



**NOVATEK**



# **Sustainability Report**

on the Territory of the Russian Federation

**2011**

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## Dear Stakeholders,

We are very pleased to present our Sustainability Report for 2011, our fifth such a report prepared in accordance with the Global Reporting Initiative (GRI) guidelines. 2011 was another successful year for us operationally and financially. We substantially solidified our positions as Russia's independent natural gas producer and second largest player on the Russian gas market through increasing our reserves under the SEC standards to 9.4 billion barrels of oil equivalent, which represents a replacement ratio of 444%, as well as through increasing our natural gas production by 41.5% and expanding our access to end-customer market. Our operational success and stringent cost control resulted in further growth of our financial results.

Following substantial expansion of our assets portfolio in 2010-2011 we devoted great care to updating our long-term development plan and presented our 10-year strategy in December 2011. The updated plan confirms our sustainable development capabilities and provides for doubling natural gas production and tripling production of liquid hydrocarbons in the period from 2011 to 2020. In the medium term we plan to achieve production growth through continued development of our reserve base in the Nadym-Pur-Taz region, while long-term production potential is linked to the vast resources of the Yamal and Gydan peninsulas.

We also plan to expand capacities of our Purovsky Gas Condensate Processing Plant, which is necessary to process growing volumes of de-ethanized gas condensate. Finalizing construction of gas condensate transshipment and fractionation complex at the port of Ust-Luga on the Baltic Sea will allow us to further enhance vertical integration of NOVATEK and diversify product mix and customer base for liquid hydrocarbons. Another strategic priority is to expand and diversify customer base for natural gas, which we plan to realize by increasing market penetration in the key natural gas consuming regions of Russia and building long-term relations with major industrial consumers.

We believe that the share of natural gas in the global energy balance will continue to increase as the world will move towards generating more environmentally friendly energy. This evolution requires development of the international gas market, including the LNG market. To become part of this process we consider construction of a gas liquefaction plant on the

reserve base of the South-Tambeyskoye gas condensate field located in the northeastern part of the Yamal Peninsula. Access to the international gas market will allow us to diversify our supplies of natural gas and to efficiently monetize our gas reserves in the Yamal Peninsula. As part of this project we have already worked on building housing for employees, communication infrastructure, runway for the airport, fuel depot and gas pipeline to Sabetta village which supplies gas for the heating and energy needs of the village. Construction of the LNG plant on the Yamal Peninsula will contribute to the social and economic development of the Russian Arctic due to building transportation infrastructure and creating new jobs. An integral part of the project is the usage of the Northern Sea Route, which is the shortest way to the fast growing markets of the Asia-Pacific region. NOVATEK was a pioneer in opening this route for high-tonnage commercial shipping, which created new opportunities for the whole Russian economy. During the five-month navigation period of 2011, we sent 9 tankers carrying approximately 600 thousand tons of gas condensate to the Asia-Pacific region.

We understand the importance of the Company's contribution to the development of the regions where we operate. According to our strong commitment to sustainable development principles we implement various social programs. Long-term cooperation with regional authorities and municipal administrations in YNAO allow us to efficiently identify the recipients of our social investments. In 2011, we invested approximately RR 135 mln in social and economic development of the regions.

Our social efforts also include the development and support of children and youth programs, such as Gifted Children, Grants and NOVATEK-VUZ. We are welcome the best graduates from the programs to work with the Company. We are committed to supporting social and cultural projects that we consider interesting and important. Among our friends and partners are Moscow Kremlin Museum, Tretyakov Gallery, Moscow House of Photography and the Museum of Modern Art.

Our future development involves a lot of construction work, including installation of many complex industrial facilities. When we work on engineering and design of any project, we give high priority to industrial and environmental

safety issues as well as to preserving traditional living environment of the indigenous peoples. We always discuss our plans with local communities. In 2011, we held public hearings in the town of Seyakh on the construction of infrastructure at the South-Tambeyskoye field, and in the town of Tarko-Sale we discussed the project for expansion of the Purovsky Plant capacities.

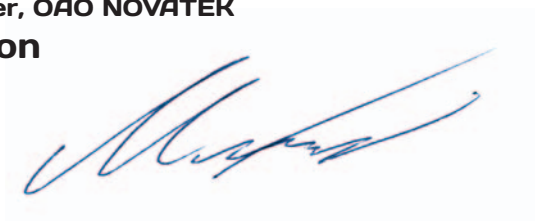
Our employees play the key role in implementing sustainable development principles. We strive to create safe working conditions and provide decent salaries and an additional benefits package for all of our employees. We continue to invest in educational and professional development programs for our specialists. We also highly recognize retired employees who have worked in the industry and the Company for many years and provide support for them through the NOVATEK-Veteran social protection fund.

We endeavor to provide our stakeholders with comprehensive information on the impact of the Company's activities on the economic development, environment and employees. We participate in the global Carbon Disclosure Project (CDP) aimed at maximum transparency on greenhouse gas emissions and the energy efficiency of production, as well as water usage (CDP Water Disclosure).

We believe that 2011 was a successful year for us, and that many interesting new challenges and projects lie ahead. We intend to remain committed to sustainable development principles and maintain an open and constructive dialog with all our stakeholders.

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







## 1. 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.**

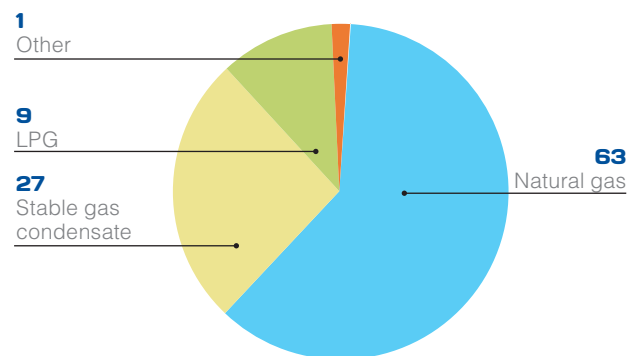
## Key Success Factors

- › Strong market positions: We are Russia's largest independent and second largest producer of natural gas;
- › A reliable foundation for organic growth based on substantial reserves: The Company is ranked among the top five public oil and gas companies in terms of proven natural gas reserves;
- › High standards of corporate governance and transparency;
- › Motivated and experienced managers and employees;
- › Focused development strategy;
- › Rational use of natural resources: efficient development of resources using state-of-the art exploration and production technologies to maximize hydrocarbon recovery;
- › Socially responsible business that benefits the regions where we operate and minimizes adverse environmental impact.

## Main Operational and Production Results for 2011

- › NOVATEK's share of the natural gas produced in Russia increased from 6% to 8%, providing more than 15% of total natural gas deliveries through the Unified Gas Supply System (UGSS) to the domestic market.
- › Total proven reserves of natural gas and liquid hydrocarbons increased by 16% or 1.3 billion barrels of oil equivalent (boe) according to SEC standards.
- › The Company's reserve to production ratio (R/P ratio) was 25 years, and its reserves replacement rate was 444%.
- › The Company's exploration and development costs at its fields and license areas were an industry leading RR 35.04 billion or RR 35.80 per boe (\$1.22 per boe)<sup>1</sup>.
- › Natural gas and liquids sales revenues increased by 52.5%<sup>2</sup>, and sales volumes increased by 44.6% and 20.9%, respectively.

Sales revenues in 2011, %



Gross hydrocarbon production

	2009	2010	2011
Total, mmmboe, including:	<b>240</b>	<b>278</b>	<b>385</b>
Natural gas, bcm	<b>32.8</b>	<b>37.8</b>	<b>53.5</b>
Liquid hydrocarbons, mmt	<b>3.0</b>	<b>3.6</b>	<b>4.1</b>

Processing volumes at the Purovsky Plant, mmt

	2009	2010	2011
Processed gas condensate:	<b>2.8</b>	<b>3.4</b>	<b>3.9</b>
Production output			
Stable gas condensate	<b>2.1</b>	<b>2.5</b>	<b>2.9</b>
Liquefied petroleum gas	<b>0.7</b>	<b>0.9</b>	<b>0.9</b>
Regenerated methanol <sup>3</sup>	<b>0.006</b>	<b>0.010</b>	<b>0.016</b>

<sup>1</sup> Average exchange rate of RR 29.39/ USD (\$)

<sup>2</sup> Net of VAT, excise tax and export duties

<sup>3</sup> Methanol is produced for own needs



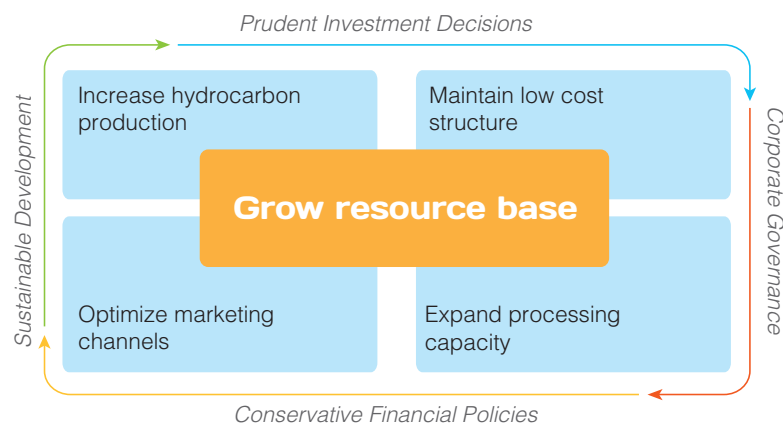
## **2. Economic Performance and Sustainability**

**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.**

## The Company's Corporate Strategy to 2020

NOVATEK's long-term strategy aims to develop a unified processing cycle and controlling the hydrocarbon value chain from exploration and production to processing and sales. In December 2011, in London, NOVATEK's Chairman of the Management Board, Leonid Mikhelson, and Chief Financial Officer, Mark Gyetvay presented the Company's new Corporate Strategy to 2020 covering all of its business lines.

The Strategy presentation is available on our website at : <http://www.novatek.ru/en/investors/strategy/>.



The Strategy received a favorable response from stakeholders representing investment companies, banks, funds, investors and analysts.

The audience was introduced to the prospects of the Yamal LNG project, the Company's international operations, its positions on the domestic gas market, forecasts of government policy in relation to liberalization of the Russian gas market and many other issues.

The Company intends to increase its resource base and manage reserves effectively, while maintaining its low cost structure. We also intend to increase the return on sales of recovered hydrocarbons through optimizing our marketing channels.

The Company plans to double gas production by 2020. To achieve this, we will use the potential of the Yurkharovskoye field and SeverEnergiya's fields, where NOVATEK is a shareholder, along with new projects on the Yamal Peninsula (South-Tambeyskoye field) and the Gydan Peninsula (Salmanovskoye (Utrenneye) and Geofizicheskoye fields) and other projects.

### Project Implementation Timeline





The Strategy assumes that increased gas consumption in the next ten years will be largely achieved through development of LNG projects. To achieve this objective, NOVATEK is implementing the Yamal LNG Project focused mainly on growing demand of countries in the Asia-Pacific Region (APR).

Entering new markets and reaching new consumers will be accompanied by the related sectors growth. The LNG project expands transportation infrastructure: the government is investing substantially in construction of the port of Sabetta, which will become a major transportation hub for LNG in the future. LNG will be delivered from the port from July through November to APR countries via the Bering Strait, and westward via the Atlantic Ocean from December through June. Using the Northern Sea Route as a main transportation artery will provide incentives to modernize the Arctic fleet, including the construction of new generation icebreakers and ice class gas carriers.

The Company's capitalization reflects how markets perceive and rate its results and development prospects. In 2010, NOVATEK was included in the world 50 largest companies by market capitalization in the energy sector rating compiled annually by PFC Energy, a major FEC consulting company. Based on 2011 year-end results, the Company strengthened its positions and moved from 39<sup>th</sup> to 31<sup>st</sup> place.

**NOVATEK's share of the natural gas produced in Russia increased from 6% to 8% in 2011.**

## Hydrocarbon Exploration and Production

In 2011, we acquired four new license areas for exploration and production in the YNAO: Geofizicheskiy, Salmanovskiy (Utrenniy), North-Obskiy and East-Tambeyskiy which are strategic in terms of reserves of hydrocarbons. In the medium-term outlook, we plan to launch 10 new fields.

NOVATEK continues to develop its reserves efficiently and achieve maximum hydrocarbon recovery. In 2011, hydrocarbons were produced at seven fields and license areas. The Company completed construction and launch of 12 development wells, tie-in and construction of gas gathering systems at the Yurkharovskoye field, the Company's main production area.

Total proved reserves of natural gas and liquid hydrocarbons increased by 16% or 1.305 billion boe in 2011 according to SEC standards. The Company halved its exploration and development costs at its fields and license areas to an industry leading RR 35.80 per boe (\$1.22 per boe) compared to RR 73.16 or \$2.41, respectively, in 2010.

### 2011 Achievements:

*The Company's reserves replacement rate was 444%, and its reserve to production ratio was 25 years.*

*The Company's total gas production increased by 41.5% in 2011 over the previous year to a record 53.5 bcm, exceeding production in Mexico and India, which are the world's 15th and 16th largest gas producers, respectively. Liquids production increased by 13.5%.*

## Processing, Transportation and Sale of Hydrocarbons

### Processing

Unstable gas condensate produced in conjunction with natural gas is processed at the Purovsky Plant, which has sufficient capacity to meet the Company's current needs.

In the short-term outlook, condensate from the Purovsky Plant will be delivered by rail to the stable gas condensate fractionation unit and terminal facility in Ust-Luga (Leningrad Region). The condensate will be processed into light and heavy naphtha, aviation kerosine, diesel and heating oil.

The project reached the active construction phase in 2011. Our subsidiary OOO NOVATEK-Ust-Luga, the facility's operation, held tenders for work, services and equipment delivery. The contractors built foundations for the tanks and pilings for the loading platforms. Design capacity of the Ust-Luga facility is 6 mmt per year. It is planned to complete the construction of the facilities of the first stage, designed to process 3 mmt of feedstock per year, till the end of 2012. The launch of the first phase is planned in 2013.

### Transportation

All companies operating in Russia and involved in the production and wholesale trading of natural gas transport their gas through the UGSS owned and managed by OAO Gazprom. As an independent natural gas producer we use the UGSS to transport natural gas to end-customers at rates set by the Federal Tariff Service.

Stable gas condensate and liquefied petroleum gas (LPG) from the Purovsky Plant is delivered by rail to Russian customers and by marine transport for export via the port of Vitino.

In 2011, due to increasing capacity at the Purovsky Plant and the resulting increased output, NOVATEK and OAO Russian Railways (Russian Railways) agreed to coordinate activities to increase the capacity of railway infrastructure to guarantee transportation of NOVATEK's products.

Cooperation with Russian Railways is extremely important, since production and shipment of liquids by rail is expected to significantly increase by 2020. However, existing capacity limitations on some railroad sections are preventing an increase in condensate shipment and are a constraint on natural gas production.

NOVATEK is actively involved in the social and economic development of the Russian Arctic and opening the Northern Sea Route (NSR). In 2011, NOVATEK signed an agreement with the Russian Federation's Atomflot for strategic cooperation on hydrocarbon transportation from the Yamal Peninsula along the NSR.

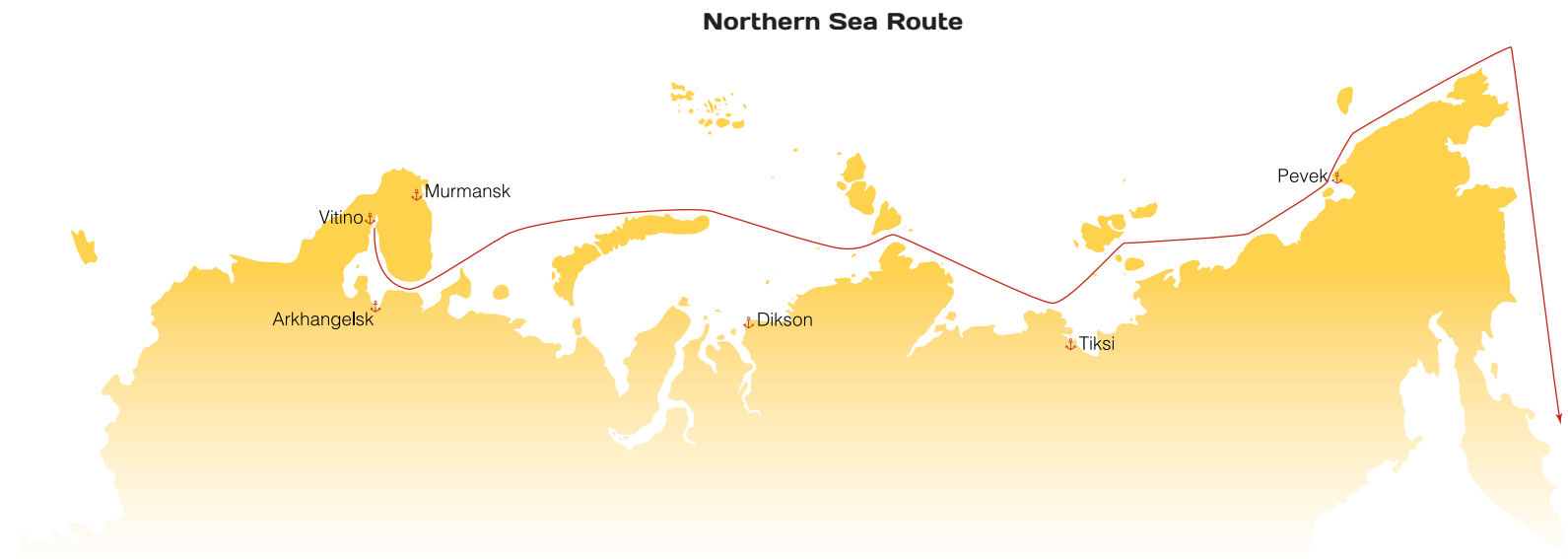
The agreement covers:

- › joint development of plans and organizing safe transportation of goods for NOVATEK's field facilities on the Yamal Peninsula;
- › organizing marine transport of LNG from the Yamal LNG project using the services of Atomflot's nuclear-powered icebreakers;
- › organizing an icebreaker escort for ships carrying the Company's stable gas condensate along the NSR from the port of Vitino to ports in APR countries in 2011.

The 2011 navigation season was the longest on record, and the Northern Sea route became a reality for high-tonnage commercial shipping. The largest-ever tanker navigated the NSR and its passage time was cut almost in half. During the five-month navigation period in 2011, NOVATEK sent 9 tankers carrying approximately 600 thousand tons of gas condensate from the Purovsky Plant to APR countries with icebreaker support of Atomflot. The shorter transit times on the NSR substantially reduce freight costs. In addition, reduced fuel consumption by marine engines is significant environmental advantage. The Company expects to transport 15 mmt of LNG and 1 mmt of condensate annually after the Yamal LNG plant reaches design capacity, including via the NSR.

**NOVATEK is actively involved in the social and economic development of the Russian Arctic and opening the Northern Sea Route**

During the five-month navigation period in 2011, NOVATEK sent 9 tankers carrying approximately 600 thousand tons of gas condensate from the Purovsky Plant to APR countries with icebreaker support of Atomflot.



Development of the Arctic region as a whole and reviving the Northern Sea Route as an international transportation route are priorities for the Russian Government. Company representatives participated in a Security Council meeting on the prospects of Arctic development held in Naryan-Mar in August 2011 and an international conference aboard the icebreaker Yamal, where commercial projects and initiatives associated with operation of the NSR were discussed.

### Marketing and Sales

In 2011, NOVATEK supplied natural gas to 33 regions of the Russian Federation. Key regions for natural gas sales were Perm, Chelyabinsk, Orenburg, Sverdlovsk, Moscow, Kostroma, Kirov and Tyumen regions, the city of St. Petersburg, and the Yamal-Nenets and Khanty-Mansi Autonomous Regions.

In 2011, NOVATEK's share of total natural gas deliveries through the Unified Gas Supply System (UGSS) to the domestic market was 15% compared with 10.5% in 2010.

The Company pays close attention to gas market demand in determining the pace of development and is focused on concluding long-term contracts with customers. The Company believes that the global power industry will move towards generating more environmentally friendly energy; therefore, the world gas market will grow, including LNG. However, NOVATEK's marketing policy does not rely only on large commercial customers, but also on strengthening the Company's positions on regional markets, including socially significant customers. In 2011, NOVATEK became the main gas supplier for Chelyabinsk Region (for more details, see the section "Contribution to regional economic development").

The Company is planning further expansion of the sales market, which includes increasing its presence in Russian regions, particularly Moscow Region. The Company gives equal priority to strengthening its positions on international markets, including assistance in developing transportation infrastructure and facilitating export to APR countries where the market for LNG is growing.

NOVATEK's entry onto the retail LPG and oil product sales market began with the launch of gas refuelling and gas stations in Chelyabinsk Region. Our wholly owned subsidiary, OOO NOVATEK-AZK is responsible for domestic market sales.

Replacing gasoline with gas is cost effective for drivers and significantly reduces atmospheric pollutant emissions. This promising line of business is confirmed by global experience. By making direct deliveries of gas fuel to filling stations, we guarantee the quality of our products and on-time delivery to customers. Since 2011, the Company has moved beyond Chelyabinsk Region and started to develop a gas station chain in Volgograd and Rostov Regions.

#### **2011 Achievements:**

*In 2011, due to increasing hydrocarbons production, the Company's sales of natural gas and liquids increased by 44.6% and 20.9%, respectively, as compared to 2010. High operating results also had an effect on financial results. Oil and gas sales revenue in 2011 increased by 52.5%\* (32.5% in 2010), mainly due to increased hydrocarbon production and sales, along with increased prices.*

*In 2011, the Company was a winner in the competition in the Best Exporter category held by the Federal Customs Service. The Federal Customs Service holds the competition annually among Russia's largest companies involved in foreign economic activities. The main criteria for deciding on the winners was volume of foreign trade turnover, amount of customs payments and dues to the federal budget for the year, and no violations of customs laws.*

\* Net of VAT, excise tax and export duties

## Created and distributed economic value

Created and distributed economic value, million RR*	2009	2010	2011
Sales revenues**	<b>90,007</b>	<b>117,165</b>	<b>176,271</b>
Operating costs**	<b>35,156</b>	<b>44,492</b>	<b>61,294</b>
Salaries and other benefits for employees	<b>5,297</b>	<b>6,446</b>	<b>7,603</b>
Payments to financial services providers	<b>9,431</b>	<b>12,047</b>	<b>20,588</b>
Taxes allocated to budgets by country (all taxes and mandatory payments), including:	<b>13,938</b>	<b>19,482</b>	<b>30,024</b>
Taxes, except profit tax, by country:	<b>8,042</b>	<b>10,077</b>	<b>17,557</b>
<i>Russia</i>	<b>8,024</b>	<b>9,573</b>	<b>16,554</b>
<i>Other</i>	<b>18</b>	<b>504</b>	<b>1,003</b>
Profit tax by country:	<b>5,896</b>	<b>9,405</b>	<b>12,467</b>
<i>Russia</i>	<b>5,806</b>	<b>9,286</b>	<b>12,364</b>
<i>Other</i>	<b>90</b>	<b>119</b>	<b>103</b>

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

### 2011 Achievements:

*Profits attributable to NOVATEK's shareholders increased by 195.2% to RR 119,655 million, or RR 39.45 per share, compared with RR 40,533 million, or RR 13.37 per share in 2010 as a result of increased sales revenues, a decrease in cost ratio, and recognizing gains from retirement of 20% equity interest in OAO Yamal LNG. Adjusted profit to OAO NOVATEK's shareholders net of gain from retirement of the equity interest in 2011 increased by 44.6% to RR 56,707 million compared with RR 39,204 in 2010.*

\*\* Reclassifications with no effect on profit for the period or equity.



## Corporate Governance

NOVATEK is fully committed to the principles of honest and ethical behavior throughout all of its business operations, and supports and promotes these guiding business principles through timely and high level transparent financial reporting, open and frank dialogue with stakeholders and adherence to globally accepted best practices.

NOVATEK has implemented a number of corporate documents in accordance with the requirements of the financial and commodity markets.

In 2011, the Company approved its Code of Business Conduct and Ethics which 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. In 2011, the Company also approved its Regulations on the procedure of access to NOVATEK's insider information, protecting its confidentiality, disclosure and control over its

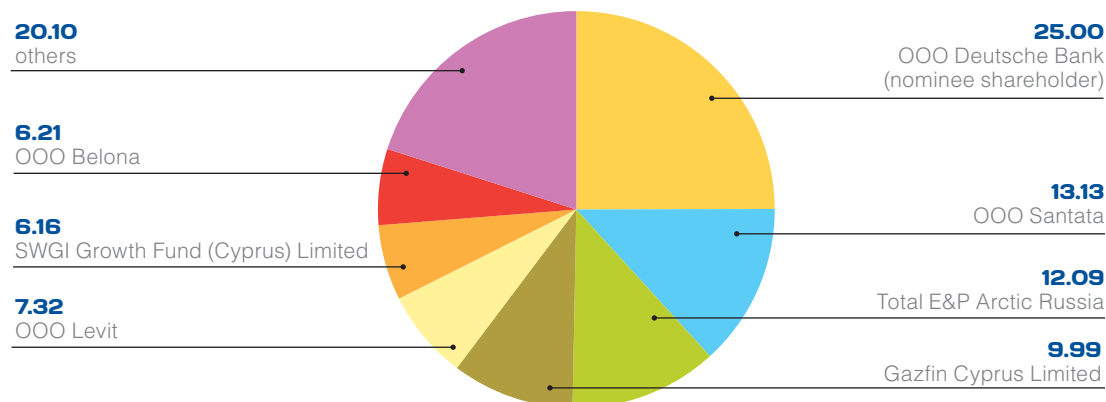
unlawful use. The approved documents are available on our website at <http://www.novatek.ru/en/about/management/regulatory/>.

During the reporting period, the Board of Directors was comprised of nine persons including six independent directors according to the Russian Federal Law on Joint-Stock Companies.

The structure of corporate governance bodies and the functions they perform has not changed in the reporting period. The Company's Corporate governance structure and current membership in governance bodies can be found on our website at <http://www.novatek.ru/en/about/management/transparency/>.

Total dividends accrued for 2010 amounted to RR 12.1 billion, and in 2011 increased to RR 18.2 billion. Total dividend payments for 2011, including the interim dividends paid for first half of 2011, amounted to RR 6.0 per ordinary share or RR 60.0 per GDR.

Share Capital Structure as of 31 December 2011, %





### **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 Protection

### Environmental Protection Management

The Company bases its operations on the principle of reasonable consumption of natural resources. NOVATEK's Integrated Management System for Environmental Protection, Occupational Health and Safety (IMS) is the primary tool for managing sustainable development. The structure and operating principles of the system are presented in more detail in our Sustainability Report for the period of 2008-2009.

The Integrated Management System meets all the requirements of international standards, and has been implemented in nearly all of the Company's facilities. In 2011, OOO NOVATEK-Transervice was certified for compliance with the requirements of ISO 14001:2004 and OHSAS 18001:2007 international standards. Implementation of the IMS is underway at OAO Sibneftegas, OAO Yamal LNG and ZAO Terneftegas.

A number of our subsidiaries have successfully passed recertification (OOO NOVATEK-Purovsky ZPK, OAO NOVATEK) and a surveillance audit (OOO NOVATEK-Yurkharovneftegas, OOO NOVATEK-Tarkosaleneftegas).

After improvements to the IMS, OOO NOVATEK-Purovsky ZPK announced that certification scope will be expanded for capital construction, revamping and overhauling facilities. The audit results showed that the management system was in full compliance with the standard. The auditors recommended the management system for recertification based on the expanded scope. OAO NOVATEK continues to maintain the IMS in compliance with the standards. The audit for compliance with the requirements of ISO 14001:2004 and OHSAS 18001:2007 showed that the following.

- › The structure and scope of the Company's IMS documents comply with the requirements.

- › The Company was effectively maintaining and improving the IMS.
- › The Company had set and was pursuing environmental protection, occupational health and safety goals and monitoring the achievement of these goals.
- › The Company was making effective use of the internal audit procedure and analyzing recommendations for continuously improving the results of the IMS.

### Implementation of the Environmental Policy

All of the Company's subdivisions and subsidiaries are committed to preventing or decreasing any adverse environmental and human impact of their operations. They are guided by the principles set out in OAO NOVATEK's Environmental, Health and Safety Policy published on NOVATEK's website at: <http://www.novatek.ru/en/development/environment/>.

The Policy is based on unconditional compliance with environmental laws, fulfillment of the terms and conditions of license agreements and rational resource management.

The scope of the Company's environmental performance has increased significantly in recent years due to growing exploration, development of new fields, and construction of crude hydrocarbon processing and transportation facilities.

We realize that environmental safety demands a comprehensive approach to environmental activities at all levels. In accordance with the Corporate Strategy to 2020<sup>1</sup>, the Company plans to double gas production and triple liquid hydrocarbon production. It is planned to expand the processing capacity of the Purovsky Plant, and to build of facilities at the port of

<sup>1</sup> The Strategy presentation is available on our website at <http://www.novatek.ru/en/investors/strategy/>

*The Company recognizes that its natural gas and liquid hydrocarbon exploration, production, transportation and processing operations represent a potential hazard for the environment, employees and residents of regions where the Company operates and endeavors to minimize these risks and prevent any adverse environmental impact.*

**ОАО NOVATEK's Code of Business Conduct and Ethics<sup>2</sup>**

Ust-Luga on the Baltic Sea, an LNG plant and the port of Sabetta on the Yamal Peninsula. Increased output and the complexity of the transportation system for end products will also increase environmental risks, which will make the challenges facing environmental departments more complex. There are plans to review ОАО NOVATEK's Environmental, Health and Safety Policy in 2012 and update it with consideration of new realities.

### Environmental Monitoring and Industrial Control

Major projects implemented by NOVATEK require environmental departments to continuously monitor production facilities and analyze the environmental impact of industrial operations and implement environmental protection measures in order to reduce the negative impact on the natural environment.

Monitoring involves systematic analysis of the soil, air, snow cover, bottom sediments, and surface and underground water. Subsidiaries use their own chemical analysis laboratories or the services of specialized companies for this purpose. The environmental situation in the areas of the Company's business activities is not changed as compared to 2010 and is satisfactory as a whole.

#### ООО NOVATEK-TARKOSALENEFTEGAS

Comprehensive environmental monitoring covers the East-Tarkosalinskoye and Khancheyskoye fields and the Olimpiyskiy, Sredniy Chaselskiy, Severo-Russkiy, Pilyalkinskiy, North Khancheyskiy and Zapadno-Tazovski license areas.

The soil, snow cover, surface water and bottom sediments were analyzed in 2011 during monitoring on the basis of laboratory tests and visual observations.

Overall, components of the environment in all license areas are in relatively safe condition. Monitoring stations within the impact zones recorded primarily baseline indicators or weak natural deviations, often of uncertain origin, which require further testing at subsequent monitoring stages.

#### ООО NOVATEK-YURKHAROVNEFTEGAS

Environmental monitoring on the Yurkharovskiy, New Yurkharovskiy, Raduzhnoye and Zapadno-Urengoiskiy license areas and in the export pipeline corridor and gas pipeline looping corridor continued in the reporting period according to the approved environmental monitoring programs.

Monitoring results showed the condition of the environmental components was typically stable and safe in technogenic impact zones. Baseline indicators

<sup>2</sup> The Code is available on our website at <http://www.novatek.ru/en/about/management/regulatory/>

or weak natural deviations in soil, surface water and bottom sediments were recorded throughout the entire period of observations at monitoring stations from 2004 to 2011, inclusive. No excesses of maximum permissible concentrations and approximate permissible concentrations of heavy metals and petroleum products were recorded in the entire observation period.

#### ОАО Yamal LNG

Environmental monitoring results for the South Tambeyskoye gas condensate field in Yamal-Nenets Autonomous Region (YNAO) show no significant technogenic load.

The following were determined during environmental monitoring at the field:

- › the atmospheric pollution level was insignificant, and the content of all indicators was below the established maximum permissible concentrations;

- › the soil in the area had concentrations of heavy metals below the background concentration;
- › benzo[a]pyrene concentrations in the soil were below the minimum threshold petroleum product concentrations were low and were typically baseline values in most samples;
- › river and lake water near operating wells was clean according to calculations of the pollution index.

Technogenic impact was most noticeable during visual observations near the Sabetta settlement.

An assessment of the baseline environmental conditions at facilities of ZAO Terneftegas and ООО NOVATEK-Purovsky ZPK showed no significant deviations; and the concentration of atmospheric pollutants did not exceed maximum permissible concentrations, and there was no pollution of the water-bearing horizon near the waste disposal site.

*A workshop on issues of environmental protection and reasonable consumption of natural resources was held in NOVATEK's Moscow office with representatives of the environmental departments of ten of the Company's subsidiaries.*

*The Company's ecologists shared their work experience, discussed the current professional challenges, summarized the results of the past year, and discussed the application of new regulatory documents and new risks associated with the environmental aspects of industrial operations.*



## Environmental Impact Assessment

In accordance with current legislation, major new projects cannot be developed without assessing the potential environmental, economic and social risks during construction and subsequent operation. The Company makes every effort to consider all future facilities' impacts on local environment and population. During an environmental appraisal, possible impacts, including negative ones, are identified, their consequences are assessed, and measures are developed to reduce or prevent them. Public engagement is also sought. Public hearings are organized to inform the communities and gather their suggestions and comments.

In February 2011, public hearings were held in the Vitino settlement of Kingisepp Municipal District, Leningrad Region, to discuss the environmental impact assessment of the business operations of OOO NOVATEK-Ust-Luga (construction and operation of a Terminal Facility for transshipment and fractionation of stable gas condensate at the port of Ust-Luga). The participants were mainly interested in employment issues. The municipal government recognized the hearings to be valid.

In September 2011, public hearings on the development and infrastructure of the South Tambeyskoye gas condensate field were held in Seyakha. Government officials and representatives of contracting companies, non-governmental organizations and the local communities took part in the event. Final report included the participants' suggestions and comments. Controversial issues were later examined at a working meeting of the district administration, where the results of the public hearings were summarized.

In December 2011, public hearings on the construction project for the third phase of the Purovsky Condensate Processing Plant were held by OOO NOVATEK-Purovsky ZPK in Tarko-Sale. The hearings were attended by local government officials of Purovsky District, representatives of the Purovsky branch of the Association of Northern Indigenous Peoples (the Yamal for Descendants Association) and other non-governmental organizations.

The social aspects of construction and startup of the new facilities were examined during the discussions, including jobs for the local population (especially young indigenous specialists), job quotas for people with disabilities,

and tax payments to the local budget. Many of the questions concerned the environmental impact of construction, for example, construction waste disposal were discussed.

All suggestions and comments made during the discussions were taken into consideration. Participants in the hearings confirmed that the new construction program would not conflict with current legislation, and implementation of the project would not have a negative environmental impact.

### Environmental Protection Training

In 2011, 44 employees underwent training to improve their qualifications in environmental protection, environmental safety and hazardous waste handling, compared to 36 employees in 2010.

The following training modules were included in the program:

	2010		2011	
	hours	persons	hours	persons
Environmental safety training for managers and environmental protection and control specialists (environmental protection and rational use of natural resources)	<b>200</b>	<b>3</b>	<b>200</b>	<b>2</b>
Environmental safety training for managers and general economic management system specialists (environmental protection and rational use of natural resources)	<b>72</b>	<b>3</b>	<b>72</b>	<b>5</b>
Professional training in hazardous waste handling	<b>112</b>	<b>30</b>	<b>112</b>	<b>8</b>
Internal audits of an integrated management system based on ISO 14001:2004 and OHSAS 18001:2007 standards			<b>32</b>	<b>20</b>
Environmental management and hydrocarbon production and handling facilities			<b>24</b>	<b>1</b>
Current issues of environmental regulation			<b>8 and 16</b>	<b>6</b>
Lead environmental management system auditor			<b>40</b>	<b>2</b>

The employees received the relevant certification after the training. The total cost of initial and advanced training for specialists in the above-mentioned programs was RR 561 thousand as compared to RR 431 thousand in 2010.

## Stakeholder Engagement

The Company participates in various international and Russian forums, conferences, seminars and workshops to discuss environmental problems. Company employees participate in expert boards under the executive and legislative branches of government and in the work of industry-specific and professional associations. NOVATEK also regularly provides statistical information on environmental impact, monitoring data and the audits results to government statistical and supervisory authorities. In addition, the Company publishes sustainability reports and participates in international projects aimed at disclosing data on greenhouse gas emissions and energy efficiency (Carbon Disclosure Project, CDP) and information on water use (CDP Water Disclosure).

Company employees participated in the following events in 2011:

- > “Rational Use of Associated Oil Gas” international research and applications conference “Energy Efficiency in the Fuel and Energy Sector” held in April 2011 in Salekhard, YNAO.
- > meeting of the working group for implementing the Comprehensive Plan to develop LNG production on the Yamal Peninsula formed in 2010 under the RF Ministry of Energy.
- > The Chairman of OAO NOVATEK’s Board of Directors is a member of the Expert Board under the Committee of the Federation Council for Natural Resources and Environmental Protection. In spring 2011, Company specialists took part in a conference on “The Use of Forest Lands in Subsoil Use” organized with the Committee’s participation and the support of the National Association for Subsoil Auditing and the magazine Subsoil Use in the 21st Century. They talked about NOVATEK’s practice of leasing forest lands for subsoil exploration and development of mineral resources in YNAO and a project to reclaim forests on forest lands leased for these purposes<sup>3</sup>.
- > NOVATEK representatives participated in an on-site workshop of the Committee of the Federation Council for Natural Resources and

Environmental Protection on “Reasonable Consumption of Natural Resources, Using the Example of YNAO” held in Salekhard.

- > A Company representative is a member of the Committee of the RF Chamber of Commerce and Industry for Energy Strategy and Development of the Fuel and Energy Sector. In the first half of 2011, the Committee and other oil and gas companies prepared joint proposals for legislation to introduce reduction factors for the mineral production tax depending on reserves and a field's quality characteristics. An extended session in round table format was held in December 2011 on the topic of "Strategic Issues of Developing the Oil and Gas Complexes of Eastern Siberia and the Far East at the Present Stage".
- > The deputy head of NOVATEK's Environmental, Health and Safety Department for reasonable consumption of natural resources is a member of the Committee of the RF Chamber of Commerce and Industry (CCI) for Natural Resource Use and the Environment. Company representatives were involved in organizing a CCI round table on the topic of "The Use of Forest Lands in Tundra Forests in the Development and Production of Hydrocarbon Fields in Russia".
- > NOVATEK participates in the Supervisory Council of the Russian Gas Society. In 2011, the Council specifically examined proposals for using a differentiated approach to the mineral production tax rate in the gas industry .
- > In 2011, NOVATEK joined the ranks of leaders in the monthly rating of information transparency of Russian companies in the fuel and energy sector published by the Agency of Political and Economic Communications, whose members include major Russian companies in this sector.
- > In December 2011, the Chief Executive Officer of OAO NOVATEK, Leonid Mikhelson, and Chief Financial Officer, Mark Gyetvay held a webcast and conference call on NOVATEK's Strategy to 2020. Information on the webcast/conference call is available on NOVATEK's website at <http://www.novatek.ru/en/investors/strategy/>.
- > OAO NOVATEK's Hydrocarbon Processing Strategy was presented at the Gas Chemistry 2011 II International Conference.

## Energy Efficiency

### Energy Efficiency Management

According to Federal Law No. 261-FZ dated 23 November 2009, "On Energy Saving and Increasing Energy Efficiency", at the end of 2011, following energy audits the energy performance certificates were prepared for our subsidiaries – OOO NOVATEK-Yurkharovneftegas, OOO NOVATEK-Tarkosaleneftegas, OOO NOVATEK-Purovsky ZPK, OOO NOVATEK-Transervice and OAO Sibneftegas. Fuel and energy conservation measures for 2012-2016 were developed for inclusion in NOVATEK's Energy Saving Program. Approval of NOVATEK's Energy Saving Program for 2012-2016 is expected in the 1st half of 2012.

In 2011, the Company used 228,868.3 MWh of electric power. The energy intensity of production facilities decreased by 12.9% to 594 kWh per thousand boe as compared to 682 kWh in 2010, while gross production in 2011 increased by 38.5% from 278 million boe to 385 million boe.

The increased power consumption is due to increased capacity of facilities, infrastructure, and the startup of new production and processing facilities.

In 2012, we are planning to launch a pilot version of an automated electrical energy control and management system at OOO NOVATEK-Purovsky ZPK, OOO NOVATEK-Tarkosaleneftegas and OOO NOVATEK-Yurkharovneftegas. The system will allow real-time control of primary processes in terms of compliance with specific fuel and energy consumption norms, as well as to forecast power consumption for planned output. This is important for ordering power online on the Federal Wholesale Electric Power Market. This system is expected to reduce electricity costs.

In December 2011, the Company's power engineers and the power supply organization OOO NovaEnergio discussed compliance with Federal Law No. 261-FZ "On Energy Saving and Increasing Energy Efficiency", reviewed the

*Based on results for 2011, OOO NOVATEK-Purovsky ZPK was a winner in the "Best Industrial Power User" category for the second time in a row at the annual regional Golden Support contest organized by the Tyumen Power Supply Company. Performance in improving power metering systems, implementation of energy saving measures and fulfillment of obligations for pay for supplied power in good faith are assessed during the contest. Settlements with the power supplier in 2011 were made with the support of an automated power metering system.*

year-end performance of their companies' energy departments and outlined an action program for the following year. The planned measures include setting up a 24-hour operating department at NovaEnergy to operate all of

NOVATEK's power generating facilities. Development of an energy saving program and measures to increase the reliability and stability of electric power systems is scheduled for 2012.

### Energy resource consumption

Energy sources	2010		2011	
	Volume	Thousands of Russian roubles, net of VAT	Volume	Thousands of Russian roubles, net of VAT
Natural gas, mcm	<b>229,432.56</b>	<b>241,662.75</b>	<b>465,740.43</b>	<b>330,354.15</b>
Electricity, MWh	<b>189,608.00</b>	<b>559,192.93</b>	<b>228,868.28</b>	<b>707,196.15</b>
Heating energy, Gcal	<b>236,963.66</b>	<b>139,972.53</b>	<b>237,139.52</b>	<b>175,441.20</b>
Fuel resources, tons	<b>19,235.27</b>	<b>91,503.32</b>	<b>4,750.26</b>	<b>93,508.47</b>

#### New Office Building

*NOVATEK's new office building on Leninsky Prospect in Moscow was commissioned in 2011. This is one of the first buildings in Russia constructed with "green technologies" and complying with European standards for energy efficient design. The technologies make it possible to maintain optimum temperature and lighting in offices; e.g. "cold ceiling", double glazing, automatic sunblinds and special ventilation systems. Power savings result from the use of transparent glass with high light transmittance. Unlike buildings with the tinted windows that are most often installed in offices, the offices of the NOVATEK's building are bright even in cloudy weather and there is no need to turn on the lights during the day.*

## Use of Renewable Energy Sources

As it was mentioned in our previous Sustainability Report, in 2010, we launched a condensate pipeline connecting the Yurkharovskoye field to the Purovsky Plant. Fifty-one wind and solar power generation units were installed along the entire pipeline route. These alternative energy sources generate power that is used to operate the pipeline's remote control systems and valves.

As a result, the Company refused to build an expensive power transmission line to supply the facility, which reduced capital investments in the project.

In 2011, we installed additional four units on the pipeline from Samburgskoye field, which is connecting the above mentioned pipeline.

### Energy Saved as a Result of Energy Conservation and Improvements in Energy Efficiency

	Electric power		Heat energy		Fuel resources		Total savings
	MWh	GJ	Gcal	GJ	TFOE	GJ	GJ
2009	<b>9,875</b>	<b>35,550</b>	<b>3,988</b>	<b>16,708</b>	<b>1,803</b>	<b>53</b>	<b>52,311</b>
2010	<b>14,801</b>	<b>53,284</b>	<b>0</b>	<b>0</b>	<b>1,335</b>	<b>39</b>	<b>53,323</b>
2011	<b>0</b>	<b>0</b>	<b>13,267</b>	<b>55,591</b>	<b>2,034</b>	<b>60</b>	<b>55,651</b>



## Air Emissions

### Emission Rates and Composition

Due to a significant increase in hydrocarbon production in 2011, and the launch of new production facilities, atmospheric pollutant emissions from production subsidiaries increased by 2200 tons. However, overall volumes of emissions are still within permitted levels.

In 2011, emissions come mainly from stationary operating sources, which have increased by 402 units. All sources have been inventoried and are taken into consideration in current drafts maximum permissible emissions. Carbon monoxide, nitrogen oxides, hydrocarbons and solids predominate in the composition of emissions.

**Air Emission Sources, Composition and Volumes<sup>1</sup>**

		2009	2010	2011
Total emissions <sup>2</sup>	tons	<b>12 538.50</b>	<b>18 073.00</b>	<b>20265.00</b>
Stationary emission sources	units	<b>1 060</b>	<b>1 083</b>	<b>1485</b>
Permitted emissions	tons	<b>32 190.40</b>	<b>58 348.50</b>	<b>62494.58</b>
<i>Emission composition</i>				
Solids	tons	<b>1 072.60</b>	<b>2 790.20</b>	<b>2853.36</b>
Sulfur dioxide	tons	<b>2.4</b>	<b>3.4</b>	<b>6.6</b>
Carbon monoxide	tons	<b>7 671.90</b>	<b>10 711.70</b>	<b>9594.54</b>
Hydrocarbons (including methane)	tons	<b>1 573.40</b>	<b>2 072.20</b>	<b>5326.4</b>
VOC	tons	<b>467.8</b>	<b>563</b>	<b>812</b>
Methanol	tons	<b>75.6</b>	<b>71.6</b>	<b>128.7</b>
Methane	tons	<b>511.4</b>	<b>780.5</b>	<b>3793.15</b>
Nitrogen oxides	tons	<b>1 734.80</b>	<b>1 918.10</b>	<b>1638.15</b>
Ozone-depleting substances	tons	<b>0</b>	<b>0</b>	<b>0</b>

Gross emissions of nitric oxide and carbon monoxide decreased by 14.6% and 10.5%, respectively in 2011.

The increase in hydrocarbons emissions, particularly methane, is due to the launch of an unstable gas condensate de-ethanization unit and compressor station at OOO NOVATEK-Yurkharovneftegas (third stage facility of the second development phase at the Yurkharovskoye field). Emissions from these facilities made up nearly 90% of gross methane emissions.

## New Technical Solutions for Environmental Risk Mitigation

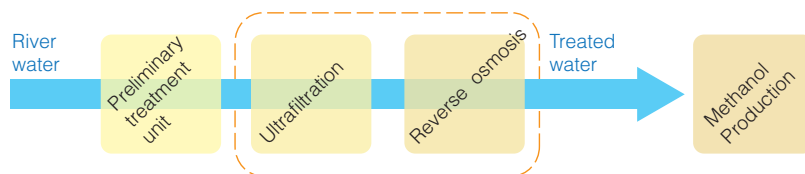
A small-scale methanol production unit is operating at the Yurkharovskoye field. Methanol is used to purify and dehydrate natural gas at low temperatures. Natural gas and steam obtained by heating water drawn from the river are the raw materials for methane production. The characteristics of river water are constantly changing due the impact of various natural factors. Thus, the water needs additional treatment to bring process water up to the required standards.

The multistage integrated water treatment system at the small-scale methanol production unit was successfully upgraded in 2011. The new system operates entirely in automatic mode and provides a high level of purification. At the same time, water treatment costs have been halved, and use of river water and process discharges have been reduced 1.5 times, which has also significantly improved environmental performance.

<sup>1</sup> CO<sub>2</sub> emissions are calculated separately since they are not considered pollutants under Russian classifications.

<sup>2</sup> According to Russian methods of calculating air emissions.

### Integrated water treatment system



### Rational Use of Associated Oil Gas

The Company has developed and approved a Program for Improving the Rational Use of Associated Oil Gas (AOG). As part of the Program, we launched a preliminary AOG gathering unit in the southern section of the East-Tarkosalinskoye field and a 1.8 km gas pipeline connecting it to the gas and condensate treatment. As a result, we were able to substantially increase the rational use of AOG in 2011.

When AOG is flared, soot, products of incomplete hydrocarbon combustion, carbon monoxide, sulfur dioxide and nitrogen oxides are released into the air. In 2011, the volume of pollutants emitted from AOG flaring was 2,600 tons. Implementing the Program reduced air pollutant emissions by 5,400 tons.

A lack of infrastructure for gathering, transporting and processing AOG is most often the main reason for wasting this product.

In 2011, OOO NOVATEK-Tarkosalenftegas started construction of a Central Gathering Facility (CGF), a booster compressor station and a pipeline to the gas and condensate processing plant at the East-Tarkosalinskoye field. Gathering and preparing crude oil for transportation is an important part of oil production. Oil is separated from water at the CGF and brought to marketable condition. Along with increasing production, the CGF will also help to bring use of associated oil gas to 95%.

The Company's rational use of AOG nearly quadrupled to 62.1% in 2011 compared with 2010.

## Climate Change

Conditions in the permafrost zone, where NOVATEK's subsidiaries operate, demand special attention to climate risks. Thawing of soils caused by rising temperatures may cause damage to transportation infrastructure, foundation instability and pipeline accidents and failures. The Company conducts regular cryological monitoring of soil conditions. Thus, field development projects include measures to prevent the thermal impact of facilities in the permafrost zone.

The company carries out regular monitoring of the geocryological soil since 2005. Therefore, field construction projects provides for prevention of thawing and degradation of the permafrost. In 2011 for the first time, monitoring was carried out by the Chief underground surveyor service. Analysis of the data is to be published in our next Report on sustainable development.

Greenhouse gas emission from the Company's performance are a significant factor in climate change. In 2011, greenhouse gas emissions decreased from 2.1 million tons to 1.9 million tons of CO<sub>2</sub> eq./year compared to 2010 due to the implementation of energy saving processes and compliance with established standards for methane emissions. A further reduction by 270 thousand tons of CO<sub>2</sub> eq./year has been achieved through rational use of AOG.

Greenhouse gas emissions are covered in detail in NOVATEK's report on its participation in the global Carbon Disclosure Project aimed at disclosing information on greenhouse gas emissions and the energy efficiency of production.

Converting vehicles to gas fuel will help reduce CO<sub>2</sub> emissions. NOVATEK is developing its own chain of gas filling stations (OOO NOVATEK-AZK). Using liquefied gas as engine fuel reduces the amount of harmful emissions. Reducing the impact of transportation on air in cities like Chelyabinsk, Zlotoust and Volgograd is the Company's contribution to the country's environmental future and "greening" vehicles in the regions. The number of gas filling stations increased from 30 to 42 in 2011.

A government technical inspection of the Company's fleet of 333 vehicles, including for compliance with requirements for air pollutant emissions, is performed annually. Each vehicle has a record card for registering the results of the inspection and measurements.

## Other Environmental Impacts

### Water Use and Wastewater

Water for industrial purposes is mainly taken from underground water sources, and water for the facilities of the Yurkharovskoye field and OAO Yamal LNG is supplied from surface water sources. Seventy-five percent of water is used for industrial purposes, and 25% for domestic/potable purposes.

The Company's current policy requires subsidiaries to use resources reasonably and introduce environmentally effective solutions for implementing investment projects. Since 2011, NOVATEK has been participating in the CDP Water Disclosure project for disclosing information on water use.

Metering devices are used to record the volume and quality of water withdrawn and discharged. Water intake for process water supply during construction of appraisal and exploration wells is metered by calculations based on pump flow rates. Water use increased slightly in 2011 due to increased production; however, the introduction of environmentally efficient technologies and reasonable consumption of natural resources have reduced specific water consumption by 12% compared to 2010.

Total water consumption in 2011 was 860 thousand cubic meters (mcm).

**Water consumption, mcm**

	2009	2010	2011
Water taken	<b>711.8</b>	<b>715.5</b>	<b>860.0</b>
Water used:	<b>711.8</b>	<b>715.5</b>	<b>860.0</b>
for domestic/potable purposes	<b>264.6</b>	<b>170.9</b>	<b>200.0</b>
for industrial purposes	<b>447.4</b>	<b>544.6</b>	<b>660.0</b>
Recycled water	<b>12.4</b>	<b>0.2<sup>1</sup></b>	<b>0.4</b>

<sup>1</sup> The decrease in recycled water volumes is due to the disposal of OOO NOVATEK-Polymer in 2010.

In accordance with license agreements and projects that have received a positive state expert review, wastewater is injected into underground intake formations after treatment or sent to gas flare units (GFU). The process of burning industrial waste at the GFU is not considered wastewater discharge, and the emissions generated are within draft maximum permissible amounts.

### Waste

In 2011, the amount of waste generated at the Company's facilities increased 10% compared with 2010 due to increased production. Waste generation slightly exceeded ratios at OOO NOVATEK-Yurkharovneftegas and OOO NOVATEK-Ust-Luga.

Specific waste generation decreased to 0.06 tons/thousand boe compared with 0.072 tons/thousand boe in 2010.

The composition of wastes did not change compared with 2010 as a whole. About 89% of the wastes were low-hazard. Amounts of wastes of hazard classes I and II were less than 0.04% and consisted mainly of mercury vapor lamps and mercury-containing fluorescent tubes. Forty-seven percent of low-hazard and nearly harmless wastes are sent to our own waste disposal sites. We have contracts with specialized waste disposal companies for 11.3% of the wastes.

The remaining wastes, including water separated from crude oil during treatment and condensate containing oil products, are used for our own needs and are injected into the reservoirs of the East-Tarkosalinskoye oil field to maintain formation pressure. Waste recycling increased 17.5% in 2011. The use of recycling has increased the volume of efficiently used wastes to 10 100 tons compared to 8600 tons in 2010.

A cuttings reprocessing plant constructed at the Yurkharovskoye gas condensate field has reduced solid waste requiring disposal by almost three times. The technologies used at the plant allow us to recycle water and drilling mud and process drilling cuttings for use as building material. In 2011, 10 500

tons of liquid cuttings were recycled, and 1400 cu. m of water and 2400 cu. m of oil-based drilling mud were obtained for reuse. Thus, 7400 tons of cuttings generated during well drilling undergo heat treatment and are low-hazard when disposed of at specialized sites.

The issue of recycling construction wastes was raised during public hearings on construction of the third phase of Purovsky plant. Members of the local community in particular were concerned that the nearby Tarko-Sale domestic waste disposal site would not be able to cope with the volume of construction waste generated at the Purovsky plant. The Company was also requested to tighten control over contractors with respect to recycling construction waste. Contracts concluded with contractors require strict compliance with environmental legislation. Specialists of NOVATEK's capital construction department are carrying out the appropriate monitoring, and a system of fines for violating environmental protection standards and regulations has been worked out.

### Land Rehabilitation

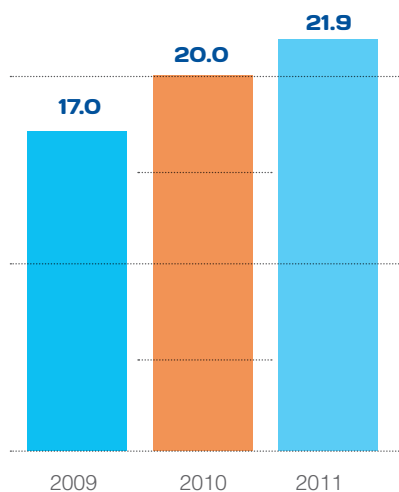
The Company carries out regular land rehabilitation in areas affected by its industrial activities. Technical and biological rehabilitation are carried out on disturbed land and forest areas.

A project to clean up and rehabilitate the shoreline of Tazovskaya Bay has been implemented at the Yurkharovskoye field. Advanced forest reclamation methods have been implemented to rehabilitate slurry ponds in tundra forests of the East-Tarkosalinskoye field.

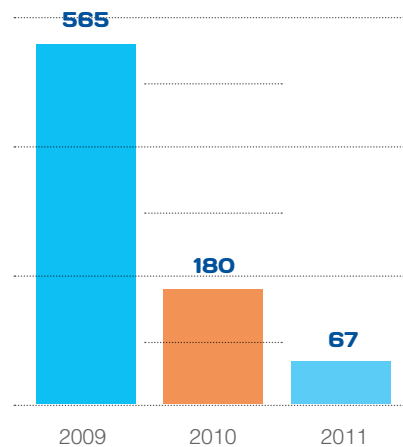
In 2011, 1,500 ha of disturbed lands were rehabilitated. Technical and biological rehabilitation is carried out at slurry ponds, quarries and land areas after field seismic surveys.

In 2011, after seismic surveys 3,200 ha we rehabilitated and turned over to the primary land user.

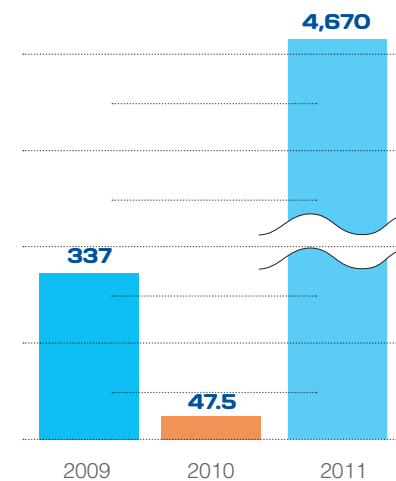
**Total waste amounts,  
thousand tons**



**Fines for violating environmental  
legislation, RR thousands**



**Rehabilitated lands, ha**



## Biodiversity Preservation

NOVATEK does not carry out operations on lands designated and specially protected nature conservation areas by Federal legislation and laws and other regulatory standards of the Russian Federation.

The Company also does not locate its facilities on internationally important wetlands, important bird areas or especially vulnerable marine areas and marine mammal protection zones, and does not have any significant impact on them.

In 2011, NOVATEK specialists took part in the 4th convention of the Expert Advisory Group for Preservation and Study of the Atlantic Walrus of the Southeastern Barents Sea and Adjacent Water Areas organized with the support of the WWF Russia. During the meeting, the possibility and advisability of engaging oil and gas companies in Atlantic walrus monitoring programs and minimizing the impact on them in the Gulf of Ob.

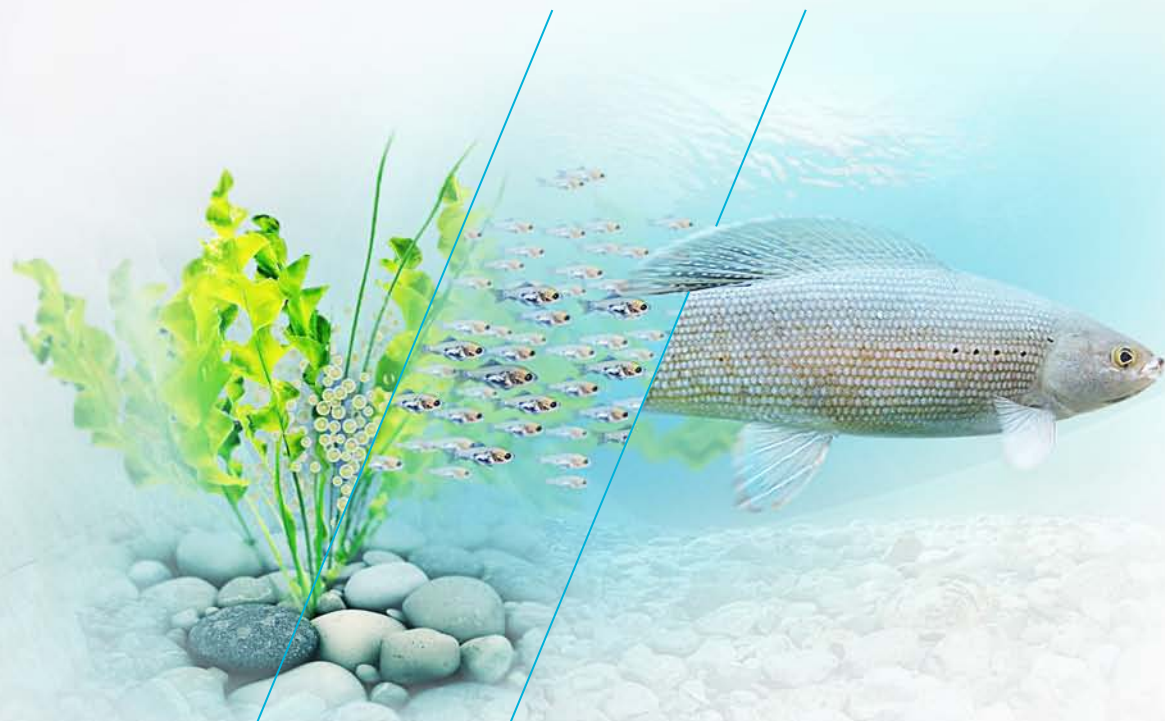
The ecosystems of the Far North and Subarctic are especially sensitive to external impact. Special rules are in effect near areas assigned to the highest fisheries category. The Company is committed to preserving biodiversity in these areas. We do not discharge industrial waste into water bodies, and we employ pitless well drilling methods to prevent potential soil, ground and surface water pollution.

In 2012, NOVATEK is planning to participate in funding construction of a fish farm in the settlement of Kharp, where young whitefish will be raised for replenishing and increasing fish stocks in the Ob River.

## Environmental Expenditures, RR thousands

	2009	2010	2011
Charges for negative environmental impact	<b>5,808</b>	<b>5,902</b>	<b>6,015</b>
Air protection measures	<b>3,033</b>	<b>1,461</b>	<b>2,719</b>
Water protection measures	<b>3,865</b>	<b>14,264</b>	<b>14,796</b>
Waste handling measures	<b>44,489</b>	<b>111,342</b>	<b>70,715</b>
Land rehabilitation costs (current)	<b>1,020</b>	<b>4,088</b>	<b>2,615</b>
Compensation payments	<b>17,545</b>	<b>5,894</b>	<b>323</b>
Environmental monitoring and environmental control costs	<b>15,452</b>	<b>30,174</b>	<b>49,478</b>
Environmental surveys and state expert reviews (current)	<b>0</b>	<b>708</b>	<b>170</b>
Land rehabilitation costs (capital)	<b>8,497</b>	<b>40,879</b>	<b>57,392</b>
Construction of environmental protection facilities	<b>8,297</b>	<b>2,330</b>	<b>70,204</b>
Purchase of environmental protection equipment	<b>204</b>	<b>1,177</b>	<b>935</b>
Baseline assessment costs	<b>0</b>	<b>3,777</b>	<b>160</b>
Environmental surveys and state expert reviews (capital)	<b>0</b>	<b>936</b>	<b>1,820</b>
Other Costs	<b>3,581</b>	<b>3,326</b>	<b>26,611</b>
<b>Total Costs</b>	<b>111,791</b>	<b>226,258</b>	<b>303,953</b>





## 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

Occupational health and safety (OHS) goals and tasks are set out in OAO NOVATEK's Environmental, Health and Safety Policy adopted in 2005 and published on the website at [http://www.novatek.ru/common/upload/80\\_78.pdf](http://www.novatek.ru/common/upload/80_78.pdf) (in Russian). We have introduced them in detail in previous reports, specifically in the same section in our Sustainability Report for 2010, and there were no significant changes in 2011.

## Occupational Safety

In 2011, the Company completed the following occupational safety tasks:

- > improved administrative and operational control measures;
- > upgraded employees' qualifications.

All measures planned within the OHS program's approved budgets were implemented, including: the purchase of personal protective equipment (PPE), training employees, senior managers and OHS specialists, occupational safety certification of workplaces and industrial safety certification of employees. More than RR 120 million was allocated for these goals.

Some of the measures were financed to conform with the requirements of legislative acts and regulations, including the provision of PPE, including

special clothes, footwear and washing agents and detergents. Employees working in harmful and hazardous production facilities are supplied with milk and other benefits. In 2011, we also financed measures to improve working conditions, including social and living ones.

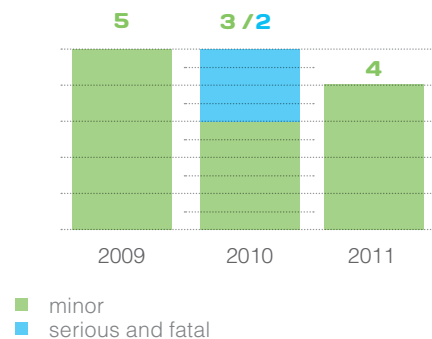
## Protective Clothing

The Company operates production facilities that are not only classified as hazardous, but are also located in areas with extreme environmental conditions and remote access. As a result, the provision of protective clothing and PPE is especially important. High-quality protective clothing increases occupational safety and thus reduces the number of work stoppages due to injuries and occupational diseases.

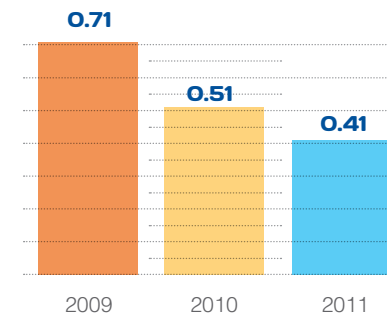
The list of mandatory PPE was expanded after the introduction of new Standard Guidelines for Free Issue of Protective Clothing, Special Footwear and other Personal Protective Equipment to Oil and Gas Industry Employees Working in Harmful and (or) Hazardous Conditions, in Special Temperature or Pollution-Related Conditions<sup>1</sup>.

The requirements for protective clothing started to be unified at subsidiaries in the previous reporting period. The shift to new models of protective clothing

**Number of Accidents**



**Accident Frequency Rate**  
(number of accidents/million working hours)



<sup>1</sup> The order of the Ministry of health and social development of the Russian Federation #970H dated 09.12.2009.

meeting corporate style requirements continued. We also tested trial samples of clothing, special footwear and other PPE. Technical specifications (TS) for manufacturing protective clothing were developed in 2011. The TS were sent to subsidiaries for inclusion in supply contracts. NOVATEK-Tarkosaleftegas signed a supply contract for clothing offering protection against the thermal effects of electric arcs and fire fighting gear for fire fighters. Employees will be provided with protective clothing in the new corporate style starting in 2012. Final completion of the corporate standard for PPE has been postponed until 2013.

### Employee Engagement

The Company's OHS commitments are a subject of negotiations between management of our subsidiaries' labor unions and employees. NOVATEK ensures that employees are provided with personal and collective protective equipment and indemnification against harm caused to an employee by occupational diseases or other health problems related to their performance of professional duties and other OHS factors. These obligations are secured in the respective sections of collective agreements (for more details, see the section on "Collective Agreements and Employee Engagement").

Joint OHS committees, composed of management and engineers on an equal basis, have been set up at subsidiaries. Committees monitor working conditions and OHS, study the causes of injuries and analyze implemented measures. OHS departments poll employees at least once a year on various aspects. The poll results may be used, for example, to modify the conditions for providing free milk or protective clothing.

Before the employees are allowed to work independently at a hazardous production facility, they undergo practical training under the supervision of a more experienced employee.

### Administrative and Operational Control

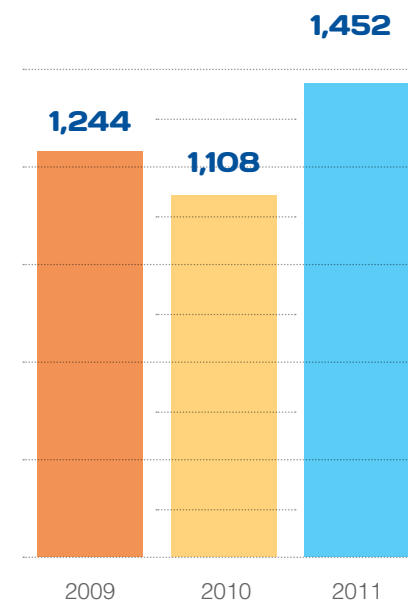
We certify workplaces in order to monitor working conditions and the impact of occupational hazards on the health and safety of employees at subsidiaries. Based on the certification results, each subsidiary develops action plans to improve and enhance working conditions.

In 2011, we fulfilled our workplace certification plans in their entirety. We certified 1,452 workplaces, or one-third more than in the previous year. No workplaces with unacceptable working conditions were identified.

Supervisory committees have been set up at subsidiaries to carry out internal audits of working conditions to determine compliance with work safety standards and regulations. In 2011, 202 internal audits were carried out to identify shortcomings in health and safety practices. There were identified 2,222 violations, including 55 ones by the Federal Service for Environmental, Technological and Nuclear Supervision (Rostekhnadzor). During validation of 141 contractors, there were identified 895 violations. Inspection reports were sent to the contractors to make them take remedial action.

In 2011, our subsidiaries were challenged to increase control over compliance with OHS requirements by each employee, and to develop and implement violation prevention and liability measures. By order, each subsidiary has set up standing occupational safety supervisory committees to accomplish those

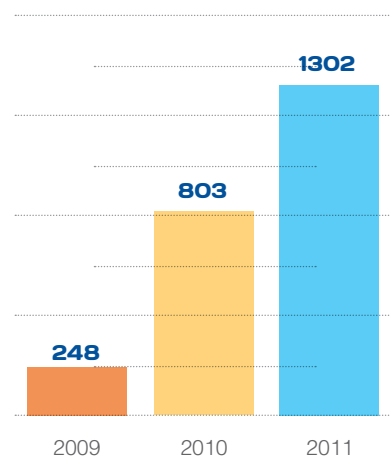
**Number of Certified Workplaces**



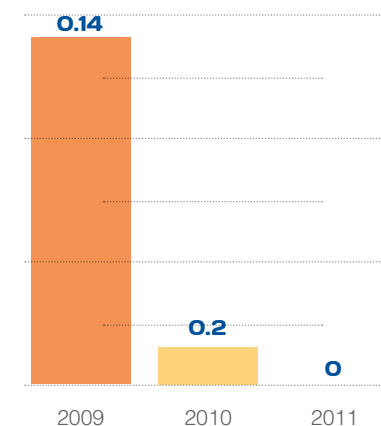
tasks. Comprehensive inspections are scheduled to assess compliance with current laws on OHS, fire safety and environmental protection. Specialists from the Environmental, Health and Safety Department of OAO NOVATEK take part in the inspections. In 2011, they conducted comprehensive inspections of OOO NOVATEK-Tarkosaleneftegas, OOO NOVATEK-Yurkharovneftegas, OOO NOVATEK-AZK, OOO NOVATEK-Purovsky ZPK, OOO NOVATEK-Transervice and OAO Sibneftegas; and drew up 5 reports on identified shortcomings, with comments and recommendations for remedying them.

The Company is responsible for both the health and safety of its own employees and working conditions for contractors. Requirements for compliance with current laws and labor standards and regulations in effect at NOVATEK are included in standard contractor agreements. Audits of contractors' working conditions are carried out during the year, and instructions to take remedial actions are issued. This information is also used to determine whether to extend contracts with these contractors.

**Accident Severity Rate**  
(number of hours of disability/number of accidents)



**Severe Accident Frequency Rate**  
(number of severe accidents/million working hours)



*Based on the results of 2011, the Interdepartmental Committee for OHS of Purovsky District declared OOO NOVATEK-Purovsky ZPK the winner of the annual contest in honor of the World Day for Safety and Health at Work in the category of "Best Occupational Health and Safety Practices in the Industrial Sector". Criteria for selecting winners included the absence of workplace injuries and acute or chronic diseases in 2011, performance indicators of OHS departments, and no wage arrears or debts to off-budget funds (a mandatory condition). All workplaces are certified at the enterprise and compliance of OHS practices have been confirmed.*

## Employee Training

All subsidiaries must provide instruction and training in OHS and fire safety. New employees and visitors, including interns and contractors, are given induction. NOVATEK specialists are given an introductory briefing following by a test of acquired knowledge and skills before taking up their duties. The Company's most experienced specialists are involved in these exercises and emergency remediation training.

All other training in safe work methods, including certifiable methods, is carried out at licensed institutions according to specifically designed programs.

In 2011, 1,018 specialists (compared to 1,195 in 2010) underwent training and certification in OHS. Total investments in OHS and fire safety training in 2011 amounted to RR 9 million.

## Injury Rate

Since the Company operates a number of hazardous production facilities, we are constantly working to reduce the risks of accidents and minimize their consequences. There were no serious or fatal accidents at all in 2011, and the accident frequency rate decreased from 0.51 to 0.41.

## Improving Industrial Safety

NOVATEK strives to ensure accident-free operation of its pipeline system, including intra-field and inter-field pipelines and prevent oil and gas condensate spills at hydrocarbon production sites and storage and transportation facilities. Our subsidiaries have developed measures to protect the environment, employees and local residents, and to prevent accidents. An accident response and recovery road map has been elaborated.

There were no oil or oil product (liquid hydrocarbon) spills, including spills during transportation, or other accidents affecting the environmental, employees' health or operations during the reporting period.

In 2012, we plan to identify recommissioned hazardous production facilities and prepare declarations of industrial safety for gas and gas condensate production departments at OOO NOVATEK-Tarkosaleneftegaz, specifically for the Khancheyskoye and East-Tarkosalinskoye fields.

## Fire Safety

The Company works in accordance with the Unified Technical Policy aimed at preventing fires and ensuring fire safety at all NOVATEK facilities. NOVATEK

*In 2011, OOO NOVATEK-Tarkosaleneftegaz held tactical training sessions to test the tactical efficiency of firefighting and rescue units to suppress forest fires threatening its production facilities.*

*The training sessions take place annually before the start of the fire season. Training was conducted in the forest adjacent to one of the exploratory gas wells in the East-Tarkosalinskoye field. Following the training scenario, the crew tested their skills on a fire caused by a lightning strike near a gas well. Operating and security personnel, a firefighting and rescue units, medical professionals took part in extinguishing and cleaning up after the training fire.*

*The practical sessions simulated a forest fire as close as possible to reality. Participants used equipment, including fire trucks and power-driven pumps, to supply water from the closest river. As a result of well-coordinated, fast and competent actions, the fire fighters and employees were able to deal quickly with the emergency.*

has established in-house firefighting and rescue services (FRS) at its main subsidiaries. They are supplied with the necessary vehicles, firefighting equipment and fire extinguishing means and have licenses issued by the Ministry of Emergency Situations.

The Company's new facilities, OAO Yamal LNG in Sabetta (Yamal District, YNAO) and OOO NOVATEK-Ust-Luga in Leningrad Region, will establish their own FRS units. Construction of infrastructure to house FRS units is expected to be completed in 2013.

FRS units not only extinguish fires at the Company's production facilities, but are also called out to suppress forest fires and fires in residential areas and municipal facilities. In 2011, no major accidents or fires were recorded

### Training Exercises

Training is carried out regularly at all production facilities for employees, field personnel and emergency response teams to practice skills in emergency response, and actions and response times for emergency containment at processing plants. Participants also practiced safe workplace evacuation and assembly at gathering points.

All of our subsidiaries conduct large-scale, comprehensive tactical training sessions focused on extinguishing fires and cleaning up accidental oil spills once every two years. The next training sessions will be held in 2012.

### 2012 Objectives

- › Continue workplace certification at subsidiaries and comply with the procedure and deadlines for recertification.
- › Develop plans to improve workplace conditions.
- › Train and certify managers and OHS specialists develop and implement training; and upgrading programs for personnel at subsidiaries and assess their acquired knowledge.
- › Train contingency emergency response teams.
- › Conduct medical examinations and take health precautions.
- › Replenish emergency (minimum) equipment stocks and expendables for supplying emergency response teams.
- › Keep production facilities accident-free by conducting engineering inspections.
- › Obtain civil liability insurance for a subsidiary operation hazardous production facilities.
- › Develop local regulation for subsidiaries and modify them in accordance with amendments to current laws and the passage of new RF laws.
- › Promptly identify hazardous production facilities and enter them in the state register.
- › Information and procedural support on RF legislative and regulatory requirements for occupational health and safety.
- › Certify OHS procedures (supervisory control).



## **5. Human Resources and Social Policies**

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

The Company's Human Resource Policy is based on strict compliance with Russian law and the international standards developed by the International Labor Organization.

The Human Resources Department of OAO NOVATEK and the personnel departments of its subsidiaries perform the following tasks:

- › Human resource planning;
- › Hiring;
- › Personnel training and development;
- › Building a pool of successors for senior positions and career planning for all employees;
- › Employee evaluation and performance appraisal.

When hiring employees, Personnel departments offer candidates equal opportunities on condition they meet the Company's requirements, without discrimination of any kind. All employees have the opportunities for professional growth and continuous learning. NOVATEK is committed to social

partnership and maintaining a balance between the interest of employees and the employer. The Company does not use child labor or permit forced labor.

NOVATEK's Human Resources Department is responsible for overall personnel management and provides guidance and practical assistance for the HR departments of subsidiaries. Regular training sessions are held in Moscow for staffing specialists of subsidiaries.

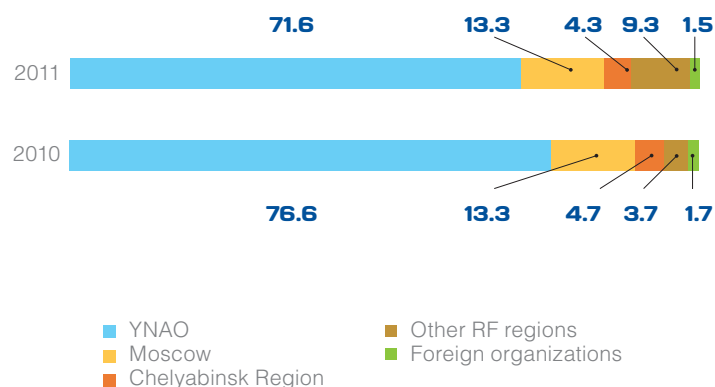
In 2011, the Company's headcount increased by 22% to 4,728 employees. Forty-three percent of our employees work in exploration and development, 46% in plant operations, processing, transportation and sales, and 11% are in administrative positions. The share of employees working outside the Russian Federation is 1.5%. NOVATEK retained the strongest presence in the YNAO (71.6%) and Moscow (13.3%).

Employees living in the YNAO and Tyumen Region have priority during hiring. For example, more than 55% of the employees of OOO NOVATEK-Yurkharovneftegas work full time and live in the YNAO; 3 of these are representatives from indigenous people's population.

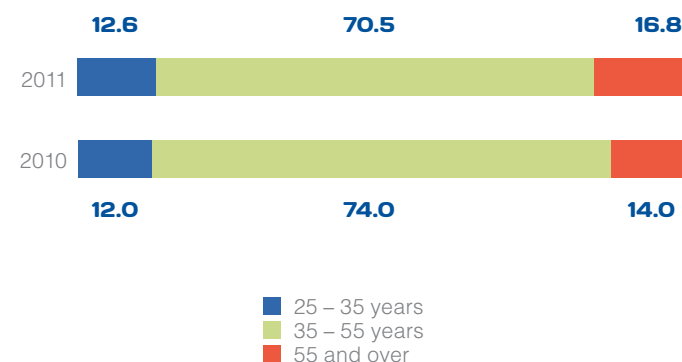
**The Company respects the fundamental rights and freedoms of its employees, trusts its employees, provides equal opportunities, and does not allow discrimination of employees based on gender, race, nationality or for any other reason.**

OAO NOVATEK's Code of Business Conduct and Ethics<sup>1</sup>

**Workforce breakdown by region, in %**



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



<sup>1</sup> The Code is available on our website at <http://www.novatek.ru/en/about/management/regulatory/>

**In 2011, the Corporate competence appraisal program was launched and 333 employees have passed the testing.**

## Material Incentives

The Company's main subsidiaries have introduced an integral approach to compensation and incentive mechanisms in accordance with the corporate "Procedures for Employees' Compensation and Incentives". NOVATEK use to index salaries and wages to compensate for the negative impact of inflation.

Bonuses for managers of functional units of the subsidiaries are based on meeting key performance indicators.

We have also introduced a Share-Based Option Program to retain and motivate highly qualified managers covering the period from 2010 to 2012. Program participants, approved by the Management Board, receive income based on the growth in the market value of GDRs over the option exercise price during these years.

## Training and Learning

The Company has created a multilevel system of training and learning for employees, including targeted education programs. In 2011, managers and specialists were trained under the Personnel Reserve Education Program "Leadership Horizons". The participants continued training at the Skolkovo Business School. Training has also been carried out at the requests of the heads of departments.

Since 2008, we have been working jointly with Tomsk Polytechnic University to develop a Corporate technical competence appraisal system for our engineers and technical specialists.

This system will allow us to:

- test employees' professional potential;
- create annual training and professional learning programs based on the test results;
- recruit high skilled specialists to fill vacancies;
- monitor the growth of technical competencies based on employee appraisal and further training.

The work started with an analysis of the Company's data and policies and continued with creating the software for automated employees' performance evaluation.

We introduced the system in all of our main subsidiaries in 2011, including OOO NOVATEK-Yurkharovneftegas, OOO NOVATEK-Tarkosaleneftegas and OOO NOVATEK-Purovsky ZPK. In 2011, 333 employees have passed the testing. Based on the testing results, we developed personal annual educational plan for each participants. In 2012, we plan to start training and in 2013, to held a new round testing to analyze the effectiveness of the system.

Professional contests allow us to identify the best employees among workmen. In 2011, a "Best in the Field" contest was held at OOO NOVATEK-Yurkharovneftegas with the participation of employees from 13 trades. The competition was held in two rounds and tested theoretical knowledge and practical skills.

A similar competition was held at OOO NOVATEK-Transervice with the participation of specialists from nearly all the main railroad occupations, including locomotive engineers, car checkers, rail car repairmen, train inspectors, rolling stock repairmen and track servicemen.

We are currently implementing an integral approach to holding professional contests in all of NOVATEK's subsidiaries. In 2011, 99 employees took part in the events, 27 of whom won prizes.

Since the Company exercises new methods and technologies, there is a pressing need for leading-edge training of workmen. Therefore, the emphasis in 2011 was here: the average number of training hours for trades more than quadrupled. We still give priority to professional learning, training in safe work methods at production facilities and environmental protection

### Average Number of Training Hours per Employee with a Breakdown by Employee Category, Hours

	2009	2010	2011
Blue-collar workers	<b>73.4</b>	<b>48.8</b>	<b>207.6</b>
Line managers	<b>64.6</b>	<b>32.7</b>	<b>53.3</b>
Specialists	<b>36.8</b>	<b>47.6</b>	<b>60.7</b>
Senior managers	<b>38.5</b>	<b>34.6</b>	<b>39.6</b>

### "Personnel Pool"

The three-year targeted Horizons of Leadership Program is designed to improve management and leadership competencies of the employees enrolled in the Personnel Pool Development Program. The program ended successfully in 2011.

The program was designed in a modular training system, and in 2011 consisted of the following modules:

<i>Training module</i>	<i>Number of trainees</i>
Economic Reasoning in Decision Making	<b>65</b>
Basics of Finance and Management Decisions and Human Resources Management	<b>53</b>
Development Center	<b>135<sup>1</sup></b>

<sup>1</sup> including the employees of Personal Pool's group of 2009-2010.

A total of 162 employees were trained under the Horizons of Leadership Program, 55 of whom were promoted to higher positions.

In 2012, the Successor Program aimed at senior management will replace the Personnel Pool Development Program.

### Young Specialists

Young specialists are the Company's talent pool. Our training programs ensure that employees hired by the Company are fully prepared for a competitive working environment.

Young specialists can apply for vacant positions by open competition. Young Specialists' Adaptation & Learning Program and the Mentoring Program were drafted in 2011. These programs are designed to further simplify the procedure for familiarizing employees with specific production operations and contribute to successful development of their professional and creative potential. We plan to implement these programs, both for young specialists and their mentors, in 2012.

The 6th Interregional Research-to-Practice Conference for NOVATEK's young specialists was held in September. Thirty-eight employees from the Company's subsidiaries participated, including young specialists from OAO Sibneftgas and OOO NOVATEK-Ust-Luga, who took part for the first time. The competition committee assessed the originality of the presented topics, its research and practical importance and cost effectiveness. Along with presenting papers, the young specialists exchanged opinions on current issues of the Company's operations and participated in a Project Implementation Skills training session. Eleven first prize winners were awarded with a trip to an international oil and gas training center to gain leading-edge experience in the industry. Six second-place and eight third-place winners were awarded with cash prizes. Two winners were nominated in the category "Best Implemented Project 2011".

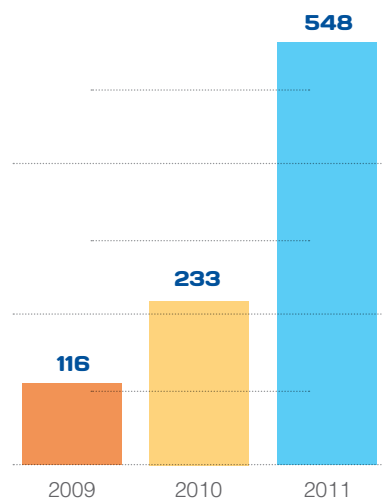
In 2011, eleven winners of the previous conference were awarded with trips to international oil and gas center in Houston, Texas, to learn about the production technologies of the world's leading companies.

Suchlike conferences enable the Company to identify young specialists with knowledge of state-of-the-art technologies who are capable to generate and implement new ideas. In turn, participation in the conference is an incentive for career growth of NOVATEK's young specialists.

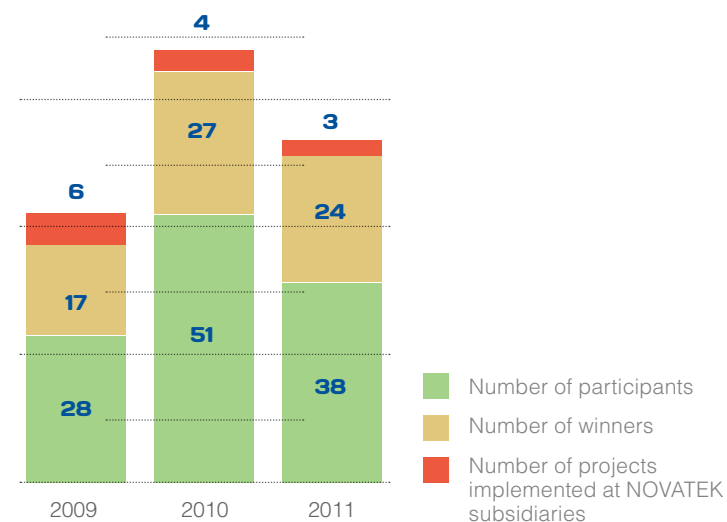
In 2011, the number of young specialists, hired in the Company, increased from 233 to 548.

Along with employees of other oil and gas companies, our young specialists also took part in the FEC 2010 Competition of Youth Projects and in a research-to-practice conference of the same name. In May 2011, three of NOVATEK's young specialists who were winners of the FEC-2010 received commendations from the Russian Federation's Ministry of Energy and cash prizes.

**Number of Young Specialists Employed  
by the Company**



**Key Performance Indicators of Working with Young  
Specialists at Interregional Research-to-Practice  
Conferences**

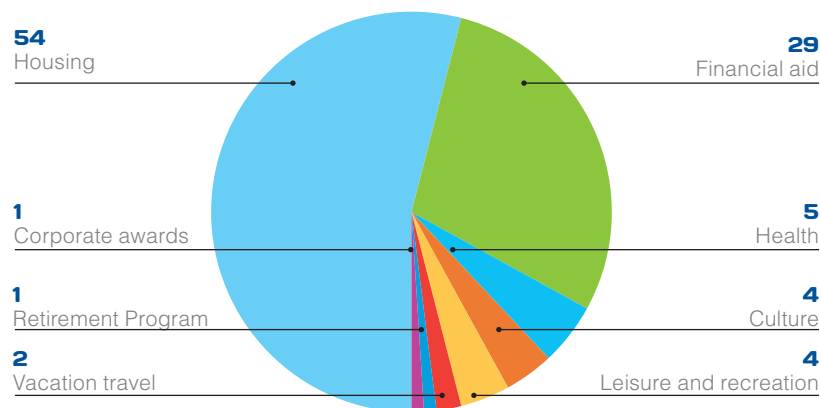


## Company Social Programs

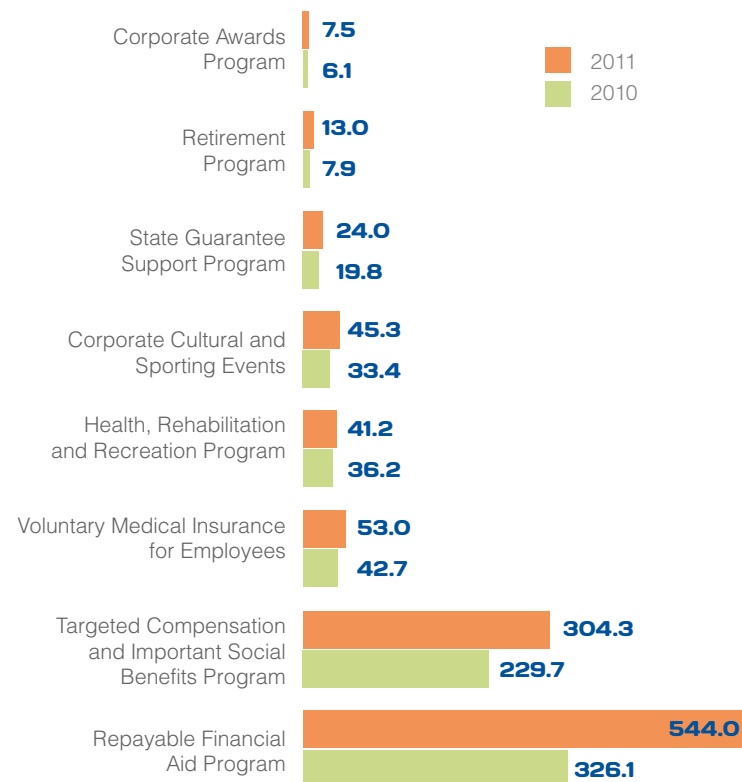
The Company's social programs are determined in accordance with Social Policy Concept adopted in 2006. The social package for NOVATEK employees is revised annually. In 2011, total expenditures on social programs were RR 1,119 million. More than half of the allocated funds were used to implement a housing program (on a repayable basis), and nearly one-third were used to provide aid for employees related to various real-life circumstances.

A detailed description of the programs is given in the section on “Company Social Programs” of our Sustainability Report for 2010. This Report presents the changes compared to 2010 and the results of implementing the programs in 2011.

**Basic Social Programs in 2011, %**



**Expenditures on Basic Social Programs, RR millions**



### Targeted Compensation and Important Social Benefits Program

This Program provides financial aid free of charge to the Company's employees in certain life situations. In 2011, expenditures on the program increased by 32% to RR 304.3 million.

### Voluntary Medical Insurance for Employees

The Program is implemented together with the compulsory medical insurance program. According to the results of comprehensive medical examinations under the program in 2011, 109 Company employees were referred for surgery and consultations with specialists. In 2011, expenditures on the program increased by 24% to RR 53.0 million.

### State Guarantee Support Program

The program is intended for employees working in the Far North and comparable regions. In 2011, 1,345 employees and unemployed members of their families made use of the benefits. The Company's employees are entitled to use this program once every two years. The amount, conditions and procedure for paying these benefits are defined in the collective agreements. Starting in 2012, the expenditures of employees working in the Far North and comparable regions will be reimbursed annually. In 2011, expenditures on the program increased by 21% to RR 24.0 million.

### Health, Rehabilitation and Recreation Program for Employees and Members of Their Families

In 2011, 38 health resorts were added to the list of facilities that have concluded agreements under the program. The most popular resorts are recreational and health centers on the Black Sea coast, Altai Territory, Bashkiria and Caucasian mineral waters. A total of 1,220 employees and their family members took vacations and underwent rehabilitation treatments in the reporting period. In 2011, expenditures on the program increased by 14% to RR 41.2 million.

### Repayable Financial Aid Program

This Program is implemented in two ways:

- › By providing targeted short-term loans to employees
- › By providing employees living in Tarko-Sale, Novy Urengoy and Moscow with interest-free targeted loans to buy housing.

In December 2007, the Management Board of OAO NOVATEK developed and approved the Program. The Program has been in effect since 2008 for employees living in Tarko-Sale and Novy Urengoy and since April 2011 for employees living in Moscow. The loans are granted for a 10 year period.

Twenty-five families used the interest-free targeted loan program to buy housing in the reporting period. Construction of four housing blocks with 140 apartments located in Tarko-Sale continued in 2011, and construction of 80 apartments began in Sosnovy Bor in Leningrad Region for employees of OOO NOVATEK-Ust-Luga. In 2011, expenditures on the program increased by 67% to RR 544.0 million.

### Retirement Program

The Program is intended for retired NOVATEK employees. As of December 31, 2011, 325 people were participating in the program, an increase of 53 people compared to 2010.

The procedure for paying monthly social benefits is determined in accordance with the "Regulations on Social Benefits for Retired NOVATEK Employees" and depends on the employee's length of service with the Company and income level and a geographic adjustment factor. Monthly benefits are indexed annually, and were indexed at 9.6 % in 2011. The average monthly social benefit paid in 2011 was RR 1,842 in central Russia and RR 4,589 in the Far North and comparable regions, along with Moscow. In 2011, expenditures on the program increased by 65% to RR 13.0 million.

### Corporate Awards Program

NOVATEK's top employees are eligible for industry awards, Certificates of Merit and Letters of Gratitude from OAO NOVATEK and its subsidiaries for professional excellence and exceptional service to the Company.

A total of 359 employees received corporate awards in 2011, including:

- › Honored Employee of OAO NOVATEK — 6
- › Certificate of Merit of OAO NOVATEK — 92
- › Letter of Gratitude of OAO NOVATEK — 93
- › Certificate of Merit of subsidiaries — 151
- › Letter of Acknowledgement of the RF Ministry of Energy — 13
- › Certificate of Merit of the RF Ministry of Energy — 4.

All corporate awards are accompanied by cash payments. In 2011, expenditures on the program increased by 23% to RR 7.5 million.

### Corporate Cultural and Sporting Events Program

NOVATEK cooperates on an ongoing basis with the country's best-known museums so that employees and their families, friends and partners have the opportunity to take part in events organized with the Company's support.

On Oil and Gas Industry Employee Day and city holidays, the Company organizes events and concerts for employees, their families and all city residents. Subsidiaries host events for International Women's Day on March 8 and New Year's parties for children of their employees. In 2011, the highlight of the New Year's festivities for employees of NOVATEK and its subsidiaries was a comedy game between the OAO NOVATEK and OOO Yamal LNG teams.

Corporate sporting events in 2011 included the IV open volleyball tournament, the VIII mini soccer tournament and the XI swimming competition.

Traditional "Mom, Dad and I Go in for Sports!" competitions for families took place in the gym of the Purovsky ZPK rotational camp in fall 2011. Six family teams from Tarko-Sale, Purovsk and Novy Urengoy competed in them.

In early September 2011, the Third Youth Free Rope Festival with the motto "Know and Love your Land" was held near Tarko-Sale, with 10 teams from various NOVATEK subsidiaries competing. The organizers of the event were the NOVATEK North Trade Union Association and the Children's Tourism and Regional History Center. In 2011, expenditures on the program increased by 36% to RR 45.3 million.

### Visits to Exhibitions Organized in Moscow in 2011, people

Moscow House of Photography	<b>435</b>
Tretyakov Gallery	<b>267</b>
Moscow Kremlin	<b>450</b>

## Collective Agreements and Trade Union Relations

### Collective agreements and Relations with Employees

The Company allows trade unions to freely carry out their activities at its facilities to enable employees to exercise the right to protect their interests. Joint Labor Union NOVATEK- North acts at the regional level and Interregional Labor Organization OAO NOVATEK – Neftegazstroyprofsoyuz acts at the Company level. In 2011, 66.9 % of the employees at our subsidiaries were covered by trade unions. Total union membership was 2,178 people.

All aspects of relations between employees and employer at all subsidiaries are regulated by a system of collective agreements signed every three years. The agreements apply to all employees, whether or not they are union members.

Members of the trade union undergo special training at the Russian Federation's Neftegazstroyprofsoyuz and at the St. Petersburg Institute of Trade Unions. In 2011, a total of 62 persons passed this specialized training. A traditional area of cooperation between trade unions and management of our subsidiaries is joint organization of recreational, sporting and cultural events, for example, Oil and Gas Workers' Day, New Year's festivities and city holidays.

Employees can express their opinions to management through their union representatives and during quarterly meetings between employees and management of NOVATEK's subsidiaries. Meetings with representatives of the Company's senior management, including the Chairman of the Management Board, are held several times a year.





## **6. Local Communities**

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

## Local communities

NOVATEK recognizes its responsibility for the welfare of local communities affected by the Company's operations; therefore, we invest in the economic and social development of the communities where the Company has a presence. Since 2011, the geography of this cooperation has expanded, and along with the YNAO it includes Kingisepp District of Leningrad Region and the city of Novokuybishevsk in Samara Region.

The key tools for managing social investments and cooperation with residents in the regions where the Company operates are agreements with regional authorities, municipalities and public organizations representing indigenous peoples of the Far North.

### Cooperation with Regional Authorities and Municipal Entities

Since NOVATEK's main operations are carried out in the YNAO, the Company annually invests substantial funds in the region's development.

The first cooperation agreement between the YNAO Administration and NOVATEK was concluded in 2004, and has been renewed every three years since then. A Cooperation Agreement for 2009-2011 was in effect in the reporting period. This document defines the key areas of cooperation and a list of specific events and projects is itemized in Additional Agreements concluded annually and agreements with individual municipalities. In December 2010, the YNAO and NOVATEK signed an additional cooperation agreement for implementing social and economic projects in 2011.

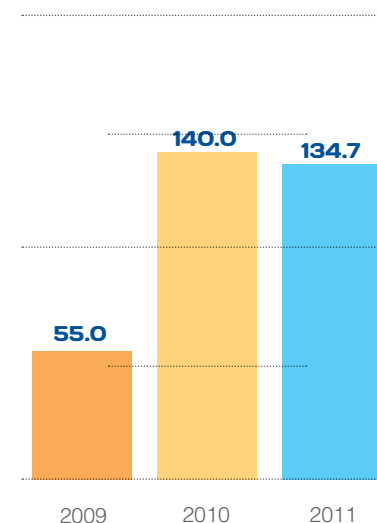
NOVATEK and its subsidiaries have also entered into agreements with Purovsky, Tazov, Nadym, Yamal and Krasnoselkup districts and the city of Novy Urengoy. The Company also signed similar agreements with the administration of the city of Novokuybishevsk in Samara Region and the administration of Kingisepp District in Leningrad Region. In 2010, we also signed a Cooperation Agreement with the government of Chelyabinsk Region for 2010-2013.

The YNAO Administration accepts applications for funding from municipalities and evaluates their feasibility based on the local situation. This allows for effective and consistent use of funds the Company allocates for solving the region's social issues where they are needed.

Cooperation with the Yamal for Descendants Association of Minority Populations of Indigenous Peoples of the Far North is a special area of corporate social responsibility for NOVATEK, the regional administration is also the coordinator for cooperation with them on many issues.

In 2011, NOVATEK and its subsidiaries invested RR 134.7 million in social-economic development in the regions where they are present, including RR 117.7 million for funding events in the YNAO.

**Financing of the Company's obligations  
under social-economic cooperation agreements,  
RR millions**



The Company allocates funds in the following areas:

#### Construction and repair of utilities and social infrastructure

NOVATEK and its subsidiaries provide funding for schools, and health care, social and recreational facilities, including repairs, improvements and equipment. The Company allocates funds for the construction and repair of buildings and utility infrastructure. The largest projects in 2011 were the construction of a diesel power plant in the indigenous village of Kutopyugan (RR 22 million) and overhaul and construction of facilities at the Yuribei and Rasvilka trading stations.

#### Cultural and recreational events

Since the Company's primary operations are located in the same areas where indigenous minorities of the Far North live, support for cultural events mainly goes toward events for preserving the traditions of indigenous minorities, along with sports events and festivals, such as traditional reindeer herding

competitions, celebrating local holidays, City Day, Fishermen's Day, and Oil and Gas Industry Workers' Day.

#### Youth

NOVATEK supports a large number of youth development projects under the Cooperation Agreement with Purovsky District. This includes programs for developing independent and professional creativity in children and youth, festivals and competitions. Expanding clubs for teenagers and young people, which already have more than 1,700 members, is a priority in the cooperation between the Company and the District Administration. In 2011, the Company took part in the YNAO Mini-Football Championship.

#### NGO support

The Company is involved in funding actions to achieve the statutory objectives of the Yamal for Descendants Regional Association of Minority Populations of Indigenous Peoples of the Far North and its district divisions.

#### Funding educational events and projects

The Company allocates funds for educating and developing gifted children, training medical specialists at the vocational high school level and training employees from among indigenous minorities of the Far North for companies in the fuel and energy industry in Yamal District.

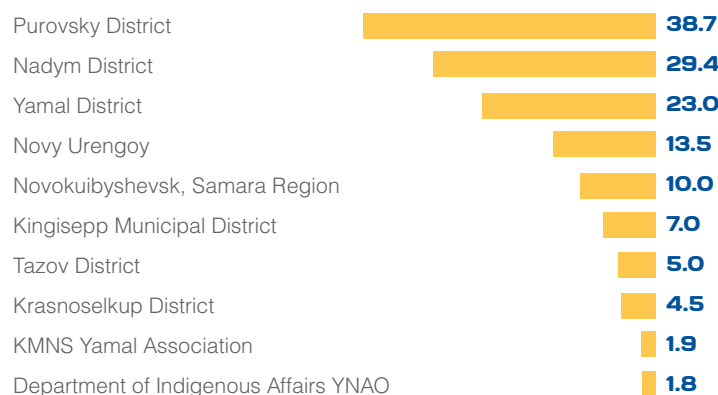
Funding was provided for the OAO NOVATEK Grants program for students and teachers at schools in Purovsky District, and for sending groups of students and teachers for foreign language training.

#### Social support for individual groups of citizens

Targeted assistance for groups of citizens receiving social welfare benefits: children and minors, persons with disabilities and the elderly, WW II veterans and home front workers and large families. The Company also provides substantial funding for indigenous minorities of the Far North and populations following a nomadic way of life.

The largest project (RR 10 million) in 2011 was construction/purchase of housing for large families in the city of Novokuybishevsk in Samara Region.

#### Main recipients of social investments, million RR



**NOVATEK has been implementing the Company's Indigenous Peoples Support Program in accordance with the recommendations of the World Bank.**

## Obligations under license agreements

Along with funds allocated for voluntary social investments, resource companies in Russia also have a tradition of assuming the scope of social obligations specified in each license agreement.

In connection with development of the South-Tambeyskoye oil and gas field, construction of an LNG plant on the Yamal Peninsula and the port of Sabetta, NOVATEK, the government of YNAO and the Administration of Yamal District worked out a joint development program for the indigenous village of Seyakha located in close proximity to the Company's production and transportation facilities.

The program calls for site improvements, housing construction, construction of social and municipal transportation and communications infrastructure and much more by 2015. The development program for the village has been revised based on proposals sent for preliminary discussion with the YNAO Rural Development Foundation Nonprofit Organization. Resources of the Zapadno-Seyakhinskoe field will be used to supply gas to the northernmost community of Yamal District. As a result of these changes, the village of Seyakha should become a model for Arctic settlements.

The Company has already begun investing in the district's social sphere. A Nursing Facility built with funds from NOVATEK opened in the Yamal District center of Yar-Sale at the end of 2011. This social facility is designed to provide assistance to women before and after childbirth. The facility has accommodation for 10 people and has showers, a laundry room dining room, furnished bedrooms and a treatment room.

The prospects for the village's development were frequently discussed at working meetings of Company management with regional and district authorities.

NOVATEK will help finance the construction of a fish farm in the village of Kharp in 2012. Along with creating new jobs for the local population, according to preliminary estimates, of young whitefish released into the Ob River it will provide a commercial catch of more than 100 tons (for more details, see the Biodiversity section).

The government of YNAO has passed a law on "Setting Workplace Quotas for People with Disabilities". In pursuance of this law OOO NOVATEK-Yurkharovneftegaz has leased a workplace at OOO Novo Urengoy Association of Disabled People to provide a job for one person. OOO NOVATEK-Tarkosaleneftegaz created 5 additional jobs for disabled people in Tarko-Sale and also used the right to rent a workplace under an agreement with the Milocerdie (Mercy) organization for the disabled in Purovsky District and provided a job for one person living in Purpe village.

## Cooperation with indigenous and minority peoples of the Far North

The YNAO is the home of minority peoples of the Far North— the Nenets, Khanty and Selkup Minorities make up 7% of the region's total population about 36 thousand people. More than a third of them, or more than 13 thousand people, follows a nomadic way of life.

The Company complies with special operating conditions in areas of traditional life, economic activity, and the historical, cultural and spiritual sited of indigenous minorities. NOVATEK's new projects are reviewed with local residents in order to preserve the native way of life and land use traditions. NOVATEK has been implementing the Company's Indigenous Peoples Support Program in accordance with the recommendations of the World Bank.

When formulating its development plans, NOVATEK holds public discussions of the local population. In September 2011, residents of Seyakha and representatives of the nomadic population took part in a discussion of an environmental impact assessment for "Infrastructure of the South-Tambeyskoe Gas Condensate Field". Representatives of the Administration of Yamal District, the public movement Yamal Association of Indigenous Ethnic Minorities of the North, and the Rural Development Foundation were involved in the public hearings. A report on the proposals and comments of district residents was prepared on the results of the hearings.

In 2007-2011, the Company allocated more than RR 450 million including RR 265 million for development of indigenous minorities under an Agreement with the Administration of YNAO. In particular, more than RR 69 million were allocated in 2011, or 1.6 time more than in the previous period.

The Company's funds also used to finance events of the Yamal for Descendants Regional Association of Minority Populations of Indigenous Peoples of the Far North and its district divisions. RR 3 million were also transferred under an Agreement to implement the statutory activities of the Association of Minority Populations of Indigenous Peoples of the Far North, Siberia and the Far East. NOVATEK provides support for native villages, helps maintain trading stations and communities, and finances infrastructure construction and repair.

There is special emphasis on developing minority cultures, celebrating national holidays, and implementing the program "Culture, Language and Traditional Way of Life of Indigenous Minorities of the Far North". The Company and local administration promote the growth of independence and creativity in children and youth, and sports for children and teenagers.

### Contribution to regional economic development

NOVATEK has been fully supplying the Chelyabinsk Region with natural gas since 2011. The Company has an important role in the development of this region. Natural gas is used as the main fuel for generating electricity and heat. The real sector of the economy consumes more than 84% of the natural gas supplied in the region. The operations of more than 100 industrial and municipal companies in the region, including the largest companies in Chelyabinsk Region— Magnitogorsk Metallurgical Plant, OAO Mechel and OAO Fortum depend on reliable, uninterrupted supplies. Large new consumers are expected to appear in the near future, including Yuzhnouralskaya State District Power Plant 2 (GRES-2) with two 400 MW power generating units operating on natural gas. It will help reduce the power shortage in the region. Sixteen NOVATEK's filling stations operate in Chelyabinsk Region, including 8 multi-fuel stations and 8 regular gas stations.

The population accounts for 5% of the gas consumed; 830 thousand residents of Chelyabinsk Region use natural gas.

Although the gas supply level in the region (68.4%) is above the Russian average, and more than 370 communities are supplied with gas, this program should be extended, since new housing has increased 1.8 times in 12 years, while gas supply level has increased by 4.6 percentage points. The regional government has set a goal of supplying gas to every consumer who needs it in the near future. Private-public partnerships are being used to achieve this goal. Trunkline systems will be built with budget funds, and distribution systems by attracting investors.

The advantages of cooperation between the region and NOVATEK are favorable conditions for reliable gas supply. In addition, registration of the NOVATEK Trading House in Chelyabinsk Region provides additional tax revenues to the regional budget.

Our subsidiary OAO NOVATEK-Chelyabinsk is planning to conduct its business in the region on the following principles:

- › guarantee of full gas supply to all categories of consumers.
- › development of a business partnership with consumers based on optimizing the conditions and schedule for natural gas consumption and payment.
- › improving governance mechanisms for uniform investment, tariff and technical policy.
- › working with consumers to comply with payment deadlines for natural gas.

The Company has already started developing a debt reduction strategy that depends to a great extent on support from regional authorities. At the same time, the Company is implementing a flexible policy for relations with bona fide consumers, where each consumer can count on an individual approach.

## Educational Initiatives

### Educational Programs for Children and Youth

The Company's initiatives aimed to prepare future employees begin as early as high school. A lifelong learning project has been developed to ensure an inflow of highly educated, professionally trained young people. Visits to NOVATEK's production facilities are organized as part of professional orientation for senior high school students to familiarize them with production processes and the duties of various specialists. Managers and senior specialists from subsidiaries are invited to the sessions to talk about the Company's development prospects. For the eighth year in a row, the Company is also implementing educational programs aimed at maintaining high educational standards in elementary and high schools located in Purovsky District, YNAO.

A detailed description of the programs is given in the section on "Company Educational Initiatives" of our Sustainability Report for 2010. The Report outlines the changes compared to 2010 and the results achieved in 2011.

### Gifted Children Program

Students from high school No. 2 in Tarko-Sale and high school No. 8 in Novokuybishevsk, Samara Region, take part in the program on a competitive basis.

Specialized physics and mathematics classes have been opened in the schools. In addition to the core subjects of the school education program, specialized courses, designed to accommodate each child's individual capabilities, interests and inclinations, have been introduced. To encourage the students' research activities new teaching methods have been developed and introduced. Program participants show high academic achievements. Program participants have the opportunity to travel during school holidays to take part in national competitions, festivals and contests.

In 2011, the Company spent RR 3,0 million on the Gifted Children Program.

### Grants Program

Since the program started 643 of the best students from schools in Purovsky District have received individual grants. In November 2011, the Chairman of the Management of OAO NOVATEK, Leonid Mikhelson, awarded grants to the best students and teachers of Purovsky District. One hundred and eleven students from the towns of Samburg, Purovsk, Syvdarma, Purpe, Khanymey and Urengoy, and the city of Tarko-Sale took part in the award ceremony. Fifteen of Purovsky District's best teachers also received certificates and cash prizes.

- › In 2011, a total of 341 students received grants and 1,527 grants have been awarded since the program began.
- › In 2011, a total of 30 teachers received grants and 93 grants have been awarded since the Grants to Teachers program began.
- › In 2011, the Company spent RR 897.8 thousand on the Grants Program.

### NOVATEK-VUZ Program

NOVATEK cooperates on an ongoing basis with higher educational institutions that train specialists required for the success of the Company's business.

Under the NOVATEK-VUZ Program, the best applicants, who are mainly alumni of the Gifted Children Program, are given the opportunity to attend Gubkin Russian State Oil and Gas University (Moscow), the State Mining Institute (St. Petersburg).

Students with the highest achievements receive monthly payments from NOVATEK in addition to government scholarships, and the opportunity for practical training at the Yurkharovskoye, East-Tarkosalinskoye and Khancheyevskoye fields or the Purovsky Plant. The students are paid for their work and are also reimbursed for travel to and from the training area. The best graduates of the program are offered employment at the Company's subsidiaries.

**The best graduates of the program are offered employment at the Company's subsidiaries.**

NOVATEK organizes annual forums, where graduates of the NOVATEK-VUZ Program and participants in the Gifted Children Program meet with the Company's senior executives.

Most graduates of NOVATEK's youth programs have been hired by the Company. In 2011, 12 program graduates were offered employment at our subsidiaries and 5 graduates found their jobs with our support. As of 31 December 2011, 21 NOVATEK-VUZ graduates are working with NOVATEK and its subsidiaries. In 2011, the Company spent RR 39,6 million on the NOVATEK-VUZ Program.

## NOVATEK-Veteran Program

The NOVATEK-Veteran Special Social Protection Fund has more than 850 registered veterans who have made a significant contribution to exploration and industrial development of the Yamal Peninsula. The Fund pays veterans an income supplement, helps pay for medication, trips to health resorts and caregivers and provides other financial support. The Fund also organizes social evenings, contests and birthday celebrations to promote social adaptation among the elderly.

NOVATEK's Chairman, Leonid Mikhelson met with Company's veterans who are members of the NOVATEK-Veteran Fund during a working visit to the Yamal Peninsula in 2011. In 2011, the Company spent RR 19 million on the NOVATEK-Veteran Program.

## All Together Volunteer Movement and Charity Projects

In 2011, we continued our social initiatives through the All Together volunteer movement. Our volunteers donated blood to patients at the Russian Children's

Clinical Hospital. In January 2011, 39 people donated 18 liters of blood at a traditional mobile clinic at the Company's Moscow office.

In June 2011, the Gift of Life Foundation invited donors to the Children's Hematology Center on World Blood Donor Day. NOVATEK received a certificate of merit as a regular participant in mobile blood donor clinics.

In 2011, the Company gave the gift of a car to the Vyshny Volochok orphanage (Tver Region), where more than one hundred children live and study.

In September 2011, NOVATEK volunteers visited Vyshny Volochok, bringing gifts to the beginning of the school year for the children, including school supplies, schoolbags and textbooks, along with preventive medications worth nearly RR 200 thousand. In 2011, the Company also supported the Warm Window event held by the "Children's Shelter" Children's Aid Foundation. Thanks to the Company's financial support for the Foundation and contractors, 77 windows were replaced in the orphanage's school building at a cost of RR 1.3 million.

In 2011, NOVATEK allocated funds to construction housing for large families through the Victoria Charitable Foundation. Leonid Mikhelson is the founder and chairman of the Foundation's Board of Trustees. In 2010, Oleg Volkov, the Mayor of Novokuybishevsk and Mr. Mikhelson signed an agreement under which the Company will allocate RR 10 million a year for three years to build houses for large families. Two families received the keys to new houses in February and April 2011.

In December 2011, a benefit evening for graduates and trustees of Gubkin Russian State Oil and Gas University and the charity event World Famous Lectures took place at the university with financial support from NOVATEK's Oil and Gas Education Fund.

NOVATEK provides financial assistance for treating homeless animals through the website [www.pesbezdoma.ru](http://www.pesbezdoma.ru)



## Cultural Development

NOVATEK provides sponsorship and charitable support for cultural events aimed at preserving and reviving Russia's national values and cultural heritage.

The Company partners with leading Moscow and regional museums, including the Pushkin Museum of Fine Arts, the Moscow Kremlin Museum, the State Russian Museum in St. Petersburg and the Samara Regional Arts Museum. In 2011, a number of unique art exhibitions and cultural projects were organized and implemented with NOVATEK's support, these included:

### The Russian State Museum:

- › "Pointlessness as the New Realism", an exhibition of works by famous Russian avant-garde artists at the Viktoria Gallery in Samara.
- › - the 4<sup>th</sup> international "Imperial Gardens of Russia" festival, an outdoor exhibition and competition of landscape and garden art held in the historical Russian Museum gardens.

### The Tretyakov Gallery:

- › an exhibition of the early 20<sup>th</sup> century avant-garde artist Boris Grigoriev.

### The Multimedia Art Museum:

- › the Arte Povera ("poor art") exhibition of Italian avant-garde artists of the post-war era.

### The Moscow Museum of Modern Art:

- › the "Impossible Community" international art project.

### The Samara Regional Art Museum:

- › the exhibition "The Mastery of Russian Armourers" at the Moscow Kremlin Museum.

NOVATEK is the principal partner for the "Soloists of Moscow" Chamber Ensemble, whose artistic director, conductor and soloist is the acclaimed Yuri

Bashmet. In 2011, we continued our collaboration, and in December 2011, Atradional concert was arranged for our partners, employees of the Moscow office and their families.

In 2011, NOVATEK was the principal sponsor of the 13th international youth teleforum "The 21st Century is Our Time" held in Tarko-Sale. TV studios in Chelyabinsk, Shadrinsk, Salekhard, Noyabrsk, Tarko-Sale, Samburg and Novy Port took part in it.

Under a Cooperation Agreement between NOVATEK and the Government of YNAO, the Company provides financial support for the Sudarushka dance ensemble of Tarko-Sale. In December 2011, the ensemble was a 1st-prize winner in choreography at the international European Festival of Young Talents in Paris.

## Sport

Amateur and professional sports is a top priority for the Company. NOVATEK provides support for professional sports clubs and funds the individual athletes' participation in high-level international competitions, including:

- › Dynamo Joint Hockey Club (Moscow)
- › Dynamo Women Volleyball Club (Moscow)
- › Spartak Basketball Club (St. Petersburg)
- › NOVA Volleyball Club (Novokuybishevsk)

Sports competitions held in the YNAO with NOVATEK's support take place on national holidays, including Fisherman's Day, Reindeer Herder Day and others. Corporate soccer, volleyball and swimming competitions are held annually among teams from NOVATEK's subsidiaries.

## Assurance Statement

SGS VOSTOK' S REPORT ON SUSTAINABILITY ACTIVITIES IN THE  
OAO NOVATEK SUSTAINABILITY REPORT FOR 2011

### NATURE AND SCOPE OF THE ASSURANCE/ VERIFICATION

SGS Vostok Limited was commissioned by OAO Novatek to conduct an independent assurance of the Sustainability Report 2011. The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included the text, and 2011 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.

The information in OAO Novatek Sustainability Report 2011 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 2011.

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 (G3.1 2011)

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

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

### STATEMENT OF INDEPENDENCE AND COMPETENCE

The SGS Group of companies is the world leader in inspection, testing and verification, operating in more than 140 countries and providing services including management systems and service certification; quality, environmental, social and ethical auditing and training; environmental, social and sustainability report assurance. SGS Vostok Limited affirms 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 registered with comprised Sustainability Assurance Practitioner Auditor, Lead Quality and SA8000 Auditor, Environmental, 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 OAO Novatek Sustainability Report 2011 is accurate, reliable and provides a fair and balanced representation of OAO Novatek sustainability activities in 2011.

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

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

### GLOBAL REPORTING INITIATIVE REPORTING GUIDELINES (2011) CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

In our opinion, the OAO Novatek Sustainability Report 2011 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

- **Materiality:** Future reporting would benefit from an expanded commentary on the results of stakeholder engagement and the resulting decision making.
- **Sustainability Context:** There is commentary on broader sustainability background but this could be improved by benchmarking performance to external goals and conditions.
- **Sustainability Context:** Future report development should consider the presentation of data in a manner that communicates the magnitude of impact or performance and the normalisation of data against internal measures.
- **Timeliness:** The key performance information is aligned within the reporting schedule however future reporting has to be published as scheduled to be useful to readers.

- **Comparability:** As reporting mature readers can compare results and issues from one report to the next, however reporting does not make use of benchmarking with industry or regional norms to demonstrate performance.

More detailed improvements opportunities are incorporated to the Internal Management report for organization.

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

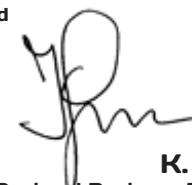
**Indicators** — More than the required minimum number of core indicators are included in the report.

In our opinion

- OAO Novatek continues to improve the quality of reporting year on year, this year including more content on the management of the Sustainability Approach.
- The report reflects the organisations strategies, and systems, goals and targets as covered by the report and material risks to the organisation are reflected in the report.
- Stakeholder engagement reporting is much improved on previous reports. Future reporting should improve this still further by presenting stakeholder engagement/feedback and responses in a more structured way.

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



**K. Timoschechkin**  
Regional Business Development Manager  
for Eastern Europe, System and Services Certification  
SGS Vostok Limited

## GRI content index

 Standard  
Disclosures ↓

Description ↓

Reported ↓

Cross-reference/Direct answer ↓

 Page in the  
report ↓

Strategy and Analysis				
1.1	Statement from the most senior decision-maker of the organization.	Fully		3-4
1.2	Description of key impacts, risks, and opportunities.	Fully	<a href="http://www.novatek.ru/en/about/strategy/">http://www.novatek.ru/en/about/strategy/</a>	6, 8-13
Organizational Profile				
2.1	Name of the organization.	Fully		6, 60
2.2	Primary brands, products, and/or services.	Fully		6
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Partially	<a href="http://www.novatek.ru/en/about/general/structure/">http://www.novatek.ru/en/about/general/structure/</a>	
2.4	Location of organization's headquarters.	Fully		61
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	Production and processing is carried out on the territory of the Russian Federation. We export our products to the U.S., European countries, including through our subsidiaries, which owns a network of LPG in Poland; as well as to Asia Pacific region, including South Korea, China and Thailand. Additionally please see NOVATEK Annually Report 2011, p. 33.	
2.6	Nature of ownership and legal form.	Fully	Additionally please see NOVATEK Sustainability Report 2010, pp. 12-13.	
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Fully	Additionally please see NOVATEK Annually Report 2010, pp. 34-35.	
2.8	Scale of the reporting organization.	Fully		8-14
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Fully		60
2.10	Awards received in the reporting period.	Fully	<a href="http://www.novatek.ru/en/about/achievements/">http://www.novatek.ru/en/about/achievements/</a>	12, 21, 32
Report Parameters				
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	Fully	2011 calendar year	60
3.2	Date of most recent previous report (if any).	Fully	NOVATEK Sustainability Report 2010 was published at the end of 2011 please see — <a href="http://www.novatek.ru/en/development/">http://www.novatek.ru/en/development/</a> .	60
3.3	Reporting cycle (annual, biennial, etc.)	Fully	annually	60
3.4	Contact point for questions regarding the report or its contents.	Fully		60
3.5	Process for defining report content.	Fully		60-61
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Fully		60-61

Standard Disclosures ↓	Description ↓	Reported ↓	Cross-reference/Direct answer ↓	Page in the report ↓
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Fully		<b>60-61</b>
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		<b>60-61</b>
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		<b>60-61</b>
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	Not implemented.	
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Fully	No material changes occurred.	
3.12	Table identifying the location of the Standard Disclosures in the report.	Fully		<b>53</b>
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 verification report is enclosed.	<b>59</b>
<b>Governance, Commitments, and Engagement</b>				
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	Additionally please see NOVATEK Annually Report 2010, pp. 45-48.	<b>14</b>
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Fully	No	
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	The Board of directors comprises 9 members, including six non-executive directors who are considered independent according to the definition contained in the Russian Federal "Law on Joint-Stock Companies" and two non-executive directors are considered independent according to the definition contained in the UKLA Combined Code.	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Fully	"The indicator was not changed since the previous report. 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	NOVATEK's Corporate Governance and Remuneration Committee is responsible for determining the policy for executive remuneration and for the remuneration and benefits of individual executive directors and senior executives as well. Information on remuneration of members of the Company's Board of Directors and Management Committee in 2011 could be found in NOVATEK Annual Report 2011, p.67.	<b>37</b>

Standard Disclosures ↓	Description ↓	Reported ↓	Cross-reference/Direct answer ↓	Page in the report ↓
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Partially	"Members of the Board of Directors and the Management Board shall declare any personal, commercial or other interest (direct or indirect) in transaction-framework of, contracts, projects, related to the Company, including the intention to make a deal with its shares or shares of its subsidiaries. Please also see OAO NOVATEK Code of Business Conduct and Ethics: <a href="http://www.novatek.ru/en/about/management/regulatory/">http://www.novatek.ru/en/about/management/regulatory/</a> ."	
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	<a href="http://www.novatek.ru/en/about/management/regulatory/">http://www.novatek.ru/en/about/management/regulatory/</a>	<b>14, 36</b>
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.	
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	Fully		<b>16</b>
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	Fully	NOVATEK participates in the global Carbon Disclosure Project (CDP) and CDP Water Disclosure, continues its cooperation with the Yamal for Descendants Association of Minority Populations of Indigenous Peoples of the Far North. NOVATEK and its subsidiaries have also entered into cooperation agreements with the regions where we operate.	<b>20, 44</b>
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization.*	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.	<b>20, 31, 44-47</b>
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		<b>20, 31, 44-47</b>

Standard Disclosures ↓	Description ↓	Reported ↓	Cross-reference/Direct answer ↓	Page in the report ↓
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		<b>20, 31, 44-47</b>
<b>Economic performance</b>				
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		<b>13</b>
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Fully	Additionally please see NOVATEK Sustainability Report 2010, p. 31.	
EC3	Coverage of the organization's defined benefit plan obligations.	Fully		<b>41</b>
EC4	Significant financial assistance received from government.	Fully	No	
<b>Market presence</b>				
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Fully	NOVATEK adheres to the principles of fair competition, and all corporate procurement is carried out exceptionally competitive. All things being equal, preference is given to local suppliers. Since we operate in the sparsely populated and industrially undeveloped areas, the share of purchases from local suppliers, for objective reasons, is irrelevant.	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Fully	Given the fact that NOVATEK operates mainly in Russia, the term "local populations" in this Report only applies against indigenous people, the Company is recruiting representatives of indigenous peoples, who have the required qualifications, in our subsidiaries in the YNAO.	<b>36, 46</b>
<b>Indirect economic impacts</b>				
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Fully		<b>44-47</b>
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Partially		<b>8, 44-47</b>
<b>Environmental</b>				
<b>Materials</b>				
EN2	Percentage of materials used that are recycled input materials.	Partially		<b>27</b>
<b>Energy</b>				
EN3	Direct energy consumption by primary energy source.	Partially		<b>22</b>
EN5	Energy saved due to conservation and efficiency improvements.	Fully		<b>23</b>
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		<b>21-23</b>



Standard Disclosures ↓	Description ↓	Reported ↓	Cross-reference/Direct answer ↓	Page in the report ↓
<b>Water</b>				
EN8	Total water withdrawal by source.	Partially		<b>26</b>
EN10	Percentage and total volume of water recycled and reused.	Partially		<b>26</b>
<b>Biodiversity</b>				
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Partial		<b>28</b>
EN13	Habitats protected or restored.	Partial		<b>27</b>
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Fully		<b>28</b>
<b>Emissions, effluents and waste</b>				
EN16	Total direct and indirect greenhouse gas emissions by weight.	Fully	Additionally please see NOVATEK Report for Carbon Disclosure Project.	<b>24</b>
EN17	Other relevant indirect greenhouse gas emissions by weight.	Fully	Additionally please see NOVATEK Report for Carbon Disclosure Project.	<b>24</b>
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Fully		<b>24-25</b>
EN20	NOx, SOx, and other significant air emissions by type and weight.	Fully		<b>24</b>
EN22	Total weight of waste by type and disposal method.	Partially		<b>25</b>
EN23	Total number and volume of significant spills.	Fully	Significant spills did not occur in the reporting period.	<b>33</b>
<b>Fully</b>				
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Fully		<b>21-23, 25</b>
<b>Compliance</b>				
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Fully		<b>27</b>
<b>Transport</b>				
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	Fully	Additionally please see NOVATEK Sustainability Report 2010, pp. 16-17	<b>25</b>
<b>Overall</b>				
EN30	Total environmental protection expenditures and investments by type.	Fully		<b>28</b>
<b>Social: Labor Practices and Decent Work</b>				
<b>Employment</b>				
LA1	Total workforce by employment type, employment contract, and region.	Fully		<b>36</b>

Standard Disclosures ↓	Description ↓	Reported ↓	Cross-reference/Direct answer ↓	Page in the report ↓
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Fully		<b>40</b>
<b>Labor/management relations</b>				
LA4	Percentage of employees covered by collective bargaining agreements.	Fully	In 2011, 66.9 % of the employees at our subsidiaries were covered by trade unions.	<b>42</b>
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.	
<b>Occupational health and safety</b>				
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Partially		<b>32</b>
LA9	Health and safety topics covered in formal agreements with trade unions.	Fully	One of the elements of interaction between trade unions and subsidiary management is the joint organization of health improvement programs, sporting and cultural events.	<b>42</b>
<b>Training and education</b>				
LA10	Average hours of training per year per employee by employee category.	Fully		<b>38</b>
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Fully		<b>37-39</b>
<b>Diversity and equal opportunity</b>				
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Partially		<b>36</b>
<b>Social: Human Rights</b>				
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Fully	The Company has a Tender Committee which is responsible for selection of suppliers of goods (products) and services providers for the needs of NOVATEK and its subsidiaries. The Committee activities are governed by NOVATEK's internal Regulations on the organization of competitive tendering, approved in 2006. When selecting suppliers, the study is being carried out on several items, including credit history, reputation, management practices and its reliability.	
HR4	Total number of incidents of discrimination and actions taken.	Fully	No cases were detected in the reporting period.	
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.	
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	Fully	Such activities were not detected during the reporting period.	<b>36</b>
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	Such activities were not detected during the reporting period.	<b>36</b>

Standard Disclosures ↓	Description ↓	Reported ↓	Cross-reference/Direct answer ↓	Page in the report ↓
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	Fully	No cases were detected in the reporting period.	
<b>Social: Society</b>				
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		<b>19, 44-47</b>
SO4	Actions taken in response to incidents of corruption.	Fully	No cases were detected in the reporting period.	
SO5	Public policy positions and participation in public policy development and lobbying.	Fully	The Company takes part in the events dedicated to discussing the draft laws, regulations and other decisions of industry regulations.	<b>20</b>
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.	
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.	
<b>Social: Product Responsibility</b>				
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	Additionally please see NOVATEK Sustainability Report 2010, pp. 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.	
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Fully	Additionally please see NOVATEK Sustainability Report 2010, pp. 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.	
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.	
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.	

### Note

The following indicators are not material or relevant for the Company: EC5, EN4, EN7, EN17, EN19, EN24, EN25, EN27, LA6, LA8, LA14, PR5, PR6, PR7, HR1, HR8, SO2, SO3, SO6.

## About this report

### Reporting Period

The Report covers the period from January 1, 2011 until December 31, 2011. The Company has published an annual sustainability report since 2010.

### The Reporting System

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

### Verification

The Report has been verified by SGS Vostok Limited; the assurance report is attached.

### The Reporting Boundary

The report covers the following entities:

- > OAO NOVATEK
- > Subsidiaries of OAO NOVATEK that generate significant economic, environmental and social impacts:
  - >> OOO NOVATEK-Yurkharovneftegas
  - >> OOO NOVATEK-Tarkosaleneftogas
  - >> ZAO Terneftegas
  - >> OOO NOVATEK-Purovsky ZPK
  - >> OOO NOVATEK-Transervice
  - >> OOO NOVATEK Severo-Zapad
  - >> OOO NOVATEK – Ust-Luga
  - >> OOO NOVATEK-AZK
  - >> OAO Sibneftegas

- > Subsidiaries of OAO NOVATEK that generate significant actual or potential economic impact:
  - >> NOVATEK Overseas,
  - >> NOVATEK Gas&Power,
  - >> NOVATEK Polska,
  - >> OOO NOVATEK Scientific& Technical Center.

The scope of data on OAO NOVATEK, Novatek Polska and NOVATEK Gas&Power is limited due to the non-productive nature of the activities. For some quantitative indicators (for instance, environmental) these companies have not been included in the reporting boundary.

- > Companies in which OAO NOVATEK has an important influence and which may generate significant economic, environmental and social benefits in future:
  - >> OAO Yamal LNG
  - >> OOO YARGEO
  - >> OOO Petra Invest-M.

There were a number of changes in the structure of assets managed by OAO NOVATEK in the reporting period. Qualitative data on these assets is included in the section of this Report.

In November 2011, NOVATEK acquired a 100% interest through its subsidiaries in Gazprom Mezhhregiongaz Chelyabinsk, the largest gas supplier in Chelyabinsk Region. The Company's current organizational structure is published on its website at <http://www.novatek.ru/en/about/general/structure/>. The reporting boundaries include assets in the Hydrocarbon Exploration

and Production, Processing and Marketing in Russia and the Exploration, Production and Marketing Abroad segments in which OAO NOVATEK has more than a 51% interest.

The reporting boundaries do not include newly formed assets and assets included in NOVATEK's structure in 2011. Hereafter in the Report, the expressions "Company", "NOVATEK" and "we" refer to OAO NOVATEK and assets managed by it, unless otherwise indicated. The boundaries of corporate policies, management systems and programs are indicated in the corresponding sections of the Report.

The Report presents data and indicators calculated or generated using the following standards, reporting systems and guidelines:

- › financial indicators are based on data of consolidated financial statements prepared according to IFRS;
- › proven hydrocarbon reserves are assessed according the U.S. Securities and Exchange Commission (SEC);
- › performance results from the sustainable development perspective are based on the Reporting Guidelines (GRI, 3.1).

## Defining Materiality

A Working Group consisting of representatives of core business units responsible for preparing the Report defines the Company's material issues. An analysis of media publications about the Company, global trends in the oil and gas industry, best reporting practices of world industry leaders and auditors' recommendations were taken into consideration when the Report concept was prepared.

## Next Report

Publication of the next report is planned in 2013.

## Contact information

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## Feedback Questionnaire

### Dear readers,

You have just read NOVATEK's fifth 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](tel:+74957306013).

Please mail the completed questionnaire to: [2, Udaltsova street, Moscow, Russia, 119415](#). You can also e-mail it to: [ir@novatek.ru](mailto: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?**

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## Abbreviations

<b>barrel</b>	one stock tank barrel, or 42 US gallons of liquid volume
<b>bcm</b>	billion cubic meters
<b>boe</b>	barrels of oil equivalent. For natural gas, we use the conversion factor of one mcm equals 6.54 barrels.
<b>km</b>	kilometer(s)
<b>km<sup>2</sup></b>	cubic kilometer(s)
<b>mboe</b>	thousand boe
<b>mcm</b>	thousand cubic meters
<b>mt</b>	thousand metric tons
<b>mmboe</b>	million boe
<b>mmcm</b>	million cubic meters
<b>mmt</b>	million metric tons
<b>ton</b>	metric ton
<b>SEC</b>	United States Securities and Exchange Commission
<b>PRMS</b>	Petroleum Resources Management System
<b>YNAO</b>	Yamal-Nenets Autonomous Region
<b>RR</b>	Russian rouble
<b>LPG</b>	liquid petroleum gases
<b>LNG</b>	liquefied natural gas
<b>NSR</b>	North Sea Route

## Forward-looking statements

This Sustainability Report includes ‘forward-looking information’ within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the US Securities Exchange Act of 1934, as amended. Certain statements included in this Report, including, without limitation, statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “expect,” “anticipate,” “intends,” “estimate,” “forecast,” “project,” “will,” “may,” “should” and similar expressions identify forward-looking statements. Forward-looking statements include statements regarding: strategies, outlook and growth prospects; future plans and potential for future growth; liquidity, capital resources and capital expenditures; growth in demand for our products; economic outlook and industry trends; developments of our markets; the impact of regulatory initiatives; and the strength of our competitors. The forward-looking statements in this Report are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies, which are difficult or impossible to predict and are beyond our control. As a result, we may not achieve or accomplish these expectations, beliefs or projections. In addition, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:



- › changes in the balance of oil and gas supply and demand in Russia and Europe;
- › the effects of domestic and international oil and gas price volatility and changes in regulatory conditions, including prices and taxes;
- › the effects of competition in the domestic and export oil and gas markets;
- › our ability to successfully implement any of our business strategies;
- › the impact of our expansion on our revenue potential, cost basis and margins;
- › our ability to produce target volumes in the event, among other factors, of restrictions on our access to transportation infrastructure;
- › the effects of changes to our capital expenditure projections on the growth of our production;
- › potentially lower production levels in the future than currently estimated by our management and/or independent petroleum reservoir engineers;
- › inherent uncertainties in interpreting geophysical data;
- › changes to project schedules and estimated completion dates;
- › our success in identifying and managing risks to our businesses;
- › the effects of changes to the Russian legal framework concerning currently held and any newly acquired oil and gas production licenses;
- › changes in political, social, legal or economic conditions in Russia and the CIS;
- › the effects of technological changes;
- › the effects of changes in accounting standards or practices.

This list of important factors is not exhaustive. When relying on forward-looking statements, one should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. The information and opinions contained in this document are provided as at the date of this review and are subject to change without notice.