

A white line drawing on a blue background. It depicts a bird in flight, with its wings spread, flying from the right side of the frame towards the left. Below the bird, there are several curved lines representing a landscape or a path. At the bottom of the illustration, there is a small, stylized building or structure on the left, and a long, thin horizontal line extending to the right.

Striving *For Excellence*

Sustainability Report on the Territory
of the Russian Federation

'10

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Dear Stakeholders,

we are very pleased to present our Sustainability Report for 2010, our fourth such report prepared in accordance with the Global Reporting Initiative (GRI) guidelines. Our previous Sustainability Reports were biennial; however, in accordance with industry best practices, the Company will now publish our sustainability report on an annual basis. Thus, our stakeholders will be able to receive the latest update on our sustainable development practices and accomplishments in a timely manner.

Two thousand and ten was another record year for us operationally and financially as we increased our resource base significantly via strategic investments in new assets and organic growth at our existing fields, thus creating a long-term basis for further growth of natural gas and liquid hydrocarbon production. The successes we achieved in our financial and operating results provide a platform for long-term growth based on sustainable development principles and ensure the implementation of vital programs, which play a significant social and economic role for all stakeholders.

The previous year was notable for the global oil and gas industry due to a severe accident in the Gulf of Mexico, which once again reminded all market participants of the importance of continued efforts aimed at increasing industrial and environmental safety. In the previous year NOVATEK continued to improve its internal management

systems in these critical areas employing new technological solutions to reduce environmental risks as shown in this Report.

Adhering to our environmental policy and our commitment to prevent or reduce any negative impact on the environment, we were one of the first Russian oil and gas companies to introduce renewable energy sources at our operational facilities. The linear telemechanic and valve control systems at our new gas condensate pipeline connecting the Yurkharovskoye field and the Purovsky Plant will operate solely under the power of solar and wind energy. We also continued our participation with the Carbon Disclosure Project and, in 2010 we improved our performance indicators by increasing the associated gas recovery ratio.

We implemented programs such as our employee Share-Based Option Program aimed at incentivizing highly qualified top managers and key employees and increasing levels of efficiency and quality. We also regularly employ young specialists and strive to create the necessary conditions for their successful integration and development within NOVATEK's corporate culture and the requisite personnel demands of a growing organization.

We constantly strive to improve our corporate governance system and in 2010, NOVATEK's Code of Business Conduct

The successes we achieved in 2010 in our financial and operating results provide a platform for long-term growth based on sustainable development principles and ensure the implementation of vital programs, which play a significant social and economic role for all stakeholders.

and Ethics (the “Code”) was developed and later approved by the Company’s Board of Directors. The Code increases the efficiency of the corporate governance process and provides transparent communication channels for effective dialogue with all stakeholders. In accordance with global best practices, the Code establishes the basic ethical framework for the Company’s activities, the general principles and norms for its employees’ behavior, as well as the main rules for communication with shareholders, investors, authorities, counteragents and other stakeholders.

During the past year, we expanded our social and economic partnerships to the benefit of local communities: we signed an agreement with the Chelyabinsk region, which we consider an important region for the expansion of our marketing activities. We also continued to develop and support children and youth programs, as well as the volunteer movement initiated by Company employees.

We believe that 2010 was another successful year for the Company and we intend to further inform all stakeholders about our ongoing activities and our strong commitment to sustainable development principles.



Chief Executive Officer, OAO NOVATEK

Leonid Mikhelson





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Company profile

NOVATEK is Russia's largest independent natural gas producer engaged in the exploration, production, processing and marketing of natural gas and liquid hydrocarbons. The Company's goal is to create a world class oil and gas company, which operates effectively in all market conditions.

The application of new technologies and innovative approaches to production and marketing provide us with an important competitive advantage.

Key Success Factors

- We are Russia's largest independent natural gas producer and the second largest producer of natural gas in Russia after OAO Gazprom.
- The Company is ranked among the top ten publicly traded companies in terms of natural gas reserves and is also recognized as one of the lowest cost producers globally.
- NOVATEK uses state-of-the-art exploration and development technologies to efficiently develop its reserve base and increase the ultimate level of hydrocarbon recovery from its fields.
- NOVATEK's fields and license areas are in close proximity to the Unified Gas Supply System (UGSS), which transports gas to consumers in the Russian domestic market.
- The Company's main producing assets are located in the Yamal-Nenets Autonomous Region (YNAO). This region accounts for approximately 83% of Russia's natural gas production and approximately 16% of global natural gas production¹.
- We operate in a socially responsible manner. Our businesses should benefit all of the communities wherever we operate and have minimal impact on the environment.

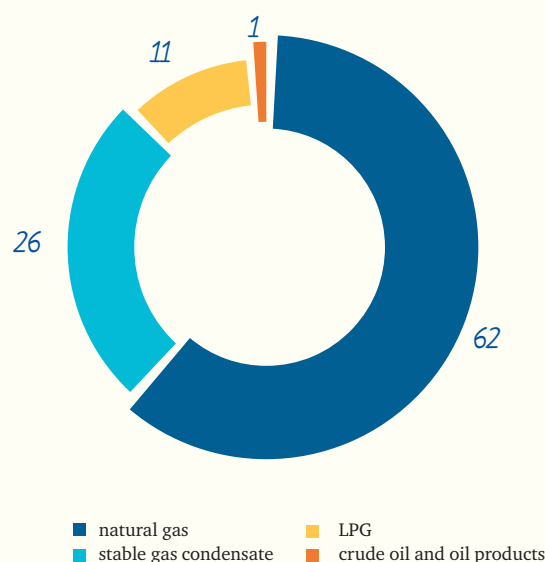
¹ According to Russian Government statistics and BP's Statistical review.

2010 was another record year for us operationally and financially as we increased our resource base significantly via strategic investments in new assets and organic growth at our existing fields.

Main Operational and Production Results for 2010

- NOVATEK accounts for approximately 6% of the natural gas produced in Russia, providing more than 10% of total natural gas deliveries through the UGSS to the domestic market.
- Total proved reserves of natural gas and liquid hydrocarbons increased by 18.0% or 1,235 million barrels of oil equivalent (boe) according to SEC standards.
- NOVATEK recorded an approximately five-fold (551%) reserves replacement rate for its appraised fields under the SEC standards, and at year-end 2010, the Company's reserve to production ratio (or R/P ratio) was 30 years.
- NOVATEK's investments in exploration and development activities at its fields and license areas resulted in an industry leading finding and development cost of RR 73.16 per boe (\$ 2.41 per boe)².
- Record financial and operational results including a 32.5% increase in both natural gas and liquids sales revenues and a 12.7% and 8.7% increase in sales volumes, respectively.

2010 Breakdown of oil&gas sales, %



Gross Hydrocarbon Production

	2008	2009	2010
Total, mmboe, including:	223	240	278
natural gas, bcm	30.9	32.8	37.8
liquid hydrocarbons, mmt	2.6	3.0	3.6

Processing Volumes, mmt

	2008	2009	2010
Processed gas condensate, including:	2.2	2.8	3.4
Stable gas condensate	1.6	2.1	2.5
Liquefied petroleum gas (LPG)	0.6	0.7	0.9
Regenerated methanol ³	—	0.006	0.010

² In 2010, average exchange rate of RR 30.37/USD (\$).

³ Methanol is produced for own needs.

The Company's key products sold and delivered to consumers consist of natural gas, stable gas condensate and liquefied petroleum gas.

Report Boundary Setting

The Report comprises all companies included in the boundaries of our 2008-2009 Sustainability Report with exclusion of OOO NOVATEK-Polymer. The Company completed the disposal of its 100% equity interest in OOO NOVATEK-Polymer at the end of 2010. The Disposal of this industrial manufacturing subsidiary is consistent with our strategy to focus on core natural gas and gas condensate production and processing activities. At the end of 2010, OOO Oiltechproduct-Invest merged with and into OOO NOVATEK-TARKOSALENEFTEGAS. The full list of our subsidiaries included in the boundaries of the Report is specified in the chapter "About the Report and Reporting Process".

During the reporting period, the assets under NOVATEK's control underwent a number of changes; information about these changes is included in the Report.

In 2010, a 50/50 joint venture with OAO Gazprom Neft, OOO Yamal Development, was created to jointly develop potential hydrocarbon assets in the YNAO.

We also completed two significant transactions. First, Yamal Development acquired a 51% participation interest

in OOO SeverEnergiya, which has not yet commenced commercial production. Second, we acquired a 51% interest in OAO Sibneftegas, which is producing commercial volumes of natural gas. It is expected that these acquisitions will increase both our resource base and overall production and will have a significant economic impact and therefore will be included in the 2011 Report.

The Company's up-to-date corporate structure can be found on our website at <http://www.novatek.ru/en/about/general/structure/>. In the following sections: Processing, Transportation and Sale of Hydrocarbons; Processing and Marketing in Russia; and Exploration, Production and Marketing Abroad, the boundaries of the report are limited to those assets in which NOVATEK has an interest greater than 51%. Assets which were created or acquired in 2010 were not covered in the Report.

Hereinafter in the Report the words "Company", "NOVATEK", "we" refer to OAO "NOVATEK" and its consolidated subsidiaries unless stated otherwise. The boundaries of the corporate policy, its management system and programs are stated in the relevant sections of the Report.

All figures and data in the Report were calculated using the following standards or methods:

- Financial indicators are based on consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS);
- Proven hydrocarbon reserves are evaluated in accordance with Securities and Exchange Commission (SEC) standards;
- Sustainability Report results are provided in accordance with Global Reporting Initiative (GRI version 3.1)



Part

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Economic Performance and Sustainability

NOVATEK has invested significant resources to ensure that it is well prepared to capitalize on the many opportunities that natural gas will provide, as the fuel of choice in the 21st century.

Company Development Strategy in 2010

NOVATEK's long-term strategy is aimed at profitably exploiting the hydrocarbon value chain – from exploration and production to processing and marketing. In 2010, the Company continued with the implementation of this strategy, which is published on our website at <http://www.novatek.ru/en/about/strategy/>. The Company intends to continue increasing its resource base and manage reserves effectively, while maintaining our low cost structure. Moreover, we intend to continue to optimize our marketing channels and explore complementary and value added projects.

1) Exploration and Production of Hydrocarbons

In the reporting period NOVATEK met its strategic goal to increase reserves by means of:

- purchase of assets, which were accretive to the Company's total reserves (OAO Sibneftegas and OOO SeverEnergia)
- organic growth, achieved by a combination of exploration and development work carried out at the Yurkharovskoye field, revisions at the South-Tambeyskoye field and discovery of the Severo-Russkoye field.

In October 2010, we completed the third stage of the second phase of development at the Yurkharovskoye field, increasing our total productive capacity by seven billion cubic meters (bcm) of natural gas and 600 thousand tons

(mt) of unstable gas condensate per annum thus increasing total field production capacity to approximately 33 bcm of natural gas and approximately three million tons (mmt) of unstable gas condensate.

In November 2010, Yamal Development acquired a 51% interest in OOO SeverEnergia, which through its subsidiaries holds licenses for the development of oil and gas condensate fields in the YNAO. During the reporting period, plans for developing these fields were under revision.

In December 2010, financial resources were allocated for the strategic acquisition of a 51% interest in OAO Sibneftegas, whose fields are located in the YNAO and will immediately be accretive to NOVATEK's total natural gas production.

In 2010, we drilled a horizontal well and carried out exploration works at the Termokarstovoye field to assess the potential reservoir productivity in the Jurassic layers. A final investment decision on the development and production plan for the field will be taken in 2011 following the results of exploration activities. During the 2010 period, we discovered two gas condensate fields — the Severo-Russkoye field at the Severo-Russkiy license area and the Ukrainsko-Yubileinoe field, which has three gas condensate layers at the Severo-Yamsoveyskiy license area.

NOVATEK's long-term strategy is aimed at profitably exploiting the hydrocarbon value chain — from exploration and production to processing and marketing.

Results achieved:

NOVATEK recorded an approximately five-fold (551%) reserve replacement rate for its appraised fields under SEC standards⁴, and at year-end 2010, the Company's reserve to production ratio (or R/P ratio) was 30 years.

Total gross production amounted to 37.78 bcm of natural gas and 3,632 mt of liquid hydrocarbons. Natural gas production increased by 15.3%, while liquids production increased by 19.1%, compared to the respective production volumes in 2009.

2) Processing, Transportation and Sale of Hydrocarbons

NOVATEK's increase in gas and liquid hydrocarbon sales was achieved through organic production growth at our traditional assets, an increase in gas condensate processing volumes, domestic and international hydrocarbon demand growth and the geographical expansion of liquid hydrocarbons sales.

The main infrastructure projects in 2010 were the launch of an unstable gas condensate de-ethanization unit at the Yurkharovskoye field and an unstable gas condensate pipeline connecting the field with the Purovsky Gas Condensate Processing Plant. The completion of these projects enables NOVATEK to independently de-ethanize and transport unstable gas condensate from the fields to the processing site thus improving quality and decreasing preparation and transportation expenses.

We also launched a 40 mt per annum methanol unit located on the territory of the Yurkharovskoye field, thus eliminating the need to transport methanol to the field and decreasing our operating costs and the potential environmental risks related to its transportation. During the construction of our new unit we used the experience gained from a 12.5 mt pilot methanol production unit launched in 2007 as well as the latest methanol production technologies. As a result we managed to decrease our unit costs of methanol production and increase the safety of the production process.

As part of our goal to move further down the gas condensate value chain, we continued the engineering design work for a new terminal facility at Ust-Luga, located on the Baltic Sea, for the transshipment and fractionation of stable gas condensate produced at the Purovsky Plant. During the reporting period, the Company was engaged in infrastructure development, the construction of finished products and raw materials storage tanks and housing facilities for rotational workers. The facility will be operated by our wholly-owned subsidiary OOO NOVATEK-Ust-Luga.

In 2010, NOVATEK successfully navigated the Northern Sea Route to deliver stable gas condensate to China. The delivery from Russia's Murmansk Port to China's Ningbo Port took 22 days, approximately half the time required by the traditional shipping route through the Suez Canal. This demonstrates the possibility for future trade with China and other countries of the Asian-Pacific region using the Northern Sea Route as well as providing additional logistical options for developing hydrocarbon fields in the Yamal peninsula and arctic shelf.

⁴ Our proved reserves estimates are appraised by the independent petroleum engineers, DeGolyer and MacNaughton (D&M).

NOVATEK launched a methanol production unit at the Yurkharovskoye field, thus eliminating the need to transport methanol to the field and decreasing our operating costs and the potential environmental risks related to its transportation.

Results achieved:

The Purovsky Plant processed 3.4 mmt of de-ethanized unstable gas condensate, or 19.5% more than in 2009.

NOVATEK's natural gas sales volumes amounted to 37.1 bcm, an increase of 12.7% compared to 2009 sales volumes of 32.9 bcm. Total sales volumes of liquid hydrocarbons in 2010 amounted to 3,401 mt, an 8.7% increase over 2009.

On a volume basis, the main regions for natural gas sales were; the Perm territory, Chelyabinsk, Orenburg, Sverdlovsk, Moscow, Kurgan, Kirov, Samara and Kostroma regions, the city of St-Petersburg as well as the YNAO and Khanty-Mansyisk Autonomus Region. Over 99% of stable gas condensate and over 50% of LPG sales volumes were sold to the export market.

Created and Distributed Economic Costs, RR millions*

	2009	2010
Sales revenues	89,954	117,024
Operating costs	36,395	43,923
Salaries and other benefits for employees	5,297	6,446
Payments to financial services providers	9,431	12,047
Taxes allocated to budgets by country (all taxes and mandatory payments), including:	13,938	19,482
Taxes, except profit tax, by country:	8,042	10,077
Russia	8,024	9,573
Other	18	504
Profit tax by country:	5,896	9,405
Russia	5,806	9,289
Other	90	116

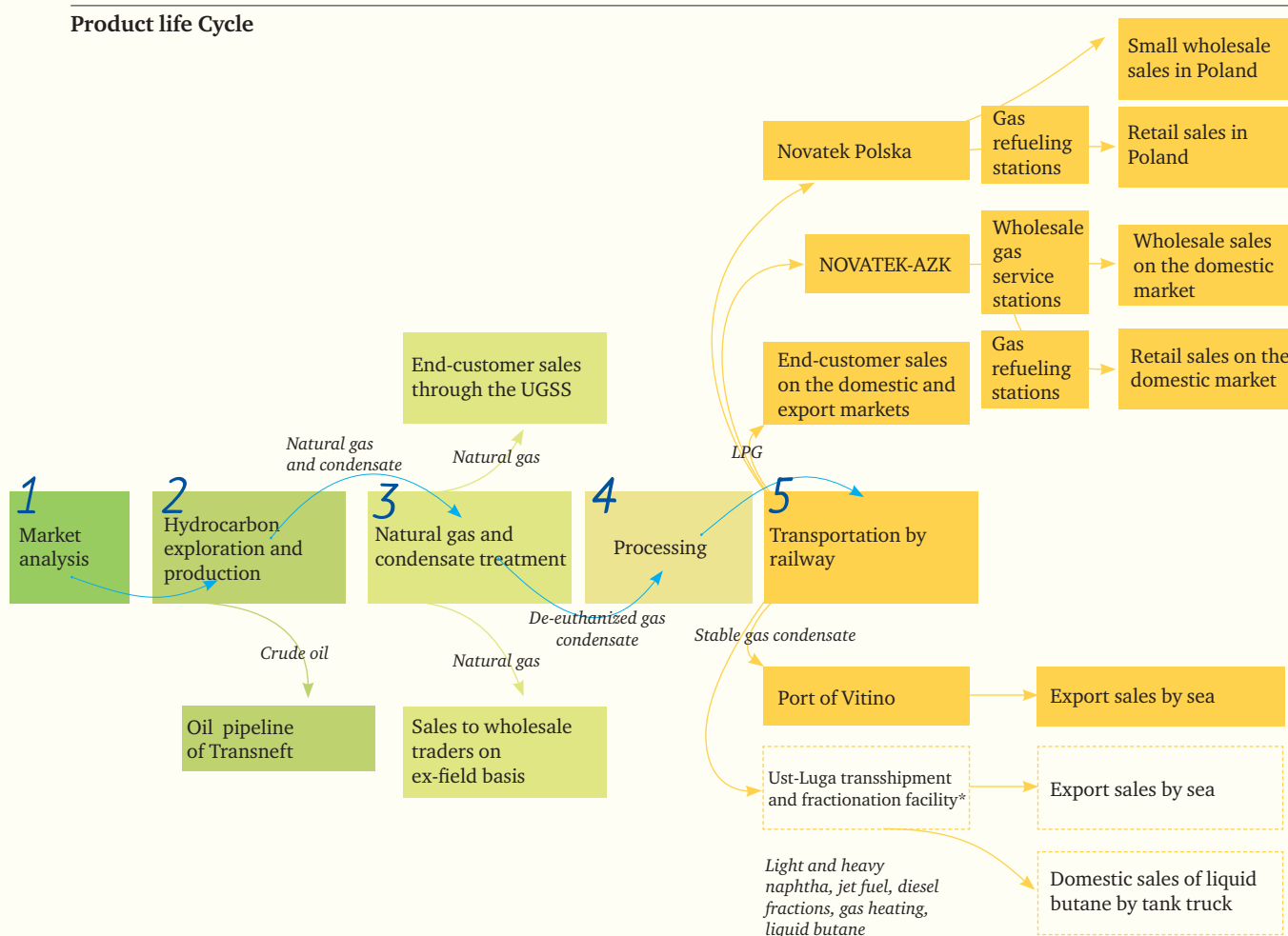
* According to Indicator Protocols Set Economic (EC1) to GRI G3.1 Index.

Product Life Cycle Analysis

In the previous Report the Company undertook to analyze the product life cycle in order to identify those stages at which the process of development, production, sales and consumption may present risks for the health and safety of consumers and the environment. Our analysis is mainly limited to the stages directly controlled by NOVATEK.

NOVATEK produces three main products: natural gas, stable gas condensate and liquefied petroleum gas (LPG) received from the production of natural gas and unstable gas condensate. In general, the product life cycle includes the following stages: market analysis; exploration and production of natural gas and unstable gas condensate; hydrocarbon treatment and processing; transportation, storage and sales.

Product life Cycle



* A new transshipment and fractionation facility is currently under construction.

NOVATEK uses state-of-the-art exploration and development technologies to efficiently develop its reserve base and increase the ultimate level of hydrocarbon recovery from its fields.

1) Market analysis

NOVATEK's marketing strategy is to ensure stable supplies of natural gas to the domestic market and high quality liquid hydrocarbons to both domestic and export markets. The Company's resource base and production capacity is sufficient for further increases in natural gas and liquid hydrocarbon production volumes. Planned production targets are determined by market conditions for each type of product.

NOVATEK's long-term plans with respect to natural gas are based on the assumption that the demand for natural gas, the cleanest and most environmentally friendly fuel, will continue to grow. This is further supported by the following recent events: the negative public and governmental opinion on the further prospects for development of nuclear energy in the wake of the accident at Fukushima I Nuclear Power Plant in Japan and the continued instability in many Middle Eastern and North African countries. According to the International Energy Agency (IEA) estimates, by 2035 global gas consumption may rise by more than 50% compared to 2010 amounting to some 5.1 trillion cubic meters.

Due to the strategic investments into the development of its resource base, NOVATEK will be able to increase gas production in the mid-term. Its ability to supply gas to markets may be limited by the capacity of Gazprom's UGSS however; this has never been an issue in previous periods.

The Company's stable gas condensate is primarily used in the petrochemical and oil refining industries as an alternative to naphtha and light crude oil. Our LPG is sold to both the chemical processing industry, as a feedstock, and the retail and wholesale fuel markets where its high energy content, environmental safety and ease of storage and transportation make it an attractive fuel source. The

Company is focused on the sustainable development of these business segments and does not foresee any difficulties in marketing future production volumes.

2) Hydrocarbon exploration and production

NOVATEK has expanded its resource base through geological exploration at fields and license areas in close proximity to existing transportation and production infrastructure. The Company continues to efficiently develop its resource base and increase the ultimate level of hydrocarbon recovery at its fields as a result of our operational experience in the YNAO and by utilizing state-of-the-art exploration and development technologies.

A large portion of NOVATEK's reserve base is concentrated in deeper gas condensate bearing layers. Its production and delivery to the gas treatment facilities may have an impact on the environment in the form of air emissions. However, the magnitude of this impact is not as significant as, for instance, that of oil spills.

At this stage of the production process (and at treatment, processing and transportation stages), the risk analysis and activities associated therewith are focused on the reduction of any negative environmental impact as performed within the framework of the Integrated Management System for Environmental Protection, Occupational Health and Safety.

Applying innovative approaches and state-of-the-art equipment in the exploration and production process allows us to reduce the negative environmental impact and energy intensity of our production activities (see the relevant sections of this Report).

The use of methanol, a highly toxic substance, during the hydrocarbon production process is necessary in order to prevent the potentially dangerous formation of hydrates in

NOVATEK's marketing strategy is to ensure stable supplies of natural gas to the domestic market and high quality liquid hydrocarbons to both domestic and export markets.

well bores and gas pipelines. As previously mentioned, the Company no longer purchases methanol since the startup of its own methanol production units thus reducing the environmental risks related to its transportation. Methanol is produced with standard technology used in plants worldwide. The main risks associated with methanol production are similar to those occurring during the processing of gas condensate (toxic fumes and fire hazard), but its use in a completely isolated system enables us to minimize these risks. The use of methanol in the extreme conditions of the Russian north is the most effective way to prevent hydrate formations due to its low freezing point, ease of storage and relatively low cost.

3) Gas and gas condensate treatment

At this stage of the hydrocarbon life cycle NOVATEK's main objective is the most rational utilization of both the feedstock produced and the resources associated with this production (the recycling of methanol and the utilization of heat recovery boilers to capture heat from gas burning process).

Natural gas

After treatment (dehydration, separation of gas condensate and other impurities) natural gas is delivered to Gazprom's transportation system. The level of gas treatment in order to achieve the necessary quality for injection into the transportation system is determined by technical specifications and industrial standards. The marketable gas is transported via the Company's own gas pipelines, the lengths of which are relatively short, to the gas trunk pipelines of OAO Gazprom, which bears responsibility for gas quality.

Unstable gas condensate

Our unstable gas condensate is treated at de-ethanization units at our fields and then the de-ethanized gas condensate is transported to our Purovsky Plant for further processing.

4) Processing

Stable gas condensate and liquefied petroleum gas

Unstable gas condensate produced in conjunction with natural gas requires further processing in order to create commercially marketable value added products. This is performed at the Purovsky Plant where the de-ethanized unstable gas condensate is stabilized to produce liquefied petroleum gas and stable gas condensate, our end-products. During the stabilization process we also produce the following by-products: regenerated methanol and process gas (methane and ethane). NOVATEK reuses methanol as a hydrate inhibiting agent in gas production while process gas is used as a fuel for heaters; hence, we significantly reduce the consumption of natural gas purchased by the Purovsky Plant from the third parties for fueling needs.

The Company is able to exercise complete control over product quality due to the fact that the Purovsky Plant has sufficient capacity to meet our current and future unstable gas condensate processing needs without having to rely on third party processing facilities.

The physical and chemical properties of LPG, including those related to product safety, are listed in the National Standard of the Russian Federation (GOST R 52087-2003), where heavy vapor pressure is the most important parameter. If LPG is supplied to retail and wholesale fuel markets, it is odorized (by adding an odorant to the product), as a safety precaution to prevent the possible toxic gas poisoning of distributors and customers.

As part of our goal to increase processing depth, we have continued the engineering and design work for a new terminal facility and fractionation unit at Ust-Luga, located on the Baltic Sea, for the transshipment and fractionation of stable gas condensate produced at the Purovsky Plant.

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

Stable gas condensate produced at the Purovsky Plant will be delivered to the terminal by railway and further processed (fractionated) into the following value added products: light and heavy naphtha, aviation kerosene, diesel fractions and gas heating oil, which will be sold to both domestic and international export markets

5) Transportation, storage and sales

Natural gas

We sell our natural gas in two ways:

End-customer sales. We negotiate terms of delivery directly with the end-customer and then apply to OAO Gazprom for use of the UGSS to transport our gas to the local distribution center nearest to the end-customer.

Ex-field sales. Wholesale gas traders purchase gas at the entry point into the UGSS for further transportation to their end-customers. In such arrangements these customers take title to the natural gas at the time it enters the UGSS at the relevant connection point.

Stable gas condensate

Substantially all of the stabilized gas condensate produced at our Purovsky Plant is delivered by rail to the Port of Vitino, located in the Murmansk Region on the White Sea, where it is loaded into tankers for further transportation to international markets.

The Purovsky Plant also has facilities for loading stable condensate and LPG into rail tank cars. Our own railway line connects the plant to the Russian railway network at the Limbey rail station.

The main risk associated with product transportation is the possibility of the product leaking out into the environment as a result of defects in the transportation means or due to emergency situations.

During rail transportation NOVATEK's responsibility for product safety covers the stages when the product is loaded into rail tank cars and while the cars are parked at the Zavodskaya rail station. All (100%) of the rail tank cars undergo compliance checks with the commercial and technical requirements specified by the Charter of the Russian Railways and the Rules for Hazardous Cargo Transportation. Tank cars with detected defects are not supplied for loading, but rather sent for repair. As a result, the Company is responsible for the control and safety of the first stage of the transportation process. Control over the second stage of the transportation process is overseen by OAO Russian Railways, which issues a rail consignment note and undertakes further responsibility for the delivery and security of the product.

When transporting stable gas condensate by sea the unloading and loading services from rail tank cars to tankers are provided by ZAO Belomorskaya Neftebaza, which is responsible for product quality and safety during these operations. NOVATEK is the main charterer of the stable gas condensate tanker fleet and has the necessary procedures in place to provide assurance that the vessels have passed all the necessary control protocols before they put out to sea. NOVATEK only uses vessels that are entitled to dock at all global ports and comply not only with Russian, but also with international requirements for safe transportation, the most important of which is the presence of a double hull.

During winter, transportation is carried out by ice-class tankers, and when the ice conditions worsen, the Company uses ice-breaker assistance services (provided by Atomflot Federal State Unitary Enterprise). At this stage NOVATEK is only financially liable for the cargo security and, as a rule, has the relevant insurance policies in place.

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 transportation of LPG is similar to that of stable gas condensate: the product is transported in special tank cars (belonging both to the Company and its contractors), which pass through the quality control system where special attention is paid to potential leaks in the rolling stock. Then the product is supplied to customers via the railway network of OAO Russian Railways.

In 2010, 9.6 thousand cubic meters (mcm) of de-ethanized unstable gas condensate (raw materials) storage capacity was commissioned at the Purovsky Plant. In total, the Purovsky Plant has storage facilities for stable gas condensate (90.0 mcm), LPG (15.6 mcm) and raw materials (13.6 mcm).

In order to maintain production levels during periods of seasonality in gas demand NOVATEK has entered into an agreement with OAO Gazprom for the use of its underground storage facilities on a capacity available basis.

Liquefied petroleum gas (LPG)

NOVATEK sells its LPG volumes to wholesale customers by rail and through its network of retail and small wholesale stations (in Russia through its subsidiary OOO NOVATEK AZK and abroad through the Company's subsidiary Novatek Polska).

In Russia, the Company has its own network of wholesale gas refueling stations, all of which are registered with Rostekhnadzor (Russian Technical Inspection Agency) and operate in compliance with the established norms, in particular, with the Container Pressure Regulations. The requirements of Russian legislation regarding the safe

handling of LPG are much more stringent than those of most other countries.

The conditions of fuel pumps at our retail refueling stations are assessed regularly. NOVATEK does not franchise and all of the stations are owned by the Company which ensures that the proper controls are in place. Transportation between gas refueling stations and gas service stations is carried out using NOVATEK's own vehicles and those of its subcontractors.

Customers are only serviced by station employees (operators) in strict compliance with established rules minimizing the possibility of injuries.

In conclusion, the main risks at each stage of NOVATEK's product life cycle relate to specific characteristics (toxicity, fire hazard) and are controlled under the Integrated Management System for Environmental Protection, Occupational Health and Safety as well as the responsibility assignment system established between the Company and its contracting parties.

Crude oil

NOVATEK also produces small quantities of crude oil, which is transported to our complex gathering system at the East-Tarkosalinskoye field. The oil is brought up to commercial standards and transported by the Company's own oil pipeline to the custody transfer metering station at the Purpe Oil Pumping Station, owned by OAO AK Transneft, where it is then transferred into the Transneft trunk pipeline system.

Even though our present operations are mainly confined within the territory of the Russian Federation, we also support global programs such as the Extractive Industries Transparency Initiative.

Corporate Governance

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 shareholder and asset values.

Corporate Governance System

NOVATEK has implemented a number of corporate documents in accordance with the requirements of the

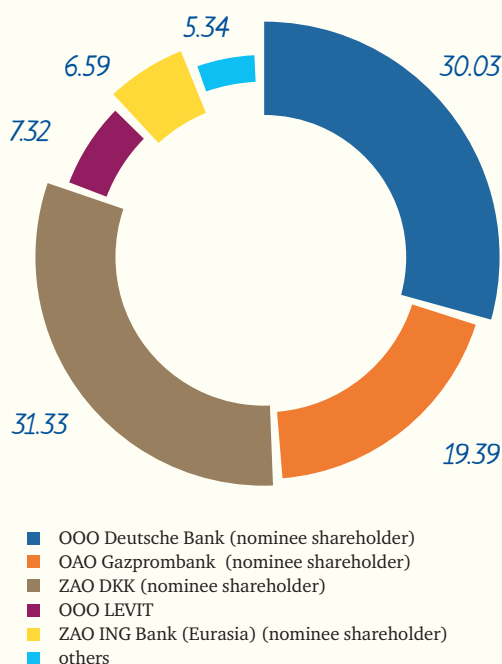
financial and commodity markets, such as Information Policy Regulations, Corporate Governance Code, etc. In 2010, the Company started developing its Code of Business Conduct and Ethics which was approved at the beginning of 2011. It establishes general guidelines and a code of conduct for members of the Board of Directors, Management Board and Revision Commission, the Company's top management and employees, as well as the rules of communication with key groups of stakeholders (shareholders, governmental agencies, consumers and suppliers, etc.). The structure of corporate governance bodies and the functions they perform has not changed in the reporting period. The principal documents and information on the corporate governance system can be found on NOVATEK's website at <http://www.novatek.ru/en/about/management/>.

During the reporting period, the Board of Directors was comprised of nine persons including seven independent directors⁵. Our intention is that no less than one third of the Board of Directors should consist of independent directors and we currently exceed this strategic goal.

The procedure for and criteria of calculating remuneration to the Chairman and members of NOVATEK's Management Board, as well as the compensation of their expenses, are prescribed in the Regulations for the Management Board and the employment contracts they sign with the Company. The procedure for and criteria of calculating remuneration to the members of NOVATEK's Board of Directors are set forth in NOVATEK's Charter and the Regulations on Remuneration and Compensation to the Members of the Board of Directors.

Total dividends paid in 2009 amounted to RR 8.3 billion, and in 2010 increased to RR 12.1 billion, as of the report

Share Capital Structure as of 31 December 2010, %



⁵ According to the Russian Federal Law on Joint-Stock Companies.

The implementation of the new financial consolidation system testifies to the Company's commitment to the most advanced corporate governance and financial transparency principles.

issue date. Total dividend payments for 2010, including the interim dividends paid for first half of 2010, amounted to RR 4.0 per ordinary share or RR 40.0 per GDR.

Increased Transparency

NOVATEK's financial statements meet the highest transparency standards in accordance with global best practices. In 2010, we completed the implementation of a comprehensive financial consolidation system for preparing the Company's consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The new system significantly reduces the time required to prepare the quarterly and annual results.

The implementation of this new system testifies to the Company's commitment to the most advanced corporate governance and financial transparency principles that ensure the provision of timely and reliable financial and operating information to the investment community.

NOVATEK will continue investing the necessary resources to maintain and improve on its position as one of Russia's leading companies in terms of financial reporting and corporate governance.

Good-Faith Business Practice

NOVATEK ranks among the top three oil and gas companies in terms of the transparency of its purchasing system. The

rating was based on a poll organized by the Oil and Gas Information Agency on its website. Over 1,100 industry representatives took part in the survey. They noted the transparency and convenience of using the Company's purchasing system for counterparties.

We believe that being recognized by those with whom we do business with is the best testament to the effectiveness of the measures we take to ensure transparency and ethical business practices.

The Company's purchasing system is competition based and NOVATEK is committed to transparency in the tender process, providing all necessary information applicable to tenders, and any company that meets the terms and conditions may take part in the tender. Counterparties are selected on the basis of the quality of their products or services, financial stability and bid prices.

Participation in Global Initiatives

Even though our present operations are mainly confined within the territory of the Russian Federation, we also support global programs such as the Extractive Industries Transparency Initiative established in 2002, encouraging governments to voluntarily disclose the revenues they receive from oil, gas and mining operations to help ensure that governments and companies use their revenues to benefit the citizens of their respective countries.



Part

3

Environmental Protection

The implementation of our growth strategy is integrated with the following sustainable development principles that govern our activities: improving environmental practices at production and processing facilities, reducing the number of accidents and incidents and limiting the impact of our diverse operations on the environment where we operate.

Environmental Management

NOVATEK'S Integrated Management System for Environmental Protection, Occupational Health and Safety (IMS) is a practical tool for implementing sustainable development principles. The system covers all of the Company's basic processes and procedures and contributes to more environmentally friendly production, by reducing its environmental impact and decreasing the number of accidents and injuries at the Company's subsidiaries. The system is presented in more detail in the Sustainable Development Report for 2008-2009.

In 2010, all of NOVATEK's subsidiaries continued working on the further implementation and improvement of the IMS. The second audit for compliance with the requirements of ISO 14001:2004 and OHSAS 18001:2007 international standards was conducted by certifying authorities at OOO NOVATEK-Tarkosaleneftegaz, OOO NOVATEK-Purovsky ZPK and OAO NOVATEK. After a recertification audit in 2010 at OOO NOVATEK-Yurkharovneftegas, a subsequent compliance audit was carried out during the reporting period. In the course of the audit, the advantages of the implemented management system were noted and certain recommendations were made.

During the reporting period, the implementation of the IMS continued at OOO NOVATEK-Transervice and ZAO Terneftegas. In particular, the certification for compliance with the requirements of ISO 14001:2004 and OHSAS 18001:2007 is already planned for 2011 at OOO NOVATEK-Transervice. ZAO Terneftegas is in the process of developing and preparing documents for the implementation and operation of the IMS.

The Company's operations are carried out according to the principles set forth in NOVATEK's Environmental, Health and Safety Policy, which can be found on NOVATEK's website at <http://www.novatek.ru/en/development/environment/>.

This policy applies to all the Company's subdivisions and subsidiaries and is aimed at preventing and decreasing any adverse environmental and human impact, reasonable consumption of natural resources, compliance with environmental laws and the fulfillment of the terms and conditions of license agreements. NOVATEK's environmental protection plans are based on environmental objectives and tasks and are reviewed and updated annually.

Subsidiaries operating in the hydrocarbon production and processing sectors have adopted systems and standards that ensure the compliance of their operations with NOVATEK's general corporate objectives.

Our efforts in the environmental safety sphere have been recognized and appreciated by the public. In 2010, NOVATEK won awards at the "100 Best Companies of Russia – Health, Safety and Environment" (St. Petersburg) contest and was the winner of the Sixth All-Russian Contest "Environmental Activity Leader of Russia 2010" (Moscow).

Under our environmental policy, environmental monitoring is performed in areas impacted by our main production facilities.

Implementation of the Environmental Policy

Environmental Monitoring and Industrial Control

Environmental monitoring and industrial control are performed annually at all of the Company's production facilities to assess the conditions of soils, seabed sediments and surface water.

To maintain ongoing industrial control, the Company's operating subsidiaries have laboratories equipped with the

necessary testing facilities as well as access to the services of specialized companies which have the required certification.

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.

Monitoring Results at Key Production and Processing Facilities

OOO NOVATEK-Tarkosaleneftegaz

At all license areas located outside the technogenic impact zone component conditions of the environment have been assessed as stable and safe.

Technogenic pollution has been recorded only near production facilities. However, results indicate weak deviations to baseline levels of various environmental components.

At a number of monitoring stations environmental conditions improved during the reporting period, which points to a possible onetime negative impact of production operations at these locations and the environments strong self-cleansing processes. Stable baseline indicators or weak deviations were mostly seen in soils, surface waters and seabed sediments.

OAQ Yamal LNG

In general, monitoring results suggest that for the most part the environmental conditions at the South-Tambeyskiy license area remain in their

natural state. The conditions of the atmosphere and soil and the results of sanitary tests are within the prescribed norms throughout most of the territory.

ZAO Terneftegas

Assessment of the baseline environmental conditions at the Severo-Termokarstoviy license area suggests that the conditions are for the most part at baseline levels. The few abnormalities that were discovered usually were the result of natural causes and were low in intensity, local in nature and, in most cases, did not exceed standards of maximum permissible concentration and approximate permissible concentration.

OOO NOVATEK- Purovsky ZPK

The results of monitoring show that the concentration of pollutant emissions in the atmosphere does not exceed the maximum amount of permissible emissions. The soil and underground water conditions at waste disposal sites do not show evidence of pollution of water-bearing horizons.

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

Environmental Impact Assessment

In accordance with the current legislative norms, the Company takes into consideration the potential risk and hazard levels for new development projects and assesses the impact they will have on the environment and local population. The environmental, economic and social consequences of the project's impact and ways to minimize it are also assessed. The environmental appraisal is based on the presumption of potential environmental hazards from planned operations and other activities.

On the basis of the assessed results, the Company makes managerial decisions taking into account the possible environmental impact and the opinions of stakeholders.

In 2010, as part of the environmental impact assessment, a public hearing was held with stakeholders as part of the Yamal LNG Statement of Intent for the LNG project in the Yamal peninsula.

Environmental Protection Training

In 2010, 36 subsidiary employees underwent training to improve their qualifications in environmental protection, environmental safety and hazardous waste handling and received the relevant certifications. The following training was also included in the program:

- Environmental safety training to heads of departments and specialists in environmental protection and control (200 hours, 3 persons);
- Environmental safety training to heads of departments and specialists in general economic management (72 hours, 3 persons); and
- Environmental safety training for the handling of hazardous wastes (112 hours, 30 persons).

The cost of initial and advanced training for specialists in the abovementioned programs amounted to RR 431,000 (versus RR 1,796.000 in 2009).

In the past two years, a total of 143 workers were trained (107 workers in 2009), providing for qualified and professional control of production and economic activities and their impact on the environment.

Stakeholder Engagement

The Company participates in global and Russian forums, conferences, workshops and seminars to discuss environmental problems on a regular basis. In 2010, NOVATEK's employees took part in the following events: IV All-Russian workshop of corporate environmentalists, "Problems and Practice of the Application of Environmental Law", VI All-Russian conference "New Priorities of the National Environmental Policy in the Real Sector of the Economy" and a seminar within the framework of the UK-Russia Climate Change Science Collaboration Project, sponsored by the British Embassy.

NOVATEK also prepares and provides statistical information on the environmental impact of our operations to governmental bodies and supervisory authorities that include, but are not limited to, environmental monitoring results, results of environmental audits and studies carried out within the Environmental Monitoring and Industrial Control, and sustainability reports.

NOVATEK has implemented linear tele-mechanics systems based on wind generation and solar batteries.

Energy Efficiency

Energy Efficiency Management

In 2008 and 2009, the Company was engaged in preparation for the launch of a management system for energy conservation and efficiency.

In 2010, automated information and measurement systems for commercial electricity accounting (AIMS ECA) were implemented at OOO NOVATEK-Yurkharovneftegas, OOO NOVATEK-Tarkosaleneftegas and OOO NOVATEK-Purovsky ZPK.

According to Federal Law No. 261-FZ of 23 November 2009, "On Power Saving and Enhancing Power Efficiency", our 2011 business plan allocates funds for energy audits of the following production facilities: OOO NOVATEK-Yurkharovneftegas, OOO NOVATEK-Tarkosaleneftegas, OOO NOVATEK-Purovsky ZPK and OOO NOVATEK-Transervice. Energy audit contracts with certified agencies have already been signed by those companies.

Upon the completion of the energy audits, expected at the end of 2011, energy performance results will be recorded. Based on these results, measures will be developed to conserve energy and fuel during the period from 2012 to 2016 and will subsequently be included into NOVATEK's Energy Saving Program which is expected to be approved in 1H2012.

To improve energy efficiencies, the Company implemented cogeneration systems at its gas turbine power stations that increased the stations' overall efficiency coefficient by up to 72%. This assists in the optimization of loads and reduces emissions of greenhouse gases from gas consumed at the stations' boilers. These conservation measures 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".

Solar and wind power generation units provide electricity to linear tele-mechanics and valve control systems at our gas condensate pipeline.

Use of Renewable Energy Sources

In 2010, NOVATEK launched a 326 kilometer unstable gas condensate pipeline connecting the Yurkharovskoye field with the Purovsky Plant.

The Company decided against building an expensive power grid to power the tele-mechanic system and instead installed 51 solar and wind power generation units along the

entire route of the unstable gas condensate pipeline. These alternative energy sources generate sufficient electricity to maintain the pipelines tele-mechanics system and valves. The Company was able to optimize the capital expenditures required to complete the pipeline by incorporating alternative energy sources and this process solution will also be used at remote well clusters in the future.

Direct Use of Energy, Broken Down by Primary Sources*

	Natural gas, GJ	Fuel oil, GJ	Coal, GJ	Coke, GJ	Gasoline, GJ	Diesel fuel, GJ	Others** GJ	TOTAL GJ	equivalent fuel tons
2010	5,722,224	–	–	–	23,780	71,385	0,476	5,817,865	198,507,745

* In 2010, we significantly improved our energy conservation management and energy efficiency system by implementing the AIMS ECA, which allowed us to improve the reliability and consolidation of data. As a result of this, the data presented in our 2008-2009 Sustainability report is not included in the present Report due to incompatibility.

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

	Electrical Energy			Heat Energy			Fuel resources (gas)			Economic effect	
	MW/h	GJ	RR thousand	GCal	GJ	RR thousand	Equivalent fuel	GJ	RR thousand	GJ	RR thousand
2008	2,860	10,295	3,615	11,057	46,331	6,787	3,978	117	2,355	56,742	12,756
2009	9,875	35,550	15,316	3,988	16,708	1,776	1,803	53	1,067	52,311	18,159
2010	14,801	53,284	27,752	0	0	0	1,335	39	790	53,323	28,542

** The data for 2008 and 2009 reflects the implementation of the AIMS ECA.

NOVATEK's key production facilities are located in Russia's Far North within the permafrost zone of the subarctic, which are sensitive zones in terms of resistance to technogenic stress, and where risks associated with climate change are substantial.

Air Emissions

Emission Rates and Composition

Due to a 15.8% increase in hydrocarbon production in 2010, and the launch of new production facilities, atmospheric pollutant emissions from production subsidiaries increased by 5,535 tons. The overall volumes of emissions, however, are still substantially lower than the permitted rates.

Emissions come mainly from stationary operating sources. The sources have been inventoried and are taken into

consideration in regards to current projects and the maximum amount of permissible emissions.

The composition of emissions remained stable and included: carbon oxide, nitrogen oxides, hydrocarbons and solid material. Production growth and constant increases in hydrocarbon output resulted in an increase in emissions of carbon dioxide (CO₂), to 2.1 million tons (1 million tons in 2008-2009).

Air Emission Sources, Composition and Volumes*

		2008	2009	2010
Total emissions**	<i>ton</i>	<i>11,784.5</i>	<i>12,538.5</i>	<i>18,073.0</i>
Stationary sources of emissions	<i>pc.</i>	<i>913.0</i>	<i>1,060.0</i>	<i>1,083.0</i>
Permitted emissions	<i>ton</i>	<i>30,403.6</i>	<i>32,190.4</i>	<i>58,348.5</i>
Emission composition				
Solid material	<i>ton</i>	<i>442.4</i>	<i>1,072.6</i>	<i>2,790.2</i>
Sulfur dioxide	<i>ton</i>	<i>8.7</i>	<i>2.4</i>	<i>3.4</i>
Carbon oxide	<i>ton</i>	<i>7,055.0</i>	<i>7,671.9</i>	<i>10,711.7</i>
Hydrocarbons	<i>ton</i>	<i>2,159.0</i>	<i>1,573.4</i>	<i>2,072.2</i>
VOC	<i>ton</i>	<i>385.2</i>	<i>467.8</i>	<i>563.0</i>
Methanol	<i>ton</i>	<i>51.9</i>	<i>75.6</i>	<i>71.6</i>
Methane	<i>ton</i>	<i>244.7</i>	<i>511.4</i>	<i>780.5</i>
Nitrogen oxides	<i>ton</i>	<i>1,712.1</i>	<i>1,734.8</i>	<i>1,918.1</i>
Ozone-depleting substances	<i>ton</i>	<i>0</i>	<i>0</i>	<i>0</i>

* CO₂ emissions are calculated separately since they are not considered pollutants under Russian classifications.

** According to Russian regulator's emission calculation methodology.

We have established special requirements regarding construction projects and the operations of our production facilities located within the subarctic permafrost zone in Russia's Far North.

New Technical Concepts for Environmental Risk Mitigation

Methanol, a hazardous substance requiring special handling, is widely used in the gas industry to purify and dehydrate natural gas at low temperatures.

In 2010, NOVATEK launched its second low-tonnage methanol production unit at the Yurkharovskoye field. The use of innovative technologies, combined with the latest engineering and technical solutions, allowed the Company to design the new methanol production unit to operate with minimal natural gas and water consumption thus minimizing its impact on the environment. Moreover, the field's on-site methanol production units eliminate the need to transport methanol through Russia's northern rivers, thus reducing environmental risks and production costs as well as ensuring operational stability.

Associated Petroleum Gas Recovery

The Company has developed and is implementing the Program for Improvement of the Rational Use of Associated Petroleum Gas (APG) over the period from 2007 to 2011. As part of the program, we completed the construction of a preliminary gas discharge unit and a 1.8 km gas pipeline connecting it to the East-Tarkosalinskoye field's gas and gas condensate preparation unit, providing for the efficient recovery of APG in an amount of approximately 100 mcm/day.

In 2011, the program also provides for the construction of a central gathering facility, a booster compressor station and a pipeline to the East-Tarkosalinskoye field's Gas and Condensate Processing Plant. As a result, the APG recovery rate is expected to increase to approximately 95% by 2012.

Climate Change

NOVATEK's key production facilities are located in Russia's Far North within the permafrost zone of the subarctic. The areas where NOVATEK's fields are being developed are located in sensitive zones in terms of resistance to technogenic stress, which is why risks associated with climate change are substantial. 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 facility flooding.

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. However, the Company's field development projects include measures to prevent and/or minimize the thermal impact of the facilities located within the permafrost zone.

Investors and other stakeholders consider our participation in the Carbon Disclosure Project as evidence of the Company's commitment to transparency.

In 2010, NOVATEK continued its participation in the global Carbon Disclosure Project (CDP), which is aimed at disclosing information on greenhouse gas emissions and

the energy efficiency of production. The CDP report is available on our website at <http://www.novatek.ru/en/development/>.

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

Monitoring performed during the six-year period (from 2005 to 2010) indicates that the soil temperatures in thermometric wells at the GTP-1 are stable. There was a rise in the soil temperature observed at depths of 9.0 meters by 0.5–1.00 °C on average.

The thickness of the seasonally thawed layer along the pipeline route during the monitoring period has not changed which may indicate that the facilities have no thermal impact on the near-surface layer.

Soil temperatures at a 9-meter depth, located along the route of the external transportation pipelines, did not change substantially during the

six-year observation period. In 2010, thermal well temperatures along the pipeline routes increased by only 1.2°C to 2.3°C compared to temperatures in 2005 and 2006. In the last four years, soil temperatures have shown 0.5°C fluctuations indicating that so far, no changes in soil temperatures have been recorded along the external transportation pipeline route.

Since a six-year observation period is not sufficient to make firm conclusions on the thermal impact of GTP-1 facilities on the environment, monitoring will be continued and there is the possibility that additional geophysical and geodynamic research methods will be used.

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

Other Environmental Impacts

Water Usage

Water is used for industrial and domestic/potable purposes and is mainly taken from underground water sources. Water for the Yurkharovskoye field and the facilities of OAO Yamal LNG, located in the Sabetta settlement of the Yamal peninsula, is supplied from surface water sources.

In accordance with the Environmental Policy, the Company's subsidiaries strive to rationally use water and introduce environmentally efficient technologies where possible. Subsidiaries use metering devices to assess the quality and volumes of water withdrawn and discharged during operations.

The rate and volume of water consumption depends on the scope of drilling operations and the launch of new production facilities. In 2010, water consumption volumes increased insignificantly as a result of hydrocarbon production growth.

Since the beginning of 2011, NOVATEK has been participating in the CDP Water Disclosure Project which discloses information on the use of water resources and the assessment of water-related risks.

We support the CDP's initiatives to promote environmentally safe solutions during the implementation of investment projects. Our participation in the project is aimed not only at disclosure of water use information but also at finding new solutions to the management of water-related risks in light of the impact water supply issues have on the development of the oil and gas industry.

Wastewater

Wastewater is not discharged from the Company's production facilities into bodies of water. After treatment, household and industrial wastewater is pumped into underground intake formations. 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 the Federal Subsoil Resources Management Agency and for other projects in accordance with state expertise reviews.

After processing at preliminary water treatment stations, waste water 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 Consumption, mcm

	2008	2009	2010
Water taken	936.2	711.8	715.5
Water used:	936.2	711.8	715.5
for domestic/potable purposes	267.1	264.6	170.9
for industrial purposes	669.6	447.4	544.6
Recycled water	12.4	12.4	0.2*

* The decrease in recycled water volumes is due to the exclusion of OOO NOVATEK-Polymer from the Report boundaries.

We support the CDP's initiatives to promote environmentally safe solutions during the implementation of investment projects.

Waste

The types of wastes generated remained stable, varying insignificantly from year to year. Waste generation rates are correlated with the scale of production activities at subsidiaries, mainly according to the scope of drilling operations.

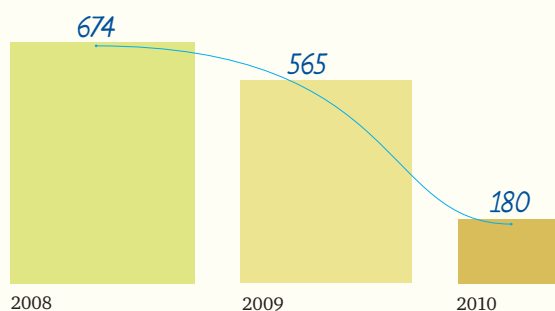
In 2010, the amount of waste produced increased by four thousand tons due to higher production volumes. Approximately 90% of generated waste is class IV type hazardous wastes (low-hazard). The amounts of class I and II hazardous wastes (high-hazard) were less than 0.03% of total wastes generated and are mainly found in mercury lamps and luminescent tubes containing mercury.

Our own waste disposal sites for class IV and V wastes accommodate approximately 41% of these types of waste

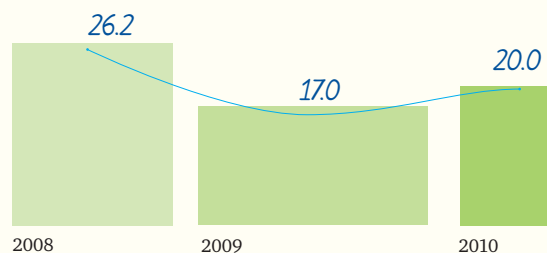
and we have contracts with specialized waste disposal companies for 9.5% of wastes produced. The remaining waste, including water separated from crude oil during its treatment and gas condensate bearing oil products, are used for our own needs and are injected into the East-Tarkosalinskoye field's reservoirs to maintain pressure levels.

Pursuant to our waste reduction plan, we constructed a drilling cuttings processing plant at the Yurkharovskoye gas condensate field. As a result, the amount of drilling mud waste requiring disposal has been reduced and in 2010, 10.8 thousand tons of waste was recycled at the plant. The technology used allows us to separate and reuse the water and drilling mud and process the cuttings for use as construction material.

Fines for violation of environmental legislation, RR thousands



Total Waste Amounts, mt



In zones which are designated in the top fisheries category, we avoid causing any damage to the ecosystems' biodiversity.

Land Rehabilitation

The Company provides for the technical and biological rehabilitation of affected land areas, forests and tundra zones. In 2010, the total area of land rehabilitated and returned to its natural state was 47.5 ha; in 2008 and 2009, 169 ha and 337 ha, respectively, were rehabilitated.

Biodiversity Preservation

The Company's production facilities are not situated on protected areas as designated by the Government or Governmental Agencies of the Russian Federation.

Likewise, they are not located in and do not affect any water and wetland areas of international importance, or the main ornithological, or the particularly sensitive marine areas and marine mammal protection zones.

We have established special requirements regarding construction projects and for the operation of our production facilities located within the subarctic permafrost zone in Russia's Far North due to the fact that ecosystems found here are particularly sensitive to chemical pollution.

In zones which are designated in the top fisheries category, we avoid causing any damage to the ecosystems' biodiversity. In order to preserve biodiversity, we employ pit-less well drilling methods to avoid potential pollution of the soil, ground or surface water and discharge zero industrial waste into water bodies.

Environmental Expenditure, RR thousands

Current expenditures	2008	2009	2010
Charges for negative impact on the environment	7,801.2	5,808.0	5,901.8
Air protection measures	540.2	3,032.9	1,460.8
Water protection measures	2,628.8	3,865.0	14,263.8
Waste handling measures	14,195.0	44,489.4	111,342.3
Land rehabilitation costs (current)	2,023.0	1,019.8	4,088.0
Compensation payments	38,316.4	17,545.2	5,894.6
Ecological monitoring and control costs	15,087.6	15,452.4	30,174.5
Design and exploration works on environmental protection and state expert review (current)	507.8	0	708.0
Capital expenditures			
Land rehabilitation costs	34,470.0	8,496.9	40,879.0
Construction of environmental protection facilities	292,377.0	8,296.6	2,330.0
Purchase of environmental protection equipment	4,037.0	203.6	1,177.0
Baseline assessment costs	696.0	0	3,776.5
Design and exploration works on environmental protection and state expert review	2,233.0	0	936.0
Other costs	56,937.9	3,580.9	3,326.0
Total costs	471,850.7	111,790.6	226,258.3



Part

4

Occupational Health and Safety

NOVATEK strives to continuously improve its occupational health and safety activities based on the results of regular monitoring and internal audits.

Occupational Health and Safety Goals and Tasks

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

- Minimize risks and prevent accidents, injuries and sickness among the personnel and local populations where possible given the Company's current capabilities;
- Accident free operation of our production facilities;
- Prompt response to potential accidents, protection of employees from any harmful impact of hazardous materials, prevention of emergencies and accidents;
- Minimize risks and temporary production shutdowns by supervisory authorities;
- Observe Russian laws and regulations during the design, construction and operation of the Company's production facilities;
- Upgrade employee qualifications and expertise; and
- Continuously improve the Company's OHS activities through production controls and internal audits.

Occupational Safety

In 2010, the Company pursued the following objectives:

- Developed measures that would systematically clarify the occupational safety requirements for employees;
- Improved administrative and production control over compliance with occupational safety requirements; and
- Improved personnel qualifications.

All planned measures within the OHS program's approved budget were taken, such as: purchase of personal protective equipment, training of employees, top managers and OHS specialists, occupational safety certification of workplaces and industrial safety certification of employees, etc.

Employee Engagement

To improve employees' OHS competencies, all of our subsidiaries ensure mandatory introductory, initial, repeated, unscheduled and targeted training and briefings in the area of industrial, occupational and fire safety. Before employees are allowed to work independently at a

hazardous production facility, they undergo practical training under the supervision of a more experienced employee.

In turn, the Company has sealed its OHS obligations in collective agreements. In 2010, negotiations between the top managers of our subsidiaries, trade unions and employees resulted in the signing of collective agreements that ensure the provision of individual and group protection equipment to employees, indemnification against damage caused to an employee by occupational diseases or other health problems related to the performance of professional duties.

In 2010, we tested trial samples of protective clothing at the Company's operating facilities. Based on the test results, we introduced new technical safety norms and requirements for materials, used in protective clothing. In 2010, we started testing special footwear and other personal protection equipment. We are planning to complete the testing and develop corresponding technical standards in 2011.

Number of Certified Workplaces



In 2010, the number of NOVATEK specialists trained and certified in industrial safety doubled.

Administrative and Operational Control

In accordance with the Russian law, our subsidiaries constantly review working conditions and occupational hazards in the workplace. Based on this, we systematically certify employees' workplaces for compliance with international labor organization standards and the requirements of Russian legislation. Testing includes laboratory and on-site examinations of chemical, biological and other occupational hazards, as well as noise, vibration and illumination measurements, microclimate checks, etc.

However, due to the replacement of equipment and machinery, working conditions constantly change, which is why the process of certifying workplaces at our subsidiaries continues on a regular basis. Based on the certification results, each subsidiary develops and implements action plans for improving the working conditions and occupational safety.

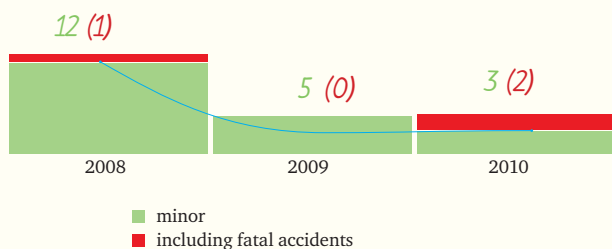
In 2010, we fulfilled our workplace certification plans, which included certification of the following subsidiaries: OOO NOVATEK-Tarkosaleneftegaz, OOO NOVATEK-Yurkharov-

neftegas, OOO NOVATEK-Purovsky ZPK and OOO NOVATEK-Transervice. During the certification process no unacceptable working conditions were identified at the Company's workplaces.

Supervisory committees have been set up at NOVATEK's facilities to identify the shortcomings in their health and safety practices and promptly eliminate them. They also carry out internal audits of working conditions to determine compliance with work safety standards and regulations. In 2010, 163 internal audits were conducted.

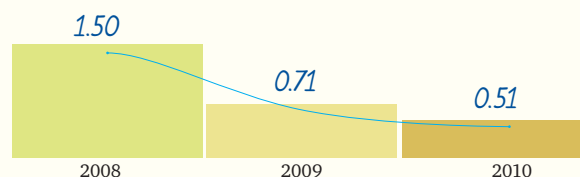
NOVATEK'S specialists from the Environmental, Occupational Health and Safety Department, together with the relevant specialists from subsidiaries and other departments, conducted comprehensive inspections of OOO NOVATEK-Tarkosaleneftegaz, OOO NOVATEK-Purovsky ZPK, OOO NOVATEK-Transervice and OOO NOVATEK-Yurkharovneftegas to assess their compliance with the current law on occupational health and safety, fire safety and environmental protection. The inspections resulted in 205 violations and/or comments and

Number of Accidents



Accident Frequency Rate

(number of accidents / million working hours)



We realize the Company's liabilities associated with operating hazardous production facilities in areas of extreme environmental conditions and remote access and therefore constantly increase our efforts aimed at reducing the risk of accidents and minimizing their consequences.

all violations, criticisms and recommendations are recorded in the inspection acts. On the basis of the inspection acts, NOVATEK's subsidiaries prepare a plan to eliminate the shortcomings and report on the progress made each quarter.

Employee Training

Specially developed programs provide training for employees in safe work methods and in 2010, the number of specialists trained and certified in industrial safety doubled to 1,195 employees. This training is provided irrelevant of the employee's work experience, complexity or production hazard level, education or qualification.

Training is carried out both at NOVATEK facilities and in specialized educational institutions.

Injury Rate

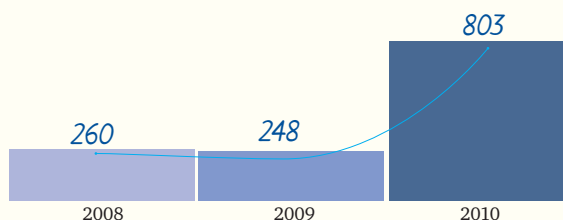
In 2010, a fatal accident occurred which also injured several people. In order to prevent similar accidents in the future, unscheduled audits were carried out at all of our subsidiaries and the preparedness of production sites and personnel to emergency situations was evaluated.

Key Objectives for 2011

- Complete the development of a corporate standard for protective clothing, footwear and personal protective equipment.
- Enhance control over the compliance with occupational safety requirements by each employee at our subsidiaries, develop and implement violation prevention and liability measures.

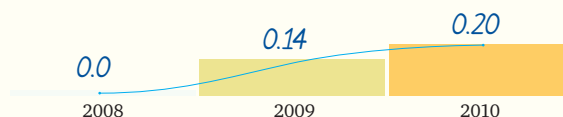
Accident Severity Rate

(number of hours of disability / number of accidents)



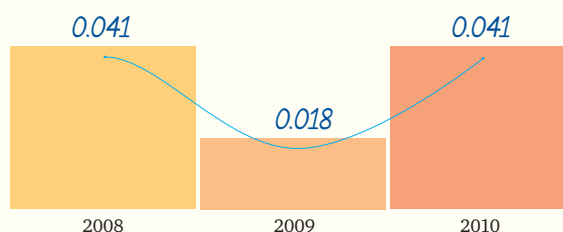
Severe Accident Frequency Rate

(number of severe accidents / million business hours)



Delay Rate

(number of hours of disability / number of worked hours)



Our efforts to ensure industrial safety are based on the assessment and analysis of risk factors associated with NOVATEK's production activities.

Industrial and Fire Safety

Improving Industrial Safety

Our efforts to ensure industrial safety are based on the assessment and analysis of risk factors associated with NOVATEK's production activities.

In 2010, we worked to improve the quantitative assessment of risks associated with our production activities, prepared declarations of industrial safety and conducted expert examinations of hazardous production facilities.

We appreciate the Company's liabilities associated with operating hazardous production facilities in areas of extreme environmental conditions and remote access and therefore we constantly increase our efforts towards reducing the risk of accidents and minimizing their consequences. During the reporting period we analyzed and revised our plans for accident and emergency response at production sites and at gas and gas condensate storage and transportation facilities. NOVATEK's goal is to develop a uniform approach to the liquidation of emergency situations and containment methods.

Fire Safety

In 2010, the Company pursued the following objectives:

- Improved the qualifications of the directors of fire and safety services units at our subsidiaries;
- Conducted comprehensive tactical fire training exercises aimed at eliminating oil spills at storage facilities;
- Completed an independent assessment of fire risks at subsidiaries and compiled fire safety declarations for our operating facilities. Based on the assessment, conformity certificates for all of our subsidiaries' facilities were issued in accordance with the technical regulations on fire safety; and
- Created a uniform procedural policy aimed at fire prevention and ensuring the fire safety of all NOVATEK facilities.

Fire and Safety Services

As stated in our previous report, NOVATEK has established its own fire and safety services (FSS) units at its main subsidiaries, which are now responsible for their own fire protection instead of the Ministry of Emergency Situations. The Company's subsidiaries, OAO Yamal LNG and OOO NOVATEK-Ust-Luga, will establish their own FSS units once the first phase of construction begins on their respective infrastructure and facilities.

All FSS units have obtained operational licenses issued by the Ministry of Emergency Situations and are provided with the necessary vehicles and fire extinguishing equipment.

NOVATEK has established its own fire and safety services units at its main subsidiaries, which are now responsible for their own fire protection, taking over the responsibility from the Ministry of Emergency Situations.

Training Exercises

Four of our subsidiaries, equipped with their own FSS units, held comprehensive tactical training sessions focused on extinguishing fires at processing plants. Fire evacuation drills for personnel located in offices and industrial buildings were also conducted. The training also focused on eliminating oil spills on the ground (a federal response level). These efforts were highly appreciated by the Ural Federal District's authorities and the Ministry of Emergency Situations.

Training was carried out at each operating facility and included all facility personnel and the salvage and rescue teams. In the course of training, FSS units practiced their skills in promptly responding to emergency situations, deploying and setting up equipment to localize fires, orientating in low visibility conditions and use of infrared vision to search for injured workers, evacuate workers from danger zones and provide primary medical treatment.

Operating facility personnel also practiced workplace evacuations and assembly at designated gathering points and in localizing emergency situations at processing plants, making sure their response time and actions, received training complied with the standard procedures listed in the emergency operating plans for hazardous operating facilities.

Fire Prevention

Despite an extremely hot summer in 2010, which created serious fire hazard conditions in many regions, no fires were recorded at NOVATEK's facilities.

In 2010, the FSS units of our facilities provided assistance eleven times, including eight times to service organizations and three times to extinguish fires in residential areas and at other municipal facilities.

2011 Objectives

- Continue to establish FSS units at newly built facilities and transfer the Emergency Situations Ministry's fire units into corporate FSS units.
- Carry out integrated fire safety tactical training, for staff of FSS units at NOVATEK's subsidiaries, aimed at liquidating accidents and emergency situations.
- Develop long-term programs aimed at ensuring fire safety at our subsidiaries' production facilities.
- Develop corporate fire safety standards.



Part

5

Human Resources and Social Policy

In assessing its current activities and future development plans, NOVATEK considers its employees as the Company's most valuable resource.

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 opportunity when applying for a job, subject to compliance of a candidate's qualifications with the Company's requirements;
- No discrimination of any type;
- Non-use of child labor or forced labor;
- Equal opportunity for professional growth;
- Social partnership to maintain a balance between the employer's and employees' interests; and
- Continuous training and development of professional skills.

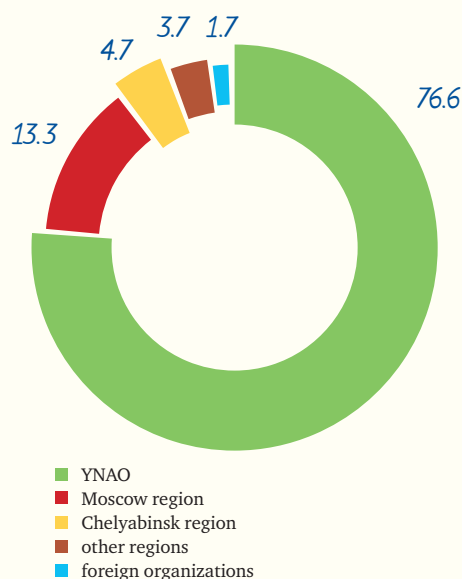
Change in Headcount Structure and Number

In the reporting period, the Company's headcount decreased by 11.8% to 3,867 employees (versus 4,383 employees in 2009)⁶, primarily due to the disposal of OOO NOVATEK-Polymer in the fourth quarter of 2010. A majority of our employees work at facilities located in Russia (share of employees working outside the Russian Federation is less than 2%, vs. less than 1% in 2009).

In terms of geographic location of employees, NOVATEK retained the strongest presence in the Yamal Nenets Autonomous Region (2,963 people) and Moscow (514 people).

We employ 1,182 people on a rotational basis in the Far North, or 30.6% of the total number of employees. Our subsidiaries employ 13 representatives from the indigenous peoples' population, four of whom joined the Company in 2010. There are 12 female top managers at NOVATEK and its subsidiaries, which represents 14% of the total number of top managers. Staff turnover at NOVATEK and its subsidiaries increased by 12.2% in 2010 compared to a 6.9% increase in 2009; the 2010 increase was due to the disposal of OOO NOVATEK-Polymer.

Workforce Breakdown by Region, %



⁶ As of 31 December for each year.

In 2010, NOVATEK introduced a Share-Based Option Program to retain highly qualified personnel and top managers.

Material Incentive

Between 2008 and 2010, the Company's main Russian subsidiaries introduced an integral approach to compensation and incentive mechanisms in accordance with the corporate document "Procedures for Organization of Compensation and Incentives for Employees".

In 2010, NOVATEK carried out a 10% indexation of salaries and wages to compensate for the negative impact of inflation.

We also introduced a Share-Based Option Program to retain highly qualified top managers. The program is developed in accordance with the Long-Term Management Incentive Concept intended for top managers of NOVATEK and its Subsidiaries and was approved by the Company's Board of Directors on 25 September 2006. The programs participants were approved by NOVATEK's Management Board.

The Share-Based Option Program covers the period from 2010 to 2012 and enables its participants to generate income based on the increase in the share price of NOVATEK's GDRs over the set strike price during these years.

Learning and Development

In 2010, the key areas of employee education and development included the following:

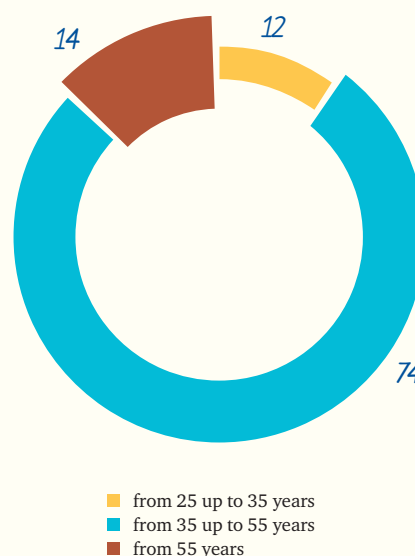
- Continuation of the purpose-oriented Personnel Pool Development Program 'Leadership Horizons';

- Participation of young specialists in conferences and contests devoted to oil and gas industry events;
- Education programs for highly qualified specialists at the Skolkovo Business School; and
- Employee professional development programs.

We continued to develop the "Technical Studies" corporate program and in 2010, we agreed on a list of qualifications for workers, in accordance with the technical requirements of operational activities, and on the basis of this the program will help employees develop the required skill sets.

We also continued our joint work with Tomsk University on the technical competence appraisal system. The project is expected to be implemented in the second half of 2011.

Composition of NOVATEK's Management Broken Down by Age, %



The best research and development projects from the young specialists contests have been introduced at NOVATEK's production facilities resulting in significant economic benefits for the Company.

Managerial Staff Training

Top managers receive professional training at international Full-Time and Executive MBA programs at Skolkovo Business School and in 2010, two people were enrolled in MBA programs.

"Personnel Pool"

The Personnel Pool Development Program was implemented in 2008. A total of 200 participants have been selected, 44 of whom were enrolled into the Personnel Pool Development Program in 2010.

Our specialists continued training under the Horizons of Leadership Program. The program develops leadership competencies based on a modular training system. During the reporting period, participants received training in five modules: Task Management, The Basics of Finance and

Management Decisions, Leadership in Communications, Personnel Management and Economic Justification of Decisions.

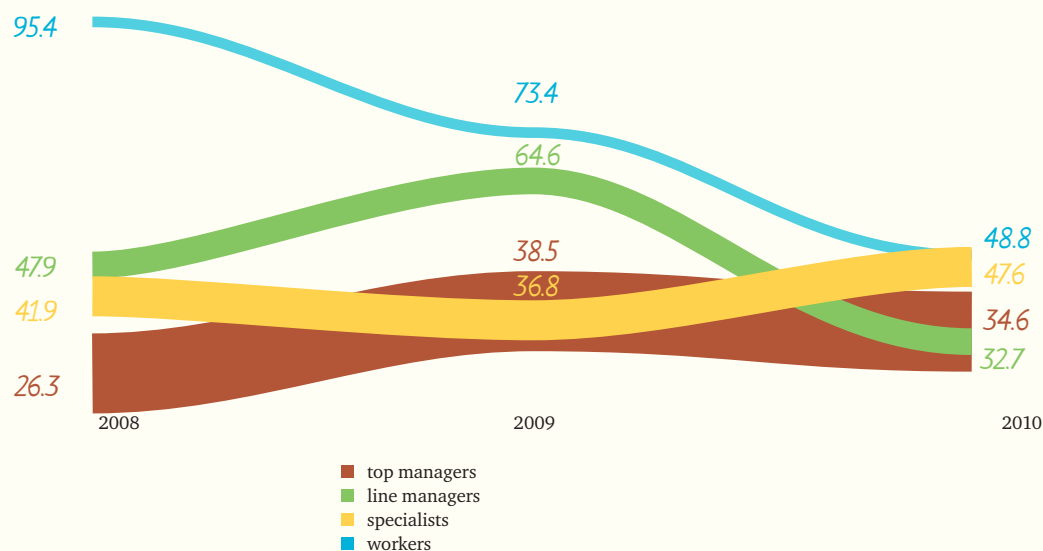
In the period from 2008 to 2010, 55 participants of the Personnel Pool Development Program were promoted to higher positions.

Young Specialists

Every year, the Company employs young specialists based on open and competitive hiring practices. We have specifically tailored programs for these employees to help them adapt and successfully develop as professionals.

For instance, first place winners at the Inter-Regional Research-to-Practice Conference are given the opportunity

Average Number of Training Hours per Employee in 2010 and Breakdown by Employee Category *



* In 2010, the average training hours per employee decreased due to the disposal of OOO NOVATEK-Polymer, 46.3% of the total number of employees underwent training.

We have specifically tailored programs for our young specialists to help them adapt and successfully develop as professionals.

to participate in professional training programs at international oil and gas centers. Second and third place winners receive monetary prizes. Based on the results of the 2010 conference, in 2011, 11 young specialists were awarded trips to Houston (U.S.A.) and had the opportunity to visit some of the world's leading oil and gas companies.

Our young specialists also participate in the Russian Federation's annual "Contest of the Best Youth Scientific/

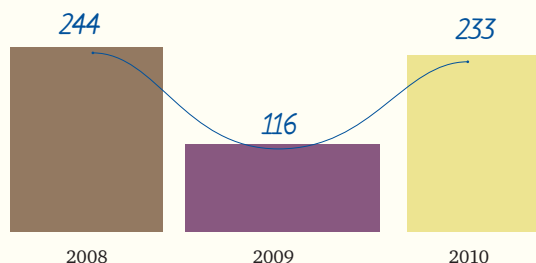
Technical Project in the Fuel and Energy Complex". During the reporting period, three of the Company's young specialists' projects were awarded Letters of Honor from the Russian Federation's Ministry of Energy. Since 2007, the best research and development projects from NOVATEK's young specialists have been introduced at production facilities resulting in significant economic benefits for the Company.

Key Tasks for 2011 and 2012

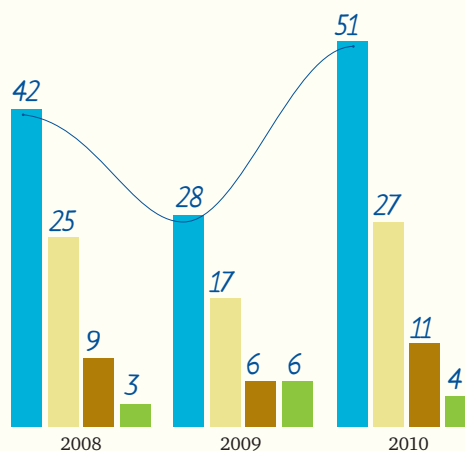
The key tasks in the areas of human resources management for 2011 and 2012 include the following:

- Assessment of the Personnel Reserve Program's results;
- Introduction of The Young Specialists' Adaptation & Development Program;
- Introduction of The Mentoring Program;
- Implementation of an evaluation system to assess employee qualifications and continue developing the Technical Studies corporate program;
- Introduction of subsequent stages of the Share-Based Option Program; and
- Increase employee interest in professional development through participation in contests and other competitions.

Number of Young Specialists employed by the Company



Key Performance Indicators for Young Specialists (the Inter-Regional Research-to-Practice Conference)



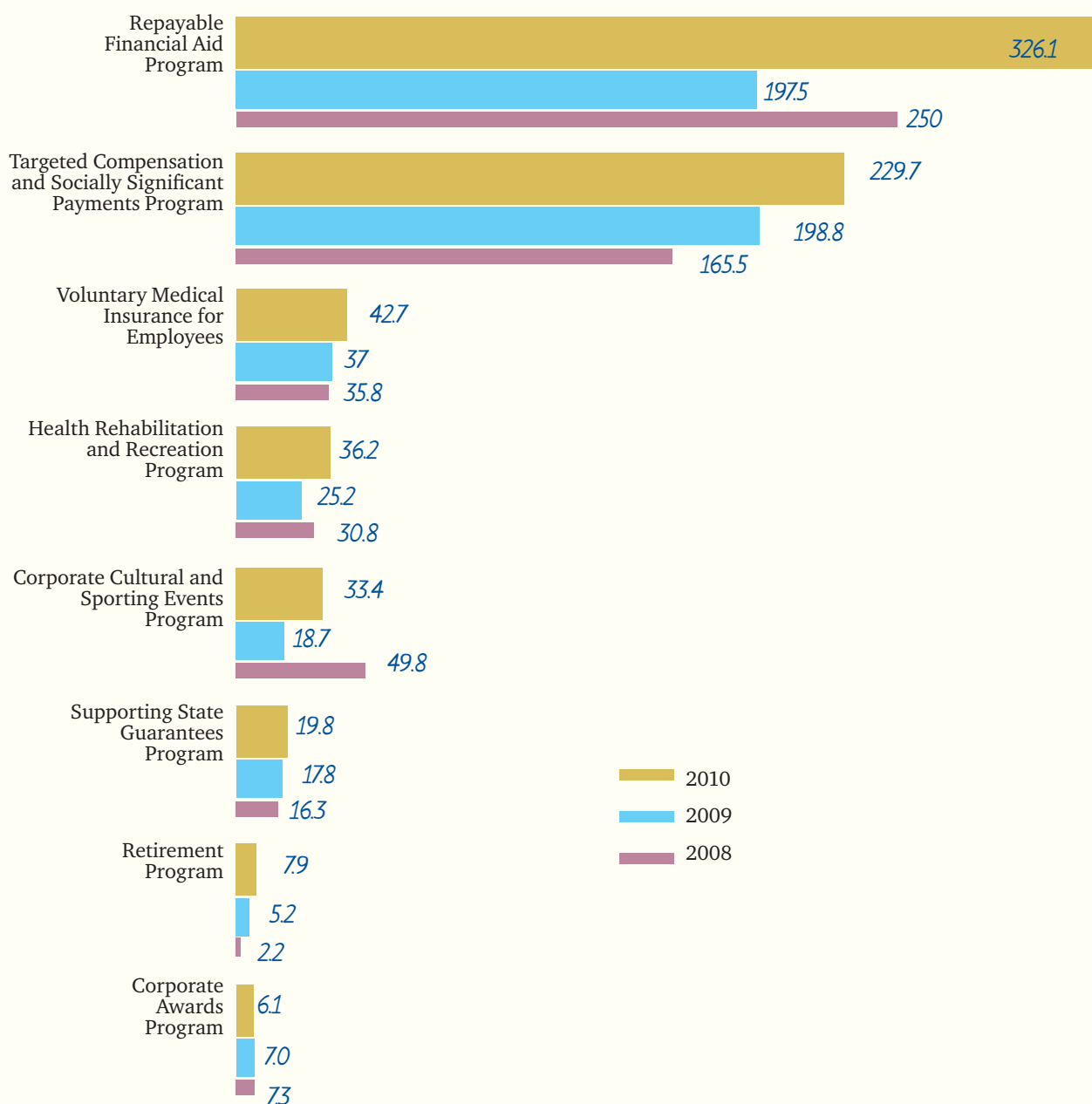
- number of participants
- number of winners
- number of participants awarded with trips abroad
- number of projects implemented at NOVATEK

Company Social Programs

The social package for NOVATEK employees is revised annually, in accordance with the Company's Social Policy

Concept adopted in 2006. In 2010, total expenditures on social programs amounted to RR 809.7 million.

Expenditures on Core Social Programs, RR mln



To reduce the risk of occupational diseases at the Company's Far North subsidiaries, NOVATEK has introduced regular employee medical examinations.

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 in the form of lump-sum financial assistance in certain situations.

Voluntary Medical Insurance for Employees

The 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 maximum coverage for all participants, including outpatient services, dentistry and in-patient treatment.

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

In 2010, in accordance with the results of the comprehensive medical examinations, 148 employees underwent medical treatment and/or received professional consultations with specialists.

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.

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.

In 2010, as part of the Program, 1,151 employees and their family members were able to rest and undergo rehabilitation programs at Russia's best resorts.

Health treatments were provided to employees and their children aged eighteen or less for 10% of the regular cost and for employee family members (spouses, children aged 19 to 23) for 70% of the regular cost.

In 2010, based on the results of a survey conducted among the employees who used the rehabilitation program in the past, the Company developed a list of resorts which it will use in the upcoming year. This list includes a total of 37 facilities located in the following regions and areas; the Black Sea coast of the Krasnodar Region, the Altai Region, the Mineral Waters of the Caucasus as well as facilities in Siberia, Bashkortan and Central Russia.

During the summer of 2010, 28 children of employees were sent to summer camps located in Russia. Starting in 2010, we launched a pilot project, organizing a trip to Turkey for nine children of NOVATEK-Yurkharovneftegas employees.

Repayable Financial Aid Program

In 2010, 35 families in need of better living conditions were granted interest-free targeted loans to purchase housing. Given the shortage of quality housing in Tarko-Sale, the Company funded the construction of 72 apartments for the families of its employees and NOVATEK also signed an agreement to build two housing blocks with 76 apartments. During 2010, 100 employees used the targeted short-term loans program.

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



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



"Mom, Dad and I Go in for Sport" is a family contest that was held at the Purovsky Plant in 2010. Six family teams from the cities of Tarko-Sale, Purovsk and Novy Urengoy competed for the "best team" title.

Retirement Program

In accordance with the Regulations on Social Support for Retired NOVATEK Employees, employees working for the Company for three or more years who are eligible to receive a monthly pension or disability benefits and who have left the Company for reasons provided for by the Labor Code of the Russian Federation, have the right to monthly payments. As of 31 December 2010, the number of program participants totaled 272 persons, an increase of 89 persons compared to the previous year.

Starting from 1 January 2010, the amount of monthly social support to former employees of the Company who retired during the period from 1 January 2007 to 31 December 2010, was indexed by 10%. The average amount of monthly social support paid in 2010 was as follows: Novokuibyshevsk - RR 1,675, Far North and comparable regions, Moscow and other cities - RR 3,975.

Corporate Awards Program

NOVATEK's top employees are eligible for industrial awards, certificates of honor and letters of gratitude from the Company as well as certificates of honor from the Company's subsidiaries. In 2007, the Company adopted a regulation establishing the title "Honorary Employee of OAO NOVATEK" which is the Company's most prestigious award, and in 2010, five employees were awarded this title. In 2010, 328 employees received corporate awards and our expenditures for bonuses attached to corporate awards totaled RUR 6.1 million.

Corporate Cultural and Sporting Events Program

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

Within the framework of the program NOVATEK cooperates with the National Russian Museum, the Moscow House of Photography, the Moscow Museum of Modern Art, the Tretyakov Gallery, the Moscow Kremlin Museum and other cultural institutions. This program allows hundreds of employees, their families, friends and partners to be able to experience domestic and global art exhibitions and to take part in unforgettable cultural events.

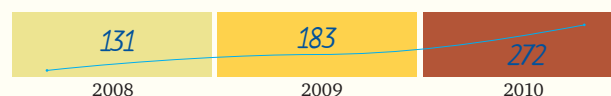
In December 2010, a concert of the Moscow Soloists Ensemble under the direction of Yury Bashmet was organized for the employees of the Company's Moscow office, their families and NOVATEK's business partners.

The Company pays special attention to ensuring that employees have the resources to promote healthy lifestyles. Sporting events provide employees the opportunity to participate in physical activities on a regular basis. NOVATEK supports these activities by renting gyms, swimming pools and athletic facilities for soccer, volleyball, and other general activities, such as aerobics, swimming and fitness training.

During the year, tournaments and competitions in mini soccer, volleyball and swimming were held among and between subsidiaries, including the contest "Mom, Dad and I Go in for Sports!".

In September 2010, The Second Youth Free Rope⁷ Festival, under the motto Know and Love Your Motherland, was held near Tarko-Sale. The festival consisted of various contests for 90 young employees of the Company, who made up nine teams from various NOVATEK subsidiaries.

Retirement Program Participants, number of persons



⁷ Free Rope is an extreme type of sport based on navigating obstacles containing rope elements.

In 2010, more than 80% of the employees at our subsidiaries were covered by trade unions.

Collective Agreements and Interaction With Labor Unions

Trade Unions

Cooperation based on a social partnership enables employees to exercise the right to protect their interests and NOVATEK, in turn, creates favorable conditions for trade unions to carry out their activities. In 2010, 81.67% of employees⁸ at our subsidiaries were covered by trade unions. In 2009 this figure was 66.3%

Collective Agreements and Relations with Employees

The obligations of the main parties involved in the social partnership, NOVATEK and its employees, represented by trade unions, are recorded in the collective agreements.

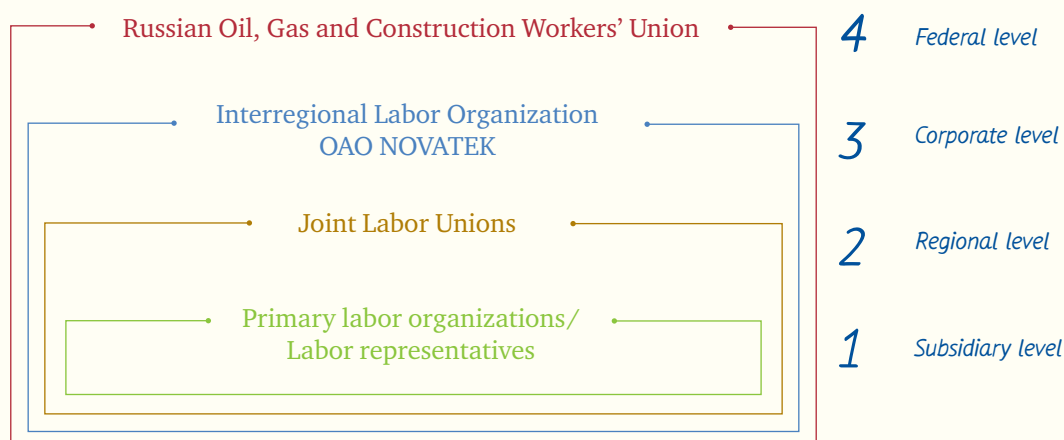
These agreements are signed for a three year period and are enacted at all of the Company's Russian subsidiaries which employ more than 10 people. In December 2009, all of the Company's subsidiaries signed collective agreements for the period covering 2010 to 2012, which apply to all of the employees.

The Company's management holds meetings with employees on a regular basis and special quarterly meetings with labor unions have also been held that were attended by subsidiary management personnel.

An important area of trade union activity is its participation in the Occupational Health and Safety commissions. Twice a year, members of the trade union undergo special training at the Russian Federation's Neftegazstroyprofsoyuz and in 2010, a total of 54 persons passed this specialized training. Active members of trade unions have the opportunity to receive training at the Saint-Petersburg Institute of Trade Unions, where they can study such disciplines as labor legislation and negotiation techniques.

One of the elements of interaction between trade unions and subsidiary management is the 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.

Trade unions operate on four levels:



⁸ As of 31 December 2010.



Part

6

Local Communities

NOVATEK invests in the economic and social development of the communities where the Company has a presence, interacting with the Indigenous and Minority Peoples of the Far North and providing support to educational, sports, cultural and social programs .

Local Communities

NOVATEK invests in the economic and social development of the communities where the Company has a presence. This is done through partnerships with core stakeholder groups such as local authorities, municipal organizations and NGOs, charity funds, unions of indigenous peoples, educational, cultural and sporting institutions, etc.

Social investments are managed by concluding cooperation agreements and implementing corporate programs. The social investment management program is described in detail in the Sustainability Report for 2008 – 2009.

Cooperation with Regional Authorities and Municipal Entities

Since NOVATEK's main operations are carried out in the YNAO, the Company annually invests into the region's development. A cooperation agreement exists between the Company and the Administration of the YNAO for 2009 – 2011, which is updated on a yearly basis through corresponding addendums.

These addendums define the scope and direction of funding, collaborative plans in solving the social and economic issues of the region and guide certain items related to the operations of the Company's production facilities and environmental issues.

In 2010, the YNAO Administration and NOVATEK entered into an additional agreement that contained a list of social and economic projects and events to be implemented during the reporting period on the territories of the municipal entities of the YNAO, including the Purovsky region, the Tazov region, the Krasnoselkup region, the Nadym region, the Yamal region and the city of Novy Urengoy.

According to the terms of the agreement, funding was provided to general education and pre-school institutions, for projects supporting children, physically challenged and elderly people, as well as family enhancement projects and for the organization of holidays – Victory Day and Senior Citizens Day. Funding was also provided for the purchase of equipment for kindergartens, schools and hospitals and major repairs of existing social infrastructure and construction of new facilities, including trading stations. The Company and local authorities support amateur performances, creative development and physical fitness among children and youth, in particular we have provided support for the Children's Music Awards "Polar Star" and garden sculpture festival "Legends of the North".

Similar agreements have been signed with the administrations of other regions that have taken the initiative to form cooperation programs with the Company, which define the ultimate amount of funding.

An example of this is the Agreement for Cooperation with the Chelyabinsk Regional Government for 2010 – 2013, which was signed in 2010. The Company plans to play an important role in developing this region which is both one of Russia's largest economic regions and one of biggest regional gas markets. NOVATEK supplies a quarter of the natural gas demand in the region and our fully-owned subsidiary OOO NOVATEK-AZK is developing a network of gas filling stations there.

Pursuant to the Agreement, the Company will take part in investment projects in the energy industry, including gas transportation infrastructure and gas consumption and processing infrastructure in order to increase gas supplies to end consumers.

The Company and local authorities support amateur performances, creative development and physical fitness among children and youth.

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 as well as where they live and conduct economic activities. The Company is allowed to work in these areas only after it receives project implementation approval after which, it must observe special operating conditions to ensure the preservation of the customs, environment and the traditional ways of life of the indigenous minority population.

As a result, the Company is committed to the following:

- Preservation of the indigenous peoples' culture;
- Provision of transportation, telephone and radio communications;
- Organization of civic events; and
- Development of a commodity exchange within existing trading stations.

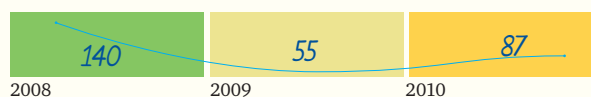
Pursuant to the Cooperation Agreement for 2010, OOO NOVATEK-Yurkharovneftegas allocated RR 1.7

million to improve the living conditions of the indigenous people living in the Tazov region of the YNAO. The Company's funds were used by the Service Center, which provides services to those who work in the tundra, for the purchase key commodities and motor fuel as well as snowmobile and boat repairs. NOVATEK also ensures that the indigenous population has access to medical assistance and necessary medications.

NOVATEK is committed to continuing the cooperation programs with the Yamal for Descendants Association of Minority Populations of Indigenous Peoples of the Far North and the YNAO's Department for Affairs of Indigenous Peoples of the Far North.

Throughout the past five years, NOVATEK has been implementing the Company's Indigenous Peoples Support Program in accordance with the recommendations of the World Bank.

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



*Our cooperation system with higher educational facilities
is designed to resolve key issues confronting
the NOVATEK's HR policy.*

Educational Initiatives

The Company considers recruitment to be one of the key areas of NOVATEK's HR policy and activities related to the preparation of future employees begin as early as the secondary school level.

For many years, the Company has been developing a lifelong learning project which is intended to ensure an inflow of highly educated and properly qualified young specialists from the regions where the Company operates. As part of this project, NOVATEK targets prospective students and provides resources for their further education in specialized institutes and universities, practical training organizations and ultimately employment opportunities.

Gifted Children Program

Recruitment of, and career guidance for, promising new employees begins at the secondary school level through the Gifted Children Program that was started in 1999 in school No 8 of Novokuibyshevsk (the Samara Region) and in 2004, school No 2 of Tarko-Sale (the Purovsky Region, YNAO) joined the program.

Under the program, specialized classes are formed on a competitive basis from the most gifted students in grades 10 to 11. These secondary school students study according to a special curriculum, which is an extension of the standard curriculum, and includes courses in applied physics, mathematical methods in physics, advanced mathematical tasks, world culture, history and economics. The maximum number of students in the class is 12, ensuring that every student receives enough attention from the best school teachers.

In February 2010, a delegation of students from the Gifted Children classes of Novokuibyshevsk and Tarko-Sale took part in the X Festival of Science and Art held as part of the Intellectual Creative Potential of the Russian National Educational Program (Moscow). In accordance with the festival results, the students received individual awards in the following categories; economics, Russian language, history, IT, applied arts creativity, mathematics, choreography, physics, literature, English language and team awards in the "Wise as Solomon" contest, the "Creative Potential of Russia" magazine issue contest and the "Quasar" academic decathlon.

In December 2010, a delegation of students from the Gifted Children classes at Tarko-Sale took part in UNEKO-2010, the Eighth All-Russian Contest of Youth Research Projects. Research supervisors that helped the students develop research subjects and prepare presentations were also awarded with honorary diplomas "For Success in the Training of Future Specialists in the Areas of Cultural Heritage, Environmental and Life Sciences and the Preservation and Enhancement of Russia's Intellectual Potential".

In December 2010, a delegation of students from the Gifted Children classes from Novokuibyshevsk took part in the XXVI All-Russian Conference "Youth, Science, Culture". Three students were awarded with diplomas and Silver Marks of Distinction, while one teacher was awarded with a Golden Mark of Distinction "For Merit in Involving Children and Youth in Scientific Creativity and the Preservation and Augmentation of the Intellectual Potential of Russia".

In 2010, the Company spent RR 3 million on implementing the Gifted Children Program.

For many years, NOVATEK has been developing a lifelong learning project which is intended to ensure an inflow of highly educated and properly qualified young specialists from the regions where the Company operates.

Grants Program

Currently NOVATEK is engaged in two grants programs. The Grants Program for School Children is intended to increase the intellectual and creative level of school children and encourage a responsible attitude towards learning. The program started in 2004 and provides Company grants, on a competitive basis, to students in grades 5 to 11 from the Purovsky region of the YNAO. In 2007, school No 8 of Novokuibyshevsk joined the program.

In order to receive a grant, the student must demonstrate good or excellent academic performance and a proactive attitude, the criteria also includes, but is not limited to, the following; take an active role in the academic and social life of the school and region, be a winner or an awardee of regional, district-level or All-Russian academic competition, take part in academic and research conferences, creative competitions, shows, tournaments and festivals at various levels.

In 2010, a total of 297 grants were awarded:

- Novokuibyshevsk: 100 children, grants were awarded by the "Viktoria" Charity Fund;
- Purovsky region, YNAO: 197 children.

The Grants to Teachers Program was started in Novokuibyshevsk in 2007. In 2008, NOVATEK also started awarding grants to teachers located in the Purovsky region.

In 2010, a total of 37 teachers received grants:

- Novokuibyshevsk: 20 teachers, grants were awarded by the "Viktoria" Charity Fund;
- The Purovsky region: 17 teachers.

In 2010, the Company spent RR 963.8 thousand on implementing the Grants Program.

NOVATEK-VUZ Program

The Company has developed and is successfully implementing its NOVATEK-VUZ program, which is focused on establishing conditions for the most efficient use of higher educational facilities and to prepare students for their future professional activities.

This cooperation system with higher educational institutions is designed to resolve key issues confronting the Company's HR policy. The NOVATEK-VUZ program is a set of measures aimed at forming a focused high-quality five-year training program for specialists enrolled in degree programs in areas that are key to the Company's development and fill the demand for young specialists.

The program is based on cooperation with the following universities: State Mining Institute (Saint Petersburg), Gubkin Russian State Oil and Gas University (Moscow); and in 2009, a cooperation agreement was signed with The Tyumen Oil and Gas University. Under the agreements,

We assign a high priority to the development of quality education in the regions where the Company operates.

students are provided with pre-university training, take part in academic competitions and receive career guidance.

The NOVATEK-VUZ Program selects only the most highly motivated and capable applicants amongst students which have completed the Gifted Children Program in Novokuibyshevsk and at Tarko-Sale, as well as such children from employees working in NOVATEK's subsidiaries, and other graduates of the Purovsky regional schools.

Students that pass exams with good and excellent grades receive additional monthly payments in addition to state educational scholarships and the students' transportation expenses to and from the place of practical training are covered. Throughout the course of their studies, students are offered the opportunity to participate in internships, process-oriented training and pre-degree paid apprenticeships. This experience allows them to apply the knowledge obtained at lectures and seminars to real life situations and gain experience in the professions they've chosen, while the Company receives an opportunity to meet potential employees. The students, guided by a practical training supervisor, have several weeks to demonstrate their knowledge and skills. In 2010, 41 students received practical training at the Company's subsidiaries under the NOVATEK-VUZ Program and as of 31 December 2010, 98 apprenticeship agreements were concluded with students under the NOVATEK-VUZ Program.

Based on their academic performance at universities and institutes and on the results of practical training with the Company, the best NOVATEK-VUZ Program graduates are offered employment at NOVATEK. In 2010, five program graduates received jobs.

Since the start of the program, 20 of its graduates have been hired by NOVATEK and another 28 program graduates found employment with the Company's help.

Annual student forums are held for the program's participants, where they are free to ask the Company's senior executives questions. The 3rd student forum held by NOVATEK took place in the Moscow Region in 2010, uniting approximately 80 students from Samara, St. Petersburg, Moscow and Tyumen. Students and teachers from Tarko-Sale school No 2 and Novokuibyshevsk school No 8 also took part in the forum and for the first time young specialists that completed the NOVATEK-VUZ Program and were subsequently employed by the Company's subsidiaries also participated.

In 2010, the Company spent RR 32.4 million on implementing the NOVATEK-VUZ Program. During the same year, NOVATEK's Educational Programs Project was recognized at the Corporate Charity Leaders 2009 annual contest.

Currently, the Special Social Protection Fund NOVATEK-VETERAN provides support for more than 850 veterans.

NOVATEK-VETERAN Program

The Special Social Protection Fund, NOVATEK-VETERAN, was established in 2005 for employees that retired before 2007. As of December 31, 2010 the Fund helps more than 850 veterans and provides them with the following support:

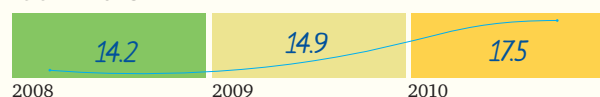
- quarterly material aid;
- immediate compensation for hardship situations;
- payments for medicine, medical treatment and nurses for bed-ridden and disabled patients;
- health rehabilitation and recreation activities;
- moral and psychological support;
- honoring those celebrating anniversaries;
- arranging celebrations of state and professional holidays;
- arranging cultural events and recreational activities (exhibitions, performances); and
- providing reading materials (books, journals, magazines, etc.).

The Fund's workers, together with active retirees, have established an initiative group that works closely with those that are physically challenged and have mobility issues by purchasing and delivering groceries, medications and other consumer goods for them. The Fund is not only aimed at providing financial support to pensioners, but also to improve their quality of life.

This includes organizing contests and evenings, during which the "Yamalskie Zory" musical group often takes part, which are very popular among the Veterans.

Since January 2010, the amount of monthly welfare assistance for pensioners registered with the NOVATEK-Veteran Social Protection Fund has increased by 10%.

**NOVATEK-VETERAN Program Funding,
RR millions**



Our volunteers have been active in charity projects and have enlisted the support of relatives, friends, acquaintances, NOVATEK partners and employees of neighboring offices.

All Together Volunteer Movement

In 2010, we continued developing the ALL TOGETHER volunteer movement which was launched in 2008 and combines the social initiatives of our employees. In the last two years, our volunteers have made significant contributions and have been joined by relatives, friends, acquaintances, NOVATEK partners and employees of companies located in neighboring offices.

Our volunteers have consistently taken part in the blood donor movement and by the end of 2010, 250 participants donated over 100 liters of blood to young patients at the Russian Children's Clinical Hospital. In November 2010, volunteers from the Company participated in Blood Donor Day, an event held with support from the Blood Center, a federal bio-medical agency, NOVATEK and the Gift of Life Foundation Donor Day, by donating their blood.

NOVATEK volunteers frequently work with children from the Vyshny Volochok orphanage through the organization of various events for the orphans. Under the Children Aid Program we regularly hold interviews with the orphanage's senior classes, organize charity auctions, where we display the children's art work, as well as organize the annual Miracle Tree New Year event. This event was launched by NOVATEK's Moscow office in 2009 and in December 2010, NOVATEK-Tarkosaleneftegaz also joined the event. Each New Year a Christmas tree is set up in the Company's office, which is decorated with letters for Santa Claus. These letters are written by children, who are cared for by

a public organization for invalids called Compassion, and nearby their artwork is also put on display. The Company's employees helped fulfill the children's wishes by putting together presents for each child.

In May 2010, with NOVATEK's support, 80 school children ages 7 to 14 from the Noginsk boarding school visited the Tretyakov Gallery in Moscow. In addition to an educational excursion through the gallery, the children were also kept company and entertained by volunteers from the Children's Houses charity fund.

In Novy Urengoy, the Company helped conduct the 8th District Art Festival for children with limited capabilities called a Future for Everyone.

In 2010, NOVATEK volunteers together with the CLOUDWATCHER charity foundation, held "We Help, Remember and Care" — an event dedicated to the 65th Anniversary of Victory in WWII. Veterans living in Moscow were invited to attend the event, where they celebrated and received gifts. Long-term relationships were established with the veterans, so that when they need assistance they can be helped.

In 2010, the movement began a project aimed at helping homeless animals and started collaborating with two animal shelters.

In 2010, Novatek was involved in sponsorship and charity projects aimed at supporting culture and the development of sport in Russia.

Cultural Development

NOVATEK is involved in sponsorships and charity projects aimed at supporting culture and the preservation and revival of Russia's national values and spiritual heritage.

The Company has long-standing partnerships with a number of leading national and regional museums. Members of NOVATEK's senior management are also members of the following boards: Guardians of the Russian

Museum Development Fund, the Pushkin Museum of Fine Arts, the Samara Regional Arts Museum, and the Friends Society of Moscow Kremlin Museums.

In 2010, a number of unique art exhibitions and large-scale culture-oriented projects were implemented with NOVATEK's support. These included:

The Russian State Museum:

- the 3rd international festival "French Garden on the Bank's of the Neva" held within the annual "Imperial Gardens of Russia" Festival of Landscape Art;
- "Native of Smolensk", art exhibition devoted to the 275th anniversary of the birth of D. G. Levitsky;
- A. Benois art exhibition, "Versailles Day Dreams by Alexander Benois".

The State Tretyakov Gallery:

- "To Work, To Build and Not to Whine", exhibition project devoted to the 110th anniversary of A. Deyneka.

Museums of the Moscow Kremlin:

- museum-based programs and projects.

The Moscow House of Photography:

- Eighth International Photography Month in Moscow: Photo Biennale 2010;
- extracts of the P. Boulat family collection (Paris): "Pierre Boulat. Retrospective".

The Moscow Museum of Modern Art:

- exhibition of the Russian avant-garde painter A. Exter: "Alexandra Exter. Retrospective".

The Samara Regional Art Museum:

- exhibition by A. Plastov, maestro of Russian Soviet Realism: "World of Childhood";
- "Heritage – Modernity" an academic and research conference devoted to the 80th anniversary of A. Bass, a recognized cultural figure from Samara.

In 2010, NOVATEK continued its collaboration with the "Soloists of Moscow" Chamber Ensemble, whose art director, conductor and main soloist is the acclaimed

Yuri Bashmet. The Company is a general partner for concert activities by this world renowned ensemble.

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

Sport

Social programs targeting support for the development of sport in Russia are a top priority for us. In 2010, the Company provided continuous support to the following clubs:

- Spartak Basketball Club (Saint-Petersburg);
- Dynamo Sport Club (Moscow);
- NOVA Volleyball Club (Novokuibyshevsk);
- Dynamo Joint Hockey Club (Moscow);
- Krylia Sovetov professional soccer club (Samara).

NOVATEK supports sporting competitions held in the YNAO, which take place on national holidays including: Fisherman's Day, Reindeer Herder Day, etc. The Company also supports the participation of individual athletes at high-level international competitions.

Corporate sporting events in soccer, volleyball and swimming are held annually among teams from NOVATEK and its subsidiaries.

Assurance Statement

SGS Vostok's report on sustainability activities in the OAO NOVATEK Sustainability Report for 2010

Nature and scope of the assurance/verification

SGS Vostok Limited was commissioned by OAO NOVATEK to conduct an independent assurance of the Sustainability Report 2010. The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included the text, and 2010 data in accompanying tables, contained in this Report. Information and data on the company website, other than that included in the text of this Report, were not included in this assurance process.

Information in the OAO NOVATEK Sustainability Report 2010 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 2010.

Our responsibility is to express an opinion on the text, data, graphs and statements within the scope of verification set out below with the intention to inform all OAO NOVATEK stakeholders.

This Report has been assured at a high level of scrutiny using our protocols for:

- evaluation of content veracity;
- evaluation of the report against the Global Reporting Initiative Sustainability Reporting Guidelines (G3 2006/G3.1 2011)

The assurance comprised a combination of pre-assurance research, documentation and record review, and interviews with employees during visits to the Moscow office of OAO NOVATEK. Financial data drawn directly from

independently audited financial accounts has not been checked back to the 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 auditors with the following certifications: IRCA Certified Sustainability Assurance Practitioner, Lead Quality and SA8000 Auditor, Lead Environmental, Health and Safety Auditor, Social and Sustainability Auditor.

Verification/ assurance opinion

On the basis of the methodology described and the verification work performed, we are satisfied that the information and data contained within the OAO NOVATEK Sustainability Report 2010 is accurate, reliable and provides a fair and balanced representation of OAO NOVATEK's sustainability activities in 2010.

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

We believe that the organisation has chosen an appropriate level of assurance for this stage in their reporting.

Global reporting initiative reporting guidelines (2011) conclusions, findings and recommendations

In our opinion, the OAO NOVATEK Sustainability Report 2010 meets the content and quality requirements of the Global Reporting Initiative G3 Version 3.1 Application Level B+.

Principles — In our opinion the content and quality of the Report adheres to the ten GRI Principles. Opportunities were identified for consideration in future reporting cycles to ensure continual improvement, including:

- **Stakeholder engagement:** NOVATEK was found to have a system in place for stakeholder involvement and is committed to stakeholder dialogue. Examples of the stakeholder engagement during the on-going activities are included in the Report. For further reporting improvement, a more systematic and detailed inclusion of stakeholder dialogues in the materiality determination and description process should be considered.
- **Accuracy:** Information and data in the Report were evaluated and where necessary to ensure accuracy of the Report, amended accordingly. Based upon the data sampling, we have concluded that data is generally accurate and reliable and provides a fair and balanced representation of sustainability performance. A system based data gathering process and development of more systematic data gathering procedures would be beneficial for data accuracy.
- **Completeness:** The Report does cover the entire chain of the entities, significant events, actions of the reporting period and does not omit relevant information that would influence or inform stakeholder assessments or decisions, or that would reflect significant economic, environmental, and social impacts. It would be beneficial to emphasize the data that materially influences environmental and economic performance in the body of the Report.

More detailed improvements and opportunities are incorporated in the Internal Management Report to the organization.

Standard Disclosures — All of the standard disclosures required for reporting at an application level B+ were included or referenced in the Report.

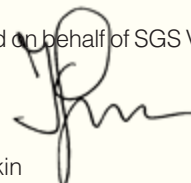
Indicators — More than the required minimum number of core indicators are included in the Report. Also 12 additional indicators have been covered in the 2010 Report.

In our opinion:

- The Report does give a good view of the Company's risks in terms of economic, environmental and social risks and has identified the factors for success of the Company. In comparison with the previous year's Report, OAO NOVATEK has improved the presentation of information to allow readers to identify positive and negative trends in performance on a year-to-year basis.
- The Report presents a fair and balanced account of OAO NOVATEK's material sustainability performance, risks and impacts at the corporate level.
- OAO NOVATEK is responsive to major issues connected with stakeholders and has robust policies, programs and procedures in place to address those material issues.

The Report content, the GRI Index as included in the Sustainability Report meet the content and quality requirements of the Global Reporting Initiative G3 Version 3.1 Application Level B+.

Signed: For and on behalf of SGS Vostok Limited (SGS Group)



K. Timoshechkin
Regional business development manager for Eastern Europe, System and Services Certification
SGS Vostok Limited
November 2011
www.sgs.com

GRI G3.1 Content Index

Profile
Disclosure ↓

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Standard disclosures part I: Profile Disclosures

1. Strategy and Analysis

1.1	Statement from the most senior decision-maker of the organization.	Fully		3
1.2	Description of key impacts, risks, and opportunities.	Fully	Please also see: http://www.novatek.ru/en/about/strategy/	6, 10-12

2. Organizational Profile

2.1	Name of the organization.	Fully		3
2.2	Primary brands, products, and/or services.	Fully		13
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Fully	http://www.novatek.ru/en/about/general/structure	8
2.4	Location of organization's headquarters.	Fully		66
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		66
2.6	Nature of ownership and legal form.	Fully		18
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Partially	Please also see the Annual Report 2010, p. 29-33	66
2.8	Scale of the reporting organization.	Fully		8
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Fully		8
2.10	Awards received in the reporting period.	Partially	http://www.novatek.ru/en/about/achievements	

3. Report Parameters

3.1	Reporting period.	Fully	2010 calendar year	66
3.2	Date of most recent previous report (if any).	Fully	The third Sustainability Report (for the period 2008 - 2009) was published at the end of 2010 (please see: http://www.novatek.ru/en/development)	66
3.3	Reporting cycle (annual, biennial, etc.)	Fully	The reporting cycle was changed from bi-annual to annual.	66
3.4	Contact point for questions regarding the report or its contents.	Fully		66
3.5	Process for defining report content.	Fully		66
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Fully		8, 66
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Fully		8, 66
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		8, 66
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		8

Profile Disclosure ↓	Description ↓	Reported ↓	Cross-reference/Direct answer ↓	Page in the Report ↓
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	Energy consumption accounting system was changed; therefore, data for EN3 was revised.	25
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Fully	No material changes occurred.	66
3.12	Table identifying the location of the Standard Disclosures in the report.	Fully		59
3.13	Policy and current practice with regard to seeking external assurance for the report.	Fully	The Company applies for the report verification to professional auditor. The assurance statement is enclosed.	57
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	http://www.novatek.ru/en/about/management/ and http://www.novatek.ru/en/investors/	18
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Fully		18
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	Please also see the Annual Report 2010, p.44	18
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Fully	No material changes have occurred since the previous Report (for the period 2008-2009). These mechanisms include Shareholders Meetings, discussion of Collective Agreements, Company management's meetings with employees, etc.	
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		18
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Partially	Please see OAO NOVATEK Code of Business Conduct and Ethics: http://www.novatek.ru/en/about/management/regulatory/	
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	The Company has no specific procedures in place for this case; candidate's individual and professional experience is being accounted, as well as educational level and the experience on the boards of other companies.	
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	http://www.novatek.ru/en/about/management/regulatory/	
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	Reports on key sustainability areas (such as HSE, human resource management, interaction with local communities) are submitted to the highest governance body on a permanent basis.	
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	Fully	The highest governance bodies evaluate their own performance annually, in preparation for annual meetings.	

Profile Disclosure ↓	Description ↓	Reported ↓	Cross-reference/Direct answer ↓	Page in the Report ↓
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	Fully	No material changes have occurred since the previous Report	
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	Fully	No material changes have occurred since the previous Report	
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 "The Urals Industrial - the Urals polar"	
4.14	List of stakeholder groups engaged by the organization.	Fully	The Company interacts regularly with the main stakeholder groups, including investors, business partners, media, workers, indigenous peoples, local authorities.	
4.15	Basis for identification and selection of stakeholders with whom to engage.	Fully	Basis for identification and selection of stakeholders are regular business processes, obligations under existing contracts and agreements, as well as requirements of the initiatives, in which the Company participates.	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Partially		23
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		22-23, 39, 48

Standard disclosures part III: Performance Indicators

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.	Partially		7
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Fully	Please see the previous Sustainability Report for the period 2008–2009	
EC4	Significant financial assistance received from government.	Fully	The Company did not receive any financial assistance from government	

Market presence

EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Partially		13–17
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Fully	No material changes have occurred since the previous Report (for the period 2008–2009)	

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		48
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Partially		48

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Disclosure ↓

Description ↓

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Environmental

Materials

EN2	Percentage of materials used that are recycled input materials.	Partially		29-30
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Energy

EN3	Direct energy consumption by primary energy source.	Fully		25
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EN5	Energy saved due to conservation and efficiency improvements.	Fully		25
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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		24
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Water

EN8	Total water withdrawal by source.	Partially		29
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EN10	Percentage and total volume of water recycled and reused.	Partially	The indicator is no more material for the Company because "NOVATEK-Polymer" was excluded from the reporting boundary. Please also see "Report Boundary Setting" Section in the Report.	29
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Biodiversity

EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Fully		31
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Emissions, effluents and waste

EN16	Total direct and indirect greenhouse gas emissions by weight.	Fully		26
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EN17	Other relevant indirect greenhouse gas emissions by weight.	Fully		26
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EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Fully		27
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EN20	NOx, SOx, and other significant air emissions by type and weight.	Fully		26
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EN22	Total weight of waste by type and disposal method.	Partially		30
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EN23	Total number and volume of significant spills.	Fully	No significant spills occurred in the reporting period.	36-37
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Products and services

EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Fully		23, 27
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Compliance

EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Fully		30
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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.	Partially		16
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Overall

EN30	Total environmental protection expenditures and investments by type.	Fully		31
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Social: Labor Practices and Decent Work

Employment

LA1	Total workforce by employment type, employment contract, and region	Fully		39
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Profile Disclosure ↓	Description ↓	Reported ↓	Cross-reference/Direct answer ↓	Page in the Report ↓
LA2	Total number and rate of employee turnover by age group, gender, and region.	Fully		39-40
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Fully		43
Labor/management relations				
LA4	Percentage of employees covered by collective bargaining agreements.	Fully		46
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	Fully	The indicator was not changed since the previous Report — the minimum notice period is 2 months	
Occupational health and safety				
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Partially		33-34
LA9	Health and safety topics covered in formal agreements with trade unions.	Fully	The indicator was not changed since the previous Report.	46
Training and education				
LA10	Average hours of training per year per employee by employee category.	Fully		41
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Fully		41
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.	Fully		39
Social: Human Rights				
Diversity and equal opportunity				
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Partially	The indicator was not changed since the previous Report.	
Non-discrimination				
HR4	Total number of incidents of discrimination and actions taken.	Fully	No cases were detected in the reporting period.	
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	No cases were detected in the reporting period.	
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	The indicator was not changed since the previous Report.	
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	The indicator was not changed since the previous Report.	
Indigenous rights				
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	Fully	No cases were detected in the reporting period.	

Profile
Disclosure ↓

Description ↓

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Social: Society

Community

SO1	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		48, 50
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Corruption

SO4	Actions taken in response to incidents of corruption.	Fully	No cases were detected in the reporting period.	
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Public policy

SO5	Public policy positions and participation in public policy development and lobbying.	Fully	The indicator was not changed since the previous Report.	
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Anti-competitive behavior

SO7	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.	
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Compliance

SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Fully	No cases were detected in the reporting period.	
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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.	Fully		13-17
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	No cases were 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.	Fully		13-17
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	No cases were detected in the reporting period.	13-17

Customer privacy

PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Fully	No cases were detected in the reporting period.	
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Compliance

PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Fully	No cases were detected in the reporting period.	
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Note:

The following indicators are not material or relevant for the Company:

EC5, EN4, EN7, EN11, EN17, EN19, EN24, EN25, EN27, LA6, LA8, LA14, PR5, PR6, PR7, HR1, HR8, SO2, SO3, SO6.

Feedback Questionnaire

Dear readers,

You have just read NOVATEK's fourth 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 6013.

Please mail the completed questionnaire to: 2, Udaltsova street, Moscow, Russia, 119415

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

1. What type of stakeholder are you?

- a. Government authorities
- b. Investor
- c. Partner
- d. Client
- e. Employee
- f. Shareholder
- g. Other _____

2. What is your overall impression of the report?

- a. Very interesting
- b. Interesting
- c. Not interesting

3. How would you rate data completeness?

- a. High
- b. Satisfactory
- c. Low

4. How would you rate data reliability and objectivity?

- a. High
- b. Satisfactory
- c. Low

5. How would you rate the report's search convenience?

- a. High
- b. Satisfactory
- c. Low

6. How would you rate the design?

- a. High
- b. Satisfactory
- c. Low

7. Has the report contributed to your understanding of the sustainability of NOVATEK's activities?

- a. Yes, completely
- b. Yes, somewhat
- c. No, not exactly
- d. No, totally unclear

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

Report and Reporting Process

This is the fourth Report on NOVATEK's sustainable development activities.

Reporting Period

The Report covers the period from January 1, 2010 until December 31, 2010. Since 2010, the Company has shifted from a two-year to a one-year reporting period.

Using Non-Financial Reporting Systems

The Report has been developed using the Sustainability Reporting Guidelines of Global Reporting Initiative (GRI, 3.1). The Company defines its level of GRI compliance as B+.

Verification

The Report has been verified by SGS Vostok Limited. Their opinion is attached to this Report.

Report Boundary

Geography: Russian Federation. **Coverage of entities:** the Report includes information about OAO NOVATEK and its subsidiaries doing business in the following segments:

- Hydrocarbon exploration and production: OOO NOVATEK-Yurkharovneftegas, OOO NOVATEK-Tarkosaleneftegas, ZAO Terneftegas, OOO YARGEO, OOO Petra Invest-M, OOO Tayliksneftegaz.
- Exploration, production and marketing overseas: Novatek Overseas, Novatek Overseas S&P; Novatek Polska; Runitek GmbH.
- Processing and marketing in Russia: OOO NOVATEK-Purovsky ZPK, OOO NOVATEK-Transervice, OOO NOVATEK-Severo-Zapad, OOO NOVATEK-Ust-Luga, OOO NOVATEK-AZK.
- OAO Yamal LNG which could generate potential significant economic, social and ecological impacts.

The scope of data on OAO NOVATEK, Novatek Polska, Runitek GmbH and 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 reports scope of work.

Defining Essential Issues

When defining essential issues, we used the same approach that we applied for developing the Sustainability Report for 2008 – 2009.

Next Report

The next report is scheduled to be published in 2012.

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