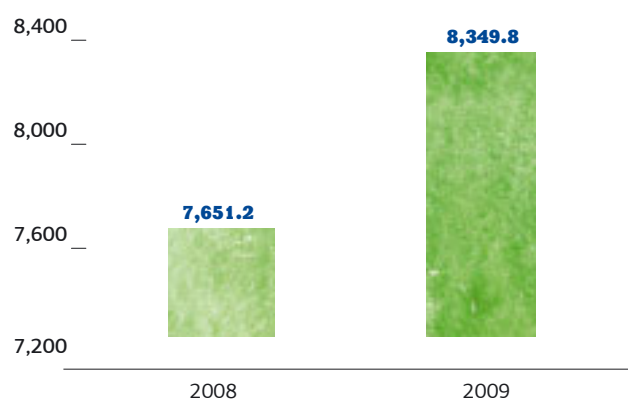
Members of the Board of Directors and the Management Board are required to report any personal, commercial or other interests (direct or indirect) in any deals, contracts or projects associated with the Company, including any intention to enter into a deal involving securities of OAO NOVATEK or its subsidiaries.

Top managers and other Company employees shall also report any potential or existing conflicts of interest while conducting deals with other economic entities, as well as conflicts arising from the ownership of shares or participation in other companies.

Dividend Policy

The Company's Dividend Policy is based on the rational allocation of profit with consideration for both shareholders' interests and the Company's requirements for further development.

Total Amount of Dividends Paid, RR millions



The payment of dividends is carried out in accordance with NOVATEK's Dividend Policy developed and approved by the Board of Directors. A decision on whether to pay dividends, their amount, time and form of payment is taken by the General Meeting of Shareholders upon the recommendation of the Board of Directors. Dividends are paid twice a year, and the rate of dividends depends on market conditions, revenues and capital requirements of the Company.

Remuneration of Top Management

During the reporting period, the amount of remuneration and compensation of the Board of Directors for executing their duties and responsibilities was approved by the Annual General Meeting of Shareholders' at the suggestion of the Corporate Governance and Remuneration Committee of the Board of Directors. Beginning in 2010, remuneration and compensation of the Board of Directors will take place in accordance with the Regulations on Compensation Payable to Members of NOVATEK's Board of Directors which, was approved by the Company's General Meeting of Shareholders.

The Company did not employ the following incentive methods for top Management during the reporting period; share-based remuneration or "golden parachutes".

Top Management's Involvement in Sustainability Agenda

Members of the Board of Directors and the Management Board review and approve the business plans of NOVATEK and its subsidiaries as well as reports on the fulfillment of these plans. Business plans include activities in the area of environmental protection, energy conservation, industrial and labor safety, social support and interaction with the communities and indigenous peoples in the areas where we operate.

Stakeholder Engagement

We strive to have a productive dialogue with all stakeholders in order to better understand their interests, expectations and concerns as well as to strengthen their trust in decisions made by the Company and reduce reputational risk.



The Company's Dividend Policy is based on the rational allocation of profit

16

Our key stakeholders comprise shareholders, business partners, employees and members of their families, as well as authorities and residents of the communities where we operate.

The Company's corporate communication system complies with the Information Policy Regulations and includes internal (between business subdivisions, the managing company and subsidiaries) and external (between the Company and parties interested in NOVATEK's activities) communications.

Internal Communication

The internal communication process is based on two-way informational flow — directly or indirectly to employees and the receipt of feedback from them — this two-way informational flow enables our employees to better understand their operational tasks, and also allows them to take active participation in the Company's development and decision making process. The following forms of communication are used to achieve this goal:

- Formal or informal meetings with top management;

- Corporate newspaper;
- Corporate Website Portal; and
- Corporate events.

The Company's top managers meet regularly with the employees of subsidiary companies: the Chairman of the Management Board visits the regions at least once a year and the Deputy Chairman of the Management Board at least three times a year. We consider these meetings to be very important for increasing our employees' engagement in the management process. These meetings promote better understanding of the Company's strategy and, at the same time, provide an opportunity for employees to inform top managers about issues of concern or suggestions for improvements. At these meetings, participants discuss important corporate issues affecting the interests of all employees and the results are incorporated into the management decision process.

NOVATEK's corporate newspaper is issued monthly. Each issue contains regular columns about the Company's activities and general industry topics; and provides employees with the opportunity to write to the newspaper with

Stakeholder Groups

Key Groups	Sub-Groups
Governmental organizations (of Russia and other countries)	Legislative and executive authorities, Regulating and supervising authorities
Shareholders and investors	Investment banks, pension funds, other funds, private investors
Credit and financial institutions	Banks and credit organizations
Partners, suppliers and contractors	Oil and gas industry participants (Russian and international companies), industry associations, contractors, suppliers of equipment and services
Mass media and rating agencies	International, national and regional press, TV, information agencies and credit rating agencies
Employees of the Company	Employees of subsidiaries, trade unions, former employees (retired), potential employees (students)
Public organizations	Environmental and social organizations, organization of indigenous peoples of the Far North and other community organizations, International organizations and funds
Educational establishments and students	Higher educational establishments and special educational establishments, student organizations
Consumers	Industrial companies (Russian and international), private consumers
Residents of the communities where we operate	Local governments, municipal organizations, local associations, members of employees' families



We periodically organize special events providing stakeholders with an opportunity to gain a better understanding of the Company's activities

17

questions or comments, on any issue of interest, and the editorial staff will prepare and publish answers.

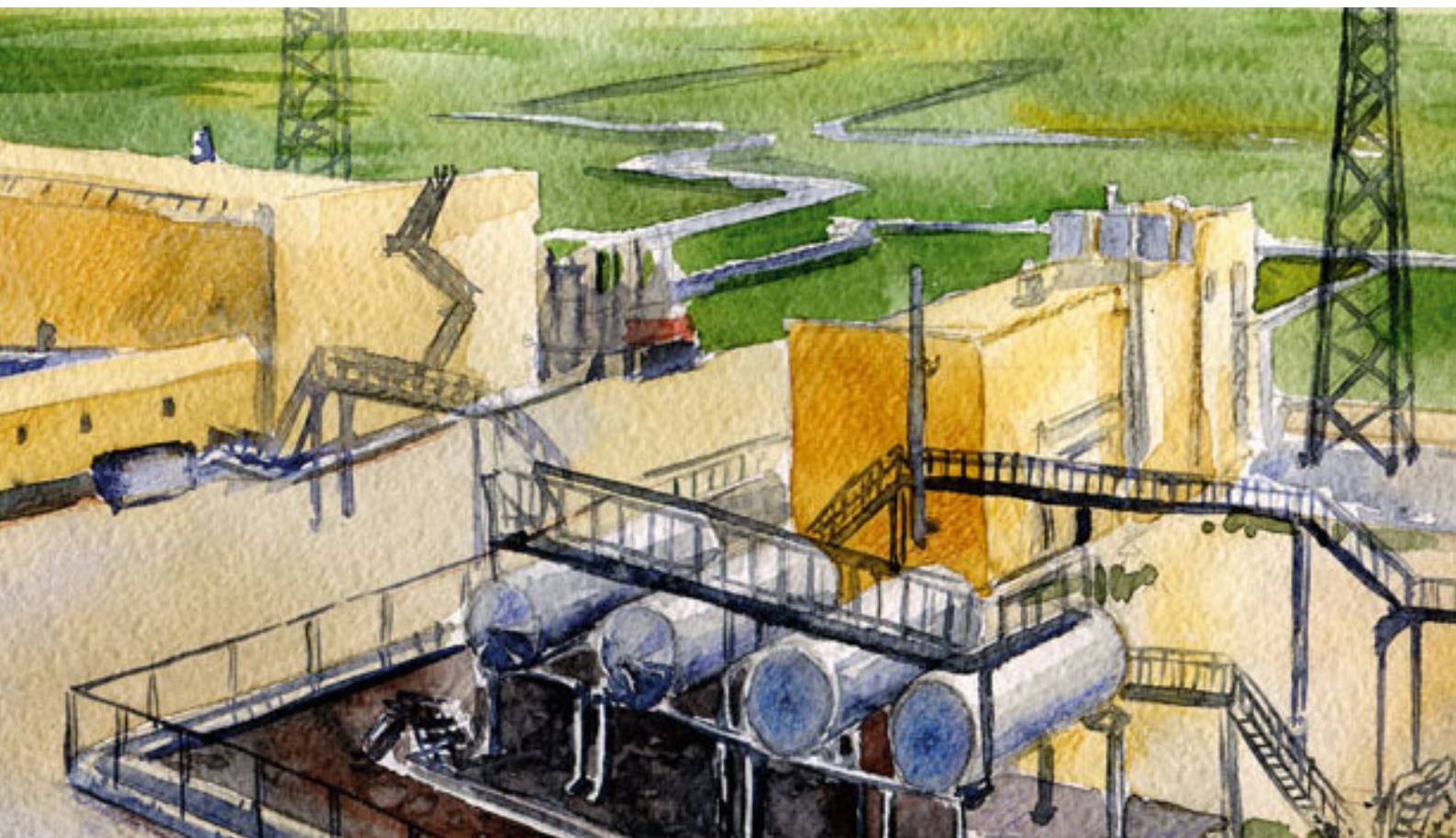
External Communications

External communications include the distribution of press releases, regular publications on the corporate website, press conferences, participation in business forums and conferences held by financial institutions and industry groups.

We periodically organize special events providing stakeholders with an opportunity to gain a better understanding of the Company's activities; for example, we hold presentations providing details of new projects on a regular basis as well as quarterly and annual earnings conference calls. In 2008, when the second phase of the Yurkharovskoye field was launched, and in 2009, when an LPG scrubbing unit was commissioned at the Purovsky Plant, we hosted a special meeting for our business partners, representatives of the Ministry of Industry, regional authorities and journalists. This approach adopted by the Company, uses face-to-face meetings for each major event in the life of our Company.

We also hold visiting sessions of the Management Board and meetings of the Company's management with top officials of the Russian Federation (RF), representatives of municipal authorities and deputies of legislative bodies in the regions where our operations are located. These meetings allow the participants involved to resolve social, economic and environmental issues and discuss the Company's operating activities in the respective regions.

NOVATEK plays an active role in international conferences and forums. In our opinion, the most critical issues facing the international energy sector in the near future are those associated with the development of alternative energy sources, new principles for natural gas pricing, the role of shale gas and the prospects for developing additional natural gas liquefaction capacity. We believe it is extremely important to maintain a continuous dialogue between gas suppliers and consumers with due consideration for their interdependence as well as discussing relevant trends in the oil and gas industry.



2

SUSTAINABILITY REPORT OAO NOVATEK 2008–2009

ECONOMIC **Performance and** **Sustainability**





We were able to mitigate the negative effects of the economic crisis on our operations due to our inherent competitive advantages

19

Overcoming the Economic Crisis

The years 2008 and 2009 were characterized by a complicated business environment caused by the global economic crisis, which resulted in a substantial reduction in global and domestic industrial output. As a result, the consumption of primary energy sources, including natural gas, decreased.

We were able to mitigate the negative effects of the economic crisis on our operations due to our inherent competitive advantages, which consist of the following:

- Low operating cost structure;
- Integrated facilities for unstable gas condensate processing and transportation;
- Close proximity of our fields to the unified gas supply system and processing facilities;
- Flexible marketing channels; and
- Qualified and experienced management and employees.

There are also several specific risks which have been identified and addressed, where possible, by the Company's management:

- Dependence on the UGSS to deliver natural gas volumes from the Company's fields to end-customers;
- Decisions by governmental bodies regarding regulatory and tax issues;
- Instability of international markets;
- Growth in gas transportation tariffs; and
- Limited capacity of the UGSS.

During the reporting period, the Company was able to continue growing its business while at the same time control costs; specifically we were able to:

- Significantly increase our production capacity with the launch of the second phase of the second stage development at the Yurkharovskoye field and the launch of the second stage expansion of the Purovsky Plant;
- Significantly increase our resource base by securing four exploration and production licenses at fields located in the YNAO, and by acquiring a 51% equity interest in Yamal LNG, the holder of the license to the South-Tambeyskoye field;

Financial Indicators, RR millions

	2008	2009
Sales revenue	79,272	89,954
Operating costs	46,916	56,130
Net profit	22,927	25,722
Capital investments	31,810	17,872

- Continuous focus on administrative and operational cost control enabling the Company to maintain its position as one of the lowest cost producers in the oil and gas industry;
- Expanding our marketing channels for natural gas and liquid hydrocarbons including the launch of a network of multi-fuel retail stations for sales of LPG; and
- Continuing our cooperation with major international oil and gas companies.

Reliability of Supplies

The Company strives to ensure uninterrupted deliveries of natural gas and liquid hydrocarbons, in compliance with contractual terms and conditions. The Company has demonstrated its ability to provide its consumers with long-term guaranteed supplies of an environmentally sound energy source. Moreover, NOVATEK has entered into long-term transportation agreements with OAO Gazprom providing the framework for annual deliveries of natural gas to end-customers in various regions in Russia.

To ensure the reliable supply of our liquid hydrocarbon products we have established long-term partnership relations with the following transportation companies:

- State-owned company, OAO Russian Railways — owner of railway infrastructure and the main rail cargo carrier in Russia
- OAO Freight One Company — operator of a fleet of railway tank cars for transportation of oil and oil products
- State-owned company, OAO SG-Trans — operator of a fleet of specialized railway tank cars for transportation of LPG



The Company strives to ensure uninterrupted deliveries of natural gas and liquid hydrocarbons, in compliance with contractual terms and conditions

20

We also cooperate with Russian and international shipping companies engaged in ocean transportation of liquid hydrocarbons, such as OAO Sovkomflot and Fearnleys AS, to deliver our liquid hydrocarbons to markets in the United States, Europe and the Asian-Pacific region.

We enter into annual contracts with state-owned crude oil pipeline company, OAO AK Transneft for the provision of crude oil transportation services.

In addition, NOVATEK pays special attention to logistics and planning elements in order to optimize the hydrocarbon value chain “Production — Processing — Transportation — Consumer”.

Innovations

The Company has implemented a number of innovative solutions to optimize field development and reduce unit production costs. The use of these solutions has also played a significant role in improving environmental practices at our facilities. The Company ensures that

these scientific and technical solutions are not only operationally viable, but also economically justified.

Examples of the application of innovative technologies by NOVATEK subsidiaries.

OOO NOVATEK-Yurkharovneftegas

The construction of a drilling cuttings recycling plant at the Yurkharovskoye field enables us to recover industrial oils from used drilling mud which can be reused.

Another innovative solution is the production of methanol at the field level. In 2007, we launched an integrated small-scale pilot methanol production plant with output capacity of 12.5 thousand tons per year. Based on the experience gained from the pilot plant, the construction of another plant (with annual capacity of 40 thousand tons) was launched in 2010 and is capable of supplying 100% of the Company’s methanol demands.

An improved system of forced-air ventilation has been used in the construction of the gas condensate de-etha-





The Company has implemented a number of innovative solutions to optimize field development and reduce unit production costs

21

nization unit, the turbo-expander units and the complex gas preparation unit all of which are part of the field's 3rd stage development program.

OOO NOVATEK-Tarkosalenftegas

A system of gas seals incorporated into the booster compressor station at the Khancheykoye field has increased its efficiency resulting in higher production volumes.

ZAO Terneftegas

The development plan for the Termokarstovoye gas condensate field will include the introduction of cycling process technology making it the first project in the Russian oil and gas industry to apply this technology. Initial production is planned to begin in 2013 or 2014.

ZAO Terneftegas also uses wooden tundra-mats instead of reinforced concrete slabs for covering the foundations of housing facilities, pedestrian sidewalks and control units, which reduces the impact of our operations on the environment.

OOO NOVATEK-Polymer

During the reporting period, NOVATEK-Polymer invested in modern European manufactured equipment for more efficient production of new types of polypropylene films. As of September 2010, we disposed of our polymer business to concentrate our efforts on our core gas and gas condensate business.

OOO NOVATEK-Ust-Luga

The SGC transshipment and fractionation complex in Ust-Luga is a key project of NOVATEK. The Ust-Luga-

Shale Gas

Shale gas production in the United States has become one of the most exciting industry news events of 2009, and has significantly affected natural gas prices worldwide. However, while the "shale revolution" has not impacted the Company's core strategy, we have amended some of the scenarios in our development models and will continue monitoring this issue. A Sub-Committee for LNG Projects has been established within the Strategy and Investment Committee of the Board of Directors and, among its responsibilities, is evaluating the global effect of shale gas on potential LNG production.

We believe the use of unconventional energy resources (including shale gas) will continue to develop, and the share of such energy resources in the global fuel and energy balance will continue to grow; however, we believe this growth of alternative sources of natural gas will not have a negative affect on our ability to grow production.

complex, located at a newly developed site in the Gulf of Finland, will provide substantial reductions in transport costs and provide higher value-added production of liquid hydrocarbons.

OOO Yamal-LNG

One of the key innovations in the Company's activities is the introduction of gas liquefaction technology.

3

SUSTAINABILITY REPORT OAO NOVATEK 2008–2009

ENVIRONMENTAL Protection





In 2008, the introduction of the IMS was completed at the Company's key subsidiaries

23

Integrated Management System for Environmental Protection, Occupational Health and Safety (IMS)

IMS Scope

NOVATEK's strategy to increase hydrocarbon production and processing capacities is interrelated with the following sustainable development principles governing our activities: (i) improving environmental practices at production and processing facilities, (ii) reducing the number of accidents and incidents and (iii) limiting the impact of our diverse operations on the environment where we operate. We have developed the IMS to enable us to apply a systematic approach to integrating these core sustainable development principles into our operations.

In 2008, the introduction of the IMS was completed at the Company's key subsidiaries (OOO Tarkosaleneftegaz, OOO NOVATEK-Purovsky ZPK, OOO NOVATEK-Transservice, OOO Yurkharovneftegas and OOO NOVATEK-Polymer) and at the main corporate entity, OAO NOVATEK. These subsidiaries were prioritized for IMS introduction based on the significance of their operations, as well as the level of risk for potential damage to the environment or health of personnel and residents of the communities in the areas where we operate. Further development of the IMS is planned at ZAO Terneftegas, OAO Yamal LNG and Novatek Overseas E&P.

Other subsidiaries covered by this report are not within the scope of the IMS, but environmental protection and occupational health and safety (OHS) are under the control of their respective management bodies and OAO NOVATEK.

Workplace certification for compliance with sanitary and hygienic standards is performed at all of the Company's subsidiaries operating in the territory of the RF.

IMS covers the following key processes and procedures:

- Development and updating of the Environmental Protection and OHS Policy;

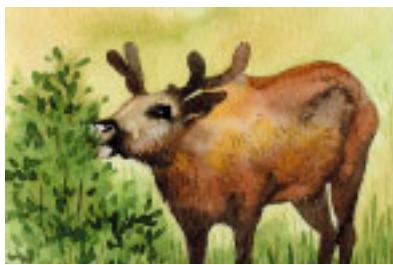
- Planning, control and reporting processes;
- Allocation of management responsibility at the Company and subsidiaries;
- Identification of types of activities, products and services significantly affecting the environment;
- Identification of hazards affecting the Company's personnel and others with access to workplaces;
- Oversight of compliance with legislative and other requirements;
- Determination of demands for personnel training in the field of environmental protection and OHS;
- Improvement of the IMS; and
- Financing for measures and procedures provided for by the IMS.

IMS Certification

The IMS has been certified for conformity with the international standards ISO 14001 and OHSAS 18001 at OAO NOVATEK, OOO NOVATEK-Yurkharovneftegas, OOO NOVATEK-Tarkosaleneftegaz and OOO NOVATEK-Purovsky ZPK. Conformity certificates have been issued by BUREAU VERITAS Certification which, is accredited by the UKAS (United Kingdom Accreditation Service). Preparation for certification is being undertaken at OOO NOVATEK-Transservice, ZAO Terneftegas and OAO Yamal-LNG. At OOO NOVATEK-Transservice, a working group has been established and special standards and internal documentation are being developed that will assist OOO NOVATEK-Transservice, and the other subsidiaries, to certify their management systems in 2010.

At NOVATEK-Yurkharovneftegas, a recertification audit of the management system was conducted in 2009. The audit verified that the Company is in compliance and reported the following: two out of four recommendations from the previous audit have been implemented, two internal audits have been conducted and the correction and prevention measures taken have been more effective. Three out of four target parameters for 2009 have been achieved including the disposal of more than 70% of annual drilling cuttings.

Also, in 2009, ZAO Bureau Veritas Certification Rus conducted supervisory audits at NOVATEK and



Subsidiaries included in the IMS have developed their own documents which are fully compatible and consistent with the general Corporate Policy

NOVATEK-Tarksaleneftegas certifying the working order and viability of their respective management systems.

Policies and Standards

We have defined our goals and obligations in the area of environmental protection and OHS in NOVAEK's relevant Corporate Policy (published on the Company's website at <http://www.novatek.ru/rus/society/ecology/environment/>), which includes the following:

- Reduction and prevention of any negative environmental impact caused by production or other corporate activities;
- Rational use and conservation of natural resources and energy;
- Introduction of non-waste and low-waste technologies as well as the safe accumulation, storage and disposal of production and consumption wastes; and
- Accountability of personnel for maintaining their qualifications and observing the Corporate Policy.

The basic principles of the Corporate Policy are as follows:

- Recognition of the potential environmental hazards of the Company's operating activities;
- Priority of preventive measures over response measures for elimination of negative environmental consequences;
- Analyzing environmental anomalies within the operating areas of the Company's facilities and carrying out of regular environmental monitoring;
- Preservation of the environment; and
- Disclosure of environmental information and interaction with stakeholders.

Subsidiaries included in the IMS have developed their own documents which are fully compatible and consistent with the general Corporate Policy. In addition, they have tailored their documents for consideration of specific aspects of their operating activities.

The Corporate Policy has been approved by the Board of Directors of NOVATEK. Any changes or updates to the current version of the Corporate Policy are initiated by

the Chairman of the Board of Directors based on consultations with the IMS manager.

Compliance of the Company's activities with general corporate goals is carried out based on a system of performance standards applicable to all subsidiaries. At present, the Company has 11 performance standards including 10 developed during the period 2008 to 2009.

Establishing Goals and Tasks

Environmental health and safety (EHS) goals and tasks are developed specifically to fulfill the obligations set out in the Corporate Policy and are used to continuously improve the results in respect to these activities.

The basis for establishing goals and tasks is the Company's Summary Register of Priority Environmental Targets and the Summary Register of Unacceptable and Provisionally Acceptable Risks. Such registers are developed annually on the basis of scheduled assessments to identify hazards and risks for all types of activities, products and services.

The current (annual) plan includes tasks and measures which are achievable based on the technical and technological capabilities of the Company and the qualification and competencies of applicable personnel.

Programs

Programs (short-term and mid-term) are developed to achieve established goals and tasks. Each subsidiary included in the IMS has developed programs for the following:

- Improve environmental protection and the IMS;
- Assess industrial injuries and occupational disease rates as well as the provision of working conditions and workplaces in compliance with sanitary and hygienic standards;
- Maintenance of operating equipment;
- Assess production facilities' compliance with industrial safety requirements;



The Policy provides for internal audits of activities for compliance with the Company's goals and standards

25

- Conduct precautionary and preventive measures against fires, accidents and other incidents at subsidiary facilities; and
- Improve personnel qualifications.

All approved programs and plans receive adequate financial support.

Allocation of Responsibilities

The General Directors of the respective subsidiaries are responsible for the timeliness and quality of program implementation; the Head of NOVATEK's EHS Department is responsible for fulfillment of the Summary Program. A working group has been established to involve employees of NOVATEK's subdivisions in the IMS processes. The EHS Department provides information as well as scientific, technical and practical assistance to subsidiaries and submits regular reports to the head of the IMS.

Top Management Involvement

NOVATEK's Deputy Chairman of the Management Board is also the head of the IMS and is responsible for ensuring its proper function.

At least once a year, the Head of the IMS performs an analysis of the program's compliance with the obligations, goals and tasks set out in the Corporate Policy and other requirements set out in the IMS. Decisions aimed to further improve the IMS are based on the results of this analysis. The Board of Directors and the Management Board review the most significant issues, such as the development of our own fire and rescue services and the insurance of hazardous production facilities.

Monitoring, Assessment of Results and Reporting

Operational control comprises assessing and monitoring the results of subsidiaries' activities on managing environmental policies and risks to ensure the health and safety of personnel and the environment in the areas

where we operate. Operational control procedures cover the following processes:

- Core and auxiliary operations;
- Environmental protection measures;
- Design, construction, expansion, reconstruction, re-equipment, conservation and abandonment of operational and support facilities;
- Contracts with suppliers and contractors for the provision of services and supplies;
- Fulfillment of services (works) by contractors on the territory of the Company's facilities; and
- Procurement, use and support processes for products which are potentially hazardous to the environment and people.

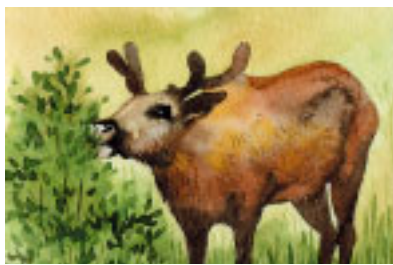
The Policy provides for internal audits of activities for compliance with the Company's goals and standards. Such audits are performed by specially trained Company personnel and the audit results are reported to the head of the IMS. When a case of non-fulfillment of the regulations under the program is found, corrective measures are developed. All subsidiaries included in the IMS system provide regular reports in accordance with applicable corporate standards and regulations.

IMS Improvement

Analysis of the IMS is conducted on a regular basis, and includes the following:

- Analysis of the fulfillment of obligations;
- Compliance of activities with legislative and internal requirements, as well as stakeholders' expectations;
- Assessment of the achievements of established goals and tasks; and
- Analysis of emergencies and accidents which occurred during the reporting period.

The results are reported to the EHS management and discussed at the working group meetings.



In planning its operating activities, the Company conducts an assessment of the potential operational impact on the environment

Implementation of Environmental Policy

Environmental Impact Assessment (EIA)

In planning its operating activities, the Company conducts an assessment of the potential operational impact on the environment, as well as an environmental appraisal, in accordance with applicable

RF legislation, and international agreements and contracts which the RF is a party to. In conducting these assessments, the Company uses complete and accurate information, measurements and calculation methods in accordance with applicable legislation and norms of the RF.

The EIA comprises analysis of the areas which may be affected by the planned activities (the baseline conditions of the environment, the presence and type

Monitoring Results at OOO Yurkharovneftegas in 2008 — 2009

Monitoring was carried out within the Yurkharovskiy and Novoyurkharovskiy license areas and along pipeline routes. The assessment of the component conditions (soils, seabed sediments, surface water) conducted by FSU SPE "Aerogeology" indicated the following results.

At monitoring stations located outside the technogenic impact zone component conditions of the environment had been assessed as stable and safe. During the monitoring period from 2004 to 2009, the parameters of the environmental conditions were at baseline level, or displayed weak deviations in line with natural causes. During the entire monitoring period there were no excess heavy metals or oil products MPC/APC¹ recorded.

The cycling process technologies within the designed technogenic facilities were assessed as sufficiently safe. Two year monitoring of soil cover conditions recorded some increase of oil product content in the soil's mineral horizon. The reasons for such deviations are still unclear; however, they are unlikely to be technogenic

Special attention was paid to the environmental component conditions within the area impacted by the field's facilities. Two major industrial sites are located within this area: a solid domestic waste site and a gas treatment plant. In addition, starting from 2008, monitoring has been performed in the north-eastern part of the Yurkharovskiy license area, where drilling has commenced and well cluster construction

over a vast area is underway. Within the solid domestic waste site, analysis of soil samples indicate that there are almost no pollutants accumulated in the soil. The situation within the well cluster area, according to monitoring conducted over two years, is sufficiently favorable and stable. No indications of substantial pollution of soils or seabed sediments with oil products have been identified; oil product content in surface water corresponds to the baseline level. The content of heavy metals in all environmental component conditions is within the baseline limits.

Environmental component conditions within the area impacted by the gas treatment plant are also considered to be sufficiently stable and safe. No excess of heavy metal or oil product MPC/APC was recorded.

In the areas where pipelines cross bodies of water, the situation has been assessed as stable and sufficiently safe. All deviations identified in soils and surface water are considered to be within the MPC/APC limits. Comparison with monitoring results performed in 2008 and 2009 indicated that in some cases water pollution occurred; however, the level of such pollution was lower in comparison with the previous year.

In one of these areas, a high oil products' content in the water of a stream was registered for three years. No correlation between the pollution and the operations of NOVATEK's facilities has been identified. In 2010, we plan to increase the chemical and visual analysis/observations in the area.

¹ MPC — maximum permissible concentration; APC — approximate permissible concentration.



Environmental monitoring and industrial control are performed annually

27

of anthropogenic load), assessment of the probability of an occurrence, the scale of risks and forecasting of environmental and associated socio-economic consequences. On the basis of the assessed results, the Company makes managerial decisions taking into account the possible environmental impact and the opinions of stakeholders.

Environmental Monitoring and Industrial Control

Environmental monitoring and industrial control are performed annually. Environmental monitoring is carried out by the Federal State Unitary Scientific and Production Enterprise (FSU SPE) "Aerogeology" of the Ministry of Natural Resources and Environment of the RF. To ensure prompt data analysis, we provide the Company's operating subsidiaries with laboratories equipped with the necessary facilities.

Results of systematic testing of the soil, atmosphere, snow cover, surface and underground water indicate

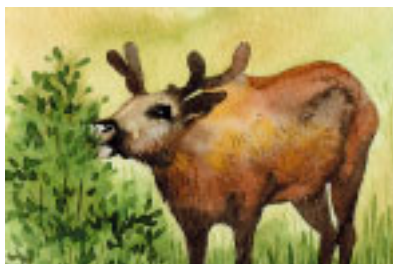
that the environmental conditions in the areas of active development by the Company's subsidiaries are safe.

Environmental Protection Training

In 2008 and 2009, 131 persons (specialists, heads of NOVATEK's subdivisions and executive directors of subsidiaries and their deputies) underwent training to upgrade their qualifications and certifications. Additional training was performed under the following programs:

- Provision of environmental safety training to heads of departments and specialists in environmental protection and control (200 hours, 14 persons, 14.3 hr/person);
- Provision of environmental safety training to heads of departments and specialists in general economic management (72 hours, 61 persons, 1.2 hr/person);
- Provision of environmental safety training for handling hazardous wastes (112 hours, 30 persons, 3.7 hr/person); and





In 2008, we worked with a number of companies and organizations regarding cooperation within the guidelines of the Kyoto Protocol

- International Program for upgrading the qualifications of auditors/lead auditor in Ecological Management Systems (40 hours, two specialists, 20 hr/person).

Costs for training and upgrading qualifications during the reporting period amounted to RR 2.02 million.

Stakeholder Engagement

We provide information on the Companies environmental policies and practices to stakeholders on a regular basis including the following:

- Oil spill emergency response plans and industrial safety declarations;
- Statistical data on the environmental impact of our operations to governmental bodies and supervisory authorities;
- Results of environmental audits and studies carried out with the EIA and as a result of environmental monitoring; and
- Sustainability reports.

In 2008, we worked with a number of companies and organizations regarding cooperation within the guidelines of the Kyoto Protocol. The Company also participated in international and Russian forums and conferences as well as seminars, exhibitions and meetings featuring discussions of environmental issues, prospects for the oil and gas sector and specific industry issues.

Energy Efficiency

Energy Efficiency Management

In 2008 and 2009, the Company significantly improved its management of energy conservation and efficiencies.

During the next reporting period, we plan to conduct energy consumption and efficiency audits at the following facilities: OOO NOVATEK-Yurkharovneftegas, OOO NOVATEK-Tarkosaleneftgas and OOO NOVATEK-Purovsky ZPK. Upon completion, the relevant energy statistics from these subsidiaries will be complete and the Company's Energy Efficiency Concept for 2011-2015 can be updated and expanded. Based on these audits, the appropriate measures on energy conservation and cost reduction will be included in NOVATEK's Energy Saving Program. In 2010, we plan to install and launch an automated energy metering system to track and measure energy consumption at these facilities.

To improve energy efficiency, the Company implemented cogeneration systems at its gas turbine power stations that increase the stations' overall efficiency coefficient by up to 72.2%. This helps to optimize loads and reduce emissions of greenhouse gases from gas consumed at the stations' boilers. These types of decisions contribute to achieving the goals established in the Directive of the Council of the European Union 96/61/EC "On Integrated Pollution Prevention and Control".

Stakeholder Groups	Events
Environmental community, expert and scientific organizations, companies and governmental organizations	2008: International Ecological Forum "Russia Today and Tomorrow" 2009: Scientific and Practical Workshop "Ecological, engineering-economic and legal aspects of life support system" (Hannover)
Oil and gas companies, industry organizations, government and supervisory organizations	2008: Seminar "Terms of designing, construction and operation of gas processing plants in accordance with requirements of Russian legislation", the II All-Russian Seminar of Ecologists 2009: TOTAL S.A. seminar on sustainable development, seminar of the Embassy of the UK on energy efficiency
Governmental and supervisory organizations	2009: meetings in the Ministry of Nature of Russia, a round table dedicated to associated gas recovery in the Institute of World Economy, meetings with the Administration of YNAO.
Various groups of stakeholders, mass media	2008: International Exhibition "NEFTEGAZ-2008" 2009: State exhibition "Integrated Safety 2009", the 6th International Exhibition for Waste Management and Environmental Protection Technologies



In 2008, we introduced linear telemechanics systems based on wind generators and solar batteries

29

Use of Renewable Energy Sources

In 2008, we introduced linear telemechanics systems based on wind generators and solar batteries.

The condensate pipeline built from Yurkharovskoye gas condensate field to the Purovsky Plant is equipped with 51 sets of wind generating units and solar batteries providing a reliable power supply to all sub-systems in the case of a power outage.

Implementation of this project allowed us to abandon a project to build a 300 km power transmission line.

Air Emissions

Emission Rates and Structure

During the reporting period, pollutant emissions in the atmosphere from production subsidiaries (NOVATEK-Yurkharovneftegas and NOVATEK-Tarkosaleneftogas)

have increased: in 2009 — by almost 16% in comparison with 2008, and in 2008 — by almost 14% in comparison with 2007. Overall volumes of emissions, however, are still substantially lower than the permitted rates.

The increase in pollutant emissions was due to the increase in hydrocarbon production and the launch of new production facilities. Emissions come mainly from stationary operating sources. The sources have been inventoried and considered in regards to current projects and the maximum amount of permissible emissions. Rostekhnadzor permits have been obtained for our operations' emission volumes.

The structure of emissions remains stable and includes: carbon oxide, nitrogen oxides, hydrocarbons and solid material (smoke black). Carbon dioxide (CO₂) emissions were about 1 mmt. Since CO₂ is not a pollutant, according to the RF's classification of pollutants, this parameter is calculated separately from pollutants.

Direct Use of Energy with Breakdown by Primary Sources*

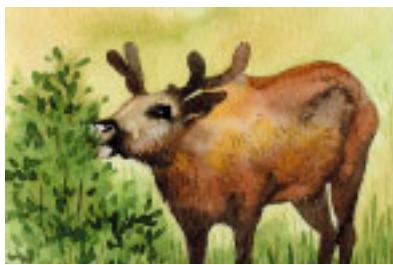
	Natural gas, GJ	Fuel oil, GJ	Coal, GJ	Coke, GJ	Gasoline, GJ	Diesel fuel, GJ	GJ	Total equivalent fuel ton
2008	3,234.390	0	0	0	0	0	3,234.390	107,813.0
2009	2,498.838	0	0	0	0	0	2,498.838	83,294.6

* We only use natural gas and do not use any other types of fuel. Some of the electric power consumed by our enterprises is produced at our own power generation stations reducing dependence on power from external sources.

Energy Saved as a Result of Energy Conservation and Improvements in Energy Efficiencies**

	Electric power		Thermal energy		Fuel resources		Economic effect
	MW/h	GJ	Gcal	GJ	equivalent fuel ton	GJ	RR thousand
2008	902.374	3,248	1,209.61	5,068.266	1,078.13	32,344	3,109.4
2009	1,071.80	3,860	1,889.93	7,918.807	832.946	24,988	4,423.4

** The above data refers to energy saved in production processes. Energy conservation is a result of the standardization and automation for metering energy consumption.



The Company takes into account risks associated with climate change and has established a set of measures to reduce the probability of these risks

Associated Petroleum Gas Recovery

Improvements in associated petroleum gas (APG) recovery represent a critical task at some of our subsidiaries.

The Company has developed the Program for Improvement of Rational Use of APG and the Program for Instrumental Monitoring and Control of APG for the period from 2007 to 2011. These programs provide for construction of a BCS at the East-Tarkosalinskoye field with an APG custody transfer meter covering the gas pipeline from the field's Central Gathering Facility to the field's Gas and Condensate Processing Plant (starting from 2010). As a result, the APG recovery rate is expected to increase up to 95% by 2011.

Air Emission Sources, Composition and Volumes

		2008	2009
Total emissions	ton	11,784.5	12,538.5
stationary sources of emissions	pc.	913.0	1,060.0
including operational emissions	pc.	641.0	767.0
permitted emissions	ton	30,403.6	32,190.4
Emission composition			
solid material	ton	442.4	1,072.6
sulfur dioxide	ton	8.7	2.4
carbon oxide	ton	7,055.0	7,671.9
hydrocarbons	ton	2,159.0	1,573.4
VOC	ton	385.210	467.8
methanol	ton	51.9	75.6
methane	ton	244.7	511.4
nitrogen oxide	ton	1,712.1	1,734.8
Ozone-depleting substances	ton	0	0

Geocryological Monitoring at the Gas Treatment Plant-1 (GTP-1) of the Yurkharovskoye Field

Monitoring performed during the five-year period (from 2005 to 2009) indicates that the soil temperatures in thermometric wells (TW) at the GTP-1 are stable. There was a rise in the soil temperature observed at depths of 3-9 m by 0.3–1.00 °C on average.

The thickness of the seasonally thawed layer (STL) along the pipeline route during the monitoring period has not changed which may indicate that there is no thermal impact of the facilities on the near-surface layer. However, the thawing depth disturbance in the case of soil and plant cover has increased by 0.3 to 0.5 m almost universally as compared with the thickness of the seasonally thawed layer in the adjacent, undisturbed area.

No instances of soil temperature crossing the 0°C threshold have been identified in any TW located along the pipeline route during the monitoring period. A longer monitoring period is required in order to establish that this is a stable and regular situation. Interpretation and assessment of the unidirectional rise of soil temperatures observed in TW at depths of 9.0 m requires additional monitoring and, possibly, application of additional geophysical and geodynamic methods.

Climate Change

Risks Associated with Climate Change

The energy industry features fast growing low-carbon markets, and we consider our participation in these markets an important part of our business strategy. The Company takes into account risks associated with climate change and has established a set of measures to reduce the probability of these risks and improve the Company's response readiness.

The key production facilities of NOVATEK are located in Russia's Far North within the permafrost zone of the



In 2009, NOVATEK became one of the first Russian companies to take part in the [HYPERLINK](#)

31

subarctic. The areas where NOVATEK's fields are being developed are located in unstable zones in terms of resistance to technogenic stress.

The main physical risk to the Company's operations associated with climate change is the potential thawing of soils within the permafrost zone, which may cause partial damage to the infrastructure of production facilities, pipeline accidents and failures, foundation instability and flooding of facilities.

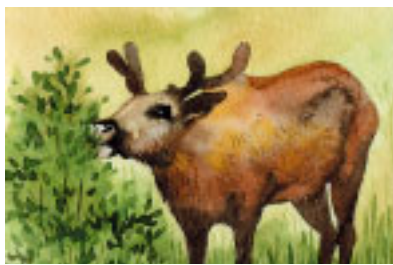
To mitigate such risks, NOVATEK conducts regular cryological monitoring and the results indicate that the risk of permafrost thaw and degradation is insignificant at the moment. Also, field development projects include measures to prevent and/or minimize the thermal impact of the facilities located within the permafrost zone.

Climate Change Initiatives and Projects

During the reporting period, several new projects have been implemented to reduce greenhouse gas emissions, including:

- Use of exhaust gas to heat the boilers of the gas turbine power plants reduced emissions by 12,500 ton CO₂/eqv./year;
- Modernization of the flow scheme for the flash gas recovery process reduced emissions by 148,370 ton CO₂/eqv./year; and
- Construction of a gas pipeline from the East-Tarkosalinskoye field's Central Gathering Facility to the field's Gas and Gas Condensate Processing Plant (final stage to be completed in 2010).





Investors and other stakeholders consider our participation in the CDP as evidence of the Company's commitment to transparency and to adopting measures to mitigate the potential negative impact of our operations on the climate

Participation in International Climate Change Initiatives

In 2009, NOVATEK became one of the first Russian companies to take part in the Carbon Disclosure Project (CDP): <http://www.novatek.ru/eng/society/sustainability/>. The CDP is an international organization whose aim is to focus the international investment community on the search for solutions to reduce carbon emissions during the implementation of investment projects.

Investors and other stakeholders consider our participation in the CDP as evidence of the Company's commitment to transparency and to adopting measures to mitigate the potential negative impact of our operations on the climate. Continued participation in this project will help us to define strategic tasks associated with climate change.

Other Environmental Impacts

Water Usage

In accordance with the Environmental Policy, the Company's subsidiaries strive to rationally use water and introduce environmentally efficient technologies where possible. Our goal is to reduce water consumption as we increase our production capacity. Subsidiaries use metering devices to assess the quality and volumes of water withdrawn and discharged during operations.

Water Consumption, mcm

		2008	2009
Water taken	mcm	936.2	711.8
Water used:	mcm	936.2	711.8
for domestic/potable purposes	mcm	267.1	264.6
for industrial purposes	mcm	669.6	447.4
Recycled water	mcm	12.4	12.4

Water for industrial and domestic/potable purposes is mainly taken from underground water sources. The water supply for the Yurkharovskoye field is sourced from the Yurkharovo River channel and is used for industrial and domestic/potable purposes. The rate and volumes of water consumption depend on the scope of drilling and timing of the launch of new production facilities.

The reduction in water consumption in 2009, compared with 2008, was due to a reduction in drilling operations during the 2009 period. Increased water consumption in 2008, compared with 2007, was due to the construction and launch of the second stage of the Purovsky Plant and LPG dehydration unit for methanol regeneration as well as an increase in the scope of drilling operations.

Recycled water accounts for less than 2% of total water consumption.

Wastewater

Wastewater is processed in the following ways: injection into underground intake formations, burning at horizontal flare units, discharge into pits after treatment; discharge to the surface after treatment; and discharge into sludge pits.

There is no wastewater discharged into bodies of water at the Company's production facilities. After processing at preliminary water treatment stations, wastewater is transferred to gas flare units (GFU) for burning, together with natural gas, which is a relatively harmless method of wastewater disposal. The process of burning industrial waste at the GFU is not considered as wastewater discharge and the emissions generated are within the maximum permissible amounts.

Water injection into underground formations is carried out in accordance with the license for subsoil use and is governed by the corresponding license agreements with Rosnedra and for projects, which have passed state expertise reviews.



Approximately 50% of waste is reused by the Company at its own production facilities

During 2009, we worked on installing biological wastewater treatment units at the East-Tarkosalinskoye oil field.

Land Rehabilitation

The Company provides for the technical and biological rehabilitation of affected land areas, forests and tundra zones. In 2009, the total area of land rehabilitated and returned to its natural state was 337 ha; in 2008 — 169 ha.

Waste

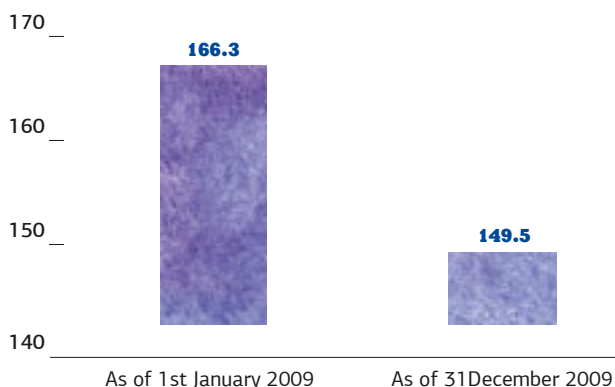
The types of wastes generated are stable and vary insignificantly from year to year. Waste generation rates correlate with the scale of production activities at subsidiaries (mainly according to the scope of drilling operations). About 90% of generated waste is class IV type hazardous wastes (low-hazard). The amounts of class I and II hazardous wastes (high-hazard) amounts to less than 0.03% of total wastes generated and are mainly found in mercury lamps and luminescent mercury-containing tubes.

Approximately 50% of waste is reused by the Company at its own production facilities. For instance, at the East-

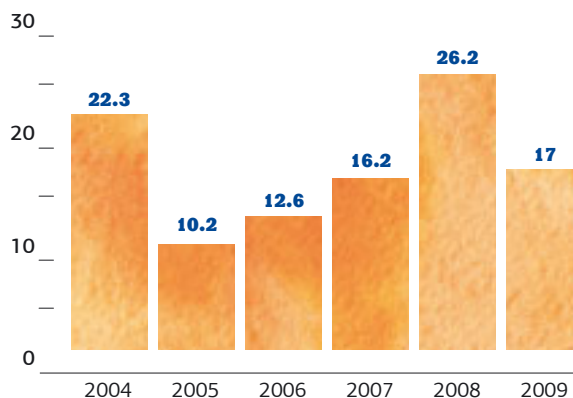
Tarkosalinskoye oil field, unstable gas condensate containing oil products and produced water are injected back into the formation's pressure maintenance system, which is considered an environmentally efficient technology. In addition, the subsidiaries have their own waste disposal sites for class IV and V wastes accommodating approximately 30% of the waste produced. More than 10% of waste is transferred under contracts to specialized waste disposal companies.

Pursuant to our waste reduction plan, we constructed a drilling cuttings processing plant at the Yurkharovskoye gas condensate field in 2008. The technology used allows us to separate and reuse the water and drilling mud and process the cuttings for use as construction materials. As a result, the amount of solid waste disposal has been reduced by almost three times, while mineral oil recycling has had a positive environmental and economic effect.

Waste Amounts, mt



Total Waste Amounts, mt





We have established special requirements regarding construction projects and for the operation of our production facilities that are located within the permafrost zone

Environmental Expenditure, RR thousands

	2006	2007	2008	2009
CURRENT EXPENDITURES				
Charges, for, negative, impact, on, the, environment	3,049.51	5,439.60	7,801.22	6,235.74
Air protection measures	220.11	418.95	540.19	3,032.87
Water protection measures	90.27	1,057.77	2,628.78	3,864.95
Waste handling measures	3,250.83	5,086.32	14,195.00	40,803.45
Land rehabilitation costs (current)	22,140.01	9,219.81	2,023.00	1,019.83
Compensation payments	21,801.56	4,030.53	38,316.37	17,545.24
Ecological monitoring and operational ecological control costs	9,291.19	12,291.95	15,087.60	15,452.41
Design and exploration works on environmental protection and state expert review (current)	10,572.69	1,474.95	507.84	0.00
CAPITAL EXPENDITURES				
Land rehabilitation costs	26,835.21	27,927.16	34,469.96	8,496.85
Construction of environmental protection facilities	17,356.92	2,102.99	292,376.85	8,296.58
Purchase of environmental protection equipment	0.00	229.99	4,037.00	203.63
Baseline assessment costs	0.00	1,493.88	696.00	0.00
Design and exploration works on environmental protection and state expert review	13,753.61	9,595.41	2,233.00	0.00
Other costs	32,525.39	38,291.68	56,937.92	3,580.88
TOTAL COSTS	160,887.29	118,660.99	471,850.74	108,532.43

Impact on Biodiversity and Protected Areas

Protected Areas

Our production facilities are not located within the following designated areas and, accordingly, do not have any impact on them:

- UNESCO world natural and cultural heritage reserves;
- Protected natural reserves established in accordance with the Federal Law "On Protected Natural Reserves" and regulatory legal acts of the subdivisions of the RF (state nature preserves, national parks, natural parks, wildlife sanctuaries, natural monuments, UNESCO biosphere reserves and other special protected areas);

- Territories and water areas scheduled to become protected areas based on resolutions of the RF government or state authorities of the subdivisions of the RF, or where a decision has already been made to develop such territories;
- Water and swamp areas of international importance (Ramsar wetlands) both approved by the Russian government and entered into the List of Wetlands of International Importance of the Ramsar Convention;
- Ornithological areas of international and federal importance; and
- Particularly sensitive marine areas and marine mammal protection zones.



Pipelines crossing water bodies are constructed in compliance with requirements aimed at the prevention of accidental ruptures and hydrocarbon spills

35

Far North Ecosystems

We have established special requirements regarding construction projects and for the operation of our production facilities that are located within the permafrost zone; due to the fact that ecosystems found here are particularly sensitive to chemical pollution. In protected water zones; which are designated in the top fisheries category, we avoid causing any damage to the biodiversity of the ecosystems. For instance, a part of the Tazov Bay located within the Yurkharovskiy license area is home to sturgeon and white fish spawning areas and migrating and local birds' breeding grounds. We employ pit-less well drilling methods to avoid potential pollution of the soil, ground or surface water and discharge zero industrial waste into the water bodies.

Pipelines crossing water bodies are constructed in compliance with requirements aimed at the prevention of accidental ruptures and hydrocarbon spills.

Economic activities conducted in Far North conditions may have a significant impact on the soil. Therefore, restoration of disturbed soil layers requires special reclamation technologies and a significant amount of time. NOVATEK has implemented a project for the biological restoration of soil and plant cover. This project includes

restoration of vast areas of tundra and the shoreline of the Tazov Bay, which was polluted as a result of exploration works carried out by the previous license holder. Special quinary grass mixtures with fertilizers are applied to soils providing for effective growth in the sandy soils, which are characteristic of the climate conditions in the Far North. This method has been tested in four areas over a three-year period and has proved to be highly effective.

In 2000, 2004 and 2008, specialists from OOO TyumenNIIgiprogaz undertook environmental engineering surveys at the Yurkharovskiy license area, and based on the results, concluded that during the eight-year period of development, species diversity and the habitats of rare plant species have been preserved within the area studied¹.

¹ N.V. Khozyainova, Flora of vascular plants of Yurkharovo and Mongayurbey interfluvial area, <http://www.ipdn.ru/rics/doc0/MH/razdel4.htm>

4

SUSTAINABILITY REPORT OAO NOVATEK 2008–2009

OCCUPATIONAL Health and Safety





Training and briefings in the area of industrial, occupational and fire safety are mandatory for all Company subsidiaries

37

Goals and Tasks

The following long-term goals have been established for occupational health and safety (OHS):

- Minimize risks and prevent accidents, injuries and incidence of disease among personnel and the local populations in all possible areas;
- Observe requirements of Russian legislation and comply with IFC and EBRD Principles and Rules and international standards in OHS;
- Continuously improve the Company's OHS activities; and
- Maintain personnel certification, training and accountability to OHS standards.

Occupational Safety

Corporate Standard System

In 2008, the Company developed a standard for "special clothing, footwear and personal protection equipment (PPE) for NOVATEK employees": the standard establishes certain safety norms regarding clothes, footwear and PPE worn or used by employees at the Company's production facilities. There is also an electronic catalogue which employees can use to determine which items meet the standards. In 2009, we continued to work on this standard by establishing a working group and work plan to perform trial tests on specialized types of clothing at the Company's operating facilities.

Workplace Certification

Workplace certification includes evaluating measures to control the harmful impact of hazardous factors in the workplace. Measures on improving working conditions are developed on the basis of the results of the certification process.

From 2008 to 2009, workplace certification was carried out at the following subsidiaries; OOO NOVATEK-

Tarkosaleneftegaz, OOO NOVATEK-Yurkharovneftegas, OOO NOVATEK-Purovsky ZPK, OOO NOVATEK-Transservice and OOO NOVATEK-Polymer. In accordance with the two-year results, 100% of the workplaces at OOO NOVATEK-Yurkharovneftegas, OOO NOVATEK-Purovsky ZPK and OOO NOVATEK-Transservice have been certified. In the other subsidiaries, the process of certifying the workplaces continues. There have been no unacceptable working conditions identified to date at the Company's workplaces.

Training and Briefings

Training and briefings in the area of industrial, occupational and fire safety are mandatory for all Company subsidiaries.

Induction briefing is arranged for newly hired employees, seconded employees of third party organizations (including contractors), students involved in internships and other visitors. Primary briefing and subsequent testing of the knowledge and skills of specialists is performed to certify them for certain job functions.

The need for training is determined by the heads of business subdivisions. Training is carried out by licensed organizations in accordance with schedules developed by NOVATEK and its subsidiaries. Certification is performed in accordance with the procedures established by the central and territorial commissions of Rostekhnadzor of the RF.

Injury Rate

With the introduction of the IMS in 2008, the rules and methodology that apply to the recording and reporting of accident statistics have become stricter. As a result, the number of registered accidents increased in 2008. At the same time, during the past two years, there were no serious injuries, but there was one fatality resulting from a car accident (a vehicle running over an employee). All other injuries were not considered to be serious.

Investigations of accidents were carried out within the established time period according to the Labor Code of the RF. The results of these investigations

Number of Certified Workplaces

2008	2009
1,250	1,244



Internal audits of working conditions and the observance of safety norms and standards were conducted during the reporting period

38

indicate that the key reasons for injuries were due to non-observance of safety rules, personal negligence by employees, traffic offenses by drivers and the lack of established controls by persons responsible for occupational safety.

A comprehensive assessment of risks and hazards has been carried out to prevent injuries. The effectiveness of the measures undertaken is supported by a reduction in the injury rate in 2009 by more than 60%.

Injury Rate

Period	Number of injuries, total	Including fatal cases	Serious injuries	Non-Serious injuries
2008	13	1	0	12
2009	5	0	0	5

Production Control and Internal Audit

Internal audits of working conditions and the observance of safety norms and standards were conducted during the reporting period. As a result, internal documents have been developed to address the violations and several employees have been held responsible for such violations.

Tasks for 2010 to 2011

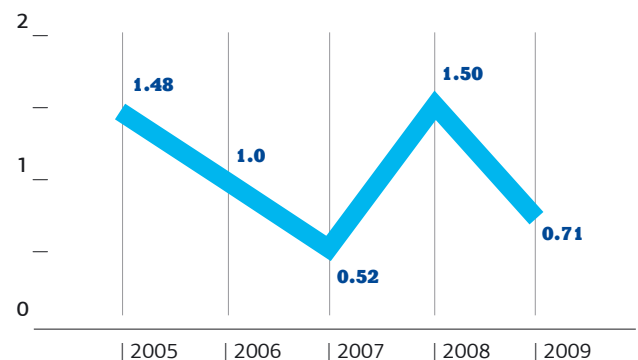
- Develop and introduce measures providing for the systematic explanation to employees of their obligations for observance of occupational safety requirements;
- Improve administrative control measures to assess the conformity of business subdivisions' (departments') operations with occupational safety requirements; and
- Improve personnel qualifications.

Industrial Safety

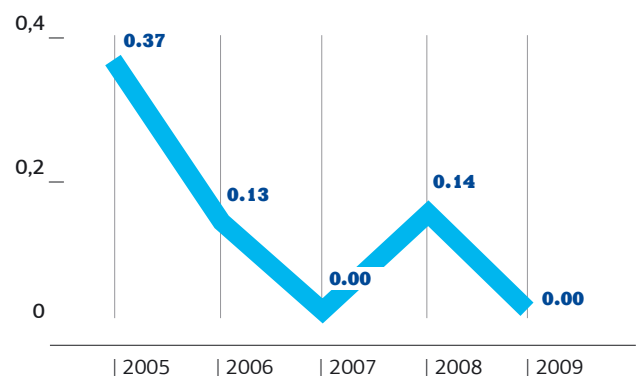
Industrial Safety Management

Taking into account the type of operating activities at our subsidiaries, we strive to prevent and mitigate where possible, the negative impact of production processes on the environment and the health and safety of our personnel at our subsidiaries and those of our contractors. The Company performs continuous monitoring of our subsidiaries preparedness for the proper response to potential incidents (including accidents, fires and injuries).

Injury Frequency Rate (no. of injuries/ million working hrs)



Accident Severity Rate (total no. of working hrs lost/ no. of accidents)





Internal documents have been developed to address workplace safety violations and several employees have been held responsible for such violations

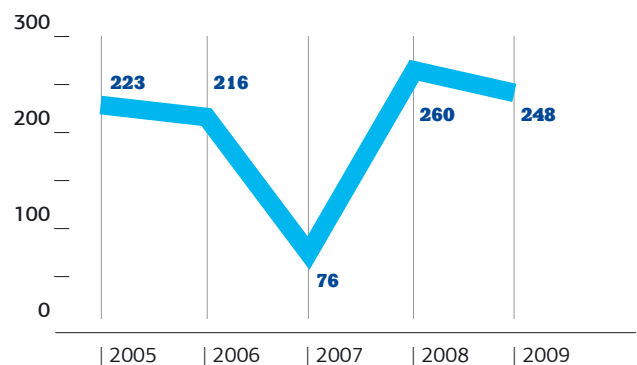
39

Procedures for prevention and timely notification of any accidents and incidents at production facilities, as well as immediate measures to eliminate such emergencies are defined by corporate standards. Special attention is paid to facilities and equipment operating in extreme climate conditions. Results of long-term monitoring have not identified any risks associated with our activities, which would exceed the maximum permissible levels.

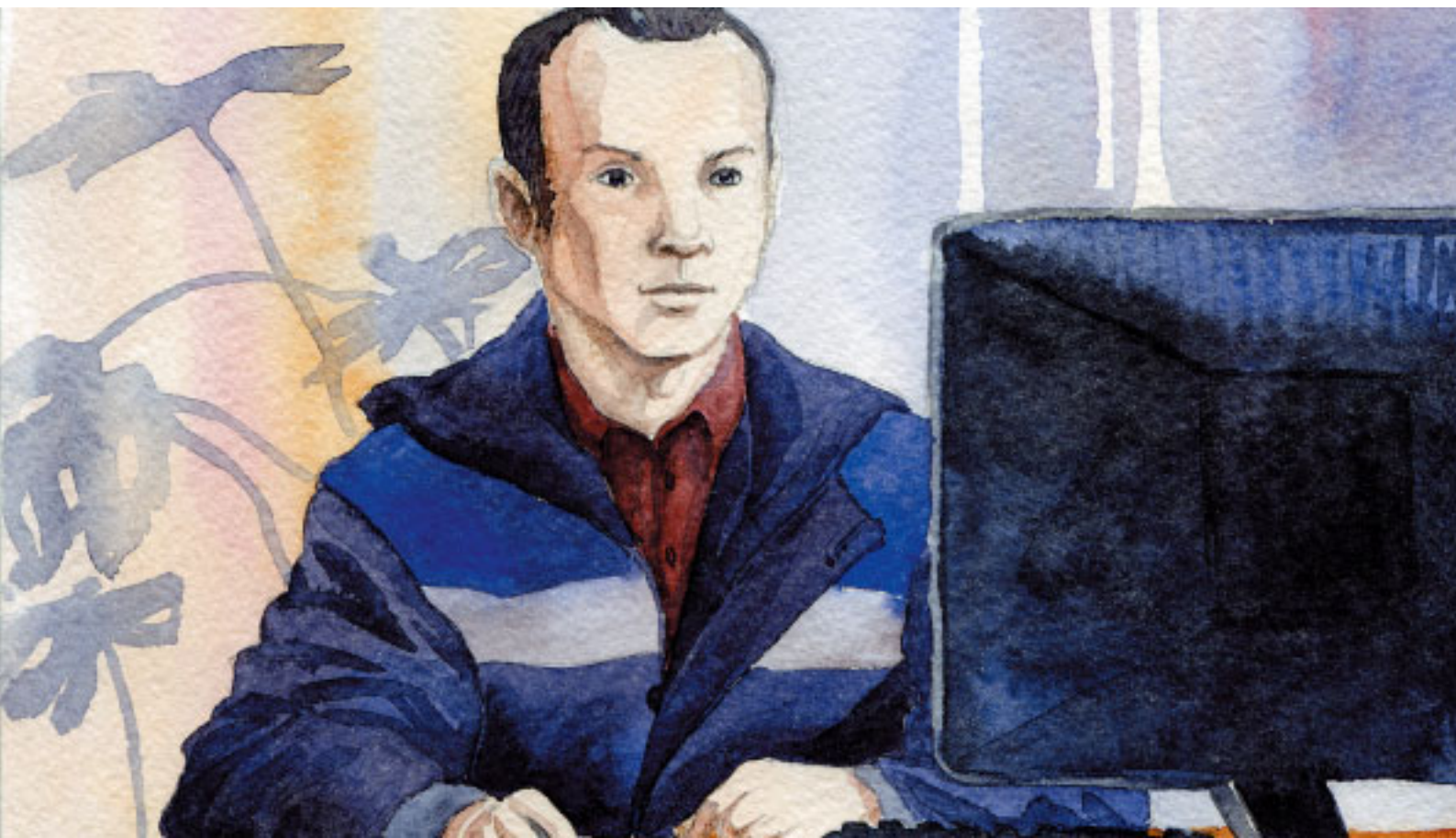
During the reporting period, some of our top priorities included equipping the facilities with modern detection and alarm systems along with equipment for accident prevention and mitigation. Key tasks included the following:

- Diagnostic studies, engineering certification and industrial safety expert review of facilities and the technical devices of hazardous production facilities;
- Provision of automated process control systems, instrumentation and controls and emergency protection devices to facilities;
- Repair of industrial facilities; and
- Continued training and certification of top managers, specialists and workers.

**Serious Injury Frequency Rate
(no. of serious injuries/
million working hrs)**



The preparedness of employees at our subsidiaries to prevent and eliminate potential emergency situations was checked, during an annual integrated audit by the Company's internal commissions, including representa-

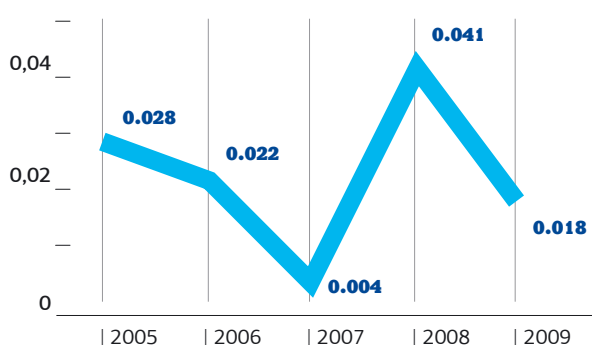




There were no accidents or incidents, including liquid hydrocarbon spills, at NOVATEK's production facilities during the reporting period

40

Percentage of Time Lost Due to Injuries (number of hrs lost/ total working hrs)



Number of Identified Violations

2008	2009
2,038	1,995

tives of the subsidiaries, the managing company and labor unions.

Oil and Oil Product Spills and Leaks

The Company has developed oil and gas condensate spill contingency plans at hydrocarbon production, storage and transportation facilities. All departments and subdivisions use standard approaches in their efforts to organize and coordinate these types of works. We also plan to broaden prevention measures, develop response procedures for the elimination of potential accidents and apply further measures to protect the environment, the Company's employees and residents of neighboring areas against any negative impacts.

NOVATEK ensures the accident-free operation of its pipeline system, including internal and external pipelines. An important part of this work is to prevent and elimi-

nate accidents caused by oil and gas spills and leaks. Timely identification of accidents at pipeline facilities depends on the pipeline's automation level and the ability to immediately signal the pipeline operator in the case of an incident. Therefore, we expanded the interaction between the environmental monitoring system and the relevant facilities for pipeline and production monitoring.

There were no accidents or incidents, including liquid hydrocarbon spills, at NOVATEK's production facilities during the reporting period.

Fire Safety

Fire and Safety Services

During the reporting period, we established and developed our own fire and safety services unit (FSS). We also organized Special Departments of the FSS at OOO NOVATEK-Polymer, OOO NOVATEK-Tarkosaleneftegaz, OOO NOVATEK-Yurkharovneftegas and OOO NOVATEK-Purovsky ZPK¹, which are now responsible for fire protection at their respective facilities instead of the state fire and safety services of the Ministry of Emergency Situations.

Ensuring Fire and Safety Crews' Work

The Fire and Safety Crews (FSC) are responsible for monitoring our production facilities twenty-four hours a day (working in shifts), seven days a week. Their operating personnel are provided with the necessary equipment, special service uniforms and personal protection equipment.

Protected facilities are supplied with water reserves and fire extinguishing equipment. Buildings and production facilities are equipped with fire alarm systems. Processing units and facilities are equipped with an alarm system and automated fire extinguishing systems.

¹ The fire and gas safety crew of OOO NOVATEK-Purovsky ZPK also provides protection services for the facilities of OOO NOVATEK-Transervice.



**In 2008 and 2009,
there were no fires
at the Company's
production related
facilities**

41

All Company subsidiaries have conducted checks of the automated fire extinguishing systems and firefighting water supply systems and, based on the results, all systems were operational.

FSC Input to Regional Needs

The quick response ability of our fire and safety crews in the case of a fire or accident has had a positive impact not only on our production facilities, but also for the adjacent territories. For instance, in 2009, our FSC, in addition to other duties, fought five forest/tundra fires and 37 fires at residential and municipal facilities.

Drills, Personnel Training and Certification

Fire safety tactical drills and training for the evacuation of personnel from offices and production facilities have been performed at all of the Company's subsidiaries.

In 2009, the employees of OOO NOVATEK-Purovsky ZPK were trained and certified as "Lifesavers of Russia", and our employees of OOO NOVATEK-Tarkosaleneftegas were trained and certified for carrying out salvage and rescue operations in emergency situations.

Results

The Company has established fire and safety services at four subsidiaries and our FSS total headcount is over 200 employees working out of seven firehouses with 29 firefighting vehicles.

In 2008 and 2009, there were no fires at the Company's production related facilities.

Tasks for 2010 and 2011

- Arrange for training and qualification upgrades for all heads of subsidiary fire safety services;
- Carry out integrated fire safety tactical drills for oil spill elimination in participation with fire safety and emergency rescue equipment manufacturers;
- Complete the development of fire safety declarations in the subsidiaries;
- Develop long-term programs aimed at ensuring the fire safety at our subsidiaries' production facilities; and
- Develop corporate standards in the area of fire safety.

5

SUSTAINABILITY REPORT OAO NOVATEK 2008–2009

HUMAN RESOURCES and Social Policies





The Company employs representatives from indigenous peoples, possessing the required qualifications, at our subsidiaries located in the YNAO

43

Human Resources Management and Labor Resources

Principles and Tasks of the Human Resources' Policy

The Company's Human Resources Policy takes into account both Russian and international standards and is based on the following key principles:

- Equal opportunities when applying for a job, subject to compliance of a candidate's qualifications with the Company's requirements;
- Non-discrimination of any type;
- Non-use of child labor or forced labor;
- Equal opportunities for professional growth;
- Social partnership and the maintenance of a balance between the employer's and employees' interests; and
- Continuous training and development of professional skills.

Key tasks during the reporting period included the following:

- Retain qualified employees during the economic recession;
- Further improve material and intangible incentive systems (development of a Share-Based Option Program);
- Expand Employee Pool Development Program;
- Improve employees' qualifications, training and advanced training systems; and
- Attract, motivate and develop talented young specialists.

Workforce Characteristics

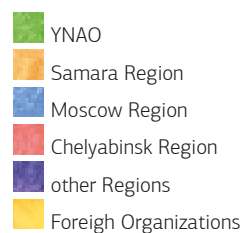
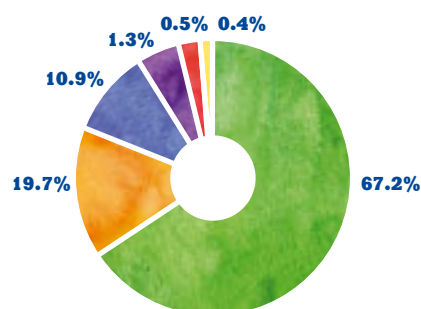
During the reporting period, the Company's total number of employees grew by 2.5% and amounted to 4,383 persons in 2009 (in 2008 — 4,274). The growth in the number of employees was primarily due to the introduction of a retail network of refueling stations in the Chelyabinsk Region. Most of our employees work in the

RF (the share of personnel working outside the RF is less than 1%). The key regions where NOVATEK's operations are located, based on number of employees, are the YNAO and Samara Region.

The Company employs representatives from indigenous peoples, possessing the required qualifications, at our subsidiaries located in the YNAO. During the two-year period, we hired six new employees from the indigenous populations and, in total, we have 8 representatives of indigenous peoples working at our subsidiaries.

In 2008, jointly with specialists of the Tomsk Polytechnic University, we started to develop the Appraisal System of Technical Competence for NOVATEK Personnel in a number of areas (field development, drilling, oil production technology, gas production technology and oil treatment technology) to be used in the employee selection process and for the assessment of employee professional knowledge. We have also engaged them

Workforce Breakdown by Region





In 2009, the Company developed a Share-Based Option Program to retain highly qualified top managers and other key employees

44

to develop a new corporate program called “Technical Studies”.

Employment of local personnel in our foreign subsidiaries is performed in accordance with the requirements of local legislation; for instance, all employees of NOVATEK Polska are citizens of Poland.

The Company’s employees primarily work on a full-time basis and the share of employees holding a second job is less than 1%. Employees holding second jobs are generally located in areas where full-time employment is economically inefficient.

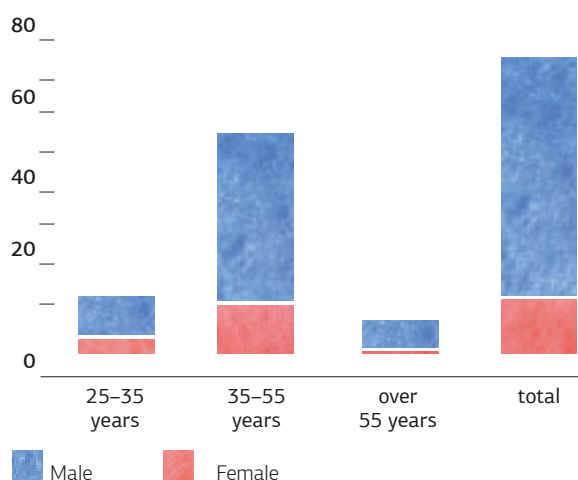
The predominance of male employees is explained by the peculiarities of the Company’s operating activities and industry sector. According to our principle of equal opportunity, the Company does not prevent women from holding top management positions. The percentage of women in top management positions at OAO NOVATEK and/or

its subsidiaries during the reporting period amounted to approximately 12%.

We decreased the number of employees during the reporting period due to the restructuring of non-core activities. In 2008, the total number of employees was reduced by nine persons and, in 2009, by 63 persons, which is less than 1.0% and 1.4%, respectively, of our total number of employees. In the case of employee lay-offs, we provide retraining programs and assist former employees in finding other jobs. When the transfer of an employee to another position is impossible, the employee receives monetary compensation upon dismissal. In accordance with the Labor Code of the RF and the collective bargaining agreements with subsidiaries, the notification period regarding changes in the terms and conditions of a labor agreement is two months.

In general, we have reduced employee turnover at the Company and our subsidiaries to 7.02% in 2008 and to 6.92% in 2009

Composition of Managing Bodies and Breakdown by Gender and Age in 2009, numbers of persons



Material Incentive

In 2008 and 2009, the main Russian subsidiaries of the Company introduced common approaches to compensation in accordance with the corporate document “Procedures for Organization of Compensation and Incentives for Employees at OAO NOVATEK Subsidiaries”.

Appraisals of employees’ professional experience, business qualities and the efficiency and effectiveness of their work are carried out not less than once per year. Based on the results of the appraisals, the Company may arrange to provide supplemental compensation acknowledging the level of professionalism and work ethic, the length of service and the professional qualities and certifications of employees. In 2009, the Company developed a Share-Based Option Program to retain highly qualified top managers and other key employees and, the list of employees eligible to participate in the program has been approved by NOVATEK’s Board of Directors.



The Personnel Pool Development Program is an excellent base for career growth

45

The Company's foreign subsidiaries have a smaller number of employees and, as part of the compensation program, top managers use general corporate performance indicators in the labor compensation and remuneration system, which complies with the legislative requirements of the countries where these subsidiaries are located.

Learning and Development

Due to the constant and rapid upgrading of technologies and control systems, employee education and development programs assist the Company and its employees in maintaining our competitive position in the market. In 2008 and 2009, the key areas of employee education and development included the following:

- Expansion of the purpose-oriented Personnel Pool Development Program "Horizons of Leadership";
- Participation of young specialists in conferences and contests devoted to oil and gas industry issues;
- Education programs for highly qualified specialists at the Skolkovo Business School; and
- Employee professional development programs.

In 2008, the average number of training hours per employee amounted to 59.0 hours, while in 2009, this figure was 58.9 hours.

Training for Top Managers

One of the training centers for top managers is the Skolkovo Business School — an international educational institution for training business leaders based in Moscow. In 2008 and 2009, the following training courses were arranged for the Company's middle and top managers: "Decision-Making for Top Managers", "Leadership in Strategic Changes", "Oil and Gas Industry: the Present and the Future of Russia, How to Stay Competitive in a Highly Cyclical Market", "Oil and Gas Industry: Management of Major Projects", and "Leadership in Human Resources and Team Management". Training is also carried out at international Full-Time and Executive MBA programs.

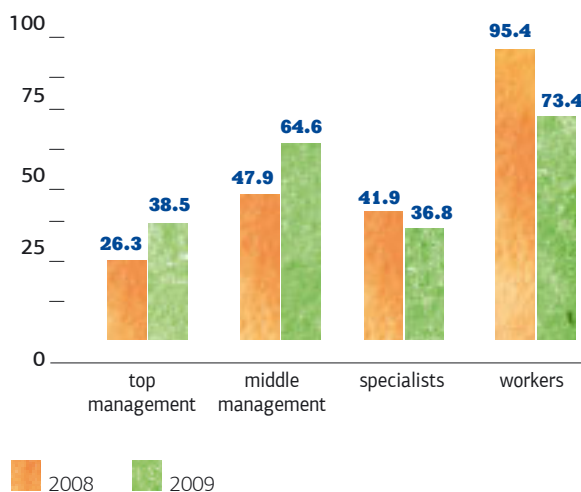
We plan to continue to develop broader cooperation with the Skolkovo Business School's MBA programs and in a number of other education and/or training projects.

Personnel Pool Development

The Personnel Pool Development Program was implemented in 2008. Participants of the program are selected using the Assessment Center methodology which is a comprehensive personnel assessment tool based on tests and exercises administered to a person or group of people. At present, 183 employees have been selected to the Personnel Pool Development Program based on their Assessment Center results.

Within the Personnel Pool Development Program, the Company's primary leadership development program is the Leadership Horizons Program, which was developed in accordance with the Company's business goals, interviews with top managers and assessment of the needs of our personnel pool. The program develops leadership competencies based on a modular training system and during the reporting period

Average Number of Training Hours per Employee in 2008 and 2009 and Breakdown by Categories of Employees





We run an Inter-Regional Research-to-Practice Conference on a regular basis to optimize the development of young specialists' professional skills

46

participants received training in two modules; Task Management and The Basics of Finance and Management Decisions. The Personnel Pool Development Program is an excellent base for career growth. In 2008, 12 employees from the personnel pool were promoted to higher positions while in 2009 seven were promoted.

Young Specialists

Every year, the Company employs young specialists based on open and competitive hiring practices.

We run an Inter-Regional Research-to-Practice Conference on a regular basis to optimize the development of young specialists' professional skills. First place winners are given the opportunity to attend and participate in professional training programs at international oil and gas centers, while winners of the second and third places receive monetary prizes. In 2008, 12 people were awarded a trip to Robert Gordon University in Scotland; in 2009, nine winners went to Canada where they analyzed the best practices of leading Canadian oil and gas companies.

Our young specialists also participate in the RF's annual "Contest of the Best Youth Scientific/Technical Project in the Fuel and Energy Complex". During the reporting period, five of the Company's young specialists' projects were awarded Letters of Honor from the RF Ministry of Energy.

Tasks for 2010 and 2011

The key tasks in the areas of human resources management for 2010 and 2011 include the following:

Number of Young Specialists Employed by the Company

2006	2007	2008	2009
206	210	244	116

- Establish a centralized training and professional development center for the Company and our subsidiaries;
- Conduct research measuring employee engagement;
- Establish new incentive mechanisms; and
- Raise workers' interest in professional development and labor efficiency through participation in contests and other competitions.

Company Social Programs

Social Policy Concept

In 2006, OAO NOVATEK developed the Social Policy Concept (hereinafter referred to as the Concept) — a regulatory document revised and approved by the Company's Management Board on an annual basis. A specific feature of this Concept is the integrated and systematic approach to solving social tasks. The Concept also helped unify the social package for NOVATEK employees. In seeking an optimal solution for social problems which employees may face at their workplaces, or in their everyday life, the Company has developed, in close contact with employees and labor unions, a number of integrated target programs which may differ depending on the terms of the Collective Agreements adopted at the Company's subsidiaries.

Targeted Compensation and Socially Significant Payments Program

This Program provides for targeted, free-of-charge material support to the Company's employees and includes compensation/lump-sum financial assistance in certain situations; for instance, the birth of a child, childcare allowance, health rehabilitation, vacation allowance amongst others. In 2008 and 2009, this program was expanded to include a lump-sum payment provision for the following; newly employed personnel (to cover initial moving/relocation costs); termination of a labor contract resulting from an employee's inability to work; employees returning from service in the Russian armed forces; and for pre-school children programs. In addition, employees receive one-time awards on their birthdays.



To reduce the risk of occupational diseases in the Company's Far North subsidiaries, the Company has introduced comprehensive employee medical examinations

47

Supporting State Guarantees Program

The Supporting State Guarantees Program provides for reimbursement of vacation travel expenses for employees working in the Far North and comparable regions and unemployed members of their families to/from vacation destinations once every two years, as well as moving expenses for employee relocation from the Far North to new homes.

Voluntary Medical Insurance for Employees

This Voluntary Medical Insurance Program has been part of the Company's social benefit package for many years along with financing mandatory medical insurance programs.

This program provides for the maximum coverage for all participants, including outpatient services, dentistry and in-patient treatment.

To reduce the risk of occupational diseases in the Company's Far North subsidiaries, the Company has introduced comprehensive employee medical examinations. These examinations take place once every two years to identify and prevent diseases associated with the climate conditions of the Far North and the peculiarities of employees' work.

These examinations have been very efficient in identifying diseases at early stages and treating them under the Voluntary Medical Insurance Program.

As part of this program, if an employee is diagnosed with some form of medical problem, the employee undergoes supplemental medical examinations and treatments in leading specialized medical and health rehabilitation institutions.

In 2009, in accordance with the results of the comprehensive medical examinations, 68 employees underwent surgical treatments and received professional consultations with specialists.

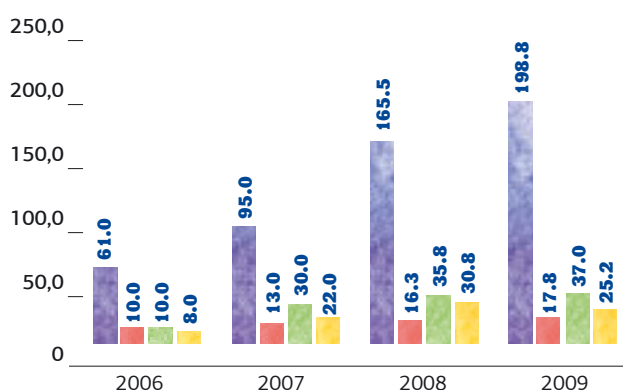
Number of Employees and Unemployed Members of their Families who have Used the Supporting State Guarantees Program, persons

2008	2009
1,067	1,213

Number of Employees and Family Members Who Have Used the Health Rehabilitation and Recreation Program, persons

2008	2009
1,057	997

Expenditures on Social Programs, RR millions



- Targeted Compensation and Socially Significant Payments Program
- Supporting State Guarantees Program
- Voluntary Medical Insurance for Employees
- Health Rehabilitation and Recreation Program



On the occasion of professional holidays and birthdays the top employees of the Company are granted industry awards in recognition of their high professionalism and special service to the Company

Health Rehabilitation and Recreation Program

This Program provides health rehabilitation and recreation for employees and their families, as well as the organization of rest and rehabilitation programs for children. This Program is connected with the Voluntary Medical Insurance Program in that: if any diseases have been identified under the Voluntary Medical Insurance Program, this Health Rehabilitation and Recreation Program represents a support program for speeding up the treatment and recovery period. We focus our selection of rehabilitation and recreation facilities on those which have the capabilities to provide specialized medical treatment.

In August 2009, at a meeting of the working group for the implementation of social programs, held in the town of Tarko-Sale, the Company decided to prolong contractual relations with those facilities where the quality of services met the employees' demands.

To measure the efficiency and effectiveness of the services provided as well as to further improve the programs, the Company surveyed employees who have used rehabilitation vouchers in the past and, based on the surveys' results, adjusted the implementation of the program accordingly.

Based on the results of the survey, the Company has developed a list of facilities which it will use in 2010. The number of facilities was reduced to 37 but the main geographic destinations remained the same: the Black Sea coast in the Krasnodar Region, the Altai Region, the Caucasian Mineral Waters, Siberia, Bashkortan, and Central Russia.

In 2008 and 2009, recreation programs for employee children were organized during summer break at facilities in Vita, located in Anapa and Solnechny Holiday Camp, located in Novokuibyshevsk.

Repayable Financial Aid Program

This Program is aimed at the provision of financial assistance to employees and comprises two parts:

- Targeted short-term loans; and
- Interest-free targeted loans to purchase housing (for employees living in Tarko-Sale and Novy Urengoy).

Targeted Short-Term Loan Program

These loans may be provided to employees working for the Company for no less than one year for a period of up to one year upon payment of interest on borrowed money¹. The maximum amount of the loan depends on the region where the subsidiary of the Company and borrower are located.

The loan may be provided for the following purposes:

- Employee education: correspondence courses or night school of higher and secondary special educational establishments and for employee children younger than 24 and studying at day-time departments of higher and secondary special educational establishments;

¹ Approved by the Decree of the Federal Service for Financial Markets on 10.10.2006 No. 06-117/pz-n. ¾ of the refinancing rate the Central Bank of the RF.

Expenditures on Targeted Short-Term Loan Program, RR millions

2006	2007	2008	2009
	2	4.3	1.2

Expenditures on Interest-Free Targeted Home Loan Program, RR millions

2006	2007	2008	2009
118		245.7	197.3



The Corporate Cultural and Sporting Events Program is a traditional component of the Company's corporate culture

49

- Social needs: dental prosthetics for an employee or urgent medical examination and treatment of the employee or members of his/her family; and
- In the case of a fire in the employee's apartment or house or theft of his/her personal assets.

In 2009, this program was expanded to include loans for refurbishment of residential premises and/or purchasing of home appliances.

Interest-Free Targeted Home Loan Program

This Program was developed and approved by the Company's Management Board in December 2007. According to the Regulations on interest-free loans provided to employees for the purchase of housing, which became effective on 1 January 2008, employees needing better living conditions are granted interest-free targeted loans for a period of up to 10 years subject to the employee contributing 10% of the initial home purchase price.

In spite of the unfavorable economic situation, only 36 families used the above program during the reporting period, including four employees who lost their apartments as a result of a fire in Tarko-Sale.

Retirement Program

Regulations on social support for retired NOVATEK employees became effective on 1 January 2007. In accordance with the above regulatory document, employees working for the Company for three or more years and who have left the Company for reasons provided for by the Labor Code of the RF, have the right to monthly payments which, will be terminated in the case of new employment or for other reasons provided for by the Regulations.

Procedures for calculating monthly social support are determined in accordance with the Regulations and depend on the following; tenure with the Company, level of income and a territorial coefficient; however, there is a minimum and maximum level of social support. In addition, in the case of employees who have been awarded the title of Honorary Employee of OAO NOVATEK the social support is doubled.

Starting from 1 January 2009, the amount of monthly social support set for former employees of the Company who retired during the period from 1 January 2007 till 31 December 2008 was increased by 20%.

Retirement Program Participants, persons

2007	2008	2009
72	131	183

Corporate Awards Expenditures, RR millions

2008	2009
7.3	7.0

Retirement Program Expenditures, RR millions

2007	2008	2009
0.7	2.2	5.2

Corporate Cultural and Sporting Events Program Expenditures, RR millions

2008	2009
49.8	18.7



**Corporate sporting events
are attended by employees of
the Company and members of
their families**

50

Average amounts of monthly social support paid in 2009 were as follows: Novokuibyshevsk — RR 1,639.6, Far North and comparable regions, Moscow and other cities — RR 3,776.9.

Corporate Awards Program

On the occasion of professional holidays and birthdays the top employees of the Company are granted industry awards, certificates of merit and thank you letters from OAO NOVATEK, and certificates of merit from the Company's subsidiaries, in recognition of their high professionalism and special service to the Company. Every year more than 400 employees receive various awards.

In April 2007, the Company adopted a Regulation on the Honorary Title "Honorary Employee of OAO NOVATEK", which is the Company's most prestigious award and only granted to highly qualified specialists for distinguished service and substantial personal contribution to the Company's development.

Every year up to five employees are awarded with this honorary title.

Corporate Cultural and Sporting Events Program

The Corporate Cultural and Sporting Events Program is a traditional component of the Company's corporate culture that is designed to provide employees with a positive working atmosphere. These corporate events assist in building relationships based on mutual respect and support between all levels of Company employees.

In 2009, NOVATEK employees and their families visited the Moscow House of Photography for the exhibition "Sergey Burasovskiy, Retrospective", the 6th International Photo Festival "Fashion and Style in Photography 2009", the Kremlin Armory and the Museum of the Moscow Kremlin for the exhibition "The Free Imperial City of Augsburg. Centuries of Splendor". They also attended a jubilee display organized by the Moscow Museum of Modern Art titled "From a Studio to an Art Object".





Starting from 2008, the Company has been running feed-back conferences dedicated to fulfillment of collective agreements

51

In December 2009, a concert of the Moscow Soloists ensemble under the direction of Yury Bashmet was organized for the Company's employees, their families and Company business partners.

The Company's subsidiaries organize traditional holiday concerts dedicated to New Year's Day, February 23 — Russian Army Day, March 8 — Women's Day, Oil and Gas Workers Day and other holidays. Young employees also organize contests sponsored by the Club of Cheerful and Sharp-Witted ("KVN") while New Year's Parties are organized for the children of employees.

Sporting events provide employees the opportunity to participate in physical activities on a regular basis. Sports, including football and volleyball, and other general physical activities, such as aerobics, fitness training and swimming, are supported by the Company. The Company provides the necessary conditions for sporting activities by renting gyms, swimming pools and athletic fields and partially compensating employee membership fees at fitness clubs. In 2009, the Company completed construction of a sport and health complex at the living facilities of the Yurkharovskoye field. This complex comprises a swimming pool, a table tennis hall, a fitness center, a recreation room and a sauna.

Corporate sporting events are attended by employees of the Company and members of their families. Every year the Company organizes mini football, volleyball and swimming competitions as well as a contest "Mom, Dad and I Go in for Sport!"

In 2009, the Company organized its first Free Rope youth festival not far from the city of Tarko-Sale. The festival was attended by 80 young employees who formed nine teams representing various NOVATEK subsidiaries. The Festival's program included bard

song contests, camping skills competitions and various races.

Collective Agreements and Interaction With Labor Unions

Collective Agreements

The key principle of the collective agreements is the mutual interest in improving the relationship between an employer and employees, in providing a stable environment for the Company's activities and growth of employees' welfare, while maintaining the basic principles of the social security system.

Procedures for Signing Collective Agreements

Collective agreements are signed for three year periods. During the reporting period, the Company worked under collective agreements signed during the period from 2007 to 2009 in subsidiaries located in the territory of the RF and having more than 10 employees. In December 2009, collective agreements for 2010-2012 covering 100% of the Company's employees were signed in all of the Company's subsidiaries.

The Company controls the process of negotiating and signing collective agreements at the subsidiaries and does not allow any deviations from the Social Policy Concept or the worsening of employee conditions as compared to the current legislative norms.

Employee Engagement

Starting from 2008, the Company has been running feed-back conferences dedicated to fulfillment of collective agreements and featuring presentations made by representatives of the Company, administrative bodies of the subsidiaries and labor unions.



The key principle of the collective agreements is the mutual interest in improving the relationship between an employer and employees

In 2008, the economic crisis prompted a lot of questions from employees, and the Company answered them through specially organized meetings. The meetings were attended by the Deputy Chairman of the Management Board and labor collectives from subsidiaries covered by the Social Policy Concept.

Starting from 2010, we plan to hold meetings with the Company's management and employees every half-year. We also plan to hold special quarterly meetings with labor collectives which will be attended by the management of the subsidiaries.

The Company continuously analyses social programs with representatives visiting the regions twice a year to discuss the programs with labor collectives, human resources specialists and social departments in order to identify, in a timely manner, any issues of concern that need to be resolved.

Labor Organizations

Labor organizations¹ cover 66.3% of employees² and operate in a number of the Company's subsidiaries.

Labor union activities are organized at four levels:

- Primary labor organizations/representatives of labor collectives have been organized and operate in Company subsidiaries;
- Joint Labor Unions (JLU), including primary trade organizations, operate at the regional level;
- JLU are included in the Inter-Regional Labor Organization; and
- Inter-Regional Labor Organization is a part of the Labor Union of Oil and Gas Industry and Construction Workers of the RF (Neftegazstroyprofsoyuz of the RF).

¹ Information refers to subsidiaries within the RF with more than 10 employees of more than 10 employees.

² As at 31.12.2009





An important area of labor union activity is its participation in the Occupational Health and Safety commissions

53

This organizational structure provides for the fullest possible implementation and protection of employee rights. At the same time, labor unions provide opportunities to active members to continuously improve their qualifications in the field of labor law and modern methods of negotiations as well as the efficient implementation of social partnership principles.

Labor union leaders are required to make mandatory reports to the members of their organizations and reporting feedback meetings are held once a year. Members of NOVATEK's Inter-Regional Labor Organization Board meet on a quarterly basis in the regions where they are organized. An important area of labor union activity is its participation in the Occupational Health and Safety commissions. Twice a year members of the labor union undergo special training at RF Neftegazstroyprofsoyuz and during the reporting period, 135 persons received this specialized training (on average 16 hours per per-

son). Chairmen and active members of labor unions undergo regular training at the Saint-Petersburg Institute of Trade Unions.

One of the components of the interaction between labor unions and the management of the subsidiaries is joint organization of health improvement programs, sporting and cultural events, as well as municipal holidays and regional events, for example, Oil and Gas Worker Day, New Year's Holiday, City Day, etc.

6

SUSTAINABILITY REPORT OAO NOVATEK 2008–2009

LOCAL Communities





NOVATEK is investing in communities and people

55

Social Investment Management

Social Investments and Partnerships

We believe the success of our Company and our contribution to the sustainable development of the territories where we operate is possible only through mutual cooperation with local authorities, residents and indigenous communities.

NOVATEK is investing in communities and people: the Company creates new jobs, pays taxes, provides funding to create educational opportunities and other social programs for young people and assists in municipal infrastructure development and preservation of the identity of the indigenous peoples of the Far North.

As experience shows, the most effective regional partnership programs employ the following tools:

- Cooperation Agreements between the Administration of YNAO and OAO NOVATEK and between OAO NOVATEK and Administrations of municipal districts of the YNAO;
- Cooperation Agreements between OAO NOVATEK and public organizations, in particular, the Yamal for Descendants Association and its district branches and the Association of Minority Populations of Indigenous Peoples of the Far North, Siberia, and the Far East; and
- Corporate programs targeting various groups and residents of the territories.

The Company continues, on a regular basis, to interact with the following key stakeholders:

- Regional administrations and municipal entities;
- Indigenous and minority populations of the Far North;
- Members of employees' families and former employees of the Company;
- Charitable funds and public organizations; and
- Cultural and sporting organizations.

Interaction with Regional Authorities and Municipal Entities

Historically, NOVATEK's activities have been associated with the territory of the YNAO. For many years, the

Company has been a party to three-year agreements with the regional authorities which establishes the principles, goals, tasks and scope for cooperation in the areas of financial assistance.

The structure of such agreements is maintained from year to year. Basically, this document contains plans on joint solutions of social and economic issues with an emphasis on the Company's operating activities effect on social and environmental issues.

The agreements contain some mandatory clauses, such as fulfillment of environmental measures (in accordance with governmental requirements) or measures carried out annually (for example, Fisherman Day, Reindeer Breeder Day), but they also may include other issues important to a particular region that take into account specific regional features. For example, in the mono-industrial YNAO such special issues include employing local contractors to increase employment and gasification of residential settlements. Currently, a three-year agreement covering the period from 2009 to 2011 is in effect for the territory of the YNAO.

Every year the Company issues a protocol on the status of mutual commitments set out in the agreement which is signed by both parties. This protocol provides for adequate and regular control of the programs implemented under the agreement.

To promote this partnership model, the Company also signs agreements with other municipalities in the YNAO (Noviy Urengoy, Nadym, Tazovsky, Purovsky, Yamalsky, Krasnoselkupsky and Gubkinsky Districts) and in the Samara Region (Novokuibyshevsk). The programs and services specified in the agreements are defined by the district administrations and the Company provides financing.

All measures carried out under the auspices of the agreements in 2008 to 2009 can be grouped together in the following key areas:

- Construction and development of city infrastructure facilities (housing, roads, cultural-entertainment and youth centers);



Interaction with Indigenous and Minority Peoples of the Far North is performed both under agreements with the territories and under direct agreements with associations of indigenous peoples

56

- Support of hospitals, schools and kindergartens (refurbishment and purchasing of equipment);
- Environmental protection;
- Support for the development of culture and sport;
- In YNAO — support for communities of indigenous peoples, provision of food products and other consumer goods (mainly to nomadic peoples) and medical aid. In particular, services for the indigenous peoples living in the territory of Tazovsky and Nadymsky districts are provided by the Center of Social Support at the Yurkharovskoye gas condensate field which was built and is maintained by support from the Company; and
- Transportation of school children to residential settlements for vacations and back to boarding schools.

The practice of entering into long-term agreements for particular residential settlements or major facilities has been very efficient. For instance, in Kuto-pyugan (Nadymskiy District) the Company has built roads, a boiler and other facilities, and the results of our financial assistance can be seen by all residents of the district. As a result of the success of this model, we now target our financial support to specific and tangible projects.

The decrease in financing for these programs in 2009 was due to financial constraints related to the completion of significant capital projects and the overall economic slowdown.

Indigenous and Minority Peoples of the Far North

NOVATEK's operating activities are located in the same areas as the indigenous minority population's historical, cultural and spiritual sites and where they live and conduct economic activities. The Company is allowed to work in these areas only after it receives approval for project implementation and then it must observe special operating conditions to ensure the preservation of the customs, living environment and traditional ways of life of the indigenous minority peoples.

Interaction with these stakeholders is performed both under agreements with the territories and under direct

Financing of Obligations under Social-Economic Cooperation Agreements, RR millions

2008	2009
154	62

agreements with associations of indigenous peoples (Yamal for Descendants Association and with its branches in various districts of the YNAO and the Association of Minority Populations). Direct requests by individual settlements or citizens are not considered to be a form of engagement any more, as our partners are learning to plan their needs within the agreements with the municipal governmental bodies of the territories.

Priority areas of engagement include the following:

- Maintenance and development of traditional types of economic activities;
- Preservation of traditional culture;
- Provision of transport accessibility, telephone and radio communication;
- Social-economic support;
- Assistance in holding meetings and other events;
- Development of trading stations and commodity exchanges; and
- Assistance for students from indigenous peoples in adapting to new educational establishments.

The Company also involves experts in the study the living conditions of the indigenous peoples including ethnological expert reviews and impact assessments of the Company's new projects on the territories. Representatives of these organizations participate in the development of corporate programs designed to meet the needs of the indigenous peoples of the Far North.

The Company's top management attends the signing of these agreements, and the heads of the indigenous minorities' communities are also invited to participate.

Support Program for Indigenous and Minority Peoples of the Far North (2005-2010)

Corporate planning of support for indigenous peoples is performed on the basis of Regulations developed in



**We take responsibility
for the development of
high-quality education in
the territories where our
operations are located**

57

2005 on Involvement of OAO NOVATEK in Economic and Social Development of indigenous and minority peoples of the Far North. In these Regulations, we defined the legal basis, goals and tasks of OAO NOVATEK and its subsidiaries' involvement in these programs.

To fulfill the tasks set out in the above Regulations, we developed a Target Program in accordance with the recommendations of the World Bank for a five year period and a breakdown of activities by year. Every year this program is adjusted with consideration for the interests of the indigenous peoples and upon agreement with municipal entities.

The results of the Program implementation are reflected in the annual Protocols of fulfillment of the terms of the Agreement with the YNAO Administration. The Company participates regularly in discussions concerning interaction with indigenous peoples within the framework of a series of "round tables" organized by the RF Federation Council and State Duma in cooperation with the UN Human Rights Committee.

In 2008, NOVATEK was awarded the "best experience" Certificate from the Indigenous peoples association of Siberia, Far North and Far East of Russia.

In 2008, NOVATEK was issued a certificate of merit confirming that our approach is the most useful.

Corporate Social Programs as a Contribution to Regional Development

NOVATEK Educational Programs

We take responsibility for the development of high-quality education in the territories where our operations are located not only as a means for ensuring a qualified pool of employees but to improve the future prospects of the regions as well.

For more than 10 years we have administered an educational program which comprises three sub-programs targeting various age groups. The Program is being

implemented in cooperation with the administrations of the YNAO, Purovsky District and Novokuibyshevsk as well as the Viktoriya Fund (Samara) and the Gubkin Russian State University of Oil and Gas and St. Petersburg State Mining Institute. In 2009, an agreement was signed providing for the inclusion of Tyumen State Oil and Gas University in this program.

Gifted Children Program

The participants of this program are schoolchildren in the tenth and eleventh grades at the Novokuibyshevsk (Samara Region) secondary school No. 8 and the Tarko-Sale (Purovsky District, YNAO) secondary school No. 2. This Program was implemented in 1999 and provides support for gifted schoolchildren, winners of local school competitions and young people who show an interest in the sciences relating to development of the oil and gas sector.

Grant Program

This Program started in 2004, and is for the Purovsky and Novokuibyshevsk Districts' schoolchildren in grades five to eleven. NOVATEK rewards these pupils for academic achievements and participation in scientific and community activities. The grant contest is run twice a year and, during the period from 2004 to 2009, the Company issued 889 grants; some students received seven or eight grants.

Starting from 2007, the Company has launched a new grant program in the same districts for teachers. During the last three years, the Company issued 26 grants to teachers from these districts.

NOVATEK-VUZ Program

Participants of this program are graduates of schools in the Purovsky, Novokuibyshevsk and Moscow Districts — children of the Company's employees — who have an opportunity to study in Russia's leading universities. Starting from 2004, about 200 students have participated in this Program.

According to the terms of the program students who pass exams with excellent marks receive a monthly supplement to state scholarships as well as compensation for living and travel costs to school and to and



At present, NOVATEK-VETERAN Program supports more than 850 veterans

58

practical training. During their studies, participants of the Program may undergo paid practical training at NOVATEK subsidiaries. The best graduates of the program are offered jobs with the Company, in accordance with their university and practical training results.

In 2009, our educational program yielded visible results for the Company — the first 23 participants of the program were offered and accepted positions with the Company.

NOVATEK-VETERAN Program

NOVATEK takes care of its former employees. The Special Social Protection Fund, NOVATEK-VETERAN, was established in 2005 for our retired employees who have been working in the oil and gas industry in the Far North for no less than 15 years. At present, this Fund supports more than 850 veterans and provides them with the following support:

- Monthly material aid adjusted on a regular basis;
- Additional material aid in the amount of RR 10 thousand for those in hardship situations;
- Payment for medicine, medical treatment and nurses for bed ridden and disabled patients;

Educational Program Funding, RR millions

2008	2009
39.9	34.2

- Vouchers to rest homes and medical facilities;
- Birthday celebrations; and
- Attending amateur concerts, exhibitions and holiday concerts.

The Fund also supports pensioners' initiatives. For instance, in 2009 eight pensioners formed a volunteer group to help disabled people who cannot leave their homes without assistance. With the support of the Fund these volunteers buy food and consumer goods for the disabled and spend time interacting with them which, is no less important than material aid.

We consider this to be a very humane and important Program. This attitude is shared by the Company's management — in 2009, a meeting was held between L. V. Mikhelson, Chairman of the Management Board, and more than 50 veterans. The results of this meeting indicate that our veterans appreciate the work of the Fund, and the Company completely fulfilled the commitments it undertook.

ALL TOGETHER Volunteer Movement

The employee corporate volunteer movement provides support to those in need and is a recent phenomenon in Russian business organizations.

In 2008, a corporate volunteer movement was organized at NOVATEK named "ALL TOGETHER" as we believe it brings together the social initiatives of our employees. During the last two years our volunteers have accomplished a lot and have been joined by relatives, friends, acquaintances, NOVATEK partners and employees of companies located in neighboring offices.

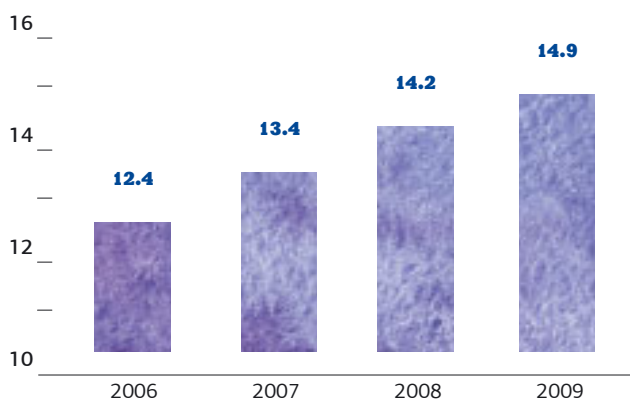




During the last two years our volunteers have accomplished a lot and have been joined by relatives, friends, acquaintances, NOVATEK partners

59

NOVATEK-VETERAN Program Funding, RR millions



One of the regular activities our volunteers participate in is the Blood Donor Movement “Gift of Life” (in cooperation with the FGU Moscow Blood Transfusion Station of the “Federal Bio-Medical Agency” and the initiative group “Donors to Children”) for children undergoing medical treatment in Russian Children’s Clinical Hospital. During the past two years, 212 people have participated in this activity.

In addition, we have purchased medicines for the Scientific Center of Cardiovascular Surgery named after A. N. Bakulev of the Russian Academy of Medical Science as well as 250 sets of bed-linens for underprivileged children staying at 12 hospitals and children’s institutions.

In 2009, NOVATEK volunteers befriended teachers and orphans at an orphanage in the town of Vyshniy Volochek (Tver Region) and several joint activities and meetings were organized during the year.

On the eve of the New Year Holidays, the Company organized a Miracle Tree party. A New Year tree put in the lobby of NOVATEK’s Moscow office was decorated with numerous letters from the orphans to Farther Frost. All 104 children received the presents they dreamt of.

ALL TOGETHER also held a charitable auction of children’s art works. The money received was given to the authors of the art works and also to purchase necessary

items for the orphanage. Thus, the children for the first time were able to earn money for themselves.

The “Graduate 2009” event helped recent graduates to buy necessary items to transition into independent life outside of the orphanage and the children also received special presents as a keepsake for graduating from school.

During the “Hello, School” event in August 2009, volunteers donated school supplies, children’s clothes, books, toys and home appliances to the orphanage.

Our cooperation with this orphanage is not limited to the above activities. We organize regular visits by our volunteers to just spend time and interact with the children.

The Company also provides material support to the orphanage for refurbishing the sitting room in the main building. In 2010, the Company plans to allocate funds to equip a computer class for senior schoolchildren and a play room for younger children as well as new furniture.

Our volunteer movement has established relations with other institutions like the boarding schools in Serpukhov and Noginsk. Children from Noginsk were invited to a football match where the NOVATEK football team played, and we held a “green party” in Serpukhov where volunteers together with the orphans planted trees and cleared away fallen leaves.

Culture Development

Key partners of the Company in cultural projects are:

- State Russian Museum
- Museums of the Moscow Kremlin
- Moscow House of Photography
- Samara Regional Art Museum
- Center of V. Vysotsky in Samara
- Chamber Ensemble “Moscow Soloists”

We use the following criteria when selecting individual projects or targets for our financial support:

- Importance to society;
- Targeting;
- Long-term prospects;



In 2008 and 2009, a number of sponsorship and charity projects aimed at the development of culture and sport were implemented

60

- Effectiveness;
- Feasibility;
- Scale; and
- Involvement of the Company's employees and their families in the project.

Projects are mainly implemented by OAO NOVATEK; however, our subsidiaries are also engaged in the effort.

In 2008 and 2009, a number of sponsorship and charity projects aimed at the development of culture and sport were implemented. These projects were carried out jointly with the following organizations:

- **State Russian Museum**

2008: an exhibition "Makovsky Family in Russia"; an exhibition "Neoclassicism in Russia"; I International Festival "Imperial Gardens of Russia".

2009: an exhibition "Andrey Ryabushkin" (including publication of the catalogue of the exhibition); II International Festival "Imperial Gardens of Russia".

Support has been provided to the State Russian Museum "Palace Restoration Trade".

- **Museums of the Moscow Kremlin**

2008: a culture project "Alt Note"; a charitable auction of modern Russian artists' works.

2009: an exhibition "Art Collections of Augsburg".

- **Moscow House of Photography**

2008: "AES+F "Grief-Free Paradise" (Paris, France); "AES+F "Grief-Free Paradise" (Rome, Italy).

2009: an exhibition in the Russian Pavilion at the 53rd Venice Biennale of Modern Art; Vladimir Tarasov's project "Sound Games".

- **Samara Regional Art Museum**

2008: an exhibition "Dreams of the sense — Francisco Goya and Salvador Dali"; the 10th All-Russian Museum Festival "InterMuseum 2008"; a project "Zhigulev Barbizon — 2008"; and exhibition from Pierre Brochet; design development of architectural lighting project of the building of Samara Regional Art Museum; purchasing of equipment for restoration workshops.

2009: a painting art exhibition of F. V. Sychkov, Mordoviya Republican Art Museum named after S. D. Erzi (Saransk); water-color painting exhibitions of





Social programs targeting support for development of sport in Russia are a top priority for us

61

Byozan Khirosava “Life and Customs of Ainu”, Omsk Regional Art Museum named after M. A. Vrubel; publishing of a catalogue of the personal exhibition of the people’s artists of Russia I. E. Komissarov; a project “Zhigulev Barbizon — 2009”; a children’s event for 40 children from low-income families and orphans (visiting a museum in Shiryaevo); an art contest and exhibition of students works from the Children’s Art School of Samara and Samara Region “Home Region in Children’s Artwork” dedicated to the International Day of Child Protection; a children’s event for 100 children “World in Light Tones” (within the exhibition “L. N. Tolstoy and his Surroundings”, Moscow); purchasing of a ladder crawler device for transportation of disabled people in wheel chairs; purchasing of portable telescopic frame.

- **Center of V. Vysotsky in Samara**
2009: publishing of a photo album “Kuibyshev Olympus of Vysotsky”.
- **Samara Branch of the Union of Composers of Russia**
2009: organization and holding of a jubilee concert of M. G. Leviant.

The Company acts as a general partner of concert activities of the Chamber Ensemble “Moscow Soloists” (art director, conductor and main soloist — Yuri Bashmet). In October 2008, a concert of the ensemble was organized in the Armory of the Moscow Kremlin as part of a charitable auction of modern Russian artists’ works held jointly with the charity fund of Chulpan Khamatova and Dina Korzun “Gift of Life”. In December 2009, a concert was organized for employees of the Company, members of their families and partners of the Company.

Sport

Social programs targeting support for development of sport in Russia are a top priority for us. The Company provides continuous support to the following sport clubs:

- Spartak basketball club (Saint-Petersburg)
- Dynamo sport club (Moscow)
- NOVA volleyball club (Novokuibyshevsk)
- Hockey club of the Ministry of Internal Affairs (Moscow)
- Krylia Sovetov professional football club (Samara)

Sporting competitions held in the YNAO with the participation of NOVATEK take place on the following national holidays: Fisherman’s Day, Reindeer Herder Day etc. The Company also supports the participation of individual sportsmen in high-level international competitions.

Assurance statement

INDEPENDENT VERIFICATION/ ASSURANCE STATEMENT

SGS Vostok Ltd's report on the assurance of sustainability activities in the OAO NOVATEK Sustainability Report on the territory of the Russian Federation 2008 – 2009.

Nature and Scope of the Assurance/ Verification

SGS Vostok Ltd was commissioned by OAO Novatek to conduct an independent assurance of the Sustainability Report 2008–2009. The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included the text, data and accompanying graphs and tables, contained in the review. Information and data on the company website, other than that included in the text of this report, were not included in this assurance process.

The information in the OAO NOVATEK Sustainability Report 2008 - 2009 and its presentation are the responsibility of the directors and management of OAO Novatek. SGS Vostok Limited has not been involved in the preparation of any of the material included in the Sustainability Report 2008–2009.

Our responsibility is to express an opinion on the text, data, graphs and statements within the scope of verification set out below.

This report has been assured at a moderate level of scrutiny using our protocols for:

- evaluation of content veracity;
- evaluation of the report against Global Reporting Initiative Sustainability Reporting Guidelines (2006)

The assurance comprised a combination of pre-assurance research, documentation and record review, and interviews with employees during visits to the Head office of OAO NOVATEK, based in Moscow, documentation and record review and evaluation against the GR3 requirements.

Financial data drawn directly from independently audited financial accounts has not been checked back to source as part of this assurance process.

Statement of Independence and Competence

The SGS Group of companies is the world leader in inspection, testing and verification, operating in more than 140 countries and providing services including management systems and service certification; quality, environmental, social and ethical auditing and training; environmental, social and sustainability report assurance.

SGS Vostok Limited affirm our independence from OAO NOVATEK, being free from bias and conflicts of interest with the organisation, its subsidiaries and stakeholders.

The assurance team was assembled based on their knowledge, experience and qualifications for this assignment, and comprised IRCA Certified Sustainability Assurance Practitioner, Lead Quality and SA8000 Auditor.

Assurance Opinion

On the basis of the methodology described we are satisfied that the text and statements made in the Sustainability Report 2008–2009 are supported by underlying evidence.

Based upon the sampling of occupational health and safety, environmental and employment practice data during site visits and interrogation verification of documents, records and interviews at the organisation's Head Office we have concluded that data is generally accurate and reliable and provides a fair and balanced representation of sustainability performance. Any errors detected in the data during site visits undertaken were corrected and appropriate amendments made to the report.

The assurance team is of the opinion that the Report can be used by the Reporting Organisation's Stakeholders.

We believe that the organisation has chosen an appropriate level of assurance for this stage in their reporting and recommend that this level of assurance is repeated for the next report.

Reporting against the Global Reporting Initiative's (GRI) 2006 performance indicators (G3)

In our opinion, report content, the GRI Index as included in the Sustainability Report meet the content and quality requirements of the Global Reporting Initiative G3 Version 3.0 Application Level B+.

During this reporting period, the report has gradually incorporated most of recommendations made during past periods to improve reporting. There are improvements in identification and selection of stakeholders through stakeholder mapping process. The climate change sustainability issues were better addressed during this reporting period. Yet there is a potential for improvement of GRI comparability principal to improve perception of information by readers. All improvements made are making report more transparent and helpful for stakeholders as well as information become clearer to readers, progressing with one reporting period to another.

Materiality

The report reflects the main material issues expected of an oil & gas producer and in addition the specific issue

of Indigenous and Native people. The significant risks to the company are covered well in the report and factors for enabling success are quite clear and appropriate. The report does not give great detail on the feedback from stakeholders and although the report prioritises the material issues reflecting relevance, the reader would not be able to judge from the report whether these report addresses stakeholder concerns.

Recommendations for future reporting

The descriptions of engagement, frequency and outcomes of stakeholder engagement would benefit from being collated in one format. Future management of stakeholder engagement would benefit from alignment with AA1000APS and reporting should include more detail on the engagement processes and results and the inclusion of responses to the results of engagement.

Further recommendations for improvement have been made in an internal management report to the organisation.

Signed:
For and on behalf of SGS Vostok Ltd



Business Manager, System and Services Certification
SGS Vostok Ltd
December 2010
WWW.SGS.COM

G3 Content Index

STANDARD DISCLOSURES PART I: PROFILE DISCLOSURES

Profile Disclosure	Description	Reported	Cross-reference/ Direct answer	Explanation
1. STRATEGY AND ANALYSIS				
1,1	Statement from the most senior decision-maker of the organization.	Fully	p. 4-5	
1,2	Description of key impacts, risks, and opportunities.	Fully	p. 10, 19	
2. ORGANIZATIONAL PROFILE				
2,1	Name of the organization.	Fully	p. 4,7	
2,2	Primary brands, products, and/or services.	Fully	p. 9-10	
2,3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Fully	p. 7 — 9	
2,4	Location of organization's headquarters.	Fully	p. 8	
2,5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Fully	p. 7 — 9, 62	
2,6	Nature of ownership and legal form.	Fully	p. 7, 12-13	
2,7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Fully	p. 9-10	
2,8	Scale of the reporting organization.	Partially	p. 8-14, 19-21. Additionally please see: http://www.novatek.ru/eng/ir/ratios/	
2,9	Significant changes during the reporting period regarding size, structure, or ownership.	Fully	p. 7-10, 12-13	
2,10	Awards received in the reporting period.	Fully	p. 57	

Profile Disclosure	Description	Reported	Cross-reference/ Direct answer	Explanation
--------------------	-------------	----------	-----------------------------------	-------------

3. REPORT PARAMETERS

3,1	Reporting period (e.g., fiscal/calendar year) for information provided.	Fully	p. 62	
3,2	Date of most recent previous report (if any).	Fully	2008	
3,3	Reporting cycle (annual, biennial, etc.)	Fully	p. 62	
3,4	Contact point for questions regarding the report or its contents.	Fully	p. 62	
3,5	Process for defining report content.	Fully	p. 62	
3,6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Fully	p. 7, 62	
3,7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Fully	p. 7, 62	
3,8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	Fully	The Report boundaries were broadened against the ones in the previous report	
3,9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	Fully	p. 12-17	
3,10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/ periods, nature of business, measurement methods).	Fully	Data on marketing subsidiaries are included in the reporting boundaries, as well as projects that have a high probability of influencing the Company's future results.	
3,11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Fully	Please see comment to 3.10	
3,12	Table identifying the location of the Standard Disclosures in the report.	Fully	p. 64	
3,13	Policy and current practice with regard to seeking external assurance for the report.	Partially	p. 62	

Profile Disclosure	Description	Reported	Cross-reference/ Direct answer	Explanation
--------------------	-------------	----------	-----------------------------------	-------------

4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT

4,1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	Fully	p. 12-16. Additionally please see: http://www.novatek.ru/eng/about/corporate/	
4,2	Indicate whether the Chair of the highest governance body is also an executive officer.	Fully	p. 13-14 Additionally please see: http://www.novatek.ru/eng/about/corporate/	
4,3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	Fully	p. 13-14 Additionally please see: http://www.novatek.ru/eng/about/corporate/	
4,4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Fully	p. 12-16, 51 — 53.	
4,5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	Fully	pp. 16, 44	
4,6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Fully	p. 15. Additionally please see: http://www.novatek.ru/eng/newscenter/pressrelease/p2010/	
4,7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics.	Fully	p. 10. Qualifications and expertise of the members of the Board are determined based on their professional experience. The Company does not use special criteria to define their qualification in ecological and social spheres.	
4,8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	Fully	p. 12, 14	
4,9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	Fully	p. 12, 14, 25	
4,10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	Fully	Processes for evaluating the highest governance body's own performance are carried out annually at the Annual General Shareholders' Meetings.	

Profile Disclosure	Description	Reported	Cross-reference/ Direct answer	Explanation
4,11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	Fully	pp. 19, 23,24, 26, 30, 35	
4,12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	Fully	p. 32.	
4,13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	Fully	Russian Gas Society, Regional Association "Urals Industrial — Polar Urals"	
4,14	List of stakeholder groups engaged by the organization.	Fully	p. 15.	
4,15	Basis for identification and selection of stakeholders with whom to engage.	Fully	pp. 16 — 17	
4,16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Fully	pp. 16-17, 28, 51-53	
4,17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	Fully	pp. 16-17, 28 51-53	

STANDARD DISCLOSURES PART II: DISCLOSURES ON MANAGEMENT APPROACH (DMAS)

	Description	Reported	Cross-reference/ Direct answer	Explanation
DMA EC	Disclosure on Management Approach EC	Partially		
Aspects	Economic performance	Fully	pp. 19, 23,24, 26, 30, 35	
	Market presence	Fully	p. 9	
	Indirect economic impacts	Partially	p. 19.	We need to collect additional information that will be done in the next reporting period.
DMA EN	Disclosure on Management Approach EN	Fully	p. 19.	

	Description	Reported	Cross-reference/ Direct answer	Explanation
Aspects	Materials	Not		The analyses of this aspect was not carried out.
	Energy	Partially	p. 28.	
	Water	Fully	p. 32.	
	Biodiversity	Partially	p. 34-35.	
	Emissions, effluents and waste	Fully	p. 29-30.	
	Products and services	Partially	p. 9.	More in-depth analyses of the products' life-cycle and associated processes will be done in the next report.
	Compliance	Fully	p. 28 — 29.	
	Transport	Not		Not available
	Overall	Fully	p. 34.	
DMA LA	Disclosure on Management Approach LA	Fully		
Aspects	Employment	Fully	p. 43.	
	Labor/management relations	Partially	p. 51.	
	Occupational health and safety	Fully	p. 37-41.	
	Training and education	Fully	p. 37,44,45.	
	Diversity and equal opportunity	Fully	pp. 43.	
DMA HR	Disclosure on Management Approach HR	Partially		
Aspects	Investment and procurement practices	Partially		
	Non-discrimination	Fully	p. 43	The Company follows the law of the countries of presence. Compliance monitoring is being carried out within regular management processes (for example, HR).
	Freedom of association and collective bargaining	Fully	p. 52.	
	Child labor	Fully	p. 43.	The Company does not work in the regions where the risk of child labor or forced/ compulsory labor is high. In Russia these types of labor are not allowed by laws.

	Description	Reported	Cross-reference/ Direct answer	Explanation
	Forced and compulsory labor	Fully	p. 43	
	Security practices	Not		The Company does not monitor this aspect.
	Indigenous rights	Fully	pp. 43, 56.	
DMA SO	Disclosure on Management Approach SO	Partially		
Aspects	Community	Fully	pp. 15-17	
	Corruption	Not		Not available
	Public policy	Not		Not available
	Anti-competitive behavior	Not		
	Compliance		The Company complies with legislation of the countries of presence.	
DMA PR	Disclosure on Management Approach PR	Partially	pp. 8, 19-20.	NOVATEK consumers are industrial companies (the share of products being sold to individual consumers is insignificant). Therefore, the important aspect for us is the exact compliance of the quality of our products with the requirements of our consumers and the laws. The Company improves the product quality by introducing new equipment and process units.
Aspects	Customer health and safety	Partially		In-depth analyses of the aspects was not carried out and will be done in the next report (including relevance of these reporting elements to the Company).
	Product and service labelling	Not		
	Marketing communications	Not		
	Customer privacy	Not		Not applicable
	Compliance	Fully	Please, see the comments to the appropriate indicators in the GRI Index	

STANDARD DISCLOSURES PART III: PERFORMANCE INDICATORS

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	Explanation
-----------------------	-------------	----------	-----------------------------------	-------------

Economic

ECONOMIC PERFORMANCE

EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Fully	p. 19, 46, 56. Additionally please see: Annual Review 2009	
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Fully	p. 30.	
EC3	Coverage of the organization's defined benefit plan obligations.	Fully	p.10.	
EC4	Significant financial assistance received from government.	Not		The Company did not receive any significant financial assistance from the Government.

MARKET PRESENCE

EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	Not		Not available
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Partially	p. 19.	The detailed analyses will be carried out in the next reporting period.
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Partially	p. 43.	Considering the fact that NOVATEK operates mainly in Russia, the notion of "local communities" was attributed only to indigenous people that live on the territories where our enterprises operate.

INDIRECT ECONOMIC IMPACTS

EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Fully	p. 55.	
-----	--	-------	--------	--

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	Explanation
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Partially	19,55-58	The analyses was not done.

Environmental

MATERIALS

EN1	Materials used by weight or volume.	Not		The analyses will be made in the next reporting period.
EN2	Percentage of materials used that are recycled input materials.	Fully	pp. 20, 32.	

ENERGY

EN3	Direct energy consumption by primary energy source.	Fully	p. 29.	
EN4	Indirect energy consumption by primary source.	Not		Not available
EN5	Energy saved due to conservation and efficiency improvements.	Fully	p. 29.	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Fully	p. 28.	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Partially	p. 28	

WATER

EN8	Total water withdrawal by source.	Partially	p. 32.	
EN9	Water sources significantly affected by withdrawal of water.	Fully	p. 32.	
EN10	Percentage and total volume of water recycled and reused.	Fully	p. 33.	

BIODIVERSITY

EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Partially	p. 34.	
------	--	-----------	--------	--

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	Explanation
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Fully	p. 34-35.	
EN13	Habitats protected or restored.	Partially	p. 33-35.	
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Partially	p. 35	
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Partially	p. 35	The Company does not monitor the indicator.

EMISSIONS, EFFLUENTS AND WASTE

EN16	Total direct and indirect greenhouse gas emissions by weight.	Fully	p. 29.	
EN17	Other relevant indirect greenhouse gas emissions by weight.	Fully	p. 31.	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Fully	p. 31.	
EN19	Emissions of ozone-depleting substances by weight.	Fully	p. 30.	
EN20	NOx, SOx, and other significant air emissions by type and weight.	Fully	p. 30.	
EN21	Total water discharge by quality and destination.	Partially	p. 32.	
EN22	Total weight of waste by type and disposal method.	Partially	p. 33.	
EN23	Total number and volume of significant spills.	Fully	p. 40.	
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	Partially	p. 33	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	Fully	p. 33.	

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	Explanation
-----------------------	-------------	----------	-----------------------------------	-------------

PRODUCTS AND SERVICES

EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Fully	p. 24-25.	
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Not		Not applicable

COMPLIANCE

EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Partially	p. 34.	
------	--	-----------	--------	--

TRANSPORT

EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	Not		Not available
------	---	-----	--	---------------

OVERALL

EN30	Total environmental protection expenditures and investments by type.	Fully	p. 34.	
------	--	-------	--------	--

Social: Labor Practices and Decent Work

EMPLOYMENT

LA1	Total workforce by employment type, employment contract, and region.	Fully	p. 43.	
LA2	Total number and rate of employee turnover by age group, gender, and region.	Partially	p. 43.	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Fully	p. 43-44.	

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	Explanation
-----------------------	-------------	----------	-----------------------------------	-------------

LABOR/MANAGEMENT RELATIONS

LA4	Percentage of employees covered by collective bargaining agreements.	Fully	p. 51.	In Russia 100% of employees are covered by collective agreements.
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	Fully	Minimum notice period depends on the legislation of a certain country where we operate. In Russia the period is 2 months.	

OCCUPATIONAL HEALTH AND SAFETY

LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	Not		Such committees were not created in the subsidiaries of NOVATEK.
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Partially	p. 38. Break-down by regions is not relevant to the Company as far as it operates in one region mainly.	
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Partially	p. 38-41	The Company does not operate in countries where the risk of serious diseases is high. Working conditions at our enterprises are also not associated with the risk of such diseases. Therefore, efforts to prevent them is not relevant to the Company.
LA9	Health and safety topics covered in formal agreements with trade unions.	Fully	Each collective agreement contains a special section devoted to health and safety topics. Fulfillment of the employer's obligations is being verified in the course of summarizing the implementation of collective agreements.	

TRAINING AND EDUCATION

LA10	Average hours of training per year per employee by employee category.	Fully	pp. 27, 45	
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Fully	p. 44-46	

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	Explanation
LA12	Percentage of employees receiving regular performance and career development reviews.	Partially	p. 44-45	

DIVERSITY AND EQUAL OPPORTUNITY

LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Partially	p. 13, 44. Other than those introduced in the Report, aspects of diversity were irrelevant in the reporting period.	
LA14	Ratio of basic salary of men to women by employee category.	Not		Not available

Social: Human Rights

DIVERSITY AND EQUAL OPPORTUNITY

HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	Not		Not available
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Partially	Human Rights in relations with contractors in Russia we take mainly as compliance with labor laws. When selecting suppliers, the study is being carried out on several items, including credit history, reputation, management practices and its reliability.	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Not		Not available

NON-DISCRIMINATION

HR4	Total number of incidents of discrimination and actions taken.	Fully	In the reporting period the Company has received no information or other data on the incidences of discrimination in its subsidiaries.	
-----	--	-------	--	--

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	Fully	p. 51. Such activities were not detected during the reporting period.	
-----	--	-------	---	--

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	Explanation
-----------------------	-------------	----------	-----------------------------------	-------------

CHILD LABOR

HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	Fully	p.43. Such activities were not detected during the reporting period.	
-----	--	-------	--	--

FORCED AND COMPULSORY LABOR

HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.	Fully	p. 43. Such activities were not detected during the reporting period.	
-----	--	-------	---	--

SECURITY PRACTICES

HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	Not		Not available
-----	---	-----	--	---------------

INDIGENOUS RIGHTS

HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	Fully	p. 43,55, 56-57. Such activities were not detected during the reporting period.	
-----	--	-------	---	--

Social: Society

COMMUNITY

S01	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	Fully	p. 57-58.	
-----	---	-------	-----------	--

CORRUPTION

S02	Percentage and total number of business units analyzed for risks related to corruption.	Not		Not available
-----	---	-----	--	---------------

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	Explanation
S03	Percentage of employees trained in organization's anti-corruption policies and procedures.	Not		Not available
S04	Actions taken in response to incidents of corruption.	Fully	Such activities were not detected during the reporting period.	
PUBLIC POLICY				
S05	Public policy positions and participation in public policy development and lobbying.	Fully	The Company takes part in the events dedicated to discussing the draft laws, regulations and other decisions of industry regulations. The concept of "lobbying" is not defined in the Russian legislation.	
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	Not		Not available
ANTI-COMPETITIVE BEHAVIOR				
S07	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	Fully	Legal action against the Company in connection with anti-competitive behavior has not been taken in the reporting period.	
COMPLIANCE				
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Fully	Penalties for non-compliance and fulfilment of regulatory requirements were not imposed in the reporting period.	

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	Explanation
-----------------------	-------------	----------	-----------------------------------	-------------

Social: Product Responsibility

CUSTOMER HEALTH AND SAFETY

PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	Not		The analyses will be made in the next reporting period.
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	Fully	Such incidents were not detected in the reporting period.	

PRODUCT AND SERVICE LABELLING

PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Not		Not available
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	Fully	Such incidents were not detected in the reporting period.	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Partially	p. 8	

MARKETING COMMUNICATIONS

PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	Not		Substantial share of NOVATEK production is bought by industrial entities, therefore marketing communications are carried out without the use of promotional tools and media.
-----	--	-----	--	--

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	Explanation
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	Fully	Such incidents were not detected in the reporting period.	

CUSTOMER PRIVACY

PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Not		The Company does not work with personal data of consumers.
-----	--	-----	--	--

COMPLIANCE

PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Fully	Such incidents were not detected in the reporting period.	
-----	---	-------	---	--

About the Report and Reporting Process

This is the third Sustainability Report published by NOVATEK.

Reporting Period

This report covers the period from 1 January 2008 until 31 December 2009. The Company reports its activities on a two-year reporting cycle.

Application of Reporting Systems

The report is based on the Sustainability Reporting Guidelines developed by Global Reporting Initiative (GRI, Version 3.0). The Company defines the GRI application level to be B+.

Verification

Verification of the Report was carried out by SGS Vostok Limited. The Official Report is attached hereto.

Report Boundary

Geography: Russian Federation.

Coverage of entities: the Report contains information on OAO NOVATEK and entities in the following business segments:

- Hydrocarbon exploration and production: OOO NOVATEK-Yurkharovneftegas, OOO NOVATEK-Tarkosale-neftegas, ZAO Terneftegas, NOVATEK Overseas E&P, OAO Yamal LNG, OOO YARGEO, OOO Oiltechproduct-Invest, OOO Petra Invest-M, OOO Tailiksneftegaz;
- Processing, transportation and sales: OOO NOVATEK-Purovsky ZPK, OOO NOVATEK-Transervice, OOO NOVATEK-Ust-Luga; Runitek GmbH, OOO NOVATEK-AZK, NOVATEK Polska;
- Manufacturing: OOO NOVATEK-Polymer.

The scope of data on OAO NOVATEK, Runitek GmbH, Novatek Polska, NOVATEK Overseas E&P included in the report is limited due to the non-productive nature of the activities of these companies. For some quantitative indicators (for instance, ecological) these companies have not been included in the report's scope of work.

Materiality Issues

The Company has established a Reporting Work Group to define materiality issues. Before discussing the report with the Work Group members, managers responsible for the report have prepared a conceptual draft report. The Work Group members responded based on the Company's activities by functional areas. We also considered trends in the oil and gas industry and reporting practices of the world industry leaders. In addition, the previous Sustainability Report (for 2006-2007) and recommendations of auditors were used for the conceptual development and framework of this Report.

Next Report

Next Report is planned to be published in 2011.

Feedback questionnaire

Dear readers,

You have just read NOVATEK's third Sustainability Report.

Your opinion is important to us, and we would be grateful for your responses to the questions below so that we might improve the report's quality in the future.

If you have any questions or comments, please call +7 495 730 6000.

Please mail the completed questionnaire to: 12A, Nametkina street, Moscow, Russia, 117420

You can also e-mail it to: ir@novatek.ru.

1. Which kind of stakeholder are you?
 1. Government authorities
 2. Investor
 3. Partner
 4. Client
 5. Employee
 6. Shareholder
 7. Other _____
2. What is your overall impression of the report?
 1. Very interesting
 2. Interesting
 3. Not interesting
3. How would you rate data completeness?
 1. High
 2. Satisfactory
 3. Low
4. How would you rate data reliability and objectivity?
 1. High
 2. Satisfactory
 3. Low
5. How would you rate the report's search convenience?
 1. High
 2. Satisfactory
 3. Low
6. How would you rate the design?
 1. High
 2. Satisfactory
 3. Low
7. Has the report contributed to your understanding of the sustainability of NOVATEK's activities?
 1. Yes, completely
 2. Yes, somewhat
 3. No, not exactly
 4. No, totally unclear

What kind of information would you like to see included in future sustainability reports by NOVATEK?

Contact Information

Legal address	22 A Pobedy Street, Tarko-Sale, Yamal-Nenets Autonomous Region, 629850, Russia	NOVATEK's website contains a variety of corporate information including the following: <ul style="list-style-type: none">• 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)
Office in Moscow	12A Nametkina Street, Moscow, 117420, Russia	
Central information Service	Tel: +7 495 730-6000 Fax: +7 495 721-2253 E-mail: novatek@novatek.ru	
Press Service	Tel: +7 495 721-2207 E-mail: press@novatek.ru	
Investor Relations	Tel: +7 495 730-6013 Fax: +7 495 730-6007 E-mail: ir@novatek.ru	

