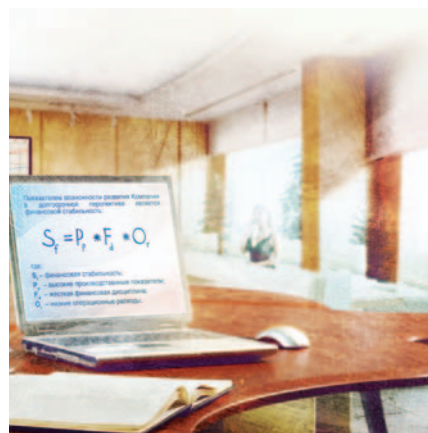


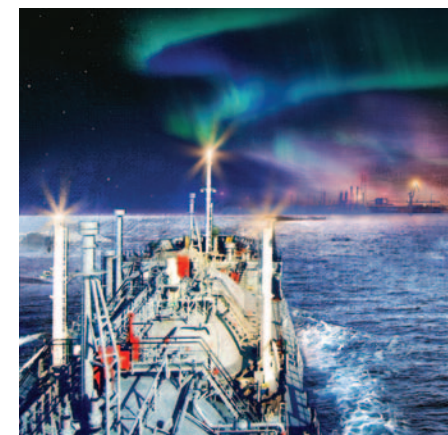


2012



# NOVATEK SUSTAINABILITY REPORT

ON THE TERRITORY OF THE  
RUSSIAN FEDERATION IN 2012



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## LETTER FROM THE CHIEF EXECUTIVE OFFICER OF OAO NOVATEK

### DEAR STAKEHOLDERS,

We are very pleased to present our Sustainability Report for 2012 prepared in accordance with the Global Reporting Initiative (GRI) guidelines.

Our vast hydrocarbon resource base is concentrated in the Yamal-Nenets Autonomous Region, the world's largest natural gas production area with a well-developed pipeline infrastructure and a long history of responsible field development. As of the end of 2012, NOVATEK ranked fourth amongst publicly traded companies in terms of proven natural gas reserves according to the U.S. Security and Exchange Commission reserve methodology. Our substantial proven reserve base allows us view the future with confidence and continues to effectively increase hydrocarbon production.

In 2012, NOVATEK's gross hydrocarbon production increased by 7% as compared with 2011, led by our Yurkharovskoye field, where the fourth stage of Phase Two development was launched, and reached its maximum daily production level by the end of the reporting year. We also began production of natural gas and gas condensate at the Samburgskoye field, where the first two phases of gas treatment facilities were commissioned during 2012 along with production wells and the necessary transportation infrastructure. We continued to actively work on implementing new projects that are expected to contribute to our sustainable production growth in the future and, eventually with the launch of our Yamal LNG project, allow us to enter the liquefied natural gas (LNG) market.

Today, Russia's share in the global natural gas production is nearly 18%, while its share in the global production of LNG is only 4.5%. We believe that LNG will account for the major part of the natural gas consumption growth globally, and Russia's share in LNG production is forecasted to increase to approximately 15% according to the country's domestic gas industry development plans. Therefore, in the reporting year, we continued implementing the Yamal LNG project, which envisages construction of an LNG plant on the Yamal Peninsula based on the feedstock resources of the South-Tambeyskoye natural gas and gas condensate field. The implementation of the Yamal LNG project, including construction of a sea port in the Sabetta settlement, airport and ice-class tankers, together with the development of our resource base on the Gydan peninsula will become strong drivers for economic growth of the Russian North and contribute to its social development.

We also continued the construction of the Gas Condensate Fractionation and Transshipment Complex in the port of Ust-Luga, the first phase of which was launched in June 2013. The complex processes stable gas condensate into light and heavy naphtha, jet and diesel fuels as well as heating oil, and allows us to export the petroleum products by the all-season Baltic Sea. State-of-the-art equipment has been installed at the Ust-Luga Complex to ensure maximum automation of technological processes, and to provide the highest level of industrial and environmental safety. The Ust-Luga Complex is located on artificially reclaimed land and this fact predetermined the compact design layout of processing facilities.

We expect that liberalization of the Russian gas market set by the government and supported by the independent gas producers will continue, which will lead to further increasing competition. Since the Company's inception our business model has been based on a client-focused approach, which materially strengthens our competitive position in the Russian domestic market. In 2012, as part of this client-focused approach we developed and implemented a standardized contract allowing unifying natural gas supply terms for all our clients in the Chelyabinsk region and making these terms fully transparent.

Stable, mutually beneficial relationship with consumers is the key priority of our marketing policy. Our share on the Russian gas market in recent years has been growing and exceeded 16% in 2012. For the first time in our history, we executed long-term delivery contracts for periods of up to 15 years. Such contracts were concluded with MMK, the Russian subsidiaries of E.ON and Fortum, and subsidiaries of the Mechel Group, with annual delivery volumes under these contracts are expected to comprise up to 30% of our total gas sales in the coming years. We also signed a five-year contract with OAO Severstal providing for total supplies of approximately 12 bcm of natural gas, as well as a three-year contract with OAO Mosenergo to supply 27 bcm of natural gas.

We aim to build the most effective supply chain for our liquids sales. In particular, we are actively using the Arctic Ocean's Northern Sea Route, as the shortest navigable route to the fast-growing markets in the Asian-Pacific Region. The use of the Northern Sea Route will continue to contribute to the development of the Russian Arctic shipping industry and, as of this reporting period, more than one million tons of stable gas condensate has been delivered via the Northern Sea Route from its inception.



Although increasing shareholder value is an important business objective for the Company, we strongly adhere to conservative financial policies and improving the Company's corporate governance as well as ensuring sustainable development in our core operational decisions. These important concepts are embedded throughout our corporate strategy and underscore our investment decisions.

Our core oil and gas operations are located in ecologically sensitive areas; therefore, environmental protection and the implementation of best practices are integral parts of our sustainable development concept. Our gross environmental impact increased following a growth in production volumes; however, we were able to maintain our safety record through enforcing the highest level of industrial safety at all of our facilities. In 2012, more than two thousand hectares of land were rehabilitated by NOVATEK and turned over to the primary land user, which exceeded the prior year's results by 25%.

We are discussing construction programs for large new facilities with the population living in the area of our operations. In the reporting year, public hearings took place on construction of the third and fourth phases of the Purovsky condensate processing plant, as well as construction of the sea port facilities near Sabetta settlement.

We believe that business development is inseparable from corporate social responsibility. We continued our mutual cooperation with regional and local authorities under the Social-Economic Cooperation Agreements. The funds allocated are invested in the construction of important facilities of social infrastructure, providing assistance to the minority peoples of the Far North, socially vulnerable populations, and in cultural and sports projects.

We support educational development programs by providing grants to students and teachers, we assist talented students and expect to see them at the Company's enterprises after they graduate. In 2012, we launched the "Steps towards Talent Discovery" Program that allows new employees to learn specifics of the technological processes, successfully develop their professional skills and to uncover their creative potential. Our efforts in attracting youth are producing results. In 2012, the share of employees younger than 35 years holding senior management positions increased to 15.1% as compared to 12.6% in 2011.

We understand that social responsibility means safe workplaces for our employees, various opportunities for development and growth, social protection and a wide array of benefits for employees, members of their families and retired employees.

We maintain an ongoing dialogue with all of our stakeholders and intend to continue providing them with comprehensive information about the impact of the Company's activities on socio-economic development and the environment. It is important for us to know what you think about our business; therefore, we would be grateful for any feedback and comments you might have that will make our contribution to sustainable development even more significant.

CHIEF EXECUTIVE OFFICER, OAO NOVATEK  
**LEONID MIKHELSON**





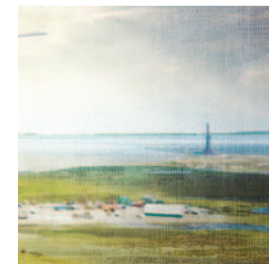


**NOVATEK SUSTAINABILITY REPORT**  
ON THE TERRITORY OF THE  
RUSSIAN FEDERATION IN 2012

# ABOUT THE REPORT AND REPORTING PROCESS

NOVATEK PREPARES ITS SUSTAINABILITY  
REPORTS IN ACCORDANCE WITH THE GLOBAL  
REPORTING INITIATIVE (GRI) GUIDELINES

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## ABOUT THE REPORT AND REPORTING PROCESS

### ABOUT THIS REPORT

We consider the regular reporting of NOVATEK's sustainable development practices as one of our fundamental responsibilities to stakeholders. Therefore, along with information on financial and operating results provided in our Annual Report, we also report our contribution and progress toward sustainable development on an annual basis.

We publish our Sustainability Report and disclose the information on our achievements in social and economic development of the regions where we operate, our workplace health and safety, and our progress towards minimizing the environmental impact at our production operations. Implementing human resources and social policies is also an essential issue. We discuss relationships with our industry partners, government authorities, NGOs and indigenous communities.

### USING NON-FINANCIAL REPORTING SYSTEMS AND VERIFICATION

The Company uses an annual Reporting cycle. This Sustainability Report for 2012 is our sixth such report. The Report has been developed using the Reporting Guidelines of the Global Reporting Initiative (GRI 3.1), and for the first time this year, we began using the GRI Oil and Gas Sector Supplement. Our Sustainability Report, hereafter referred to as the "Report") meets the content and quality requirements of the Global Reporting Initiative G3 Version 3.1 Application Level B+.

Verification of the report's data and an Assurance Statement of compliance with the principles and requirements of the GRI reporting system have been prepared by SGS Vostok Ltd. Their opinion is published on page 57 of this Report.

### PRINCIPLES FOR PRESENTING AND SELECTING INFORMATION

When the Report concept was being developed, a working group consisting of representatives of our core business units responsible for preparing the report compiled a list of the Company's high-priority issues, directly related to the economic, environmental and social impact of our operations, which we felt was of the highest interest to our stakeholders. An analysis of global trends in the oil and gas industry, best reporting practices of world industry leaders, stakeholders' requests and opinions expressed during monitoring, regular communications, joint events and dialogs, media publications about the Company, and auditors' recommendations were also taken into consideration when the Report concept was being prepared.

In preparing this Report we were guided by the principles of balance, comparability, accuracy, clarity and reliability.

## THE REPORTING BOUNDARY

The Report covers the period from 1 January 2012 through 31 December 2012 and outlines our sustainable development plans for 2013. Data from previous years were used to report on trends for a number of indicators. The key performance indicators in the Report, including those making up the GRI EC1 indicator, are presented according to International Financial Reporting Standards ("IFRS"). We also used data from management reports, financial statements, government statistics reports and subsidiaries' reports; internal audit reports and inspection reports on subsidiaries from government control and supervisory authorities. Proven hydrocarbon reserves are assessed according the U.S. Securities and Exchange Commission (SEC).

The reporting boundaries for 2012 include core subsidiaries and associated companies, including assets in the Hydrocarbon Exploration and Production, Processing and Marketing in Russia and the Exploration, Production and Marketing Abroad segments.

The Company's up-to-date Corporate Structure can be found on our website at <http://www.novatek.ru/en/about/general/structure/>.

In 2012, we additionally included OOO NOVATEK-Chelyabinsk and OOO NOVATEK-Perm in the reporting boundaries as compared with the boundaries of the previous report.

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

The Report does not contain restatements of information presenting in sustainability reports of previous periods. To avoid repetition, information already disclosed in our Annual Report or previous sustainability reports is referenced in the respective documents.

A table of standard GRI reporting elements is presented on page 59 of this Report. Publication of the next report is planned in 3Q 2014.

Hereafter in the Report, the expressions, "Company", "NOVATEK" and "we" refer to OAO NOVATEK and assets managed by it, unless otherwise indicated.



**NOVATEK SUSTAINABILITY REPORT**  
ON THE TERRITORY OF THE  
RUSSIAN FEDERATION IN 2012

# COMPANY PROFILE

OAO NOVATEK IS RUSSIA'S LARGEST  
INDEPENDENT NATURAL GAS PRODUCER  
AND THE SECOND-LARGEST NATURAL  
GAS PRODUCER IN RUSSIA

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## COMPANY PROFILE



0AO NOVATEK IS RUSSIA'S LARGEST

INDEPENDENT NATURAL GAS

PRODUCER AND THE SECOND-LARGEST

NATURAL GAS PRODUCER IN RUSSIA

We are principally engaged in the exploration, production, processing, transportation and marketing of natural gas and liquid hydrocarbons.

We are ranked among the top four public companies worldwide in terms of proven natural gas reserves (according to the SEC reserve methodology) and one of the top seven in terms of gas production. The Company's main producing and processing assets are concentrated

in the Yamal-Nenets Autonomous Region (YNAO), one of the world's largest natural gas producing regions.

During 2012, we supplied natural gas to 35 regions within the Russian Federation. The Company's primary liquid hydrocarbon sales volumes are comprised of stable gas condensate and liquefied petroleum gases. Ninety-nine percent of our stable gas condensate production after processing is exported to countries in the Asian-Pacific

region, Europe, South America and the United States, while 53% of our total LPG sales volumes are exported to Poland, Finland, Hungary, Lithuania, Latvia, Slovakia, Romania and Turkey. We are also producing and selling relatively small quantities of crude oil.

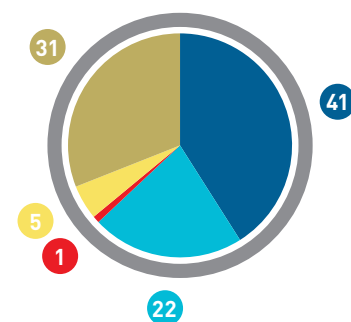
The total number of employees of the Company and its subsidiaries as of 31 December 2012 was 6,023 people.

### GROSS PRODUCTION\*

	2010	2011	2012
Total gross production, mmeob:	278	385	411
Gross natural gas production, bcm	37.8	53.5	57.3
Gross liquids production, mmt	3.6	4.1	4.3

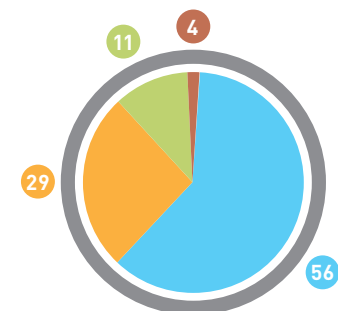
\* Including our share in production of our joint ventures.

### BREAKDOWN OF 2012 NATURAL GAS SALES VOLUMES, %



- Power generation companies
- Large industrial consumers
- Households
- Others
- Wholesale traders, ex-field

### MAIN STABLE GAS CONDENSATE EXPORT REGIONS, %



- Asian-Pacific Region
- Europe
- USA
- South America

## MAIN OPERATIONAL AND PRODUCTION RESULTS FOR 2012



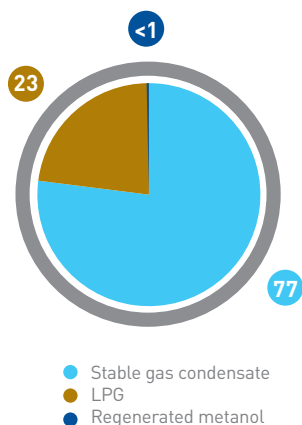
**NOVATEK RANKED 9TH IN TOTAL SHAREHOLDER RETURN (2007-2011) IN THE BOSTON CONSULTING GROUP'S GLOBAL RATING OF THE WORLD'S LARGEST PUBLICLY TRADED COMPANIES WITH MARKET CAPITALIZATION OF MORE THAN \$35 BILLION, AND RANKED 2ND AMONG OIL AND GAS COMPANIES WITH MARKET CAPITALIZATION OF MORE THAN \$15 BILLION**

- Total proved hydrocarbon reserves increased by one-third to 12.4 billion barrels of oil equivalent (boe) according to the SEC proven reserve standards.
- We recorded a more than eight-fold (842%) reserve replacement rate and, as a result, our reserve to production ratio (or R/P ratio) increased from 25 years in 2011 to 31 years.
- The Company's total 2012 reserve replacement costs were RR 33.1 per boe (\$1.07 per boe), and lifting costs were RR 17.8 (\$0.57) per boe, one of the lowest in the oil and gas industry.

- Total gross production of natural gas amounted to 57.3 billion cubic meters (bcm), representing an increase of 7.1% as compared to 2011.
- Gross production of liquid hydrocarbons increased by 4.0% to 4.29 million tons (mmt) as compared to 2011. Crude oil production increased by 85.3%. Share of gas condensate in gross production of liquid hydrocarbons was 88%.
- NOVATEK's share in natural gas production in Russia increased from 8.0% in 2011 to 8.8% in 2012.
- NOVATEK's share in gas deliveries to the domestic market via the UGSS was 16.3% in 2012.

- Total revenues increased by 20.4% to RR 211.0 as compared to 2011, while natural gas sales volumes increased by 9.7%, including sales to end-users increasing by 39.1%.
- In 2012, the Purovsky Plant processed 4.03 mmt of de-ethanized gas condensate, or 4.3% more than in 2011, resulting in the commercial production of 3,081 mt of stable gas condensate and 903 thousand tons of LPG as well as approximately 17 thousand tons of methanol.

PUROVSKY PLANT OUTPUT IN 2012, %



CREATED AND DISTRIBUTED ECONOMIC VALUE, RR MILLIONS\*

	2012	2011
Sales revenues	210,973	175,273**
Operating costs	86,513	61,294
Salaries and other benefits for employees	10,677	7,603
Payments to financial services providers	25,425	20,588
Taxes allocated to budgets by country (all taxes and mandatory payments), including:	32,988	29,026**
Taxes, except profit tax, by country:	16,846	16,559**
Russia	16,837	16,554
Other	9	5**
Profit tax by country:	16,142	12,467
Russia	16,011	12,364
Other	131	103

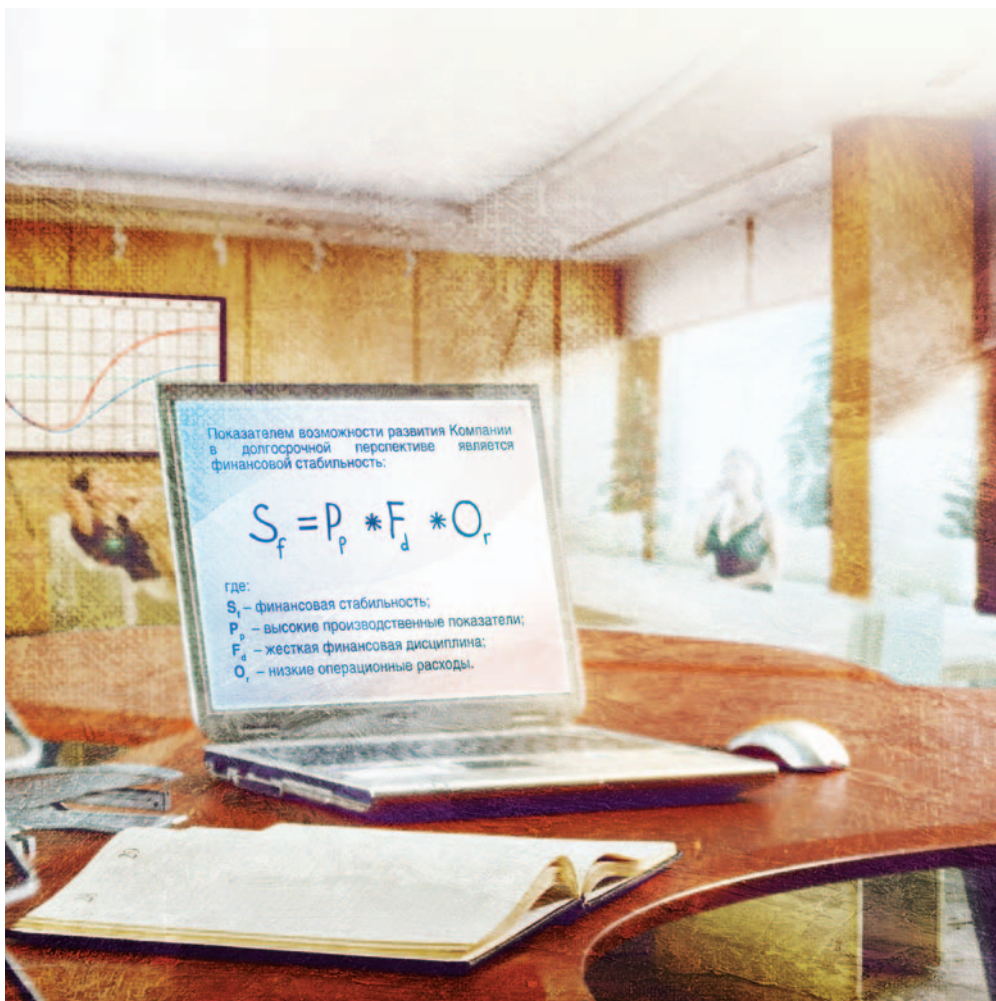
\* According to Indicator Protocols Set Economic (EC1) to GRI G3.1 Index

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

# ECONOMIC PERFORMANCE AND SUSTAINABILITY

ECONOMIC, ENVIRONMENTAL  
AND SOCIAL PRINCIPLES OF  
SUSTAINABLE DEVELOPMENT  
ARE AN INTEGRAL PART OF OUR  
CORPORATE STRATEGY

3



# ECONOMIC PERFORMANCE AND SUSTAINABILITY

## THE COMPANY'S CORPORATE STRATEGY TO 2020

The Company's corporate strategy to 2020 was approved and publicly disclosed at the end of 2011<sup>2</sup>. The strategy aims at continuing the Company's growth through strategic investments in expanding our business, strengthening NOVATEK's positions as one of the main natural gas producers on the Russian market and developing its positions on the international gas market with the future launch of the Yamal LNG project. Sustainable development principles are an integral part of our corporate strategy, its economic, environmental and social policies and approaches are being applied to all parts of the Company's production chain, from hydrocarbon exploration and production to processing, transportation and marketing. During the reporting year, the Company and its subsidiaries followed the approved development plans in accordance with the Strategy.

## HYDROCARBON EXPLORATION AND PRODUCTION

As of 31 December 2012, NOVATEK's SEC proved reserves totaled 12,394 mmboe, based on our equity ownership interest in the respective fields, representing a 32% increase as compared with proved reserve volumes as of the end of 2011. In 2012, we added 3,405 mmboe of proved reserves under the SEC reserves reporting standards, inclusive of 2012 production.

The increase in our proved reserves under international reserve reporting standards was due to successful exploration at the Company's fields, ongoing production drilling, the inclusion of Salmanovskoye (Utrennee) and Geofizicheskoye fields, acquired in 2011, into the reserve appraisal (the reserves of these two fields increased substantially in 2012 due to exploration works conducted during the year), as well as the acquisition of an equity stake in ZAO Nortgas, which holds the license for the North-Urengoyevskoye field.

NOVATEK's 2012 gross production from all fields (including the Company's share in production of joint ventures) amounted to 411 mmboe (405 mmboe of sales production), representing an increase of 6.8% over the prior year. Gross natural gas production increased mainly due to organic growth at the Yurkharovskoye and East-Tarkosalinskoye fields, production start-up at the Samburgskoye field, and the acquisition of an equity stake in ZAO Nortgas, which is developing the North-Urengoyevskoye field.

NOVATEK intends to increase its hydrocarbon reserves by conducting ongoing exploration activities and the commencement of field development on the Gydan Peninsula in the YNAO, the most northerly and inaccessible oil and gas bearing area of Western Siberia. In 2012, NOVATEK continued evaluation of the resource base of the Gydan Peninsula and Prienseiskaya area, including the Gulf of Ob and Gydan Bay, the Yenisei Gulf and the southern part of the Kara Sea shelf. The research is based on processing the available data of seismic surveys together with historical well drilling data.

At the end of 2012, NOVATEK acquired a 49% equity stake in ZAO Nortgas, which holds the license for the North-Urengoyevskoye field located in the Purovskiy and Nadym-Pur-Taz regions of YNAO. The field has proved gross reserves (SEC) of 157.3 bcm of natural gas and 21.1 mmt of liquid hydrocarbons at 31 December 2012. Our share in the proved reserves is 77.1 bcm of natural gas and 10.4 mmt of liquid hydrocarbons. During 2012, the field produced 4.2 bcm of natural gas and 426 thousand tons of unstable gas condensate (NOVATEK's share since acquisition of its equity interest was 0.2 bcm of natural gas and 19 thousand tons of gas condensate). In 2012, production of natural gas and gas condensate began at the Samburgskoye field of OOO Sever-Energia, where the first and second stages of gas treatment unit as well as the required transportation infrastructure were commissioned into operation at the field during the year. The Samburgskoye field has proved gross gas reserves of 97.8 bcm and reserves of liquid hydrocarbons of 15.7 mmt (NOVATEK's share – 24.9 bcm and 4.0 mmt respectively), as estimated under SEC reserves methodology at 31 December 2012.



**0AO NOVATEK BECAME THE WINNER**  
**IN THE "STRATEGY OF THE YEAR"**  
**CATEGORY OF THE URALPOLIT.RU**  
**EXPERT CHANNEL FOR SUCCESSFUL**  
**IMPLEMENTATION OF THE COMPANY'S**  
**CORPORATE STRATEGY TO 2020.**  
**THE PRIZE IS AWARDED FOR THE**  
**MOST INTELLIGENT, EFFECTIVE AND**  
**FUTURE-ORIENTED DEVELOPMENT**  
**STRATEGY OF A COMPANY OR AREA**  
**OF THE URAL-SIBERIAN REGION. THE**  
**WINNERS IN EACH OF 22 CATEGORIES**  
**ARE DETERMINED BY AN EXPERT**  
**SURVEY OF GOVERNMENT OFFICIALS**  
**AND REPRESENTATIVES OF BUSINESS**  
**AND EXPERT COMMUNITIES**

<sup>2</sup> [http://www.novatek.ru/common/upload/doc/Strategy\\_Presentation\\_ENG.pdf](http://www.novatek.ru/common/upload/doc/Strategy_Presentation_ENG.pdf)





**THE SOUTH-TAMBEYSKOYE FIELD HAS ALREADY BEEN THOROUGHLY STUDIED WITH THE RUNNING AND PROCESSING OF BOTH 2D AND 3D SEISMIC AS WELL AS THE DRILLING OF EXPLORATION WELLS. BASED ON THIS INFORMATION, DETAILED GEOLOGICAL MODEL WAS PREPARED AND RESERVE APPRAISAL HAVE BEEN COMPLETED**

In October 2012, we launched the fourth stage of Phase Two development at the Company's Yurkharovskoye field, consisting of two low-temperature separation lines with total annual capacity of 7 bcm of natural gas. The launch has brought the field to its target production plateau of 36.5 bcm of natural gas per annum. Commissioning tests have been completed at the first stage of compressor booster station, which includes three units with total capacity of 75 MW, which enables to keep plateau production level at the Yurkharovskoye field.

In October 2012, we began technical maintenance and repair work on the compressor booster station at the Khancheyskoye field, whereby certain changeable flow parts were replaced and, as a result, daily production of natural gas and gas condensate at the field increased by 240 mcm and by 110 tons, respectively.

In 2012, we completed the construction and successfully launched the central oil treatment facility at the East-Tarkosalinskoye field to separate oil from water and prepare it for transportation through the main trunk pipeline system. Crude oil production is estimated at three (3) thousand tons per day. The operation of the central oil treatment facility is integrated with the compressor booster station, which allows us to substantially increase the rational use of associated petroleum gas. Approximately 600-700 mcm of associated gas per day is transported to the gas and gas condensate production unit and then sent as a marketable product to the trunk pipeline.

## YAMAL LNG PROJECT

The oil and gas industry is the main driver of economic and social development in the YNAO. As one of the country's key players, NOVATEK is implementing large-scale investment projects in the YNAO, with substantial capital investments not only on the industry level, but on the region's economy level as well.

In 2010, NOVATEK began implementing the Yamal LNG project, which envisages the construction of an LNG plant with annual capacity of 16.5 million tons per annum based on the feedstock resources of the South-Tambeyskoye field. OAO Yamal LNG holds the license for exploration and production at the South-Tambeyskoye field and is currently owned by NOVATEK (80%) and Total (20%).

According to the PRMS reserve standards, the proven and probable reserves of the South-Tambeyskoye field as of 31 December 2012 were appraised at 907 bcm of natural gas. The Project requires the construction of transport infrastructure including a sea-port and an airport facility located at Sabetta. Once completed, the new LNG plant will enable us to supply liquefied natural gas to markets in the Asian-Pacific Region and Europe.

The South-Tambeyskoye field has already been thoroughly studied with the running and processing of both 2D and 3D seismic as well as the drilling of exploration wells. Based on this information, detailed geological model was prepared and reserve appraisal have been completed.

In 2012, front-end engineering design work of the project was completed, a contractor was selected for drilling of the first production wells, two rigs were dispatched to the field, and work was carried out on preparing the well pads. Construction of cargo berths began at the port of Sabetta for receipt of building materials and LNG plant modules. Work was underway on construction of roads, fuel depot, power station and boiler house, housing facilities and canteens. A consultant was selected for issues of corporate and social responsibility, and preparations began for certification of the Yamal LNG integrated management system to ISO 14001:2004 and OHSAS 18001:2007 international standards. Tenders for LNG shipping, construction of LNG carriers and engineering, procurement and construction of the LNG plant were announced, and initial proposals were received from the participants. We were also working on marketing the expected LNG production and arranging the necessary project financing.



**CONSTRUCTION OF THE SABETTA  
PORT, A KEY ELEMENT OF THE  
TRANSPORTATION INFRASTRUCTURE  
FOR THE YAMAL LNG PROJECT,  
BEGAN IN 2012**

#### CONSTRUCTION OF THE SABETTA PORT

The official ceremony to mark the start of construction of the Sabetta port, a key element of the transportation infrastructure for the Yamal LNG project, and laying of a commemorative capsule in its foundation took place in July 2012. The port is located in the northeastern part of the Yamal Peninsula on the western shore of the Gulf of Ob, five (5) kilometers northeast of the Sabetta village and 30 km southeast of the Tambey village. The Sabetta sea-port project is being implemented and developed under a public-private partnership. The Russian government has defrayed the costs of ice protection barriers and dredging of the approach channel, whereas Yamal LNG covers expenses associated with the construction of loading berths and other port infrastructure.

The port will allow delivery of LNG by sea eastward via the Bering Strait and westward through the Atlantic Ocean.

The port will become not only a hub for developing the fields of the Yamal Peninsula and the Gulf of Ob, but will also provide year-round shipping through the Northern Sea Route and become an incentive to develop Russia's ice fleet. According to the Government's plans for Sabetta, the sea-port is envisioned to be a multi-purpose port handling transit traffic between Europe and Asian-Pacific Region and, when formally commissioned creates new opportunities for social and economic development of the region.

The Russian government is considering an extension of the existing Obskaya-Bovanenkovo railway line, built by OAO Gazprom during development of the Bovanenkovskoye field, to the port of Sabetta, which will become the terminal of the Northern Latitudinal Railway. The Northern Latitudinal Railway is a project for a main railway line connecting the cities and regions of Yamal with the Russian national railway system.

## PROCESSING

#### EXPANDING CAPACITY OF THE PUROVSKY PLANT

In 2012, the Company continued working on a project to expand annual capacity of the Purovsky Gas Condensate Processing Plant due to our plans to substantially increase our gas condensate production. New capacities include four low-temperature separation lines with processing capacity of 1.5 million tons of gas condensate each; thus, increasing the plant's total capacity after the launch of the new separation lines from five (5) million tons to 11 million tons per year.

Along with construction of new processing capacities we plan to modernize production infrastructure by constructing a new 110/10 kV substation and nine (9) new rail tracks at the Zavodskaya railway station. The Company plans to expand fire extinguishing and pump systems, and a number of other related facilities to enable safe operations once the plant's capacity more than doubles.

In 2012, we continued the preliminary phase of the work. All tenders were held and contracts were concluded for equipment delivery and the selection of the general contractor for construction of the third stage. Most of the equipment has already been delivered to the site.



#### THE STRATEGIC COOPERATION

#### AGREEMENT WITH OAO RUSSIAN

#### RAILWAYS TO 2020 ENVISAGES

#### CAPACITY EXPANSION OF RAILWAY

#### INFRASTRUCTURE AND GUARANTEES

#### TRANSPORTATION OF PRODUCTS FROM

#### THE PUROVSKY PLANT

### CONSTRUCTION OF THE UST-LUGA STABLE GAS CONDENSATE TRANSSHIPMENT AND FRACTIONATION COMPLEX

In 2012, we completed construction work at main facilities of the first stage of our Gas Condensate Transshipment and Fractionation complex at the port of Ust-Luga, the first phase of which was launched in June 2013. The Ust-Luga Complex includes stable gas condensate transshipment and fractionation facilities and upon completion of phase two will be able to process up to six (6) million tons of gas condensate. The Ust-Luga Complex processes stable gas condensate into light and heavy naphtha, diesel fuel, jet fuel and heating/ship fuel, which allows us to enter new markets, reach new customers and expand our range of higher value added products.

State-of-the-art equipment has been installed at the Ust-Luga Complex ensuring maximum automation of technological processes, as well as providing the highest level of industrial and environmental safety. Another unique feature is the facilities location on an artificially in-filled land, which required the most compact layout of production facilities.

## TRANSPORTATION

### USING THE ARCTIC FLEET

In 2012, NOVATEK continued to use the Northern Sea Route (NSR) for supplies of stable gas condensate to the fast growing markets in the Asian-Pacific region. During the seasonal navigational period, we sent eight (8) tankers with icebreaker support through the NSR, which delivered 487 thousand tons of stable gas condensate to consumers in China and South Korea.

In 2012, NOVATEK and the state corporation RosAtom entered into a General Cooperation Agreement to coordinate investment and innovation activities for safe and efficient navigation in Arctic waters, White and Baltic Seas, as well as to create new technologies and develop competitive products to enhance the efficiency of geological exploration, production, transportation, storage and processing of natural gas and gas condensate.

The parties also concluded a long-term service contract for icebreaker support through the NSR for the construction of the LNG plant. The cargo carriage increase under the contract will start in 2014 with transportation of construction cargoes for the LNG plant on the Yamal peninsula. The agreement means that RosAtomflot receives a guaranteed order, while NOVATEK is able to transport hydrocarbons more efficiently, allowing it to implement long-term plans to develop fields on the Yamal and Gydan Peninsulas and in the Gulf of Ob.

### RAIL TRANSPORT

In 2012, OAO Russian Railways and NOVATEK signed a contract for rail transportation of liquid hydrocarbons from NOVATEK's wholly owned Purovsky Processing Plant until 2020 as part of a long-term strategic partnership agreement. The contract guarantees the transportation of additional volumes of liquid hydrocarbons produced as a result of the increased capacity of the Purovsky Plant.

Details of the transportation support system for the Company's operations are given in the Product Life Cycle Analysis section of NOVATEK's Sustainability Report for 2010 ([http://www.novatek.ru/common/upload/doc/Razvitie\\_eng.pdf](http://www.novatek.ru/common/upload/doc/Razvitie_eng.pdf)).



**NOVATEK'S LONG-TERM NATURAL GAS SUPPLY CONTRACTS CONCLUDED WITH OAO E.ON AND OAO FORTUM BECAME THE WINNERS IN THE "TRANSACTION OF THE YEAR" CATEGORY OF THE RESULTS OF THE YEAR OF THE URALS AND SIBERIA 2012 PRIZE. THE PRIZE IS AWARDED TO COMPANIES FOR THE MOST IMPORTANT BUSINESS TRANSACTION FOR DEVELOPMENT OF THE URAL-SIBERIAN REGION. THE URALPOLIT.RU EXPERT CHANNEL CARRIES OUT AN ANNUAL EXPERT SURVEY OF GOVERNMENT OFFICIALS AND REPRESENTATIVES, BUSINESS AND EXPERT COMMUNITIES TO DETERMINE THE WINNERS IN EACH OF 22 CATEGORIES**

## MARKETING AND SALES

### NATURAL GAS SALES

NOVATEK is implementing a marketing strategy aimed at expanding its presence in strategic regions and increasing its share of end users in total sales. At the end of 2011, NOVATEK, through its subsidiaries, acquired a 100% participation interest in the share capital of OOO Gazprom mezhregiongas Chelyabinsk (now OOO NOVATEK-Chelyabinsk). NOVATEK has been supplying natural gas to all customers in the Chelyabinsk Region since January 2012. The Company is the region's only supplier, but does not discourage other players from entering the market.

In 2012, we acquired an 82% stake in OOO Gazprom mezhregiongas Kostroma (now OOO NOVATEK-Kostroma), which supplies natural gas to a wide range of consumers in the Kostroma region. This newly acquired company supplied approximately 3.8 bcm of natural gas to customers in the Kostroma region during 2012, as compared with 0.8 bcm supplied directly by NOVATEK.

In 2012, NOVATEK entered into a series of major contracts for gas direct sales.

- The Company concluded long-term natural gas supply contracts with OAO E.ON and OAO Fortum for a period of 15 years, total volume of natural gas supplied over the period is estimated to exceed 180 bcm. According to the supply contracts, NOVATEK (or it's subsidiaries) will deliver natural gas to the Smolenskaya GRES, the Surgutskaya GRES-2, the Shaturskaya GRES and the Yayvinskaya GRES power stations of E.ON, as well as to the Nyaganskaya GRES and power stations of Fortum in Chelyabinsk.
- NOVATEK will deliver 27 bcm of natural gas to Mosenergo, the owner of 15 mainly gas-fired power plants. Mosenergo supplies more than 60% of the electricity and 43% of the heat to the city of Moscow and the Moscow Region. NOVATEK's deliveries will cover about 40% of Mosenergo's estimated gas consumption.
- OOO NOVATEK-Chelyabinsk, a wholly owned subsidiary of OAO NOVATEK, has entered into a long-term natural gas supply contract with OAO Mechel for the period of 2012-2023. According to the contract, 17 bcm of natural gas will be delivered to the facilities of the Chelyabinsk Metallurgical Plant and Urals Stampings Plant.
- OOO NOVATEK-Chelyabinsk signed a long-term natural gas supply contract with OAO MMK for a period of 10.5 years until 31 December 2022, and the total volume of natural gas supplied over this period will exceed approximately 50 bcm.
- The Company will deliver approximately 12 bcm of natural gas over a five-year period to the Cherepovets Metallurgical Works and Severstal-Metiz.
- OOO NOVATEK-Perm, a wholly owned subsidiary of OAO NOVATEK, has entered into a long-term natural gas supply contract with OAO Mineral Fertilizers (Perm). The contract valid until 31 December 2016. Together with the signed contract, the Company's share in natural gas deliveries to the Perm Territory will reach approximately 40%.

### NEW STANDARD OF GAS SUPPLY CONTRACT

NOVATEK supplies gas to all customers in the Chelyabinsk Region. In the interests of open relations with its partners, NOVATEK has developed a new standard contract offering transparent terms for natural gas supplies, which includes new approaches to pricing and adjusting consumption. A draft of the standard contract is available (only in Russian) on the website of OOO NOVATEK-Chelyabinsk at <http://www.novatek74.ru/>.

The Company has endeavored to simplify its pricing strategies, and at the same time enabled customers to work on the final cost: it depends on how accurately requests for delivery and consumption are planned. The Company provides discounts for advance payments and introduced the same index for industrial customers of the same group of companies. OOO NOVATEK-Chelyabinsk dropped penalties for deviation from actual daily consumption and adjustment during a calendar year for facilities with annual consumption of less than 10 mcm of gas and assumed all risks from the inevitable difference between plan and actual consumption.

In turn, the Company expects customers to pay on time and plan consumption patterns correctly. The new version of the contract for the region's industrial cluster is gradually being introduced throughout the Chelyabinsk Region.



#### DIALOG WITH INDUSTRIAL CUSTOMERS

NOVATEK considers consistent and open dialog with business partners a priority. In January 2012, management representatives from OAO NOVATEK and OOO NOVATEK-Chelyabinsk introduced energy consumers with the Company's key operating principles in the region, including:

- Reliable, safe, uninterrupted gas supply to customers in the Chelyabinsk Region under gas supply contracts;
- Expanded package of services; and
- Ongoing cooperation with executive bodies at all levels and with all customers in the region to prevent delays in payment for supplied gas.

Pricing policy, the conditions for concluding contracts, changes in contractual supply volumes and other issues of supplier-customer relationships were discussed during the meeting attended by representatives of more than 100 industrial customers and municipal housing and public utility companies.

In September 2012, the Company initiated a series of business meetings with various categories of natural gas consumers. During the discussions, representatives of these companies expressed their opinions about the new standard contract, made suggestions and cleared up points of contention.

Participants were in favor of building open, transparent relations. Industry representatives received a valid explanation of all contract terms. The Company is planning to hold similar meetings on a regular basis.

#### COOPERATION WITH INDIVIDUAL GAS CONSUMERS

The customer-oriented approach of OOO NOVATEK-Chelyabinsk also extends to relations with individual consumers. In 2012, the Company made direct settlements with 835 thousand people consuming nearly 800 mcm of natural gas per year, or nearly 5% of the total deliveries in the region. OOO NOVATEK-Chelyabinsk did not have a single interruption during the heating season, and fully supplied all consumer groups with gas, even at peak load.

Feedback and direct dialog with consumers is the foundation of all of the Company's long-range projects. According to statistics, one out of every nine consumers contacts the supplier annually about how to send meter indications, rates, the list of required gas supply documents, information on outstanding debt, etc. OOO NOVATEK-Chelyabinsk endeavors to simplify customer relations as much as possible, primarily by implementing modern technologies.

The Company has set up its own customer help desk with six (6) specially trained operators working at the call center. Customers can obtain access to full information about the Company and its products and services. Waiting times for callers has been reduced and the number of calls accepted has increased.

*Residents of the Chelyabinsk Region can keep in touch with OOO NOVATEK-Chelyabinsk through Internet services, such as "Customer's Personal Account" and the electronic "Ask a question" form on the official website [www.novatek74.ru](http://www.novatek74.ru). After registering a "Personal Account" they have access to their accounting information and the current balance of their personal account. They can also enter meter indications, pay for gas consumption, and check their payment history and charges. Nearly 12 thousand customers have already taken advantage of this service. Since 2012, Personal Account users have been able to make payments for gas consumption using bank cards. Payment information is displayed in real time.*

NOVATEK-Chelyabinsk has installed special boxes for correspondence at all user centers in order to improve service quality and customize the preferences of individual natural gas consumers. As a result, customers can directly ask any question, and the Company has a tool for objective evaluation of the user service and improving business efficiency.

#### RETAIL LPG NETWORK

NOVATEK strives to react quickly to market trends by optimizing its customer base and the geography of liquid hydrocarbon sales as well as by expanding and supporting the logistic infrastructure of liquid hydrocarbons supplies.

The Company has an extensive retail LPG sales network in Chelyabinsk, Volgograd, Rostov and Astrakhan regions.

In 2012, NOVATEK owned 66 refueling stations. Our wholly owned subsidiary, OOO NOVATEK-AZK is responsible for domestic sales on regional markets. In March 2012, its office was moved from Moscow to Chelyabinsk in order to increase management efficiency and minimize administrative costs.

Nearly all of the stations in the Chelyabinsk Region already operate under a single NOVATEK brand. Efforts to design all stations in the corporate style also continued in other regions. We designed and implemented a new format for the retail space of multi-purpose refueling stations and optimized the range of related products. Plans for 2013 include expanding the network of gas refueling stations in Volgograd and Chelyabinsk regions.

#### IMPROVING CUSTOMER SERVICE QUALITY

The Company aims to increase fuel sales at its refueling stations by focusing on improving the level of customer service. To a large extent, this depends on the quality of our employees' work. Highly skilled employees make for increased efficiency at our facilities. Therefore we take great care in hiring and upgrading the skills of each employee.

We have developed and implemented an incentive system to increase our employees' interest in end results. Key performance indicators included in the results of a personal evaluation of each employee, like the indicators for the entire branch, have an influence on salaries. Additional financial incentives for fulfilling discount card and related product sales plans have been introduced for employees. Along with operating results, the bonus system considers the condition of the refueling station, the quality of customer relations and a number of other indicators.

## CORPORATE GOVERNANCE

NOVATEK is fully committed to the principles of honest and ethical behavior throughout all of its business operations, open and frank dialogue with stakeholders and implementing of best corporate governance practices, since we believe that such standards are an essential prerequisite to business integrity and performance.

The Company has established an effective and transparent system of corporate governance complying with both Russian and international standards. NOVATEK's supreme governing body is the General Meeting of Shareholders. The corporate governance system also includes the Board of Directors, the Board

Committees, and the Management Board, as well as the system of internal control and audit bodies. The activity of all these bodies is governed by the applicable laws of the Russian Federation, NOVATEK's Charter and internal documents available on our website (<http://www.novatek.ru/en/about/management/doc/>).

Details of NOVATEK's corporate governance system are given in the Management and Corporate Governance section of the Company's Annual Report for 2012: <http://www.novatek.ru/en/investors/reviews/>.

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

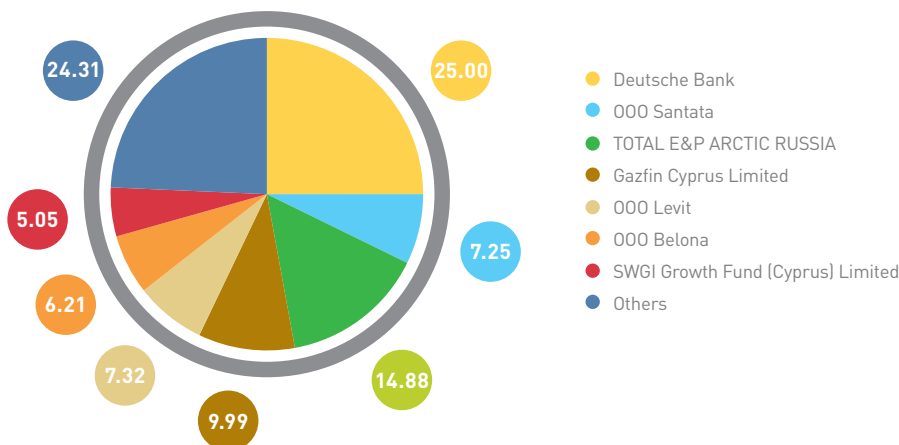
The Company approved its Code of Business Conduct and Ethics which establishes general guidelines and a code of conduct for members of the Board of Directors, Management Board and Revision Commission, the Company's top management and employees, as well as the rules of communication with key groups of stakeholders. 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. These documents are available on our website at <http://www.novatek.ru/en/about/management/doc/>.

During the reporting period, the Board of Directors was comprised of nine (9) persons including six (6) independent directors according to the Russian Federal Law on Joint-Stock Companies.

In 2012, the structure of corporate governance bodies and the functions they perform has not changed. 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 2011 amounted to RR 18.2 billion, and in 2012 increased to RR 20.8 billion. Total dividend payments for 2012, including the interim dividends paid for first half of 2012, amounted to RR 6.86 per ordinary share or RR 68.6 per GDR.

SHARE CAPITAL STRUCTURE AS OF 31 DECEMBER 2012, %





# ENVIRONMENTAL PROTECTION

NOVATEK'S INTEGRATED MANAGEMENT  
SYSTEM FOR ENVIRONMENTAL PROTECTION,  
OCCUPATIONAL HEALTH AND SAFETY (IMS) IS  
THE PRIMARY TOOL FOR IMPLEMENTING OAO  
NOVATEK'S HSE POLICY

4





# ENVIRONMENTAL PROTECTION

## ENVIRONMENTAL PROTECTION MANAGEMENT

The operating principles and approaches applied to sustainable development and followed by all of the Company's structural subdivisions and subsidiaries are presented in more detail in OAO NOVATEK's HSE Policy available at: [http://www.novatek.ru/common/upload/80\\_78.pdf](http://www.novatek.ru/common/upload/80_78.pdf)

NOVATEK's Integrated Management System for Environmental Protection, Occupational Health and Safety (IMS) is the primary tool for implementing the Policy.

IMS covers all basic processes and procedures, contributes to reducing accidents and personal injury risks at the Company's businesses and allows systematic performance of activities aimed at preventing and reducing adverse environmental impact, monitoring compliance with environmental legislation and fulfilling the terms and conditions of license agreements. IMS is described in more detail in our Sustainability Report for 2008-2009.

IMS has been implemented in nearly all of the Company's facilities. The IMS are currently being implemented in ZAO Terneftegas and OAO Yamal LNG. OOO NOVATEK-Ust-Luga plans to start implementing the Integrated Management System for Environmental Protection, Occupational Health and Safety after commissioning the Transshipment and Fractionation Complex for stable gas condensate and its refined products at the port of Ust-Luga.

Environmental action plans based on environmental aspects, goals and tasks are developed annually.

A system of corporate standards for ensuring compliance of operations with general corporate goals is effective in subsidiaries operating in the hydrocarbon production and processing sectors.

In 2012, NOVATEK continued to implement and improve its IMS. The Company's subsidiaries underwent IMS audits for compliance with international standards requirements. OOO NOVATEK-YURKHAROVNEFTEGAS has successfully passed recertification audit; OOO NOVATEK-Transervice has passed the first supervisory audit after the 2011 certification audit and OAO Sibneftegas was certified for compliance with the requirements of ISO 14001:2004. Three of the Company's subsidiaries (OOO NOVATEK-Purovsky ZPK, OOO NOVATEK-TARKOSALENEFTEGAS and OAO NOVATEK) have successfully passed the first supervisory cycle II audit for compliance with the requirements of ISO 14001:2004 and OHSAS 18001:2007.

The auditors noted the following strengths of the Company's IMS:

- leadership of top management;
- competence of personnel, high level of awareness and understanding of responsibility;
- proper monitoring of environmental aspects and parameters of the occupational environment;
- high production standards;
- management system documentation worked out in detail;
- expanded analysis of the management system by management;
- integration of internal audits with production facilities inspections using a mechanism for revealing the causes and developing corrective actions for the discrepancies found;
- transparency of the Company's environmental activities, efficient methods of public communication on the matters of environmental management.

The quality management and HSE system in OOO NOVATEK-Purovsky ZPK deserved high appreciation in the field of System application and certification.

During the audit, the subsidiaries were given recommendations for further development and continuous improvement of the IMS.

## ENVIRONMENTAL MONITORING AND INDUSTRIAL CONTROL

In 2012, environmental monitoring was performed in all NOVATEK companies as well as at 20 producing license areas and separate production facilities in accordance with the approved programs. Our new license areas: North-Obskiy, East-Tambeyskiy, Salmanovskiy (Geofizicheskiy), Ukrainsko-Yubileyniy, Severo-Tasiyskiy underwent environmental baseline assessment prior to performing any type of work.

Visual inspection and photographing of the areas along cross-country and walking routes were performed during

the monitoring. Samples of soil, surface water and bottom settlings were taken for subsequent laboratory tests in certified laboratories. Based on the results of laboratory tests, the condition of the environmental components was assessed along with the trends in their changes in 2011-2012. Our new owned license areas wholly or partially located offshore in the Gulf of Ob, i.e., North-Obskiy, East-Tambeyskiy and Salmanovskiy, underwent both onshore and offshore analysis. Hydrological, soil, geo-botanical, zoo-geographical, radiation and environmental studies and research were conducted onshore.

The condition of fishing areas, food reserves (phyto- and zooplankton, zoobenthos), hydrological characteristics and hydro-chemical parameters were studied onshore and offshore in the Gulf of Ob. The content of contaminants in water, air, soil and bottom sediments of the investigated region is below the limit of detection of the applied techniques and does not exceed the maximum permissible concentration. The general disturbance of the territory at the moment can be assessed as low.

## ENVIRONMENTAL PROTECTION AND SAFETY TRAINING

NOVATEK ensures that knowledgeable and competent specialists capable of solving problems are in charge of environmental protection and safety at the Company's facilities. In 2012, the Company continued to implement training and professional development programs for personnel in the sphere of environmental protection and safety aimed at implementing environmental policy, achieving the set goals and tasks, and generally improving the Company's environmental performance.

In 2012, a total of 111 NOVATEK specialists underwent training to improve their qualifications in environmental protection and safety, or 2.5 times more trained in current year as compared to the previous year.

## ENVIRONMENTAL IMPACT ASSESSMENT

In developing major new projects the Company always conducts assessment of environmental, economic and social risks during the construction and subsequent operation of the facilities, which may affect local environment and population. Public hearings are organized to inform the communities about the environmental assessment results and gather their suggestions and comments.

### PUBLIC HEARINGS ON THE PORT OF SABETTA CONSTRUCTION PROGRAMS

In December 2012, public hearings took place in the Yamal District, YNAO, regarding the design documentation "Construction of the sea port facilities near the Sabetta settlement on the Yamal Peninsula, including the construction of the navigable approach channel in the Gulf of Ob (pre-constructions facilities and main facilities of the sea port), including the materials of the Environmental Impact Assessment".

The representatives of construction, design and research organizations reported on the planned activities in connection with the proposed construction and informed the public about the Environmental Impact Assessment results.

In the course of the hearings, it was noted that measures should be taken to restore fish resources after the construction completion and to allocate funds for the construction of a fish farm in the region. Also noted was the necessity to control ballast water discharge by vessels after the port commissioning and to take measures on ensuring safety and preventing accidents at the facility.

During the discussions, the public representatives and YNAO authorities noted the project's importance for Yamal's area development while pointing out at the need for assessment and minimizing all risks during the construction of the port of Sabetta, including environmental and social risks, and those affecting the interests of populations following a nomadic way of life. Public hearings with regard to the construction of the port of Sabetta also took place in Tazov District of YNAO. According to the results of a public opinion survey with the local native population, a majority of people did not raise any objections against the construction of the port of Sabetta, provided that the companies of the fuel and energy complex are involved in the social and economic development of the district.

### ENVIRONMENTAL EXPENDITURES. PAYMENT FOR NEGATIVE ENVIRONMENTAL IMPACT

Due to increased production, the total amount of payments made for environmental negative impact in 2012 increased by five times compared to 2011 and amounted to more than RR 30.0 million. The growth was due to increased drilling by nearly 30 % compared to the previous year and the formation of new sources of emissions into the atmosphere. The total amount of administrative charges in 2012 amounted to RR 115 thousand.

ENVIRONMENTAL EXPENDITURES, RR THOUSANDS		
	2012	2011*
Air protection measures	19,677	3,921
Water protection and utilization measures	18,191	86,414
Environmental measures of production and consumption waste, safe handling of waste	108,908	89,515
Land resources measures	40,624	62,007
Resources conservancy measures	0	2,800
Environmental monitoring and Baseline assessment costs	62,429	49,638
Environmental Management	11,375	1,922
Compensation payments	1,324	323
Charges for negative environmental impact	30,222	6,015
Other costs	4,576	1,398
<b>Total Costs</b>	<b>297,326</b>	<b>303,953</b>

\* Expenses for 2011 were reclassified due to change of statistical method in expenses calculating for 2012 (Federal State Service Order №441 dated 09.08.2012)

## STAKEHOLDER ENGAGEMENT

### COOPERATION WITH STATE AND LOCAL AUTHORITIES AND PUBLIC ORGANIZATIONS

In 2012, NOVATEK actively cooperated with state and local authorities and public organizations on issues of rational environmental management and, in particular, the use of land resources for subsoil management. Company employees participate in expert boards under the executive and legislative branches of government and in the work of industry-specific and professional associations.

- Company employees worked on amendments to forest legislation of the Russian Federation. A draft of Federal Law "On amendment of Art. 8.2 FZ-201 "On enactment of Forest Legislation of the Russian Federation" is currently passing the stage of procedural approval by the Federal Government.
- Proposals were submitted to the Resolution of Government of Russian Federation as to the List of capital construction projects unrelated to the creation of forest infrastructure in the forest fund. The list is approved by the Government of the Russian Federation;
- Work was conducted with the Federal and regional (YNAO) authorities of the executive and legislative branches (State Duma of the Federal Assembly of the Russian Federation, Ministry of Natural Resources of the Russian Federation, Rosleskhoz, YNAO Administration, Administration of Purovsky District), local authorities (Purovsky District of YNAO) on the matters of rational natural resources management (forest, land, water, biological resources management).
- Methods of calculating lost profit for withdrawal of reindeer grazing lands of indigenous minority populations of the Far North, Siberia and Far East have been submitted and are now being considered by the Expert Board of the Russian Gas Society.
- Work on improvements to environmental legislation with the Chamber of Commerce and Industry of the Russian Federation and Russian Gas Society. Proposals for cooperation with V.I. Vernadsky Fund have been prepared.
- Company employees took part in six public events (seminars, forums, congresses) for improving land relations during subsoil use where they outlined NOVATEK's position.



## ENERGY EFFICIENCY

NOVATEK strives to use resources rationally, including energy resources, and implements a consistent policy of energy saving and increasing energy efficiency. Due to increased hydrocarbon production and processing volumes in 2012, natural gas and electric power consumption increased by 43% and 18% respectively.

In 2012, NOVATEK's Energy Saving Program for the period of 2013-2016 was approved. According to the Program, the key fuel and energy conservation measures include:

- The introduction of variable frequency drives;
- The introduction of LED and energy-saving lamps;
- Preparation of performance charts for boilers;
- Workload optimization of electricity generation sources; and
- Waste-heat utilization at gas turbine electric power stations.

In 2012, OOO NOVATEK-Purovsky ZPK and OOO NOVATEK-Tarkosaleneftegaz, and in January 2013, OOO NOVATEK-Yurkharovneftegas launched an automated electrical energy control and management system. The system controls primary processes in terms of compliance with specific fuel and energy consumption norms in real time, as well as to forecast power consumption for planned output. Implementation of the automated system allowed us to reduce payments for electricity consumed in 2012 by approximately 2.5% per annum.

In 2013, we are planning to set up a 24-hour operating dispatch service at power supply organization OOO NovaEnergy to operate all of NOVATEK's power generating facilities.

### CONSUMPTION OF ENERGY RESOURCES BY OAO NOVATEK SUBSIDIARIES

ENERGY SOURCES	2012		2011	
	Volume	Thousands of Russian roubles, net of VAT	Volume	Thousands of Russian roubles, net of VAT
Natural gas, mmcm	665	320.1	466	330.4
Electric power, MWh	269.351	766.4	228.868	707.2
Heating energy, Gcal	202.804	197.7	237.140	175.4
Fuel resources, tons	48.703	272.8	4.750	93.5

## USE OF ENERGY EFFICIENT EQUIPMENT AND RENEWABLE ENERGY SOURCES

To supply electric power for the facilities of Samburgskoye field, OOO SeverEnergiya started test operation of a modern power complex complying with international environmental requirements. The complex consists of gas-reciprocating units equipped with efficient exhaust heat boilers, standby and emergency power supply diesel units and hot water boilers. The power unit is connected to an integrated

automation and control system with the control output on the panel of the field's central processing facility. This provides real time control of power supply to the facilities.

In 2012, we installed six wind and solar power generation units at six block valve stations of oil pipeline Purpe and three units — at our Khancheyskoye field. In 2013, we plan to install the same units at our Dobrovol'skoye and Urengoy'skoye fields.

### 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
2011	0	0	13,267	55,591	2,034	60	55,651
2012	16,292	58,652	43,282	181,351	-	-	240,003

## AIR EMISSIONS

### EMISSION SOURCES AND COMPOSITION

According to the test results in 2012, the number of stationary emission sources increased by 133 units to 1,618 sources. As a result, and due to increased hydrocarbon production, gross pollutant atmospheric emissions from stationary operating sources of NOVATEK's production subsidiaries in the reporting year increased by 15.5% compared to 2011 and amounted to 23,405 tons.

At the same time, the index of specific atmospheric emission (tons/thousand boe) in 2012, increased to 0.058 tons/thousand compared to 0.054 tons/thousand boe in 2011.

The main atmospheric emission pollutants are carbon monoxide, hydrocarbons (mainly methane) and nitrogen oxide, which account for 82% of all emissions.

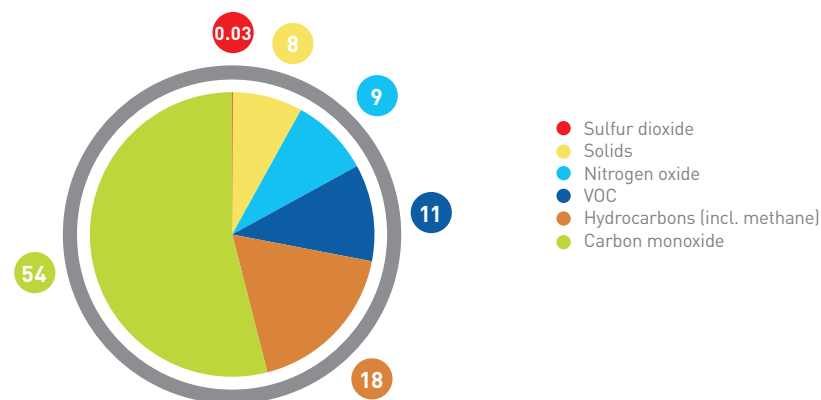
### CLIMATE CHANGE

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.

The Company has conducted regular monitoring of the geocryological soil since 2005. Therefore, field construction projects provides for prevention of

thawing and degradation of the permafrost. In 2011, we completed laying deep benchmarks with heat stabilizers as well as gravimetric points in areas of seasonal freezing to prevent thawing of soils at our Yurkharovskoye field. In 2012, we developed a monitoring network allowing us to determine deviation degree of the aerial crossings, structures and elements of condensate pipeline from the design position, as well as antenna deviation degree from the vertical position at our condensate pipeline connecting the Yurkharovskoye field to the Purovsky Plant.

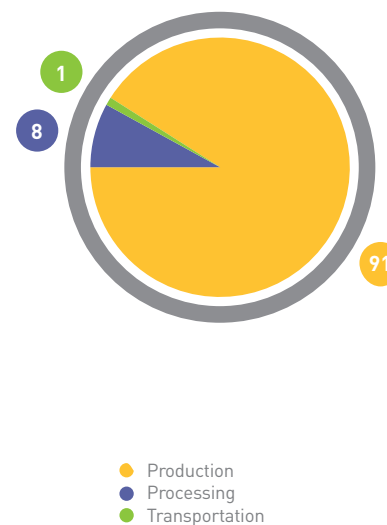
### COMPOSITION OF ATMOSPHERIC EMISSIONS, %



## GREENHOUSE GASES

Data on greenhouse gas emissions by NOVATEK's facilities are given in the annual disclosure report on greenhouse gas emissions and energy efficiency of the Carbon Disclosure Project (CDP) for the purpose of meeting social obligations and responsibilities to stakeholders. This report is available for registered users: [www.cdproject.net](http://www.cdproject.net)

ATMOSPHERIC EMISSION SOURCES, %



AIR EMISSION SOURCES, COMPOSITION AND VOLUMES\*

		2012	2011
<b>Total emissions **</b>	<b>tons</b>	<b>23,405</b>	<b>20 265</b>
Stationary emission sources	units	1,618	1,485
Permitted emissions	tons	57,952	62,494.6
<b>Emission composition</b>			
Solids	tons	1,904.0	2,853.4
Sulfur dioxide	tons	7.9	6.6
Carbon monoxide	tons	12,787.5	9,594.5
Hydrocarbons (including methane)	tons	4,118.0	5,326.4
VOC	tons	2,447.0	812.0
Methanol	tons	131.4	128.7
Methane	tons	4,118.0	3,793.2
Nitrogen oxides	tons	2,112.2	1,638.2
Ozone-depleting substances	tons	0	0

\* CO<sub>2</sub> emissions (greenhouse gases) are calculated separately since they are not considered pollutants under Russian classifications.

\*\* According to Russian methods of calculating air emissions.

## GASIFICATION OF TRANSPORT

NOVATEK is developing its own network of gas stations and currently operates in four regions of Russia (see the "Retail LPG Network" Section for details). A propane-butane mixture produced at our Purovsky Plant is sold through this network and the quality of products sold is ensured by the certified management system in compliance with the international standards ISO 9001-2007 and ISO 14001-2007.

In 2012, the environmental impact from development of the gas stations network resulted in reduction of greenhouse gas atmospheric emissions by more than 50,000 tons of CO<sub>2</sub> equivalent.

## NEW TECHNICAL SOLUTIONS FOR ENVIRONMENTAL RISK MITIGATION

Environmentally friendly projects play an important role in NOVATEK's operations. This is evidenced by the Company's consistently large investments in resource saving and environmental safety procedures, implementation of environmental safety regulations for the companies engaged in production, transportation and processing of hydrocarbon raw materials, and development of a gas stations network.

As part of implementing the Company's Strategy for environmental protection and employing the best available technologies, an automatic pollutant emissions control system has been installed at the gas compressor units of the booster compressor station of the first phase of the Yurkharovskoye field. The system allows for detection of nitrogen oxide and dioxide, carbon monoxide and methane emissions.

At OOO NOVATEK-Tarkosaleneftegaz' Sterkhovoye field, the low-pressure gas that was previously flared, is now utilized as fuel for a boiler house, power generators, and other process plants, in particular, for disposal of treated industrial and domestic waste water. Furthermore, the use of low-pressure gas for on-site needs made it possible to supply an equal volume of marketable gas to the main pipeline that had not been previously utilized for these purposes. Based on the first year results of operating the new line, the savings of marketable gas volumes amounted to more than 10% of the total production volume, and the project had already paid off four months after its implementation. In 2012, this project was awarded the NOVATEK's diploma for best implementation.

A smoke-free closed-type flare facility has been commissioned at the port of Ust-Luga. This facility simultaneously serves as a gas condensate fractionation plant and berthing facilities of the Ust-Luga Complex. One of the plant's main characteristic is its multifunctionality. Due to availability of two circuits, it is possible to simultaneously use gas from process units and the gas phase displaced when loading tankers. The flare's safety meets the most rigid requirements through the design of burners and reliable operation of automatic equipment. The plant ensures a high level of environmental protection and is capable of recovering up to 99.9% of harmful impurities.



## WATER USE AND WASTEWATER

The main processes requiring significant water consumption are the same as in previous years, including the following:

- formation pressure maintenance system,
- well drilling,
- methanol production,
- pre-heating and heating systems,
- water-methanol solution wash,
- make-up of boiler houses,
- treatment plant circulation system,
- production equipment flushing and steaming.

Water intake for production and domestic needs was performed from surface water bodies and subsoil sources. Water intake in 2012 increased by 3.4% to 884 mcm (854 mcm in 2011). Nearly one-fourth of the total volume is used for domestic and potable purposes; all other water is used for production processes.

The highest water consumption was at production facilities (85.2%). In 2012, water consumption by NOVATEK's production facilities increased by 2.5% and amounted to 759 mcm, 44% of which accounted for OOO NOVATEK-TARKOSALENEFTEGAS.

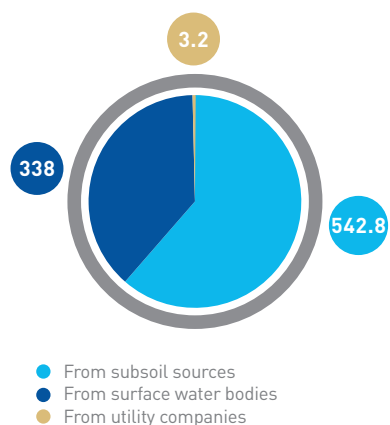
We do not discharge industrial waste into water bodies at our fields. Waste water generated by production activities, as well as rain and domestic waste-water are to be cleaned of contaminants at the treatment facilities with further containment. They are treated at biological treatment complexes and clean burned in a horizontal flare, discharged into the absorbing water storage pit or injected into formations.

To minimize environmental impact in water protection areas, well drilling is performed without the use of water storage pits. Drill cutting waste is removed to the drill cutting processing plant with subsequent burial in special landfills located outside the water protection area.

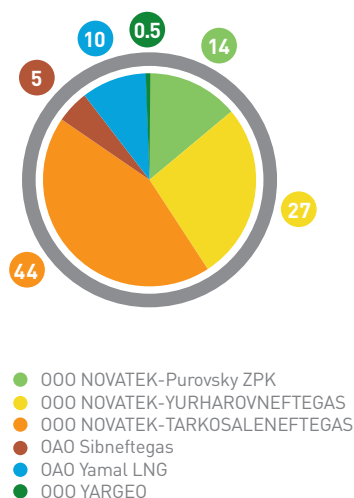
At our Purovsky Plant, waste waters are injected into a deep lost circulation horizon through injection wells of a specialized waste disposal site. A subsoil plot for waste-water burial was provided to the company in accordance with the license. All types of generated waste-water are sent to the treatment facilities, and then after treatment the waste-water is sent for joint disposal.

Expenses for water resource protection and rational use amounted to RR 18.2 mln.

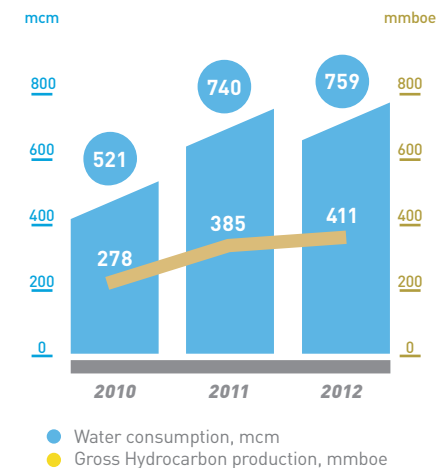
WATER INTAKE SOURCES IN 2012, MCM



WATER CONSUMPTION BY SUBSIDIARIES IN 2012



WATER CONSUMPTION BY NOVATEK'S PRODUCTION FACILITIES



## WASTE

NOVATEK takes measures to minimize the impact of waste generated by its production activities on the population and the environment with consideration of the vulnerability factors of the Far North ecosystem. Modern technologies and equipment are used for waste recycling and burial.

Waste generation trends mainly depend on the production activities of our two subsidiaries: OOO NOVATEK-TARKOSALENEFTEGAS and OOO NOVATEK-YURKHAROVNEFTEGAS, which are responsible for 97% of the total amount of generated waste.

In 2012, due to increased production, the amount of waste generated by NOVATEK's production subsidiaries increased by 15.3% to 25.3 thousand tons. Most of the waste (more than 90%) is low-toxic and is assigned to the least harmful hazard classes IV and V.

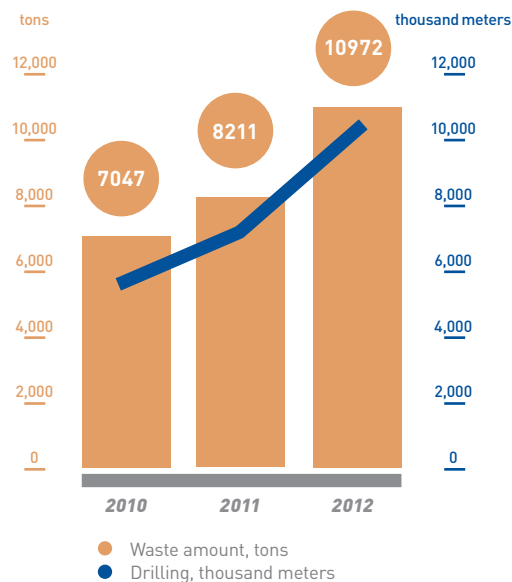
The increase in waste of hazard class IV, which, in particular, includes drill cuttings and waste drilling mud, is mainly attributable to the increase in meters drilled. This category of waste is usually sent to our own waste disposal sites. Waste of hazard class I-III is transferred to special waste disposal companies under agreements for further recycling and burial.

Industrial environmental monitoring is performed at on-site waste disposal facilities and temporary waste storage facilities according to the approved schedule. We have developed and implemented the instructions for production and consumption waste management, as well as procedures for industrial environmental monitoring during waste management.

NOVATEK's total expenses for environmental protection measures against production and consumption waste were RR 108.9 mln. The fee for production and consumption waste disposal increased by 55% in the reporting period compared to the previous year and amounted to RR 6.1 mln, primarily due to the increased volume of drill cuttings waste generation and disposal.

In 2012, eighty-one specialists at various subsidiaries underwent training to improve their qualifications in production and consumption waste management.

### DRILLING WASTE



## BIODIVERSITY PRESERVATION

Due to necessity of dredging works to create navigable waters of the approach channel to the Gulf of Ob, when the interests of the local population, including indigenous people who are engaged in fishing, will be affected, there are plans to build a fish breeding plant in Kharp.

At the end of 2012, the project documentation of the plant was transferred to the state expertise. An area for construction of the plant was assigned and a land lease agreement was signed. After research the place of fish roe in Taz, Sob and Synya rivers was determined. The planned construction period of the plant is three years. Construction of the plant was discussed at the public hearing on the project Yamal LNG and caused the great interest of stakeholders. OOO NOVATEK-YURKHAROVNEFTEGAS and OAO Yamal LNG are planned to co-finance the plant construction.

## LAND REHABILITATION

NOVATEK is committed to optimizing the use of natural resources, including the lands used for exploration, field facilities construction and mining operations, as well as the construction of production and transportation infrastructure facilities. As production increases the Company strives to minimize withdrawal of lands, especially when damage is caused to reindeer grazing territories.

In 2012, our subsidiaries rehabilitated 2,063 ha of damaged lands, or 25% more than in 2011 (1,474 ha).

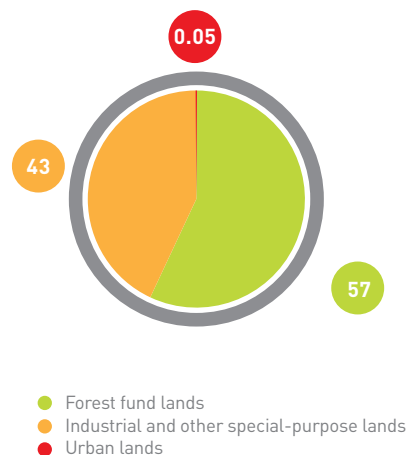
Rehabilitated and uncommitted lands of 2,063 ha were turned over to the primary land user (in 2011 — 858 ha). A large part of the rehabilitated lands included land allocated for exploration, in particular for seismic exploration.

Our subsidiaries also carried out mining operations, mainly sand extraction. In 2012, the level of extraction decreased slightly compared to 2011; a total of 9,987 mcm of earth were extracted.

*For more than 15 years, ecologists of OOO NOVATEK-TARKOSALENEFTEGAS have been monitoring and rehabilitating lands after industrial development. This work is performed in accordance with a project, which takes into consideration many factors affecting the efficiency of land rehabilitation, including requirements for the types of grasses, plants and fertilizers that must restore soil fertility.*

*In summer 2012, during the implementation of the environmental protection program the working committee of OOO NOVATEK-TARKOSALENEFTEGAS completed the acceptance of rehabilitated lands at sand pit 51 of the East-Tarkosalinskoye field, which had been previously used for backfilling roads and construction sites. During the rehabilitation performed by the specialists of contracting organizations, ditches were filled up and the land was graded. For optimum forest regeneration, good soil was brought in, fertilizers were added, grasses were seeded, and bushes and willows were planted. As a result of this work, about 15 ha of land were rehabilitated. In autumn, specialists of the environmental department of OOO NOVATEK-TARKOSALENEFTEGAS turned over the rehabilitated lands to the state commission.*

AREA OF RENTED LANDS BY CATEGORY, %





# OCCUPATIONAL HEALTH AND SAFETY

WE DEVELOPED MEASURES TO PREVENT OIL AND  
GAS CONDENSATE SPILLS, AND PROTECT THE  
ENVIRONMENT, EMPLOYEES AND LOCAL RESIDENTS

5



## OCCUPATIONAL HEALTH AND SAFETY

### OCCUPATIONAL HEALTH AND SAFETY GOALS AND TASKS

OAQ NOVATEK's Environmental, Health and Safety Policy adopted in 2005 set out its Occupational health and safety (OHS) goals and tasks:

- Minimize risks and prevent accidents, injuries and sickness among personnel and the population;
- Ensure accident-free operation of our production facilities and equipment;
- Promptly respond to potential accidents;
- Observe laws and regulations during the design, construction and operation of the Company's production facilities;
- Protect employees from any harmful impact of hazardous materials;
- Upgrade employee qualifications and expertise; and
- Improve the Company's OHS activities through production controls and internal audits.

All measures planned for 2012 within the OHS program's approved budgets were implemented, including the purchase of personal protective equipment (PPE), training employees, senior managers and OHS specialists, and occupational safety certification of workplaces and industrial safety certification of employees.

In 2012, more than RR 315.58 million was allocated for these goals.

### EMPLOYEE ENGAGEMENT

The Company's OHS commitments are a subject of discussion between management of our subsidiaries' labor unions and employees and are secured in collective agreements. The agreements ensure 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. (For more details, see the section on "Collective Agreements and Relations with Employees" in this report).

Joint OHS committees composed of management and engineers on an equal basis have been set up at subsidiaries.

### PROTECTIVE CLOTHING

Compliance with health and safety regulations during operations in environments harmful to human body is a priority at NOVATEK's subsidiaries. These operations are carried out according to international occupational health and safety standards (MC OHSAS 18001:2007) and with consideration of employees' opinions. In 2012, our subsidiaries completed the implementation of a unified protective clothing style for the NOVATEK group of companies. In 2013, we are planning to revise the unified technical specifications for manufacturing of protective clothing based on the results of testing by employees.

*Field tests of earmuffs were carried out in 2012 at the Yurkharovskoye field. Specialists from three departments tested modern industrial protection equipment: oil and gas production operators, remote control operators and gas treatment plant operators. Different manufacturers offered various types of earmuffs for testing, including models of "active earmuffs" that amplify speech and cancel outside industrial noise. The tests were performed directly at the plant. Industrial noise in the gas expander plant and the compressor station of the gas condensate de-ethanization unit exceeded the maximum permissible level of 80 dB. Several hours of working in these conditions without ear protection has a harmful impact on human health and is a cause of occupational disease among employees.*

*The earmuffs selected after testing as part of a program to improve working conditions were purchased for operating personnel of various departments at the Yurkharovskoye oil and gas condensate field.*



## ADMINISTRATIVE AND OPERATIONAL CONTROL

### OPERATIONAL CONTROL

Operational control (OC) programs have been developed, approved and implemented at our subsidiaries' hazardous production facilities; and Operational Control Regulations have been developed, and committees have been set up to carry out regular internal audits of divisions and production facilities. Production areas, buildings, structures, processes, transportation workplaces and the environment are all subject to control. In 2012, operational control departments carried out 336 internal audits that discovered 2,541 violations of occupational health and safety requirements (compared with 202 audits and 2,222 violations in 2011).

### COMPREHENSIVE INSPECTIONS

The OAO NOVATEK Committee regularly carries out comprehensive inspections to assess OHS, fire safety and environmental protection of the particular subsidiaries. Committee members include specialists from the power engineering, production, automatic control system and instrumentation departments, as well as the Health, Safety and Environment Department. Reports on identified shortcomings, with comments and recommendations for taking remedial action are drawn up following the inspections. The shortcomings and comments are analyzed at the subsidiaries and as a result an action plan to remedy the violations and comments is prepared.

In 2012, the OAO NOVATEK Committee carried out comprehensive inspections of OOO NOVATEK-TARKOSALENEFTEGAS (39 comments and violations were identified), OOO NOVATEK-YURKHAROVNEFTEGAS (39), OAO Sibneftegas (28) and OOO NOVATEK-AZK (129).

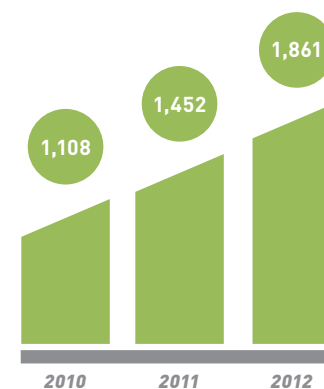
### RESULTS OF INSPECTIONS CONDUCTED AT SUBSIDIARIES BY SUPERVISORY AUTHORITIES

In 2012, supervisory authorities carried out 36 inspections for compliance with the requirements of laws on environmental protection and rational use of natural resources at eight of the Company's subsidiaries. All comments were remedied or the deadline for compliance was moved to 2013 (approximately 10% of all comments).

### WORKPLACE CERTIFICATION

We certify workplaces annually in order to monitor working conditions and the impact of occupational hazards on the health and safety of employees. As of 31 December 2012, nearly all of our subsidiaries had passed this certification. We certified 1,864 of 2,267 operating workplaces. No workplaces with unacceptable working conditions were identified. We partially certified the workplaces at OOO NOVATEK AZK, and we plan to continue its certification in 2013. In 2013, we also plan a certification at OOO NOVATEK Ust-Luga after the commissioning of the first phase of the Ust-Luga Complex. In 2012, workplace certification continued in case if working conditions had changed or new equipment or tools had been brought in, and at new workplaces. Measures to improve and restore working conditions were developed and implemented as a result.

#### NUMBER OF CERTIFIED WORKPLACES



## INJURY RATE

There were nine workplace accidents in 2012, including serious ones. Three of the nine accidents were serious, and four of them were the result of traffic accidents. There were no fatalities.

The causes of the accidents were:

- The employee violated labor discipline by failing to comply with the occupational safety rules given in operating procedures and occupational health and safety instructions;
- The victims' personal negligence;
- Violation of traffic rules (failure to observe speed limits, not paying attention to weather conditions, etc.); and
- Inadequate snow and ice removal at the site.

## ACCIDENTS AND INCIDENTS

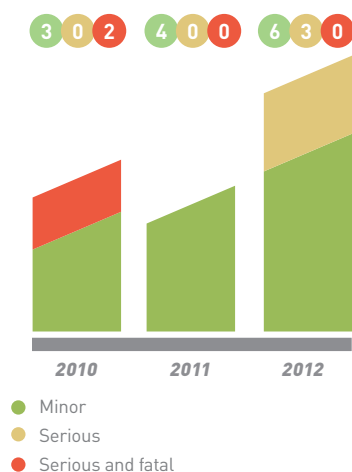
NOVATEK operates hydrocarbon production and storage facilities and an extensive intra-field and inter-field pipeline system that are classified as hazardous production facilities. Our subsidiaries have developed measures to prevent oil and gas condensate spills and to protect the environment, employees and local residents.

There were no accidents at the Company's subsidiaries in 2012. There were two minor incidents at OOO NOVATEK-TARKOSALENEFTEGAS and OOO NOVATEK-PUROVSKY ZPK, but no one was injured and there was no environmental damage.

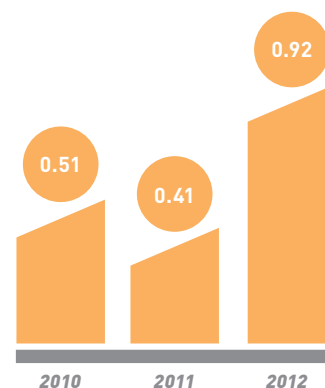
## FIRE SAFETY

Six of our eight subsidiaries had valid licenses for firefighting equipment and fire extinguishing means in 2012. Seven in-house firefighting and rescue services have been established at five subsidiaries operating hazardous production facilities to gather, treat and produce explosive and flammable substances. In 2012, OAO Sibneftegas used the services of contract firefighting divisions. Divisions with a total of 255 employees provide 24-hour firefighting services.

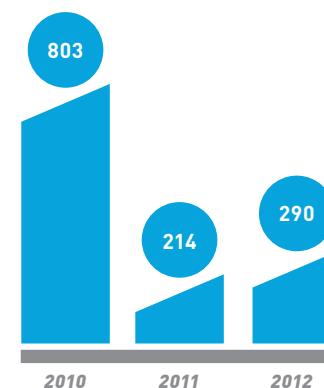
### NUMBER OF ACCIDENTS



### ACCIDENT-FREQUENCY RATE (NUMBER OF ACCIDENTS/MILLION WORKING HOURS)



### ACCIDENT SEVERITY RATE (NUMBER OF HOURS OF DISABILITY/NUMBER OF ACCIDENTS)



Since the Company's strategic goal is a sustainable and effective increase in hydrocarbon production volumes, which implies the operation of hazardous production facilities and infrastructure, we decided to build five additional fire stations (OOO NOVATEK – Ust-Luga, ZAO Terneftegas, OOO YARGEO and two stations in OAO Yamal LNG) that will also become private firefighting divisions in the future.

#### 2015 OBJECTIVES:

- Establish four new divisions;
- Increase the number of employees by 241 people.

There were no fires at the Company's protected facilities subject to inclusion in official statistics.

Fires and outbreaks of fire occurred at the facilities of our contractors; therefore, we focused on their compliance with fire safety and workplace regulations. In 2012, we suggested 1,472 measures for our contractors to fulfill.

#### EMPLOYEE TRAINING

OHS and fire safety briefings and training are mandatory at all subsidiaries. Our own specialists conduct these exercises, along with emergency response training. These training sessions are intended for:

- New employees and visitors, including student interns or contractors' representatives (induction briefing);
- Specialists, to allow them to carry out their duties (introductory briefing).

*A large number of contractors have been hired to carry out large-scale operations during the construction of the Yamal LNG Plant and port on the Yamal Peninsula. The number of employees has increased to almost two thousand people. As a result, there is a problem with all kinds of safety and control. In 2012, OAO Yamal LNG held a series of meetings with contractors related to HSE. Managers and specialists from NOVATEK, Total and Yamal LNG and contractors' representatives inspected a dormitory construction site, fuel and lubricant storehouses and other facilities. Common positions on urgent matters of OHS, provision of protective clothing, medical services and in-house regulations for contractors were formulated.*

*A "Safety Leaders" workshop was held for 30 senior managers from Yamal LNG and the contractors. It was dedicated to providing uniform approaches to safety, planning measures to prevent possible losses, and implementing HSE best practices in the workplace. Practical exercises on the topic of "Accident Investigation" were organized after the end of the main program. The training ended with an exam and the issue of HSE certificates.*

Exercises of various levels are held to check the emergency response readiness of the Company's divisions and employees, and assess the effectiveness of emergency rescue teams and other organizations hired for emergency response and recovery.

*In the summer of 2012, OOO NOVATEK-PUROVSKY ZPK held comprehensive federal command and staff training to contain and clean up the largest possible oil product spill and the stable gas condensate storage facility.*

*According to the story, a 20,000 cubic meter tank depressurized and spilled its contents on the storage site. When information on the simulated accident reached the duty officer, the first to respond were the plant's emergency rescue teams. A mobile first aid post and a mobile group from Yamal Private Security Company quickly arrived at the scene of the spill.*

*A command center was set up. After dispersing and evacuating storehouse employees, the rescuers set about containment and accident recovery using a mobile emergency recovery system. The site was cordoned off, and equipment to pump the oil products to backup tanks was set up. The firefighting teams simultaneously readied fire suppression equipment in case of possible combustion. After the simulated oil products were gathered, the site was treated with sorbents, and the contaminated soil was removed and taken away.*

*A total of 148 people and 38 pieces of equipment took part in the exercises. Emergency recovery operations were successfully completed in the allotted time. The actions of the operating personnel of NOVATEK-PUROVSKY ZPK and services involved received high ratings from officials of the Ural Regional Center of the RF Ministry of Emergency Situations who were present at the exercises.*

Specialized licensed organizations will hold all other trainings on safe work practices, including certifiable training.

In 2012, 2,772 specialists (compared to 1,018 in 2011) underwent training and certification in OHS. In 2012, 4,502 specialists underwent Fire Safety trainings and we held 674 fire and evacuation exercises. Total investments in OHS and fire safety training in 2012 amounted to RR 6.8 million.

In 2012, the Company's subsidiaries developed, amended and adopted 131 local regulatory and administrative fire safety documents. We examined 115 projects on construction and reconstruction for compliance with fire safety requirements.

## 2013 OBJECTIVES

- In 2013, we are planning to finish the development and implementation of the unified protective clothing style, to revise the unified Technical Specifications for the production of protective clothing.
- Increase monitoring by management of subsidiaries of compliance with OHS requirements by each contractor; develop and implement additional accident prevention measures and measures to deal with violators. Step up preventive efforts with employees of the transportation division to ensure they obey traffic rules and safe driving requirements.
- Bring OHS at OOO NOVATEK – Ust-Luga into line with legislation.
- Continue preparing for certification of OAO Yamal LNG under OHSAS 18001-2007.
- Revise the forms for reports on OHS; prepare and send instructions on completing them to subsidiaries.



# HUMAN RESOURCES AND SOCIAL POLICIES

THE COMPANY ENCOURAGES THE  
DEVELOPMENT OF LEADERSHIP SKILLS AND  
PROVIDES INCENTIVES TO EMPLOYEES FOR  
PERSONAL DEVELOPMENT AND INCREASE  
PROFESSIONAL COMPETENCIES BY  
CREATING THE NECESSARY CONDITIONS FOR  
PROFESSIONAL TRAINING AND LEARNING

6





## HUMAN RESOURCES AND SOCIAL POLICIES

### HUMAN RESOURCES MANAGEMENT AND LABOR RESOURCES

NOVATEK's Human Resources Department and the personnel departments of its subsidiaries are responsible for the Company's Human Resource Policy and overall personnel management.

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; and
- Employee motivation.

When hiring employees, Personnel departments offer candidates equal opportunities on condition they meet the Company's requirements. No discrimination of employees based on gender, race, nationally or for any other reason is allowed. 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. 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.

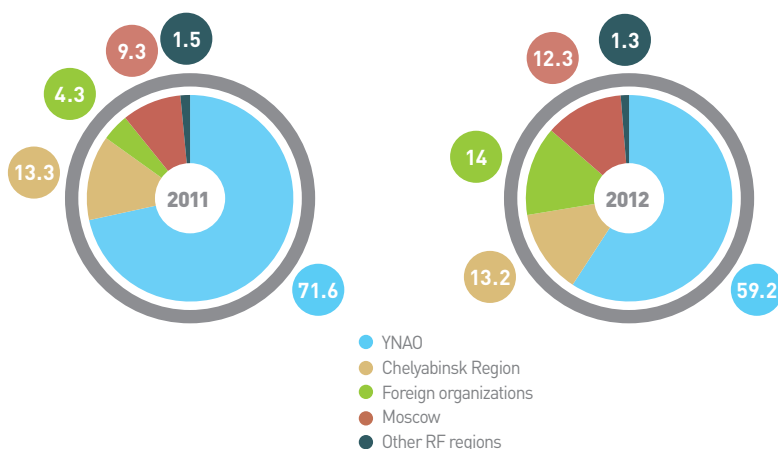
NOVATEK's Human Resources Department is responsible for overall personnel management and provides guidance and practical assistance for the HR departments of subsidiaries.

In 2012, the Company's headcount increased by 27% to 6,023 employees. Fifty percent of our employees work in exploration and development, 41% in plant operations, processing, transportation and sales, and 9% are in administrative positions. The share of employees working outside the Russian Federation decreased to 1.3%.

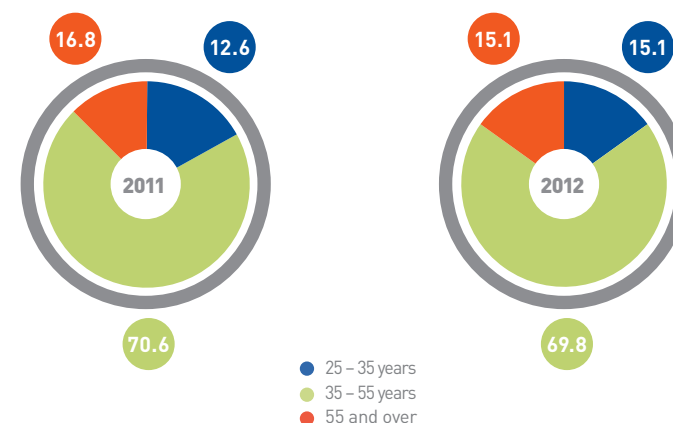
NOVATEK has the strongest presence in the YNAO (59.2%) and the Chelyabinsk Region (14.0%). The number of employees in the Chelyabinsk Region more than tripled compared to 2011 as a result of including OOO NOVATEK-Chelyabinsk in the Reporting Boundary for 2012.

The composition of administrative staff became younger in 2012. The share of employees at the age of 25-35 years in senior management positions increased from 12.6 to 15.1% in a year.

WORKFORCE BREAKDOWN BY REGION, %



COMPOSITION OF NOVATEK'S MANAGEMENT BOARD BROKEN DOWN BY AGE, %





«THE COMPANY ENCOURAGES THE  
DEVELOPMENT OF LEADERSHIP  
SKILLS AND PROVIDES INCENTIVES  
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DEVELOPMENT AND INCREASE  
PROFESSIONAL COMPETENCIES BY  
CREATING THE NECESSARY CONDITIONS  
FOR PROFESSIONAL TRAINING AND  
LEARNING»

OOO NOVATEK'S CODE OF BUSINESS  
CONDUCT AND ETHICS<sup>1</sup>

## MATERIAL INCENTIVES

The Company's subsidiaries have introduced an integral approach to compensation and incentive mechanisms in accordance with the corporate "Procedures for Employees' Compensation and Incentives" Salaries and wages are indexed annually to compensate for the negative impact of inflation.

The Company uses various approaches to improving performance. Bonuses for managers of functional units 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 as compared to the purchase price for the Program.

## TRAINING AND LEARNING

The Company has created a multilevel system of training and learning for employees, including targeted education programs. We still give priority to professional learning, training in safe work methods at production facilities.

In 2011, the Company's main subsidiaries (OOO NOVATEK-Yurkharovneftegas, NOVATEK-Tarkosaleneftegas and NOVATEK-Purovsky ZPK) introduced a Corporate technical competence appraisal system to test the professional potential of their engineers and technical specialists. The system allows us to monitor the growth of employees' technical competencies, assess competencies of specialists when entering employment and promotion.

The results of the initial appraisal in form of computer test showed how employees need to improve their technical competence and in what areas of knowledge.

Based on the testing results, we developed a personal annual educational plan for employees of our production units and "Technical Training" Program which was launched in September 2012.

Training is held in specialized training centers at Gubkin Russian State Oil and Gas University and the Oil and Gas Training Center at Tomsk Polytechnic University, among others. In 2012, 103 employees passed the testing (in 2011 – 333 employees). Based on tests of new hires,

six employees have been included in the "Technical Training" Program in 2013.

In 2012, eighty-one employees from OAO NOVATEK, OOO NOVATEK-Tarkosaleneftegas and OOO NOVATEK-Tarkosaleneftegas have been trained under the "Technical Training" Program. Specialists of OOO NOVATEK Scientific & Technical Center have developed and conducted three courses "Geology and field development" for program participants.

Based on the results of testing and technical competence appraisal, we developed an In-House Training Program at OOO NOVATEK-Purovsky ZPK with highly skilled employees as instructors. The In-House Training Program is based on process procedures and safety regulations. This program also aims at improving the professional technical skills of employees. Forty employees received

### AVERAGE NUMBER OF TRAINING HOURS PER EMPLOYEE WITH A BREAKDOWN BY EMPLOYEE CATEGORY, HOURS

	2010	2011	2012*
Blue-collar workers	48.8	207.6	69.0
Line managers	32.7	53.3	39.4
Specialists	47.6	60.7	33.2
Senior managers	34.6	39.6	26.2

\* The average number of training hours per employee decreased in 2012 compared to the previous period due to completion of the Personnel Reserve Education Program "Leadership Horizons".

<sup>1</sup> [http://www.novatek.ru/common/upload/doc/Code\\_of\\_Ethics\\_ENG.pdf](http://www.novatek.ru/common/upload/doc/Code_of_Ethics_ENG.pdf)

training in three stages over a three-month period. The evaluations of 72.5% percent of the trainees improved by an average of 20.7% following repeat testing.

At the end of the "Technical Training" Program, there will be a new round of testing to analyze the effectiveness of the system.

In 2012, job descriptions were prepared for OAO Sibneftegas, where we plan to introduce the corporate technical competence appraisal system and test employees of our production units in 2013.

#### 2013 OBJECTIVES

In 2013, we plan the following corporate courses for NOVATEK's employees participated in the "Technical Training" Program:

- Modern Integrated Geophysical and Hydrodynamic Well Logging,
- Comprehensive Analysis, Optimization and Forecasting of Field Development;
- Natural Gas Treatment, Purification, Compression and Transportation.

### PROFESSIONAL CONTESTS

Professional contests allow us to identify the best employees among blue-collar employees in two rounds: tests of theoretical knowledge and practical skills.

In 2012, a "Best in the Field" contest was held at OOO NOVATEK-Yurkharovneftegas with the participation of employees in four occupations, including line pipefitters, chemical plant operators, instrumentation mechanics and industrial electricians.

For the third time we held a similar competition 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.

In 2012, 95 employees took part in the events of which 26 employees won prizes.

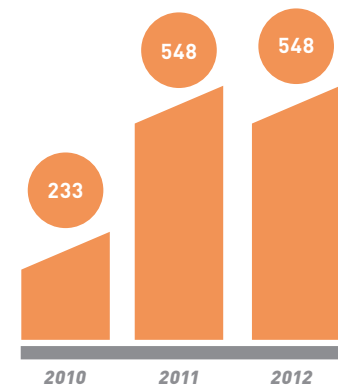
### YOUNG SPECIALISTS

The Company is committed to simplifying the process of natural generational change as much as possible and sees young specialists as its future talent pool. Young specialists can apply for vacant positions by open competition or become employees through participation in NOVATEK's educational programs. For more information please see Educational Initiatives section of the Report.

#### "STEPS TOWARDS TALENT DISCOVERY" PROGRAM

The Company's young specialists are employees aged up to 30 years who have specialized education and often at least some work experience. In order to help new employees learn the specifics of the technological processes, successfully develop their professional skills and uncover their creative potential, we launched the "Steps towards Talent Discovery" Program in February 2012. This is a two-year Program that includes the following set of training courses:

#### NUMBER OF YOUNG SPECIALISTS EMPLOYED BY THE COMPANY



#### YEAR 1

- Effective Training and Learning;
- Presentation Skills;
- Independent Learning.
- 

#### YEAR 2

- Results Orientation and Responsibility;
- Teamwork;
- Basic Management Skills.

The Program also assigns mentors from among experienced employees who started their careers at one of the Company's subsidiaries. A "Mentoring Workshop" has also been organized for mentors to help them to share their professional knowledge and experience effectively. Personalized yearly action plans that set out what each young specialist must study and learn in a given year are part of the system of training young specialists. The mentor also reports once a month to the personnel department that receives his/her performance evaluation.

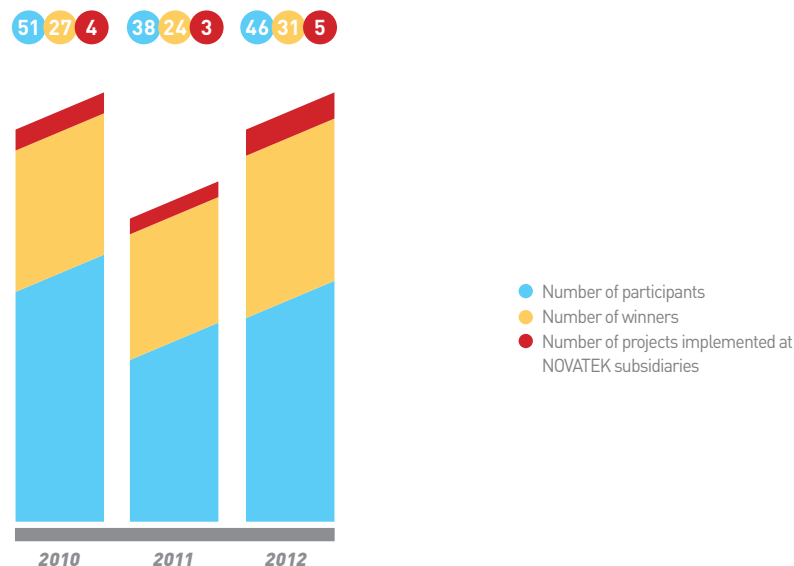
Fifty-one employees from eight subsidiaries have been chosen as Program participants. Twenty-seven mentors have been assigned to young specialists with less than one year of experience. Another 25 young specialists and 19 mentors were included in a new Program class in the fall of 2012.

#### RESEARCH-TO-PRACTICE CONFERENCE

The best young specialists are selected in two stages. First, conferences are held at all subsidiaries, and then the winners present their projects in Moscow.

The 7th Interregional Research-to-Practice Conference for NOVATEK's young specialists was held in September 2012. Forty-six employees from the Company's subsidiaries participated, including those in the corporate "Steps towards Talent Discovery" Program. The competition committee assessed the originality of the presented topics, and their influence on improving performance, cutting production costs, introducing new work procedures and using advanced technologies. Twelve first prize-winners were awarded a trip to Norway to gain leading-edge experience in the industry. The other second-place and third-place winners were awarded cash prizes. A winner was also nominated in the category "Best Implemented Project 2012".

#### KEY PERFORMANCE INDICATORS OF WORKING WITH YOUNG SPECIALISTS AT INTERREGIONAL RESEARCH-TO-PRACTICE CONFERENCES





**EIGHTEEN PROJECTS PRESENTED  
BY YOUNG SPECIALISTS HAVE BEEN  
IMPLEMENTED IN 2009-2011 WITH  
A COST BENEFIT OF MORE THAN 300  
MILLION RUBLES**

*"The Company's Management Board supports the ambitions of young specialists to prove themselves at work, expand their knowledge and be involved in research-to-practice projects. We have already implemented a large number of innovative, more efficient proposals made by young specialists, and the effect is not only seen in performance indicators. As a result of implementing these ideas, we have created a research and development base for modernizing production and increasing our resource base, which promotes the Company's industrial and economic growth."*

*Leonid Mikhelson,  
Chief Executive Officer, OAO NOVATEK*

Seven of NOVATEK's young specialists who participated in the 6th Interregional Research-to-Practice Conference were sent to the FEC 2011 Competition of Youth Projects and a research-to-practice conference of the same name. In September 2012, two of NOVATEK's young specialists who were winners of the FEC-2011 received commendations from the Russian Federation's Ministry of Energy and cash prizes.

## RELATIONS WITH TRADE UNIONS

The Company actively cooperates with trade unions operating in the majority of the Company's subsidiaries and as of 31 December 2012 trade unions comprised 66.9% of our employees.

The Company's management maintains a close cooperation with the trade unions, aiming at a very early stage, through negotiations to remove any possibility of social unrest. Thanks to this policy throughout its existence, and in particular in 2012, there was no case of work stoppage or strike-related conflict situations in labor relations.

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. The term of the most recent agreement ended on 31 December 2012.

In the fourth quarter 2012, a draft of a new Collective Agreement was discussed at general meetings of the Company's employees. In December 2012, OAO NOVATEK signed a new three-year Collective Agreement that became effective on 1 January 2013.

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.

In 2012, the Company spent RR 3.5 million to support the Trade Union organizations.



## COMPANY SOCIAL PROGRAMS

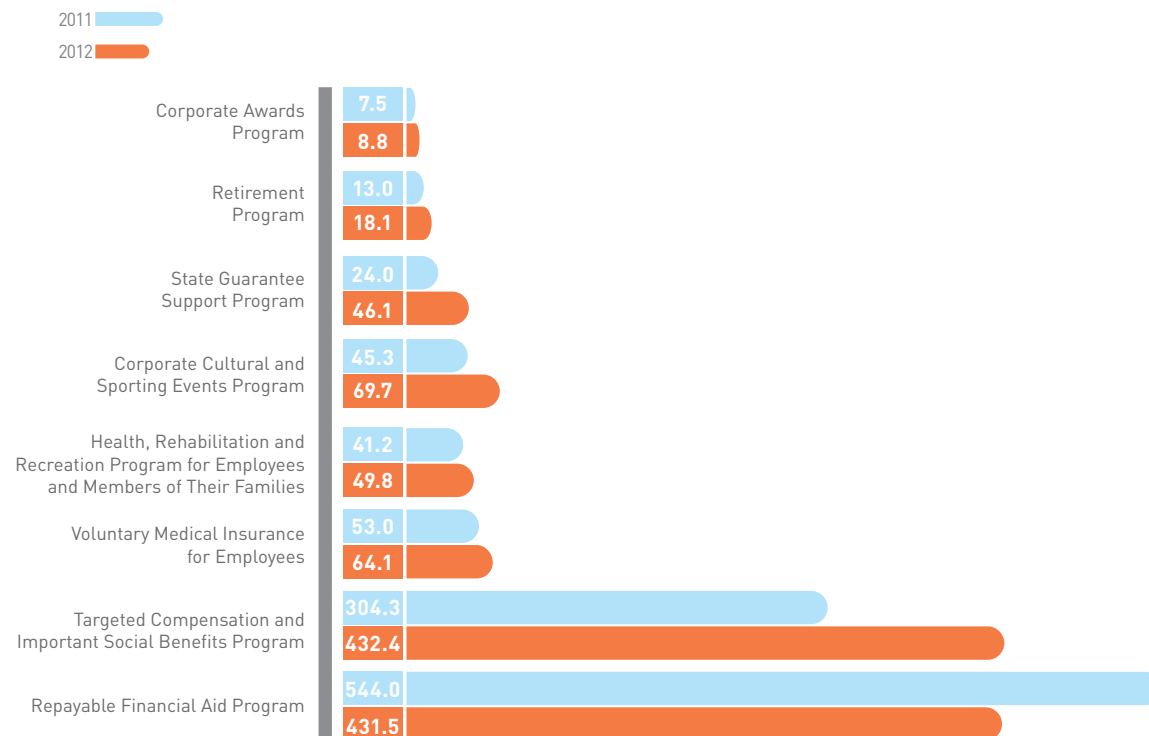
### SOCIAL POLICY CONCEPT

The professionalism and skills of our employees are considered the key to our success. Only integrated human resources and social solutions will enable us to achieve our production targets. The Social Policy Concept adopted in 2006 defines NOVATEK'S primary social initiatives. It determines the social guarantees and benefits for employees, their families and retired employees, and sets out NOVATEK's long-term social development commitments.

By continuously monitoring the policy, we are able to respond quickly to processes occurring in society and among employees, make rapid adjustments, and define a list of objectives to achieve in the New Year. Members of the Management Board summarize the results of implementing social policy and consider employees' suggestions for making it more effective on an annual

basis. New social protection solutions for employees are proposed based on the Company's resources. In August 2012, the Company's Management Board reviewed and approved the Draft Social Policy Concept for 2013, which was then discussed with Company employees.

#### EXPENDITURES ON BASIC SOCIAL PROGRAMS, RR MILLIONS



## 2012 SOCIAL PROGRAMS

The social package for NOVATEK employees is revised annually. In 2012, total expenditures on social programs were RR 1,160 million. Approximately 38% of the allocated funds were used to implement a housing program (on a repayable basis), and almost the same amount was 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 2011 and the results of implementing the programs in 2012.

### 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 2012, expenditures on the program amounted to RR 432.4 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 2012, 268 Company employees were referred for surgery and consultations with specialists.

In 2012, expenditures on the program amounted to RR 64.1 million.

### STATE GUARANTEE SUPPORT PROGRAM

The program is intended for employees working in the Far North and comparable regions. In 2012, 2,524 employees and unemployed members of their families made use of the benefits. 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 are reimbursed annually. In 2012, expenditures on the program amounted to RR 46.1 million.

### HEALTH, REHABILITATION AND RECREATION PROGRAM FOR EMPLOYEES AND MEMBERS OF THEIR FAMILIES

In 2012, 37 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, Siberia and Altai Territory. A total of 1,421 employees and their family members took vacations and underwent rehabilitation treatments in the reporting period. In 2012, expenditures on the program amounted to RR 49.8 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 May 2011 for employees living in Moscow. The loans are granted for a 10 year period.

Approximately 170 families used the interest-free targeted loan program to buy housing in the reporting period. We continued the construction of 80 apartments in Sosnovy Bor, Leningrad Region for employees of OOO NOVATEK-Ust-Luga.

In 2012, expenditures on the program amounted to RR 431.5 million.

### RETIREMENT PROGRAM

The Program is implemented in two ways: the NOVATEK-Veteran Special Social Protection Fund and our own Pension Program.

As of 31 December 2012, the NOVATEK-Veteran Fund was helping 934 veterans; 102 employees who retired from OOO NOVATEK-Polymer before December 31, 2006 were registered in March 2012. Since 1 January 2012, quarterly financial assistance to pensioners, registered at the Fund was indexed at 9.6%.

In 2012, expenditures on the NOVATEK-Veteran program amounted to RR 22.4 million.

As of 31 December 2012, 365 people were participating in our own Pension Program, an increase of more than 40 people as compared to 2011.

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 2012.

The average monthly social benefit paid in 2012 was RR 5,330 in Moscow, the Far North and comparable regions, and RR 2,030 in Novokuibyshevsk and Perm.

In 2012, expenditures on the Pension Program amounted to RR 18.1 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.

#### VISITS TO EXHIBITIONS ORGANIZED IN MOSCOW IN 2012, PEOPLE

Moscow House of Photography	417
Tretyakov Gallery	330
Moscow Kremlin	590

A total of 472 employees received corporate awards in 2012, including:

- Honored Employee of OAO NOVATEK — 4
- Certificate of Merit of OAO NOVATEK — 121
- Letter of Gratitude of OAO NOVATEK — 113
- Certificate of Merit of subsidiaries — 211
- Letter of Acknowledgement of the RF Ministry of Energy — 17
- Certificate of Merit of the RF Ministry of Energy — 6.

All corporate awards are accompanied by cash payments. In 2012, expenditures on the program amounted to RR 8.8 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. OOO NOVATEK-Tarkosalneftegas held its first corporate "Brain Ring" tournament. Four teams representing the company's business units took part in the smart game.

Corporate sporting events in 2012 included the Fifth open volleyball tournament, the Ninth mini soccer tournament and the XII swimming competition.

In September 2012, the Fourth Youth Festival with the motto "Know and Love your Land" was held near Tarko-Sale, with seven teams from various NOVATEK subsidiaries competing.

In 2012, expenditures on the program amounted to RR 69.7 million.

#### 2013 OBJECTIVES:

- Extending the program of interest-free targeted loans to purchase houses to employees of OOO NOVATEK Scientific & Technical Center.
- House construction in Tarko Sale.



# LOCAL COMMUNITIES

THE COMPANY SUPPORTS HUMAN RIGHTS  
INITIATIVES THROUGH CORPORATE POLICIES  
AND PROJECTS THAT CREATE LONG-TERM  
RELATIONSHIPS WITH INDIGENOUS PEOPLES AND  
LOCAL COMMUNITIES



## LOCAL COMMUNITIES



**"THE COMPANY SUPPORTS HUMAN RIGHTS INITIATIVES THROUGH CORPORATE POLICIES AND PROJECTS THAT CREATE LONG-TERM RELATIONSHIPS WITH INDIGENOUS PEOPLES AND LOCAL COMMUNITIES IN THE AREAS WHERE THE COMPANY OPERATES, INCLUDING THE SUPPORT OF EDUCATIONAL, CULTURAL, SPORT AND SOCIAL PROJECTS".**

**QAO NOVATEK'S CODE OF BUSINESS CONDUCT AND ETHICS**

We recognize our responsibility for the welfare of local communities, economic and social development of the territories where the Company has a presence. We strengthen cooperation with local authorities, public organizations and population, including indigenous and minority peoples of the Far North. The geography of NOVATEK presence in 2012 included, primarily, Yamal-Nenets Autonomous Region (YNAO) and Kingisepp District of Leningrad Region, the city of Novokuibyshevsk in Samara Region, Tyumen and Chelyabinsk Regions.

When implementing the policy of social responsibility in the areas of its production activities, the Company uses the following instruments of cooperation:

- General Cooperation Agreement with the Administration of Yamal-Nenets Autonomous Region and NOVATEK's Cooperation Agreements with the administrations of municipal entities of the district and other regions.
- Cooperation Agreements with the "Yamal for Descendants" regional association and its regional offices, as well as the Association of Minority Populations of Indigenous Peoples of the Far North, Siberia and Far East and other public organizations.
- Hands-on assistance to the communities directly approaching the Company and its subsidiaries, in solving social issues.

### COOPERATION WITH REGIONAL AUTHORITIES AND MUNICIPALITIES

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

In 2004, the YNAO Administration and NOVATEK signed the General Cooperation Agreement, which has been renewed every three years since then. A Cooperation Agreement for 2012–2015 became effective during 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.

NOVATEK and its subsidiaries have also entered into agreements with the administrations of Purovsky, Tazov, Nadym, Yamal and Krasnoselkup districts and the city of Novy Urengoy in YNAO. The Company also signed similar agreements with the administration of the city of Novokuibyshevsk in Samara Region and the administration of Kingisepp District in Leningrad Region. In February 2012, NOVATEK signed a Cooperation agreement with the Government of Tyumen Region for 2012–2015, which provides for joint cooperation on development of the region's industrial potential and implementation of various social projects. NOVATEK plans to continue expanding activities of its Scientific & Technical Center in Tyumen and to take part in industrial development of the region. On the other part, the Government of Tyumen Region plans to assist the Company in the development of infrastructure and both new and existing production facilities.

The Cooperation Agreement for 2010–2013 signed with the Government of Chelyabinsk Region provides for the efficient supply of energy resources to the region according to the Chelyabinsk Regional Government's policy on social and economic development. The Agreement also provides for the Company's participation in realizing investment projects for energy development, gas transportation and processing infrastructure in order to increase the effectiveness of natural gas supplies to end-customers in the region.

The agreements are made with consideration of the opinion of all parties involved with regard to rational subsurface use, environmental protection and observance of the interests of indigenous population. Since regional authorities are well aware of the most acute needs of the territories, they coordinate by mutual agreement of the parties the jointly implemented programs of industrial and economic development, educational, cultural, sports and other programs of support to native minorities, etc. This allows for effective and consistent use of funds the Company allocates for solving the region's social issues where they are needed.

In 2012, NOVATEK and its subsidiaries invested RR 180.3 million in social-economic development of the regions where they are present, including RR 153.3 million in the territory of YNAO. We also invested RR 10.0 million in the construction and acquisition of houses for multi-child families in the Samara region, RR 5.0 million to support sports for children and young people in the Tyumen Region as well as RR 12.0 million in renovation works in pre-school and school institutions in Leningrad Region.

## MAIN AREAS OF SOCIAL INVESTMENTS

The Company allocates funds in the following areas:

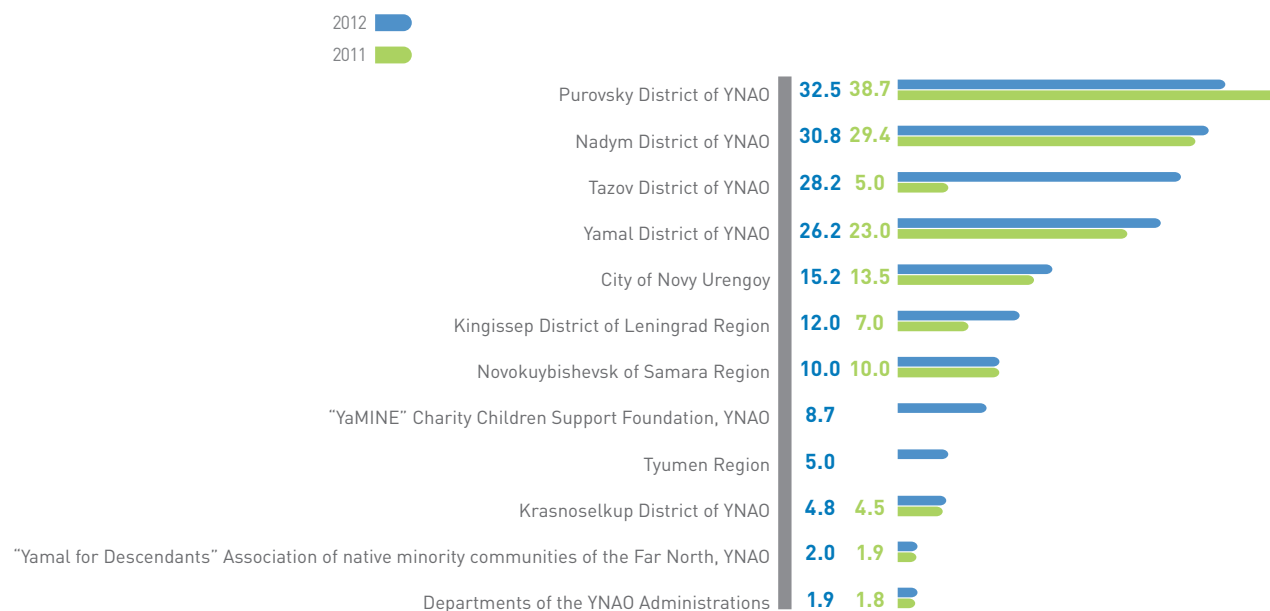
### CONSTRUCTION AND REPAIR OF UTILITIES AND SOCIAL INFRASTRUCTURE

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 utilities and vital infrastructure.

In 2012, the construction of helicopter pad in the national village of Kutopyugan was included in the list of priority projects (RR 16.8 mln) through joint efforts of NOVATEK and administration of Nadym District municipality. Financial support was provided for the construction

of a 100 tons industrial refrigerating facility for the fish processing plant in the village of Gyda (RR 17.3 mln). The construction of such refrigerating facility enabled the fish processing plant to purchase catch from local fishermen all year round and store it until the arrival of transport to take the fish for processing. Therefore, fishermen are now permanently employed and the problem of seasonal nature of employment of local population has thus been eliminated. Funds have also been allocated for overhaul and construction of the facilities at Yuribei and Razvilka trading stations (Tazov District, YNAO). The renovation works of pre-school and school institutions have been financing by the Company in Kingisepp District of Leningrad Region as well as repair works of roofs and houses in Vistino and Kotelskoye villages.

### MAIN RECIPIENTS OF SOCIAL INVESTMENTS, MILLION RR





### NON-COMMERCIAL ORGANIZATIONS SUPPORT

A separate important area of NOVATEK's corporate social responsibility is cooperation with the Association of Minority Populations of the Far North, Siberia and Far East and the Yamal for Descendants Regional Association of Minority Populations of Indigenous Peoples of the Far North.

The Company takes part in financing the events aimed at accomplishment of charter tasks of these organizations. Furthermore, financial assistance has been provided to the noncommercial organization "YaMINE" Charity Children Support Foundation of YNAO that provides medical and diagnostic assistance for critically ill and disabled children.

### 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 network of clubs for teenagers and young adults, which already exceeds more than 1,700 members, is a priority in the cooperation between the Company and the District Administration.

### CULTURAL AND SPORTS PROJECTS

Support for cultural projects mainly goes toward events aimed at preserving national customs and traditions, as well as sports events and festivals – traditional reindeer herding competitions, celebration of local holidays, City Day, Fishermen's Day, Oil and Gas Industry Workers' Day.

Support has also been provided for development of branches of the All-Russia Sports Public Organization "Complex Martial Arts Federation of Russia" in Nadym, Novy Urengoy and Tarko-Sale. The Company's funds have been allocated for organizing clubs for teenagers, purchasing sports equipment, payment of sports facilities rent, holding competitions. NOVATEK supports sports (volleyball) development programs among children and youth in Tyumen Region.

### 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 Grant program for students and teachers at schools in Purovsky District, including for foreign language training abroad for group of students and teachers.

### 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 allocated considerable funds for upgrading facilities of state-financed organizations and institutions, for the needs of the native minority communities of the Far North and populations following a nomadic way of life. In 2012, the Company's provided funds for purchasing rehabilitation equipment and special transportation vehicles for disabled, including those not specified in the federal list.

Medical and diagnostic assistance, medical treatment and rehabilitation were provided to critically ill and disabled children through the "YaMINE" Charity Children Support Foundation.

The largest project (RR 10 million) in 2012 was construction/purchase of housing for large families in the city of Novokuybishevsk in Samara Region.

## MEETING 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.

In connection with the development of the South-Tambeyskoye oil and gas field, OAO Yamal LNG and the Government of YNAO signed an agreement for the period up to 2016 and in the amount of RR 6 billion. The government allocate the funds to the socio-economic development programs of the district of investor's place of operations and improvement of living standards of indigenous peoples: construction of housing, kindergartens, boarding schools, sports and cultural facilities, infrastructure, processing of traditional products.

## COOPERATION WITH INDIGENOUS AND MINORITY PEOPLES OF THE FAR NORTH

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 38,000 people). More than a third of them, or more than 13,000 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 sites of indigenous minorities. NOVATEK has been implementing the Company's Indigenous Peoples Support Program in accordance with the recommendations of the World Bank. This is the second largest area of NOVATEK's social investments.

NOVATEK provides support for native villages, helps maintain trading stations and communities, and finances infrastructure construction and repair. People working in the tundra get free medical care, medicines delivered specially for them and, if necessary, repair of their snowmobiles and motor-boats. In emergency cases during muddy season, humanitarian aid is delivered to the residents of inter-settlement territory by helicopter.

In 2012, the Company's funds were spent on the following:

- Purchase of vehicles (13 units) required for fishermen's and reindeer herders' work (snowmobiles and fishing motor boats);
- Purchase and delivery of diesel fuel and kerosene for nomadic population;
- Air transportation of population and food products to hard-to-reach areas;
- Organization and holding of events connected with national cultural customs, traditions and holidays: Reindeer Herders' Day, Fishermen's Day, Natives' Day, Reindeer Herding Competitions for the Governor's Cup. Expedition for identification of sacred, cultic locations and burial places of native minorities of the Far North on the north-end of the Yamal Peninsula (area of Malygin Strait).
- Provision of social support to individual neighboring communities, payment for expensive surgical service excluded from the list of compulsory medical insurance for nomadic population in a number of YNAO districts.

NOVATEK's new projects are reviewed with local residents in order to preserve the native way of life and land use traditions. When forming its development plans, NOVATEK holds public hearings with the local population. In October 2012, the management of OAO "Yamal LNG" had a meeting with representatives of the "Yamal for Descendants" Association, Members of YNAO and Yamal District Legislative Assembly. They discussed an issue of LNG plant construction with consideration of opinions and requests of the local population and representatives of public organizations who suggested that the Yamal LNG project should be improved in terms of the participation of indigenous peoples in the process of co-management. This obligation is contained in the requirements for industrial companies in terms of international standards compliance for international projects.

Representatives of native minority communities of the Far North attending the meeting suggested activities on research and identification of sacred locations, as well as observance of the interests of reindeer herders from the private sector in relation to reindeer drive route running through the Yamal LNG license area.

At the stage of major projects development affecting the interests of local population and necessarily having environmental impact, we take assessment of environmental, economic and social risks occurring in the course of construction and further operation of the facilities. (See Environmental Impact Assessment Section for more detailed information about public consultations for informing the population about the results of the environmental impact assessment performed).

*In August 2012, the Natives' Day festivities took place in national villages and on camping grounds in YNAO. Costume and sports activities for children were organized on the main street of the national village of Kharampura. About one hundred fishermen and hunters from camping grounds Voento-1, Voento-2 and Chaselka attended the festival on camping grounds Verkhnyaya Chaselka. The festival was also attended by the representatives of "Yamal for Descendants" Association, Deputy Chief of the Administrative Board of Native Minorities of the Far North Affairs of the Administration of Purovsky District. They congratulated the attendees and told them about the festival's history. The program of the concert included poems, songs and fairy tales in Nenets, Selkup and Russian. The Yamal for Descendants Purovsky Association expressed its deep gratitude to NOVATEK-TARKOSALENEFTEGAS for the assistance provided in organizing and holding of the Natives' Day.*

## EDUCATIONAL INITIATIVES

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 2011 and the results achieved in 2012.

### 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 2012, the Company spent RR 3.0 million on the Gifted Children Program.

### GRANTS PROGRAM

The Company has implemented two “Grants” programs for schoolchildren and teachers living in the Purovsky District of the YNAO.

The “Grants” program for schoolchildren is an educational support program, which we have been administering since 2004. Under the program, students in grades 5 through 11 living in the districts are awarded grants from the Company to support their academic and creative development and to encourage a responsible attitude towards their studies. In 2012, the Company awarded 243 grants.

The “Grants” program for the teachers is intended to raise the prestige of the teaching profession and create favorable conditions for developing new and talented teachers. In 2012, the Company awarded 9 grants. In 2011, the Company spent RR 708.0 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.

NOVATEK organizes annual forums in Moscow for students who are participants of the NOVATEK-VUZ Program in key universities in Russia – the State Mining Institute (St. Petersburg), Gubkin Russian State Oil and Gas University (Moscow), and in the higher educational institutions of Samara. The Program participants meet with the Company’s and its core subsidiaries’ senior executives and young professionals. In 2012, 70 students as well as teachers and students from high school No. 2 in Tarko-Sale and high school No. 8 in Novokuybishevsk (participants in the Gifted Children Program) took part in the forum.

During the 2012 forum students took part in a business game, had the opportunity to consult with the senior executives and get first-hand information about the apprenticeship agreements, field trips at the Company and employment after graduation.

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 National Mineral Resources University (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 Khancheyskoye 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.

In 2011, 13 program graduates were offered employment at our subsidiaries and 2 graduates found their jobs with our support. As of 31 December 2011, 32 NOVATEK-VUZ graduates are working with NOVATEK and its subsidiaries. In 2011, the Company spent RR 38.0 million on the NOVATEK-VUZ Program.

## ALL TOGETHER VOLUNTEER MOVEMENT AND CHARITY PROJECTS

In 2012, 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 May and November 2012, more than 100 people donated 45 liters of blood at a traditional mobile clinic at the Company's Moscow office.

In 2012, the Company equipped a computer classroom and playground for more than one hundred children who live and study in the Vyshny Volochok orphanage (Tver Region).

In 2012, the Company 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, windows were replaced in the orphanage's school building at a cost of RR 2.1 million.

## 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 museums, including the State Russian Museum in St. Petersburg, the Moscow Kremlin Museum, the Moscow Museum of Modern Art (Moscow House of Photography), the Moscow Museum of Modern Art, the Tretyakov Gallery and the Samara Regional Arts Museum.

In 2012, a number of unique art exhibitions and cultural projects were organized and implemented with NOVATEK's support, these included:

### *The Tretyakov Gallery*

- Arseny Jiliaev. Museum of proletarian culture. The industrialization of bohemia.
- Still. Metamorphoses. Dialogue classic and contemporary.

### *The Moscow Kremlin Museum*

- Exhibition of the 20th century artist Henry Moore.

### *The Moscow Museum of Modern Art*

- Exhibition "The call to the alternative" of the 20th century leading German artist and postmodernist Joseph Beuys (as part of the Cultural Year of Germany in Russia).

### *The Multimedia Art Museum*

- IX International Month of Photography in Moscow – Biennale 2012, including more than 50 exhibitions of well-known domestic and foreign photo artists, film-makers, operators on three topics Movie Photos, America in focus and On the Road.
- solo exhibitions of young Russian artists Grisha Bruskin and David David Ter-Oganyan.

In 2012, NOVATEK became a partner of a unique cultural festival "American Seasons in Russia" under the auspices of the US-Russia Bilateral Presidential Commission.

In 2012, the Platform Project of national contemporary art was held with the Company's support. The project is created by a famous Russian director Kirill Serebrennikov and is an experimental platform for communication with the audience, bringing together four areas of modern art: theater, dance, music, media. From October to November 2012, the Platform Project has become the focus of more than twenty unique performances, musical and theatrical performances, concerts and educational programs with the participation of Russian and foreign artists.

## 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).



# SGS VOSTOK' S REPORT ON SUSTAINABILITY ACTIVITIES IN THE OAO NOVATEK SUSTAINABILITY REPORT FOR 2012

## NATURE AND SCOPE OF THE ASSURANCE/ VERIFICATION

SGS Vostok Limited was commissioned by OAO Novatek to conduct an independent assurance of the Sustainability Report 2012. The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included the text, and 2012 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 2012 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 2012.

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 which 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 2012 is accurate, reliable and provides a fair and balanced representation of OAO Novatek sustainability activities in 2012.

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

We believe that the organization 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 2012 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 reports should extend commentary regarding the changing priorities for material issues and how this is taken into decision making.
- **Comparability:** Stakeholders' opinions on the company's performance would be better informed if targets and goals for the forthcoming years were included in the Report and used to evaluate the current reporting year's performance.
- **Sustainability Context:** In order to demonstrate the Sustainability context in which the organisation operates, Novatek should consider expressing the magnitude of impact or performance and the normalisation of data against internal measures in future reporting.

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

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

**Indicators** — More than the required minimum number of indicators including those from the Oil & Gas Sector Supplement are included in the report.

In our opinion:

- The large increase in the number of indicators addressed and the use of the Oil & Gas Sector Supplement reflects the organisation's continued commitment to reporting and transparency.
- This report has improved on the last in terms of expanded commentary on the results of stakeholder engagement and the resulting decision making. However there is still scope for providing this information in a more structured manner.

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  
OCTOBER 2013

[WWW.SGS.COM](http://WWW.SGS.COM)

# GRI CONTENT INDEX

Profile Disclosure ↓	Description ↓	Level of reporting ↓	Cross-reference/Direct answer/ Comment ↓	Page in the Report ↓
<b>STRATEGY AND ANALYSIS</b>				
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	Additionally please see NOVATEK Annual Report 2012, pp. 11, 72-77 <a href="http://www.novatek.ru/en/about/strategy/">http://www.novatek.ru/en/about/strategy/</a>	3-4
<b>ORGANIZATIONAL PROFILE</b>				
2.1	Name of the organization	Fully	ОАО NOVATEK	
2.2	Primary brands, products, and/or services	Fully	Additionally please see NOVATEK Annual Report 2012, p. 15	9-10
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures	Fully	<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		68
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		9
2.6	Nature of ownership and legal form	Fully	Part ownership, Joint Stock Company	
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	Fully	Additionally please see NOVATEK Annual Report 2012, pp. 41-47	9
2.8	Scale of the reporting organization	Fully		9-10
2.9	Significant changes during the reporting period regarding size, structure, or ownership	Fully		12,16
2.10	Awards received in the reporting period	Fully	Additional information: <a href="http://www.novatek.ru/en/about/achievements/index.php?quarter_4=1">http://www.novatek.ru/en/about/achievements/index.php?quarter_4=1</a>	9, 12, 16
<b>REPORT PARAMETERS</b>				
3.1	Reporting period (e.g., fiscal/calendar year) for information provided	Fully	2012 calendar year	6-7
3.2	Date of most recent previous report (if any)	Fully		6-7
3.3	Reporting cycle (annual, biennial, etc.)	Fully	Annual	6-7
3.4	Contact point for questions regarding the report or its contents	Fully		6-7
3.5	Process for defining report content	Fully		6-7
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance	Fully		6-7
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope)	Fully		6-7
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		6-7

Profile Disclosure ↓	Description ↓	Level of reporting ↓	Cross-reference/Direct answer/ Comment ↓	Page in the Report ↓
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols	Fully		6-7
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	The Report does not contain any restatements	
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		59
3.13	Policy and current practice with regard to seeking external assurance for the report	Fully	The Company applies for the report verification to professional auditor. The verification report is enclosed	57
<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 Annual Report 2012, pp. 60-65	
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 and gender of members of the highest governance body that are independent and/or non-executive members	Fully	The Board of directors comprises 9 members, including seven non-executive directors. Six directors are considered independent according to the definition contained in the Russian Federal "Law on Joint-Stock Companies" and two directors are considered independent according to the definition contained in the UKLA Combined Code. Additionally please see NOVATEK Annual Report 2012, p. 61	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Fully	These mechanisms include Shareholders Meetings, discussion of Collective Agreements, Company management's meetings with employees, etc. Additionally please see NOVATEK Annual Report 2012, p. 60	
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. Information on remuneration of members of the Company's Board of Directors and Management Committee in 2012 could be found in NOVATEK Annual Report 2012, p.67	
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Fully	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/doc/">http://www.novatek.ru/en/about/management/doc/</a>	

Profile Disclosure ↓	Description ↓	Level of reporting ↓	Cross-reference/Direct answer/ Comment ↓	Page in the Report ↓
4.7	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity	Fully	Qualification and competence of members, including in Sustainability issues, are being accounted while appointment to a post, as well as educational level and the experience on the boards of other companies. The Company has no specific procedures in place for this process	
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	Charter and Corporate Documents: <a href="http://www.novatek.ru/en/about/management/doc/">http://www.novatek.ru/en/about/management/doc/</a>	
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	The precautionary principle is applied in the planning of new facilities or the introduction of new products in order to avoid serious or irreversible environmental impacts. We use the common approach to the management of environmental risks, taking into account existing regulations and standards of industrial and environmental safety	21
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. The Company shares the basic ethical principles of the Russian Code of Business Ethics (Chamber of Commerce and Industry of the Russian Federation, 1998), the Charter of corporate ethics (the Russian Union of Industrialists and Entrepreneurs, 2003)	
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic	Fully	Russian Gas Society, Regional Association «The Urals Industrial – the Urals Polar»	
4.14	List of stakeholder groups engaged by the organization	Fully	The Company interacts regularly with the main stakeholder groups, including shareholders, investors, business partners, media, employees, indigenous peoples, communities, legislative and executive authorities	
4.15	Basis for identification and selection of stakeholders with whom to engage	Fully	Basis for identification and selection of stakeholders are regular business processes, obligations under existing contracts and agreements, as well as requirements of the initiatives, in which the Company participates	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Partially	Stakeholder presentation and mapping is planned to be published on the Company's corporate web-site <a href="http://www.novatek.ru/en">www.novatek.ru/en</a>	17, 24, 44, 49, 50-55
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		17

Profile Disclosure ↓	Description ↓	Level of reporting ↓	Cross-reference/Direct answer/ Comment ↓	Page in the Report ↓
<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	Additionally please see NOVATEK Annual Report 2012, p. 60, and IFRS Consolidated Financial Statements for the years ended 31 December 2012 and 2011, pp. 53	10
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	Partially		27
EC3	Coverage of the organization's defined benefit plan obligations	Fully	The Company provides for a non-assignable-contributory defined benefit program to employees after retirement, the payment amount depends on the length of employment and average salary. Additionally please see NOVATEK's IFRS Consolidated Financial Statements for the years ended 31 December 2012 and 2011, pp. 46	46
EC4	Significant financial assistance received from government	Fully	In 2012, one of the Company's investment projects in the YNAO was included by the YNAO authorities in the list of priority projects, which allows the Company's subsidiary, that carried out the project, to apply a reduced income tax rate of 15.5%. Additionally please see NOVATEK's IFRS Consolidated Financial Statements for the years ended 31 December 2012 and 2011, pp. 46	
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	Partially	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. The Company has no specific procedures in place for this process.	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Fully		49
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Fully		13-15
<b>ENVIRONMENTAL</b>				
<b>MATERIALS</b>				
EN2	Percentage of materials used that are recycled input materials	Partially	Additionally please see NOVATEK Sustainability Report 2008-2009, p. 4, 20	
<b>ENERGY</b>				
EN3	Direct energy consumption by primary energy source	Fully	Additionally please see NOVATEK Annual Report 2012, p. 50	25
EN4	Indirect energy consumption by primary source	Fully	Additionally please see NOVATEK Annual Report 2012, p. 50	25



Profile Disclosure ↓	Description ↓	Level of reporting ↓	Cross-reference/Direct answer/ Comment ↓	Page in the Report ↓
EN5	Energy saved due to conservation and efficiency improvements	Fully		26
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	Partially		26
WATER				
EN8	Total water withdrawal by source	Fully		30
EN10	Percentage and total volume of water recycled and reused	Partially	NOVATEK's disclosure report for the Carbon Disclosure Project (The report is available for registered users <a href="http://www.cdproject.net">www.cdproject.net</a> )	30
BIODIVERSITY				
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Partially	The Company 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.	
EN13	Habitats protected or restored	Fully		31
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	Partially	Representative of OAO Yamal LNG took part in the work of the Expert Advisory group on the conservation and study of the Atlantic walrus south-eastern Barents Sea and adjacent waters, held in September 2012 in the city of Suzdal . The Company's facilities are not located near the walrus rookeries, but there is a potential risk of exposure to them in transportation of hydrocarbons.	
EMISSIONS, EFFLUENTS AND WASTE				
EN16	Total direct and indirect greenhouse gas emissions by weight	Fully	Additionally please see NOVATEK's annual disclosure report on greenhouse gas emissions and energy efficiency of the Carbon Disclosure Project at <a href="http://www.cdproject.net">www.cdproject.net</a> (The report is available for registered users)	27
EN17	Other relevant indirect greenhouse gas emissions by weight			
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved			
EN19	Emissions of ozone-depleting substances by weight			
EN20	NOx, SOx, and other significant air emissions by type and weight			
EN22	Total weight of waste by type and disposal method	Partially		31
EN23	Total number and volume of significant spills	Fully		36
PRODUCTS AND SERVICES				
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Fully		29
COMPLIANCE				
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Fully		32

Profile Disclosure ↓	Description ↓	Level of reporting ↓	Cross-reference/Direct answer/ Comment ↓	Page in the Report ↓
TRANSPORT				
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	Partially	In 2012, the production transportation accounted only 1% of total emissions in the atmosphere as a result of the Company's operations.	
OVERALL				
EN30	Total environmental protection expenditures and investments by type	Fully		32
EMPLOYMENT				
EMPLOYMENT				
LA1	Total workforce by employment type, employment contract, and region, broken down by gender	Partially		40
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region	Partially		42
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Fully		45
LABOR/MANAGEMENT RELATIONS				
LA4	Percentage of employees covered by collective bargaining agreements.	Fully		34, 44
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	Fully	The indicator was not changed - the minimum notice period is 2 months	
OCCUPATIONAL HEALTH AND SAFETY				
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender	Partially		35
LA9	Health and safety topics covered in formal agreements with trade unions	Fully	The Collective Agreement for 2010-2012 which was effective in the reporting period, contained a section "Health and Safety"	
TRAINING AND EDUCATION				
LA10	Average hours of training per year per employee by gender, and by employee category	Partially		41
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Partially	There are Corporate English courses for employees of OAO NOVATEK in the reporting period	
LA12	Percentage of employees receiving regular performance and career development reviews, by gender	Partially		41
DIVERSITY AND EQUAL OPPORTUNITY				
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Partially		40

Profile  
Disclosure ↓

Description ↓

Level of  
reporting ↓

Cross-reference/Direct answer/ Comment ↓

Page in the  
Report ↓

SOCIAL: PRODUCT RESPONSIBILITY				
CUSTOMER HEALTH AND SAFETY				
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	Fully	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	
PRODUCT AND SERVICE LABELING				
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	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Fully		17
CUSTOMER PRIVACY				
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Fully	No cases were detected in the reporting period	
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	
SOCIAL: HUMAN RIGHTS				
HR2	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, 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 corrective actions taken	Fully	No cases were detected in the reporting period	
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights	Fully	The Company respects the right of employees to freedom of association and participates in mutual discussion of collective agreements	
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	Fully	Due to the character of production, which imposes high requirements on employees, both in terms of skills and physical fit, there is no practically risk of child labor at the place of hydrocarbons production and processing	40
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	Fully	Such activities were not detected during the reporting period	

Profile Disclosure ↓	Description ↓	Level of reporting ↓	Cross-reference/Direct answer/ Comment ↓	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	
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments	Partially	"Public hearings on the port of Sabetta construction programs" The observance of the rights of the local population were considered during the public hearings on construction of new facilities for the Company	23
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms	Fully	No cases were detected in the reporting period	
SOCIAL: SOCIETY				
S01	Percentage of operations with implemented local community engagement, impact assessments, and development programs	Fully		23-24, 49-55
S02	Percentage and total number of business units analyzed for risks related to corruption	Partially	The Company's security office and/or internal audit department carries out regular checking for risks related to corruption, mainly for procurement departments	
S04	Actions taken in response to incidents of corruption	Fully	No cases were detected in the reporting period	
S05	Public policy positions and participation in public policy development and lobbying	Fully	According to clause 4.2.3 of OAO NOVATEK Code of Business Conduct and Ethics, the Company "avoids unlawful efforts to influence the decisions of governmental and/or local authorities" Additionally please see OAO NOVATEK Code of Business Conduct and Ethics <a href="http://www.novatek.ru/en/about/management/doc/">http://www.novatek.ru/en/about/management/doc/</a>	24
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	Fully	According to clause 4.2.3 of OAO NOVATEK Code of Business Conduct and Ethics, the Company "does not directly (or indirectly) participate in political movements or organizations" Additionally please see OAO NOVATEK Code of Business Conduct and Ethics <a href="http://www.novatek.ru/en/about/management/doc/">http://www.novatek.ru/en/about/management/doc/</a>	
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Partially		32
S09	Operations with significant potential or actual negative impacts on local communities	Fully		23
S010	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities	Fully		49-53
G3.1 CONTENT INDEX - OIL & GAS SECTOR SUPPLEMENT				
OG1	Volume and type of estimated proved reserves and production	Fully	Additionally please see NOVATEK Annual Report 2012, pp. 24, 27	
OG2	Total amount invested in renewable energy	Partially	There are alternative energy sources (wind and solar power generation units) installed along the entire pipeline route connecting the Yurkharovskoye field to the Purovsky Plant, as well as at our Samburgskoye and Khancheyskoye fields. These units generate power that is used to operate the pipeline's remote control systems and valves. Additionally please see NOVATEK Sustainability Report 2011, p. 25	26

Profile Disclosure ↓	Description ↓	Level of reporting ↓	Cross-reference/Direct answer/ Comment ↓	Page in the Report ↓
OG4	Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored	Partially		22-23
OG5	Volume of formation or produced water	Partially		30
OG6	Volume of flared and vented hydrocarbon	Fully	NOVATEK's disclosure report for the Carbon Disclosure Project (The report is available for registered users <a href="http://www.cdproject.net">www.cdproject.net</a> )	
OG7	Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal	Fully		30-31
OG8	Benzene, Lead and Sulfur content in fuels	Fully	We do not produce fuels Benzene-, Lead- or Sulfur-based	
OG9	Operations where indigenous communities are present or affected by activities and where specific engagement strategies are in place	Fully		49-53
OG10	Number and description of significant disputes with local communities and indigenous peoples	Fully		
OG11	Number of sites that have been decommissioned and sites that are in the process of being decommissioned	Fully	No such cases were detected in the reporting period	32
OG12	Operations where involuntary resettlement took place, the number of households resettled in each and how their livelihoods were affected in the process	Fully	Due to rotation method of the production process of hydrocarbons, decommissioning of production sites has no effect on the local labor market	
OG13	Number of process safety events, by business activity	Fully	No such cases were detected in the reporting period	35
OG14	Volume of biofuels produced and purchased meeting sustainability criteria	Fully	We do not produce/ purchase such fuels	

#### Note

The following indicators are not material or relevant for the Company: EC5, EN7, EN24, EN25, EN27, LA6, LA8, LA14, PR6, PR7, HR1, HR8 and SO3.

# FEEDBACK QUESTIONNAIRE, CONTACT INFORMATION

## FEEDBACK QUESTIONNAIRE

### DEAR READERS,

You have just read NOVATEK's sixth Sustainability Report. Your opinion is important to us, and we would be grateful for your responses to the questions below so that we might improve the Report's quality in the future.

If you have any questions or comments, please call +7 495 730 6013.

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

### WHAT KIND OF INFORMATION WOULD YOU LIKE TO SEE INCLUDED IN FUTURE SUSTAINABILITY REPORTS BY NOVATEK?

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## CONTACT INFORMATION

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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

## 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.