

Sustainability Report

on the territory of Russian Federation

2006-2007





CONTENTS

| LETTER FROM THE CHIEF EXE | ECUTIVE OFFICER | 4 |
|---------------------------|--|----|
| SUSTAINABILITY REPORTING | SUSTAINABILITY REPORTING: THE COMPANY'S APPROACH | |
| COMPANY PROFILE | | 13 |
| ECONOMIC PERFORMANCE A | ECONOMIC PERFORMANCE AND SUSTAINABILITY | |
| HUMAN RESOURCES AND SO | CIAL POLICIES | 25 |
| RELATIONS WITH THE COMMU | 39 | |
| ENVIRONMENTAL PROTECTIO | N, OCCUPATIONAL HEALTH AND SAFETY | 51 |
| INDEPENDENT VERIFICATION | 66 | |
| GRI PERFORMANCE INDICATO | DRS | 68 |
| CONTACT INFORMATION | | 77 |
| | | |
| | | |

LETTER FROM THE CHIEF EXECUTIVE OFFICER

Investing in the future

Dear Stakeholders,

INVESTING IN THE FUTURE is a program we established a couple of years ago as the foundation to ensure the sustainable development of our people, our operations and our communities. To assess our progress toward reaching our goals, I would like to present our 2006 – 2007 Sustainability Report for OAO NOVATEK, our second report prepared according to Global Reporting Initiative (GRI) guidelines. These past two years were a period of robust development for our company and we were successful in the overall implementation of our people which lad to

opment for our company and we were successful in the overall implementation of our plans, which led to many inspiring events and well-deserved achievements. During this period, we reached a significant milestone in our operational history — we have cumulatively produced 100 billion cubic meters of natural gas from our core fields. Equally important, we solidified our overall position in the natural gas industry, enlarged our reserve base, increased production volumes, achieved record-breaking financial performance and expanded our marketing reach, thus proving ourselves to be a reliable business partner. We possess a huge resource base of clean-burning hydrocarbons to develop and have formulated a clearly articulated long-term strategy outlining our commitment to grow our business.

As part of INVESTING IN THE FUTURE, we are dedicated to expanding educational and professional training programs for our employees at all

levels, improving working conditions and fostering a professional atmosphere in the workplace. We understand that a motivated and talented team of professionals plays a key role in supporting the Company's sustainable development initiatives. In 2007, we adopted our Basic Social Policy Strategy, which enabled us to create a systematic approach to assessing the needs of our employees and, as a result, to considerably expand the social package for our employees. We also initiated an employee recognition program to recognize employees with an "Honored Employee of OAO NOVATEK" award for distinguished service and substantial personal contributions to the Company's development.

As a responsible business partner, the Company is committed to improving the social and economic situation in the regions where we operate. We vigorously pursue social programs designed to support children and pensioners, develop the educational system and provide professional training opportunities to young people. The future of the Far North and the well-being of its population are extremely important to us. An integral part of our activities are a whole series of programs intended to strengthen social stability in the region as well as rejuvenate and preserve the national traditions, identity and cultural heritage of indigenous peoples.

We realize that the oil and gas industry is often

criticized for its potentially harmful effects on the environment. Therefore, we are determined to demonstrate that we operate in an environmentally sensitive manner and are committed to proactively resolve any environmental issue on a timely basis. To demonstrate our commitment, in 2007, we invested in the construction of our very own methanol production unit at the Yurkharovskoye Field, which enables us to avoid the environmental risks associated with transporting a chemically active product along northern rivers. We must never forget that the harsh Arctic region is a sensitive and vulnerable natural habitat which must be preserved for the sake of future generations.

Open and honest dialogue about our performance, priorities and future plans for sustainable development enables us to develop partnership relations and strengthen mutual trust. We understand that our efforts to achieve high-level production performance and implement social programmes should be based on honest, transparent and accessible information.

In presenting our 2006 – 2007 Sustainability Report, we would like to demonstrate our commitment toward achieving the best possible results when addressing social, occupational health and safety, and environmental issues. We fully understand the importance of social and environmental reporting and pledge to continue this initiative.

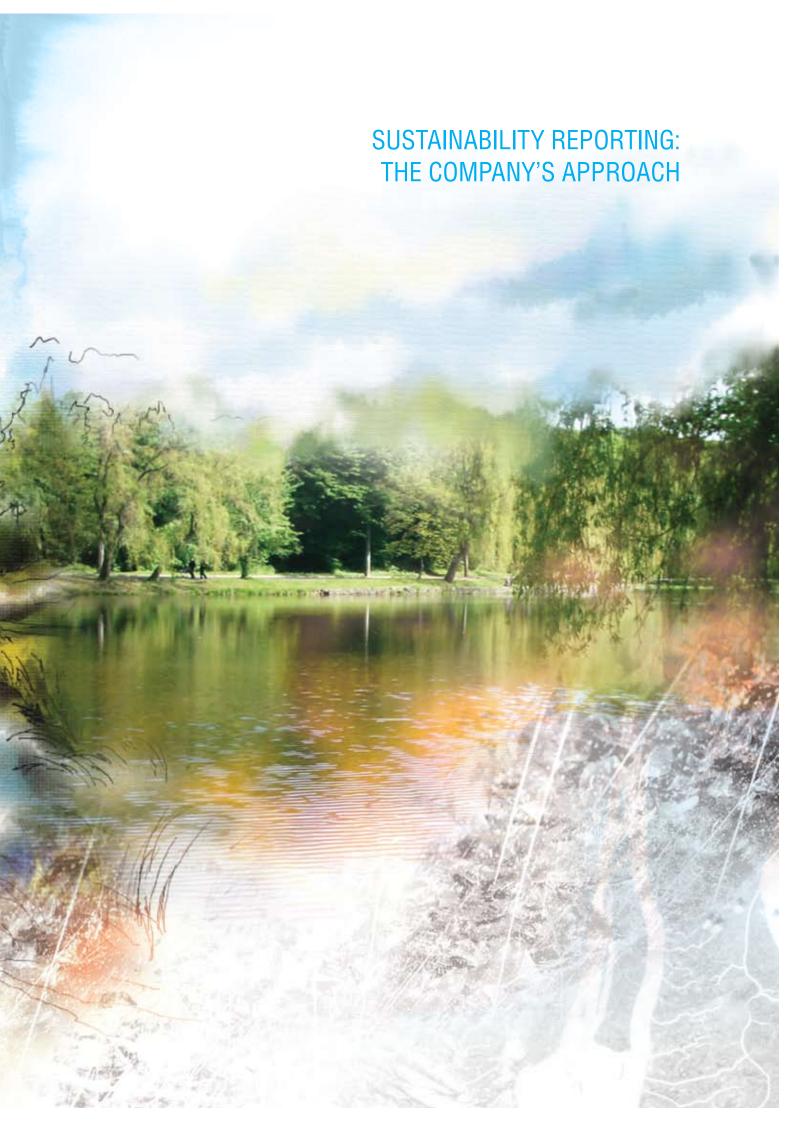


I want to thank our readers for your interest in our Company and hope that this comprehensive report helps you evaluate NOVATEK's contribution to developing the economy, guaranteeing the safety of the environment and shaping a stable and favorable social environment.

Chief Executive Officer, OAO NOVATEK

Leonid Mikhelson





The 2006–2007 Sustainability Report (hereinafter the "Report") is NOVATEK's second social report. Social reporting can be used as a means of managing organizations and their internal planning processes, as well as evaluating their performance. We are publishing this Report to continue fostering our stakeholders' trust and understanding.

Reporting cycle for information provided is biennial. The Company's first sustainability report, for 2004–2005, was made available to a wide range of stakeholders. The Report was sent to our subsidiaries and branches and is now used in their day-to-day work. It was also distributed at conferences, forums, exhibitions and meetings attended by Company representatives. A number of surveys and rating agencies have publicized the Report and NOVATEK was awarded with a National Environmental Prize in the "Sustainability Reporting" category. The Company's 2004–2005 Sustainability Report is available on our corporate website: www.novatek.ru.

In preparing the 2006-2007 Report and to further develop our social reporting, we relied on the experiences, we gained since the first report was published, global best practices as well as following the principles and guidelines set forth in GRI's G3 Guidelines, the current global standard for nonfinancial reporting, from technical protocols to performance indicators. We followed recommended GRI reporting guidelines when determining the Report's content, aiming to fully reflect the Company's contribution to the economy, our impact on the environment and our relationships with the communities where we operate.

In preparing this Report we pre-determined the following criteria for stakeholder identification: responsibility, influence, association, dependency and representation levels. Notwithstanding that priority is given to our employees, and local residents in the areas we operate, we strive to interact with all stakeholder groups in our day-to-day operations.

Based on our analysis of stakeholder expectations, interests and feedback, we have established a range of the social responsibility issues most important to them and addressed these issues in this Report.

| Stakeholders | Feedback | The Company's stance | | |
|-----------------------------|--|--|--|--|
| Investors | Issue reports both in English and in Russian. | This Report has been issued both in English and in Russian. It is available on our corporate website: www.novatek.ru. | | |
| | Arrange for independent audits of reports for compliance with GRI (G3). | ZAO SGS Vostok Limited performed an audit of Application Levels. The assurance report is attached at the end of this Report. | | |
| International organizations | Provide specific examples of social programmes that have been implemented. | Detailed information about social programmes and their implementation can be found in the "Human resources and social policies" section. | | |

| Employees | Put in place a comprehensive and systematic approach to resolving social | We adopted the Basic Social Policy Strategy, and the Company and all of its subsidiaries signed col- lective bargaining agreements. Social policy issues are highlighted in our corporate newspaper. | | |
|--|--|--|--|--|
| Labor unions | issues and communicate the results of this work to employees. | | | |
| Employees' families | | | | |
| Non-working pensioners | Develop programmes for staff development and motivation; engage em- | The Company has been running a program to bolster the workforce. | | |
| | ployees of all levels in the manage- ment process. | For substantial personal contribution to the Company's development, employees are awarded the honorary title "Honored Employee of OAO NOVATEK". | | |
| | | Every year we run a professional contest for young specialists. | | |
| | Continue with initiatives aimed at long-term social protection of employees. | The Company runs a Post-Retirement Social Assistance Program for staff. | | |
| | proyects. | Detailed information about these programmes can be found in the "Human resources and social poli- cies" section. | | |
| Municipal and local governments | Continue implementing joint projects aimed at social and economic development in the regions. | The section "Relations with the Community" provides information about ongoing projects. | | |
| Local residents | Continue with initiatives aimed at environmental protection, fostering environmental culture, and minimizing environmental impact. | The Company remains focused on environmental targets and has fulfilled nearly all plans to reduce and prevent its adverse impact on the environment. However, the Company also was actively involved in construction of both exploration and production wells causing a minor increase in drilling waste; therefore we were not able to maintain earlier levels of waste generation volumes. | | |
| | Engage local residents, especially school children. | Information about our engagement with local communities is fully disclosed in the section "Relations with the Community". | | |
| Cultural venues Sports societies Educational establishments | Continue charity activities and allocating funds for targeted support of cultural institutions, education and sport. | We put great emphasis on supporting cultural institutions, arts, education and sport, and intend to continue this practice. | | |

Sustainability Report on the territory of Russian Federation 2006-2007

This Report provides information about OAO NOVATEK and its subsidiaries and associates; our economic, social and environmental policies; our achievements during the reporting period; and challenges that we encountered and successfully overcame.

The section "Economic Performance and Sustainability" provides information on the Group's key

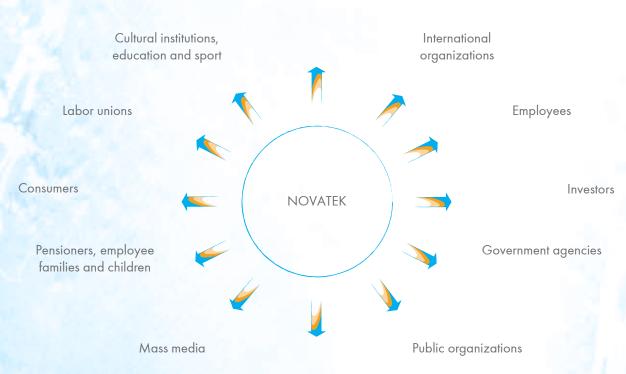
performance indicators.

The section "Human Resources and Social Policies" discloses information on HR policies, labor relations, educational and social programs, and staff development.

The section "Relations with the Community" covers information on stakeholder engagement.

STAKEHOLDER GROUPS

Municipal authorities and local residents



Suppliers and contractors

We strive to demonstrate the critical role that occupational health, safety and environmental issues play in our operations, setting out this priority in a separate section: "Environmental Protection, Occupational Health and Safety".

There were no significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report. We intend to provide information on issues that cannot be adequately covered now in future reports.

Please note that we did not fully adhere to certain GRI guidelines at the time of our first report, mainly as concerns stakeholder involvement in the reporting process. Therefore, since the first report was issued we have undertaken vigorous efforts to boost dialogue with all stakeholders. In recent years, we have been actively involved with both national and international business associations and councils. Our partners include federal, regional, and municipal government agencies; Russia-wide and international organizations and associations; non-profit organizations; charities, etc.

As a product of our stakeholder dialogue, which took place with the support of the Vernadsky Environmental Foundation, we received a number of requests for disclosures in subsequent reports. For example, International Finance Corporation (IFC) consultants offered recommendations on report content, and suggested that our next report be issued both in Russian and in English and include specific examples of social programs that have been

implemented. The commentary and recommendations expressed were taken into consideration when preparing this report.

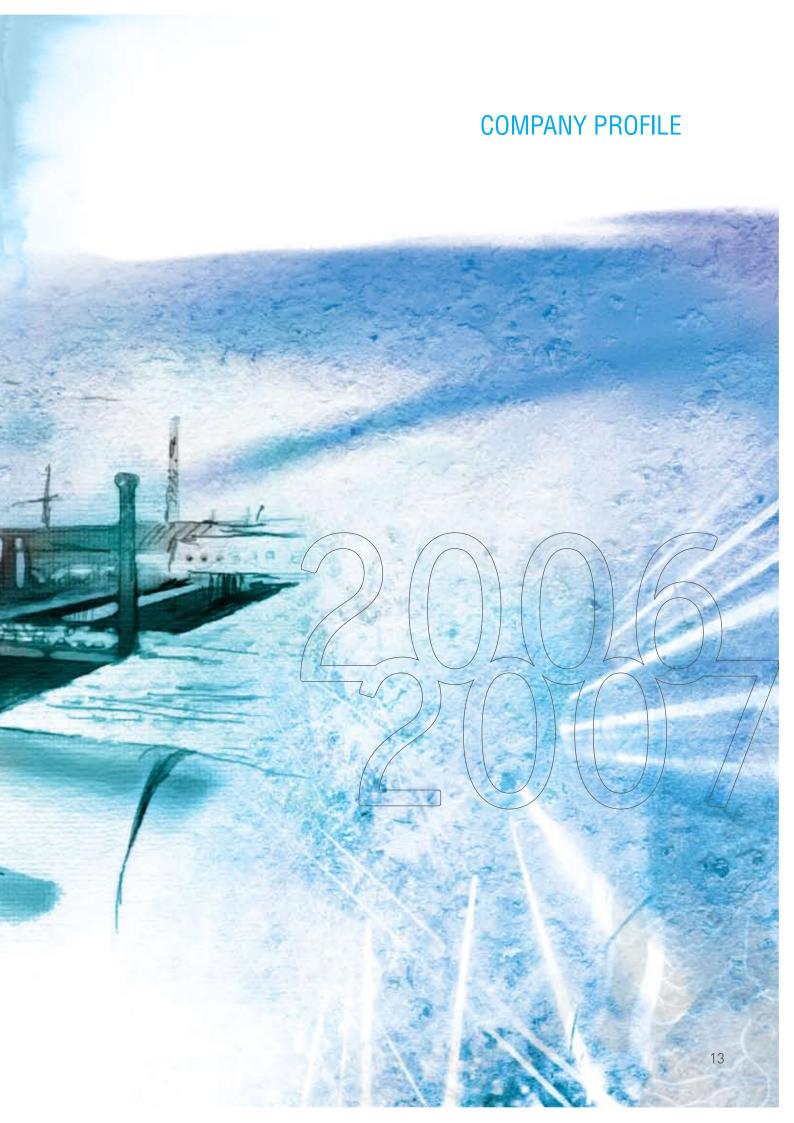
As required by Russian law, NOVATEK submits all-required information about its operations to governmental agencies in a timely manner. We are committed to working in close cooperation with local and international public organizations and the media, and provide information on various aspects of its our activities. We maintain an ongoing dialogue with employees, who maintain active participation with Labor unions, and run conferences, forums and work meetings with representatives of the environmental community. NOVATEK and its subsidiaries undergo periodic conducted from various governmental agencies, and we use these audit findings to improve performance and corporate governance.

We believe that report verification and independent audits are an important part of social reporting. Information in this report has been verified by an independent audit performed by ZAO SGS Vostok Limited. The assurance report is attached at the end of this Report for convenience.

This Report is in line with C+ level GRI standards.

We expect that the publication of this Report will help to widen our constructive dialogue with all stakeholders. Our stakeholders' opinions of sustainability reporting are of great importance to us, and we would appreciate any recommendations that may help us to further improve the content and readability of this Report. A feedback questionnaire is provided at the end of the Report.





NOVATEK is Russia's largest independent gas producer and its second largest producer of natural gas. NOVATEK's production and processing operations are located in the Yamal-Nenets Autonomous Region ("YNAO") whereas our industrial facilities are located in the Samara Region.

The Yamal-Nenets Autonomous Region (Western Siberia) is the world's largest natural gas producing region, and is known for its natural resource riches, which accounts for over 90% of Russia's natural gas production and approximately 20% of the world's production.

This natural resource rich region is home to our core natural gas fields and serves as the base of our production, processing and transportation infrastructure. The Region's importance to Russia is vital as it provides for uninterrupted supplies of natural gas, gas condensate and processed hydrocarbon products to industrial consumers and households.

Established in 1994, the Company has successfully enlarged its resource base and production, streamlined its supply chain and transformed its business operations by consolidating its core assets, while simultaneously exercising stringent control over costs and capital expenditures, as well as improving financial reporting and corporate governance.

Today NOVATEK ranks in the top ten independent companies worldwide in terms of proven natural gas reserves and demonstrates some of the highest organic production growth ratesamongst its industry peers. As part of our business philosophy, we continue to improve our approach to doing business and encourage an atmosphere of mutual understanding and trust in our stakeholder relations. Our success largely depends on this key point. As a socially responsible company we will continue to follow national and international standards and principles to ensure our long-term sustainable development.



Key events and achievements of 2006–2007

Our business

- Record financial and operational results.
- Reached 100 billion cubic meters in cumulative natural gas production since commencing natural gas production in 1998.
- Discovery of three new fields.
- Acquisition by NOVATEK from Tharwa Petroleum S.A.E. of a 50% working interest in a concession agreement for oil and gas exploration and development at the El-Arish offshore block in Egypt.
- Engineering design of a terminal facility at Ust-Luga (Baltic Sea) for the transshipment and fractionation of stable gas condensate with an estimated throughput capacity of up to 6 million tons per annum.
- Acquisition of 19.4% of NOVATEK's outstanding ordinary shares by the OAO Gazprom.
- 1000:1 share split of Company's ordinary shares.
- Increase of NOVATEK's market capitalization by more than 340%.
- Upgraded corporate ratings Moody's Corporate Family Ratings of NOVATEK was upgraded to Baa3 (stable outlook); S&P's - to BB (positive outlook).

Our social responsibility

- · Adoption of our Basic Social Policy Strategy.
- Development of new techniques for improving occupational safety and labour conditions.
- Continued implementation of an integrated management system for environmental protection and occupational health and safety meeting ISO 14001:2004 requirements.
- Reduction of pollution in air emissions.
- Mitigating environmental risks associated with methanol transportation by commissioning a unique methanol production facility at the field.
- Reclamation of over 600 hectares (1,483 acres) of land.
- Publication of the Company's first Sustainability Report, for 2004-2005, under GRI standards.

Evaluation of our achievements

- A Certificate of Merit in the "Best Corporate Environmental Project" contest, a Russia-wide contest held by the Federal Agency on Environmental, Technological and Nuclear Supervision.
- Certificates of Merit from the Federal Forestry Agency for rational and effective utilization of forests.
- A National Environmental Prize in the "Sustainability Reporting" category.
- An award at the VII Russia-wide contest "Russian Company Demonstrating High Social Performance".

Corporate governance

Our commitment to transparency and corporate governance has been appropriately noted by the investment community and clearly distinguishes NOVATEK from our competitors. By building a world class company, we can properly manage and sustain our business activities in any market environment. We have made important strides over the past few years to protect shareholder and investor rights, most notably the streamlining of our corporate structure to one that is simple and easily understood by all constituents. Furthermore, we pay special attention to all strategic decisions affecting

environmental and sustainability issues.

Our corporate information, including our governance structure, our Board members and Board committees are available on the Company website: www.novatek.ru/eng/about/overview/.

During the reporting period the Company's organizational and operational structures experienced no significant changes that would have influenced the completeness of the Report. For further information on our subsidiaries and associates, please refer to NOVATEK's Annual Review 2007,or our IFRS Consolidated Financial Statements, p.39.

Corporate governance principles:

- Equal treatment of shareholders, including minority and foreign shareholders;
- Board of Directors accountability to shareholders;
- Efficient control over the Company's top management;
- Disclosure and financial transparency;
- Ethical business behaviour;
- Corporate social responsibility.

ORGANIZATIONAL MANAGEMENT STRUCTURE



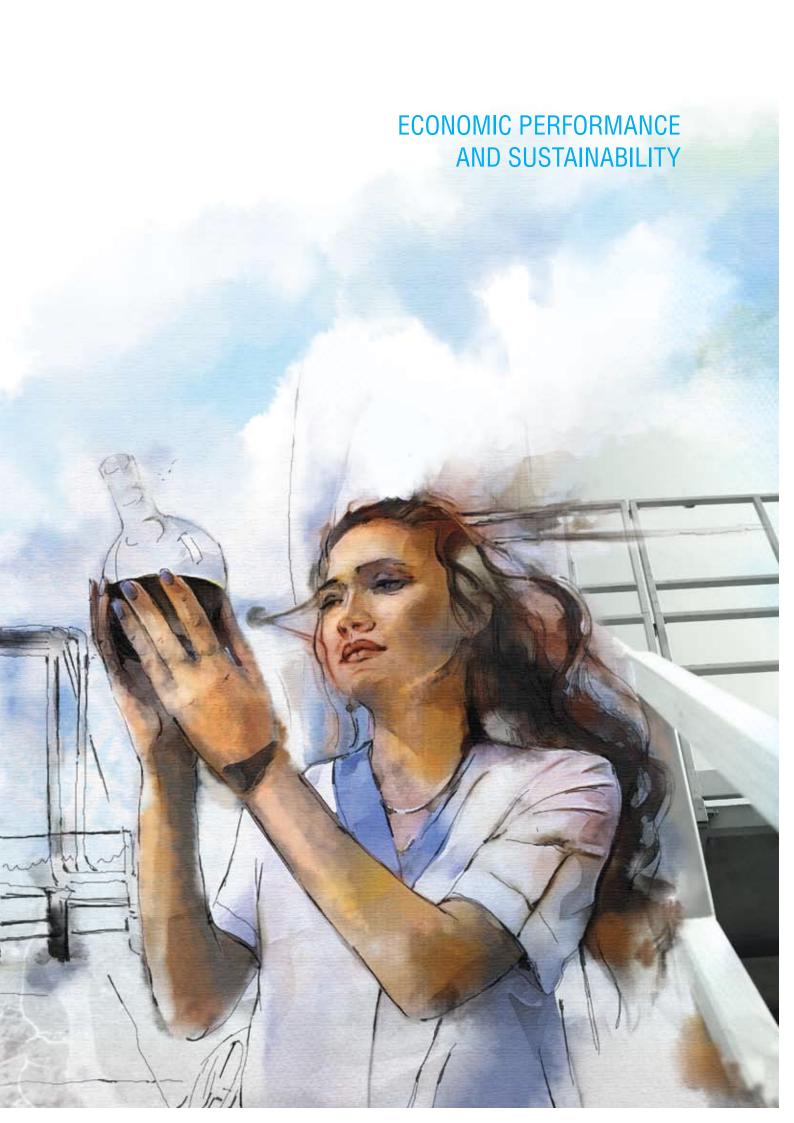
Efficient risk management

NOVATEK encounters a number of risks – technical, geological, operational, financial, political, environmental and social – in the course of normal business activities. We believe efficient risk control and management is of the utmost importance. The Company maintains a risk management system that enables us to take risks into consideration both at the management decision-making stage and during operations.

Our risk management efforts are focused on:

- Identifying, measuring and establishing acceptable levels of risks inherent to the Company's activities;
- · Continuous risk monitoring; and
- Taking pre-emptive steps to minimize risks.





NOVATEK's production and economic achievements in recent years have been commensurate with the success of the global energy sector, whose economic upturn was driven by industries' increasing demand for energy resources – particularly natural gas.

As an energy source, natural gas is clean, abundant and the fuel of choice in the Twenty-First century. The demand for natural gas is projected to grow at an increasing rate over the next decade, outstripping the demand growth for other primary sources of energy.

Greater demand together with continuing gas market deregulation, both in Russia and internationally, creates a strong opportunity for us to become a major influence on Russia's gas market. In 2007, NOVATEK accounted for around 8% of the domestic gas demand in Russia.

We presently sell our natural gas in 39 Russian regions and hold a leading position among independent gas producers. In some regions, our natural gas supplies assume additional social responsibilities. For example, we supply natural gas to the Kurgan and Tyumen regions at the regulated prices established by the Federal Tariff Service. Our natural gas supplied to the Kurgan Region account for approximately 95% of the total gas consumed by the region's industrial customers.

Our liquid hydrocarbons also play a key role in our hydrocarbon supply chain despite representing roughly 10% of our total volumes produced on a barrel of oil equivalent basis. Over the past year revenues from liquid hydrocarbon sales accounted for approximately 40% of total revenue and other income. This has been largely achieved through optimizing our liquids sales channels in Russia and

abroad. In 2007, the Company sold approximately 99% of the stable gas condensate produced by the Purovsky processing plant in the international markets, mostly n the United States, European and South American markets. Moreover, roughly 24% of our liquefied petroleum gas was exported to Eastern Europe, the CIS and Baltic States, with the remaining balance sold to the Russian domestic market.

NOVATEK's natural gas and liquid hydrocarbons are transported to markets through an integrated system of gas and oil pipelines owned and operated by Gazprom and Transneft, respectively, as well as by rail and sea, using third parties, with whom we have built strong working partnerships.

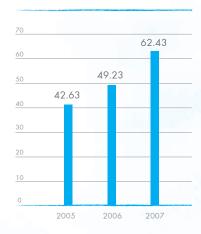
Our strive to maintain long-term and mutually beneficial relationships with our suppliers and contractors. As part of our governance program, we conduct tenders for equipment delivery, work and services to Group entities. (Information about competitive tenders can be found on the Russian language page of our corporate website under the section "Tenders".) This practice reflects the transparency of our relationships with suppliers and enables us to enter into contracts at competitive market terms. By adhering to sound competitive tender practices, we essentially extend our business principles to all our contracting parties. All else being equal, the Company gives preference to Russian suppliers, thereby making a contribution to the domestic economy. For example, in 2007, 95% of our goods and services purchased came from Russian suppliers. All contracts concluded by the Company were executed in accordance with the agreed-upon terms.

The Company continued to achieve record financial and operational results in 2007, a testimony to the professionalism of its management and the high qualifications of its employees. Revenue from sales of natural gas increased to RR 35.61 billion, or 27% year on year, and revenue from sales of liquid hydrocarbons increased to RR 24.75 billion, or 24% year on year. NOVATEK's production growth and economic success encourages the development of sectors and research related to the oil and gas industry, and increases the need for innovation and new high-tech equipment. This provides additional impetus to Russia's further economic development, bolsters its energy security, and contributes to the sustainable development of the country as a whole. We have consistently increased our investments in human capital. In 2007 the amount NOVATEK paid to its employees in salaries and other benefits increased by 36% as compared to 2006. For further information please refer to NOVATEK's Annual Review 2007, Management's Discussion and Analysis of Financial Condition and Results of Operations, p.14-15.

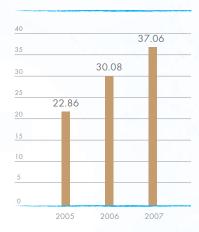
Despite our generosity, we also expect all of our employees to conduct business in a socially responsible manner, adhere to our corporate governance and transparency commitments.

The oil and gas sector is a capital-intensive industry. Developing new fields and constructing the necessary infrastructure requires large-scale financing and long development cycles.

Revenue and other income, RR billion



Operating expenses, RR billion



EBITDA, RR billion



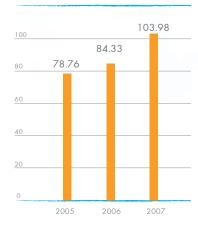
To achieve our economic and production objectives, it is necessary from time to time to access funds in the capital markets or through our relationship banks. During 2007, RR 3.27 billion of debt financing was raised by the Company. NOVATEK has always ensured that all commercial and bank debts are repaid on time. The Company is remarkably deleveraged with equity four times the amount of its debt. In 2007, the Company's equity was RR 81.81 billion, while debt was RR 22.16 billion.

NOVATEK continued to achieve strong operational results without the need to attract any governmental concessions or subsidies. The Company is and will continue to be a reliable taxpayer at the local, regional and federal levels, and as in 2006 and 2007, the Company accrued RR 14.20 billion and RR 16.05 billion in taxes, respectively, including RR 5.75 million and RR 6.10 million in profit taxes paid.

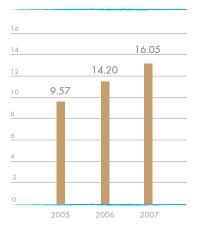
In addition to tax payments, we also make financial contributions to social programs in Russia. During 2007, we provided RR 558 million in charitable contributions and community development investments for educational and cultural support programs for ethnic minorities in the Far North of Russia.

In July 2005, NOVATEK successfully entered the Russian and international stock markets, offering investors a highly liquid financial instrument. The success of equity performance in largely attributable to achievements we made to grow our production over the years as well as our untarnished reputation as a reliable and honest partner with a strong corporate governance foundation.

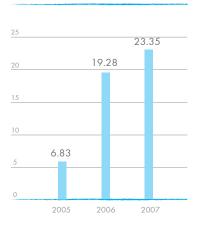
Group assets, RR billion



Tax payments, RR billion



Market capitalization, LSE, USD billion



The Company's financial and operational achievements have been well received by the investment community. Over the past two years, NOVATEK's market capitalization increased by more than 340%. The total trading volume of NOVATEK shares on the London Stock Exchange and MICEX in 2007 increased by over 70%, year on year, to reach an

annual turnover of USD 6.50 billion.

Moreover, the Company's record financial results allowed us to increase our full year dividend payment in 2007 by 42% to RR 2.35 per ordinary share (or RR 23.5 per GDR), resulting in a total dividend payment of RR 7.14 billion.







Human resources policy

Our human capital is one of our most important assets, and our system of labor relations includes procedures and practices which ensure the growth of our people.

Management's attitude toward our employees is based on the principles of social partnership, specifically:

- Consistency of plans and actions;
- Solidarity;
- Maintaining a balance of parties' interests; and
- Financial transparency of social programs.

The consistent application of these social partnership principles has led to public recognition of our social policy. In 2007, NOVATEK won an award at the VII Russian Company Demonstrating High Social Performance contest in recognition of our commitment toward fulfilling our social obligations to our employees.

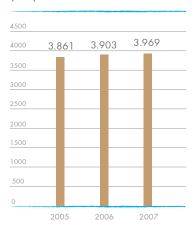
Company personnel

NOVATEK's Human Resource management system is based on fairness, mutual respect, and equal career development opportunities for all employees; dialogue between management and staff; and continual and comprehensive training and development at all levels.

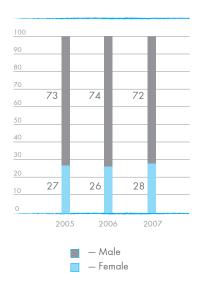
With the continual growth in our production facilities and our commitment toward managing employee career development, we have been able to retain and attract new employees. As of the end of 2007, NOVATEK's headcount was 3,962 people, the majority working in exploration and production (50%) and processing and distribution (38%).

Virtually all our employees at NOVATEK and its subsidiaries are Russian citizens. As of the end of 2007, the Company employed only four specialists from the

Average number of employees, people



Gender profile of employees, %



CIS and other foreign countries (in 2006: five specialists). The preference given to Russian citizens can be explained both by their professional qualifications and by the specifics of our operations. Salaries and other benefits depend on an employee's position,

qualifications and performance. The Company does not discriminate on the basis of race, sex or nationality in any area of its activities, is in compliance with Russian legislation and labor regulations, and follows global best practices for labor relations.

NOVATEK is always looking to engage and retain young specialists and encourage their career development. The Company has assumed the following obligations:

- Create and develop a workforce made up of young specialists and encourage their career development;
- Stage annual professional skills contests to identify and encourage the best young specialists;
- Allocate positions for recent graduates annually; and
- Give young workers an opportunity to raise their professional qualifications at least once every three years.



Recruitment

NOVATEK's recruitment process is in compliance with the Russian Labor Code, collective bargaining agreements and internal regulations on principles of staffing and recruitment. The Company recruits employees in accordance with staffing requirements that are designed to help achieve business objectives in the market environment, given that the Company's principal production facilities are located in the Far North. These requirements include:

- Initiative and a creative approach to finding efficient solutions;
- Willingness and ability to bring maximum value to the Company;
- Proactive approach to identifying and promoting new business procedures;
- Ability to learn quickly and to use acquired knowledge;
- Flexibility, adaptability, mental endurance; and
- Commitment to the Company's corporate values and objectives.

Upon being recruited, future employees should familiarize themselves with their job description, which is provided in a format compliant with International Labor Organization recommendations. If there are any changes to employee rights or obligations, employees are informed about them in advance per procedures established by law, and an addendum to their labor contracts should be signed. The Company's Human Resources policy provides certain benefits for hiring locals. To accomplish

this goal, management of the Company's subsidiaries and local authorities enter into special Social Partnership Agreements with the aim of enhancing employment in the local and regional communities. The Social Partnership Agreement between the Nadym District Municipality Administration and OOO NOVATEK-Yurkharovneftegas, for example, grants precedence in hiring to qualified permanent residents of the Yamal-Nenets Autonomous Region, which includes the Nadym District Municipality.

Labor relations

NOVATEK's labor relations system stipulates that employees take an active role in the management process and should be informed of changes to the Company's development plans. This system involves the participation of the HR department, the labor union, and joint committees and commissions. This system is implemented through collective bargaining agreements that are developed collectively by employees, management and the respective labor union.

Employees influence the management process by participating directly in joint committees and commissions or via labor unions, as prescribed by the Russian Labor Code and collective bargaining agreements. The HR department is responsible for providing employees with timely and detailed information about their rights and obligations and about changes and amendments to labor laws.

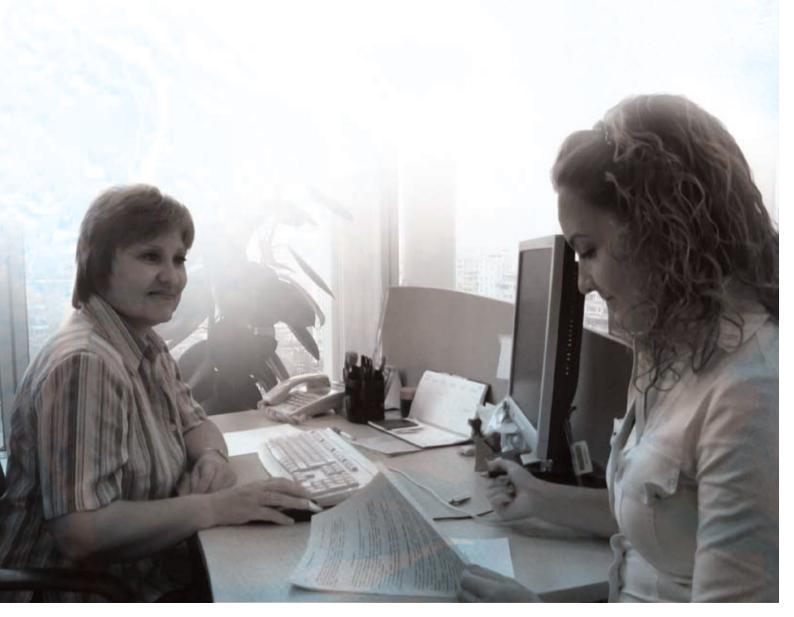
We strive to take care of our employees in both

good and difficult times. This commitment can be seen in situations where business reorganization may require a staff reduction. In order to avoid potential disputes with employees and labor unions, NOVATEK has a program that assists employees with finding vacancies in other Company subdivisions or subsidiaries, including the opportunity for retraining if necessary. When it is impossible to provide an employee with a job elsewhere, the employee receives severance pay.

Professional and career growth may come as a result of an employee's having undergone advanced training or mastered new or related professional

skills, and may also be initiated by management during staff turnover.

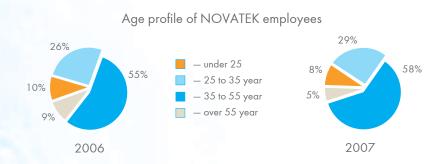
Since 2007, NOVATEK has been running a development program to ensure adequate staff reserves at various positions throughout the company. The program establishes a competitive procedure for promoting personnel to management positions by giving equal opportunities to any employees seeking to climb the "career ladder". This policy significantly encourages employees to improve their professional and managerial skills and ensures management continuity and succession.



Labor union

The Company's employee labor union is a member of the Russian Oil, Gas and Construction Industries Labor Union Association. The primary goal of the labor union is to support Company employees during labor disputes and helps improve the social welfare of employees.

Our management maintains a close relationship with the labor union and makes every effort to mitigate social tension by means of negotiations at the earliest possible stage. Thanks to these policies, there have never been any serious stoppages or strikes as a result of labor conflicts.



Staff training and education

"If you work at an organization and feel you are a member of a team that's involved in a challenging project, you may have fresh ideas as to how to make processes more efficient. A contest for young specialists is a good opportunity to voice your ideas – it's both a test and an opportunity to have your work evaluated."

Andrey Kabanov, programmer engineer, first-place winner of the first contest "The Best Young Specialist" (2005) and prize-winner of the third contest (2007).

With rapidly developing scientific advances and information technology, continued improvement of production equipment and new, progressive management systems, there are pressing needs for companies to implement comprehensive systems for staff development, training and continuing education. It is imperative for businesses to adapt to these changes because without doing so, no business will succeed in these competitive market conditions or ensure its long-term sustainable development.

At NOVATEK, we have developed a multi-tier system for personnel training, retraining and continuing education that helps employees stay well informed about the latest advances in science and technology as well as providing our employees with adequate training to effectively solve managerial problems to ensure our economic profitability.

Under this system, the Company conducts the following tailored development programs for its employees:

- Top and middle manager training at the Moscow School of Management "Skolkovo";
- Staff reserve training (a high-priority, long-term program for employee development); and
- Young specialist training (to provide work experience to young specialists; develop their corporate knowledge, skills and loyalty; and identify their innovative and technological potential as well as leadership capabilities).

The Company is also implementing various educational and professional advancement programs both at its own work-based training centers and off-site specialized educational institutions in Russia and abroad.

SPECIALIZED EDUCATIONAL INSTITUTIONS:



Moscow School of Management «Skolkovo»



MFC Training, Consulting and HR Centre



Advanced Training Institute for Energy Sector Managers and Specialists



Ernst & Young, Trans: European Center Ltd. (UK)



Gubkin Russian State Oil and Gas University



Oil and Gas Business Institute



Statute School of Law



NOVATEK Training Center

Furthermore, Company employees have the opportunity to attend specialized industry workshops and conferences to improve their skills, acquire new knowledge and familiarize themselves with global and/or industry best practices.

The Company built its own special training center in the town of Tarko-Sale to train specialists in occupational health and safety ("OHS") and environmental protection. At the center, staff education and retraining aims at enhancing employee knowledge and skills in the following areas: organizing

construction operations, environmental protection, OHS, social and HR policies, financial transactions and tax practice, management, amongst other financial and operational topics. Each year, the HR department develops training plans based on the specific needs of our particular specialists. Education and advanced training programs are equally available to all employees in accordance with their area of expertise.

It has long been standing practice in the West for major companies to conduct internal corporate

Sustainability Report on the territory of Russian Federation 2006-2007

workshops. Since 2006, NOVATEK has been conducting young specialist conferences as part of the Company's professional skills contest, "The Best Young Specialist", at all of its subsidiaries. Winners of the contest have the opportunity to undergo industry-tailored training at the best international training centers. In 2007, the average number of hours spent in training per employee was 50 (in 2006: 46 hours).

Employee compensation and incentives

The Procedure for Labor Organization, Compensation and Incentives for NOVATEK Subsidiaries was introduced following a resolution passed by NO-VATEK's Management Board. The procedure establishes key principles for remuneration, setting and amending official salaries (base pay), conditions and scale of bonus payments and payroll arrangements. In accordance with this procedure, Company subsidiaries apply time-rate-bonus systems whereby salaries depend on a worker's qualifications, as well as the complexity, quality and conditions of work performed. Based on an employee's performance appraisal, salary may be increased by a market premium depending on proficiency, work experience and professional qualifications.

In addition, NOVATEK's subsidiaries maintain a system of incentives and bonuses for employees based on the successful fulfillment of critical production tasks, good production results, prompt fulfillment of special or important assignments, developing and introducing new equipment, saving stock and fuel supplies, and in connection with re-

ceiving honorary titles or anniversaries.

In 2007 the amount NOVATEK paid to its employees in salaries and other benefits increased by 36% as compared to 2006.

At professional holidays and anniversaries, exceptional employees may receive industry awards, certificates of merit or "thank you" letters from NOVATEK's management for their high professionalism and special service to society.

In April 2007, the Company adopted a Regulation on the Honorary Title "Honorary Employee of OAO NOVATEK", which is the Company's most prestigious incentive, given for distinguished service and substantial personal contribution to the Company's development. To award subsidiary employees, senior management travel to the regions to present the award and personally congratulate those who have distinguished themselves.

The Company distributed approximately RR 3 million in 2006, and approximately RR 15 million in 2007 for employee rewards.

| Awards | 2005 | 2006 | 2007 |
|------------------------------|------|------|------|
| Honorary Employee of NOVATEK | _ | _ | 5 |
| NOVATEK Certificate of Merit | 70 | 104 | 103 |
| NOVATEK thank you letter | 0 | 53 | 107 |
| Industry awards | 33 | 10 | 33 |
| Municipal awards | - | - | 3 |

Corporate events

Annually, the Company organizes various corporate events such as the Corporate New Year's celebrations, Family Away Days in summer, annual swimming and football competitions between Group teams, and a competition called "Mom, Dad and I go in for sports". Additionally, the Company organizes annual concerts in the town of Tarko-Sale in honor of Oil and Gas Workers Day, which attracts nearly all the town's residents.

The Company allocated around RR 95 million for corporate events during the 2006 – 2007 reporting period..

Social policy

Social programs

In 2006, in accordance with a NOVATEK Management Board decision, we adopted a "Basic Social Policy Strategy", of which one of the strategy's unique features is its comprehensive and systematic approach to solving social issues. This strategy has essentially unified the social package for employees.

The Company has launched a number of com-

prehensive and targeted programs in close cooperation with staff and the respective labor unions, making every possible effort to solve the social problems employees face at work and at home. Arrangements under these targeted programs are specified in the Collective Bargaining Agreement and Group internal regulations.



Social assistance to pensioners

The Company builds good will with its employee's by providing a program of comprehensive support for staff who have retired due to age, illness or disability. , With this type of program in place, the Company feels it provides their employees with the incentive to work hard for the Company's sake, protect its interests and foster an environment based on sustainable development. We will continue to take care of our retired employees, whose past work has contributed to the Company's achievements and our corporate legacy.

In compliance with Russian legislation, NOVATEK makes regular mandatory contributions to the State Pension Fund of the Russian Federation, but the Company also provides additional pension benefits to retired employees. The Company's Regulation on Post-Retirement Social Assistance to NOVATEK Employees became effective in January 2007. Upon retiring, employees who have reached retirement age are entitled to a lump-sum severance pay-

ment. The Collective Bargaining Agreement specifies the procedure for calculating severance pay at retirement. In addition, monthly social assistance amounts depend on how long the employee worked for the Group, their respective income level, and a coefficient linked to territorial specifics of the region where they worked.

For these purposes, the Company allocated RR 675 thousand in 2007.

It is equally important to note that the Company did not ignore those employees who retired before 2007. The Company started a foundation named "NOVATEK-Veteran" that currently provides over 850 pensioners with social and retirement benefits. In 2007, NOVATEK-Veteran paid out RR 13.42 million to pensioners, which was RR 1 million more than the previous year. In addition to financial assistance, pensioners receive targeted social support as well as invitations to corporate events and special parties arranged specifically for them.



Housing policies

To ensure employees' additional social security as well as workforce stability, NOVATEK's subsidiaries have adopted the Regulation on Providing Employees with Interest-Free, Targeted Loans to Purchase Housing. In accordance with this regulation, starting in 2008, employees in need of better living conditions will be granted interest-free, targeted loans for a period of up to 10 years to buy apartments in either primary or secondary housing markets.

In 2006 and 2007, the Company allocated over RR 118 million toward its housing programs.

Targeted Compensation and Socially Significant Payments Program

establishes targeted support of employees by providing them with financial assistance in various forms free of charge, including:

- · A lump-sum payment for the birth of a child;
- Monthly childcare allowance;
- Vacation allowance, health rehabilitation and surgical treatment allowance;
- · Aid for temporary incapacity to work; and
- Reimbursement of funeral expenses for employees and their immediate family members, etc.

For this program, the Company allocated over RR 61 million in 2006 and around RR 95 million in 2007.

Special Purpose Short-Term Loans Program

aims to provide financial aid to employees who need money for various reasons. For these purposes, the Company allocated approximately RR 2 million in 2007. For example, loans are issued to employees at an 8% per annum fixed interest rate.

Supporting State Guarantees Program

provides for reimbursement of vacation travel expenses for employees and their families (to/from the vacation destination), as well as of moving expenses for employee relocation from the Far North and comparable regions to new homes. Reimbursement is paid once every two years.

The Company allocated over RR 10 million for this program in 2006 and about RR 13 million in 2007.

Occupational Health and Safety, Insurance Programs

Concern about worker health is an integral part of the Company's social policy. Our subsidiaries have health and safety committees whose members are also labor union officials. These committees work on behalf of all employees who have signed collective bargaining agreements. The committees' major role is to monitor compliance with Russian legislation and to ensure that management meets health and safety obligations.

NOVATEK subsidiaries have on-site medical services comprised of three health units with seven medical professionals on staff, including six paramedics. The frequency of instances where Company employees needed medical aid forms the basis for its planning for rehabilitation and preventive treatment.

Company subsidiaries pay particular attention to medical emergencies and are prepared if an employee becomes gravely injured or develops a serious illness. All Group production sites are outfitted with helicopter landing pads to accommodate the arrival of emergency medical teams and the evacuation of injured workers

To mitigate the risk of occupational injuries and illnesses, employees at the Company's subsidiaries undergo regular medical examinations. Moreover, the Company has approved schedules and procedures for medical exams in accordance with recommendations from international organizations and requirements of Russian legislation.

Employees may seek treatment at health or rehabilitation clinics for ailments discovered in the course of their annual medical exam. As a result of medical examinations, in 2007, 15 employees went through medical rehabilitation, and 25 were sent for surgery or consultations with medical specialists.

Group entities regularly make arrangements for staff to receive flu vaccinations and vitamins on site, and, when required, restock first aid kits with new, effective drugs.

Group entities regularly pursue large-scale, preventive measures to improve employee health and performance efficiency, including programs like "Health Rehabilitation and Recreation" and "Voluntary Medical Insurance for Employees".

The Health Rehabilitation and Recreation Program provides health rehabilitation and recreation for employees and their families, as well as arrangements for children's rest and rehabilitation.

The Company allocated over RR 8 million for this program in 2006, and more than RR 22 million in 2007.

Voluntary Medical Insurance for Employees

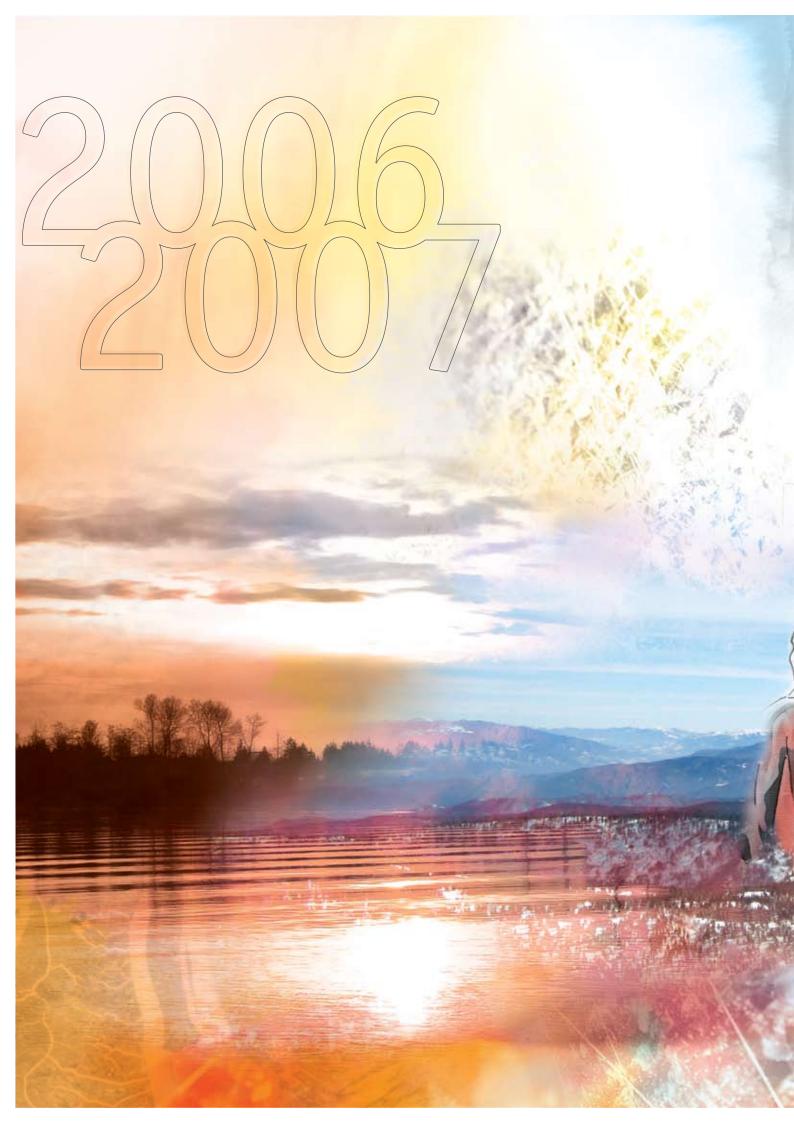
The Company goes beyond simply financing mandatory medical insurance programs by providing staff with a voluntary medical insurance policy. This program provides maximum coverage for all participants, including outpatient services, dentistry and in-patient treatment.

For this, the Company allocated RR 25.5 million in 2006 and around RR 30 million in 2007.

To compensate for any material losses and to accumulate savings that may be used on staff health care, NOVATEK has introduced a large-scale insurance system, which includes the following:

- Mandatory insurance against industrial accidents and occupational illnesses;
- Mandatory legal liability insurance (based on provisions of the Federal Law "On Industrial Safety at Hazardous Production Facilities") at entities with hazardous production facilities;
- Property insurance.







We focus on improving Company performance and competitiveness by optimizing production processes and expanding our operations; this in turn benefits the economic development of the communities where we operate. Through the interrelation between our business interests and the interests of the community, we understand that we develop when we help society develop, and that society's development preconditions our sustainable growth.

Cooperation with federal and local authorities and public organizations

"You came to the Tazovksy District to start exploring subsoil deposits of the Yurkharovskoye Field. A lot of the district's social and economic issues are being resolved thanks to our cooperation. We are happy to point out that the company pays great attention to environmental protection and support of indigenous peoples."

N.N. Kharyuchi, head of the Tazovsky District

The necessity of preserving a natural balance during times of rapid economic growth requires a major change in the priorities of cooperation between business and authorities at all levels. Only joint efforts will provide comprehensive solutions to environmental, social and economic problems, so we work to coordinate our actions with regional and municipal authorities.

We see cooperation with local communities as a key element of corporate strategy which must be based on a mutually beneficial and effective partnership. NOVATEK operates in several Russian regions that vary in terms of their climate and social, economic and demographic characteristics. In summarizing our cooperation with the regions, we can divide target programs into the following main categories: creating social infrastructure, environmental

protection, support of indigenous minorities of the Far North and facilitating development of science, culture and sport.

We strive to effectively target the use of investments into the social sector to improve the quality of life for locals as part of our program.

In the Samara Region, our social projects are mostly aimed at helping children living in Novokuibyshevsk. In 2007, a children's polyclinic was opened after NOVATEK helped pay for its renovation; the polyclinic now meets all modern medical standards. The Company plans to continue to support the town and its people. On the day the polyclinic was opened, the municipal authorities and NOVATEK signed a new cooperation agreement thus ensuring the Company's further involvement in municipal social programs.

The Yamal-Nenets Autonomous Region has a number of problems that all northern regions face: weak social infrastructure, poor transportation routes, low economic diversification and higher utility costs.

Today, the growing role played by the natural gas industry in the YNAO is unmistakable, with this industry being one of the key drivers for the region's modern infrastructure. These factors bolster our long-term strategic partnership with the YNAO Administration.

Our partnership is based on the Agreement on Social and Economic Cooperation between NOVATEK and the YNAO Administration, as well as on agreements with the district's municipal authorities. These agreements set out specific measures based on the district's priority development tasks.

As planned, we increased funding for YNAO social programs and contributed over RR 500 million in the 2006–2007 reporting period.

The following are the most critical measures; constructing housing, civil and social infrastructure, supporting healthcare, education and culture and assisting the indigenous populations.

In 2006–2007, NOVATEK, together with the YNAO Administration, funded construction of housing and a youth center in the Purovsk District and built infrastructure and repaired socially important facilities in the Nadym and Tazovsky districts. Tarko-Sale is a one-company town, and our Company is its backbone. This increases our level of social responsibility, and fosters the importance of mutual

cooperation between the Company with regional and municipal authorities.

Our partnership with local authorities is aimed at creating an atmosphere of mutual understanding and respect among all social groups. This bolsters social and political stability, which has always been important for economic development and attracting investments. Regular consultations with regional and municipal administrations, allow to focus on pressing issues such as; newly arrived workers' adaptation to the Far North climate, arranging healthcare in the Arctic region and preserving indigenous peoples' cultural heritage.

YNAO's population is young, with a mean age of not more than 30 years, so it is extremely important to help develop education and vocational training for young people. In conjunction with the local authorities, we provide funding so that young people can attend schools and higher educational institutions. We set up scholarships and grants, help equip boarding-schools and vocational colleges with teaching materials and sports equipment and arrange various sporting and cultural events.

One of our primary goals is supporting the indigenous minority populations of the Far North. We do this together with local authorities and an association called "Yamal for Future Generations". Our objective is to help preserve the indigenous populations' traditional trades and ways of life, improve their social well-being and ensure their sustainable development.

In our communication with the official authorities at any level we strictly adhere to OECD's recommendations relating to conduct of private business. Because we abide by principles of openness and transparency, we strive to ensure that public inspection groups have maximum access to different aspects of our activities, including our cooperation with the government and local authorities. This way of conducting business is very important to us, because any suspicion of corruption or investigations of corruption charges and the resulting negative press may damage the Company's reputation and

affect its performance.

Our work greatly depends on Russia's political and social development. We take part in the legislative process through our specialists, who discuss draft laws at various stages as members of working groups and boards.

We do not lobby any political interests nor provide financial support to any lobbying or political organizations giving preference to participation in social and political life through a constructive dialogue and cooperation with empowered authorities via democratic procedures.

Our involvement in the legislative process:

- Developing amendments to the Russian Forestry Code;
- Drafting a YNAO Law «On Regulation of Land Relations in YNAO»; and
- Work on developing self-regulation in the natural gas industry and adoption of Federal Law «On Self-Governing Organizations».

NOVATEK AND PUBLIC ORGANIZATIONS:



Russian Gas Society



Independent Oil and Gas Producers Association



Expert Council at the Ministry of Industry and Energy



Expert Council at the Ministry of Economic Development and Trade



Ural Promyshlenniy – Ural Polyarniy Regional Association



Vernadsky Environmental Foundation

Local community Indigenous peoples of the Far North

«We congratulate NOVATEK on its socially-oriented activities and willingness to maintain a constructive dialogue. I am sure that the mutually beneficial cooperation that we have established over these years will grow stronger and promote the region's further economic development.»

A.O. Belokopytov, municipal educational establishment of the Nadym District.

We understand that we came to a land of the Far North that had been unchanged for thousands of years, and we do realize our responsibility in this regard to the environment and its peoples. Therefore, our policy is to minimize adverse impacts on indigenous peoples' environmental conditions and to promote their cultural identity and traditions.

When planning the layout of our production sites, we investigate the migration routes of reindeer and game and potential changes to these routes that our activities might cause. The land plots that we

use are small, hindering neither the movements of local nomadic people, nor of indigenous wildlife and animals. Our transport infrastructure also does not interfere – we lay our pipes 1.5 to 2 meters underground to mitigate any potential disruptions.

According to our cooperation policy and our programs, we provide indigenous peoples with significant support. The principles of this support were developed in line with World Bank's recommendations and with special consideration of YNAO specific needs.



The Company follows a plan for indigenous peoples' development, the objectives of which are as follows:

- Facilitating indigenous peoples' sustainable development, supporting their traditional economy and diversification of its structure;
- Expanding professional and social opportunities for indigenous peoples, finding and developing new markets for traditional goods produced by local people;
- Helping to increase real income, thereby improving indigenous peoples' quality of life and decreasing their physical and informational isolation; and
- Maintaining an environment suitable for a traditional economy and way of life.

To fulfill this plan effectively, the Company has appointed a coordinator for relations with the indigenous population. To ensure effective cooperation and communication between Group entities and indigenous populations in regions where the Company operates, we hire local people to work within the subsidiaries' management structure. They coordinate our activities in all areas related to indigenous peoples: from



drafting annual budgets for targeted programmes to providing groups of reindeer herders with goods and products. Their task is to identify the basic needs of different indigenous groups and to provide social assistance to them.

To raise the effectiveness of our support in this area, we have approved the Regulation on OAO NOVATEK's Involvement in the Economic and Social Development of Indigenous Peoples of the Far North. The regulation is based on federal legislation and YNAO regulations.

Under an agreement with the YNAO Administration and municipal authorities, NOVATEK funded the following events and projects in 2006–2007:

- Construction of cottages for indigenous families;
- Implementation of socially important programs;
- Purchase of equipment for housing facilities;
- Construction of trading and service centers for reindeer herders and fishermen; and
- Celebration of Reindeer Herders' Day and Fishermen's Day.

In 2006–2007, we allocated a total of about RR 200 million to support the indigenous people.



Culture, arts and sports

"We would like to thank OAO NOVATEK for supporting Russian sports organizations. It was thanks to your help that we stood on the highest step of the victory podium and once again proved that the Russian volleyball tradition is the best in the world!"

Ekaterina Gamova, Elena Godina and Maria Borodakova, world volleyball champions, 2006.

Out of concern for future generations, NOVATEK actively supports the development of sports programs in Russia. Under a plan to develop sports programs in our Group entities and in Russia in general, we have established partnership relations with the Spartak basketball team (St. Petersburg), the Dynamo women's volleyball team (Moscow), the Nova volleyball club (Novokuibyshevsk) as well as supporting the Delfin-NOVATEK junior swim team at the Samara Regional Olympic Training Center for Swimming. Additionally, the Company and our subsidiar-

"I have always liked creative people who lead bright lives; setting tasks which seem impossible at first and then taking a creative and original approach to solving them. In this sense, a good business is similar to the creative work of an artist..."

Yuri Bashmet, art director of the Moscow Soloists Ensemble.

ies regularly host various sports competitions.

In 2007, NOVATEK provided RR 6 million to repair and reequip a sports and recreation complex in Novokuibyshevsk.

Support for the disabled is an important element of the Company's social agenda. In 2006, Miloserdie ("Mercy"), a public organization for the disabled, held a sports competition for adults and children with our support.

All in all, the Company allocated over RR 200 million in 2006–2007 to support various sports organizations.



Russia is rich in culturally history and it is important that all companies support this important legacy. We are avid supporters of culture and arts organizations in Russia.

In November 2006, NOVATEK sponsored an exhibition from the Christie's auction house which featured works by artists such as Aivazovsky, Polenov and Repin, among others. In 2007, NOVATEK organized a personal exhibition of works by renowned Russian photographer Lev Melikhov.

In 2006–2007, NOVATEK assisted in the launch of a new cultural project at the Moscow Kremlin Museums, a series of concerts of early religious music, titled Vysotkaya Nota (High Note). Several prominent performers from the United Kingdom took

part in the concerts.

For several years, the Company has been a general partner of the Moscow Soloists chamber ensemble. In 2007, the ensemble celebrated its fifteenth anniversary, organizing a special tour and giving 43 concerts in 39 cities from Kaliningrad to Vladivostok and from Murmansk to Sochi.

The Company also actively helps the Russian Museum in St Petersburg and the Samara Regional Arts Museum with their largest and most expensive projects. NOVATEK helps with the upkeep of their premises and organizing research and exhibitions. In 2007, an exhibition entitled Three Centuries of Russian Art was opened in Salekhard's Yamal-Nenets Regional Museum Complex.

Support for children, young people and educational programs

"The administration of the Krasnoselkupsk District would like to thank OAO NOVATEK for its longstanding cooperation and involvement in our region's social programs. Under a Cooperation Agreement for 2007, you have helped us to implement a district program for preventing child neglect and juvenile delinquency as well as to repair and reequip the Rattovsk Boarding School and the Krasnoselkupsk Center of Extended Education for Children. Charity for children has always been humankind's most honorable mission".

V. M. Melnikov, Head of Krasnoselkupsk District

Taking special care of children has become a tradition at NOVATEK. We finance the construction of kindergartens, schools, playgrounds and other social assets. We also run various youth programs and are working to create infrastructure for youth "Emerging traditions are an indicator of the stability and prosperity of a company. We thank OAO NOVATEK for your concern for our children".

L.V. Dyushko, Director of School No. 2 (Tarko-Sale).

leisure. In 2006–07, we funded the construction of a culture and entertainment center in the Purovsk District. The Company's contributions also include the construction of a boarding school in the village of Gaz-Sale and reequipping the Center for Child Development in the town of Novy Urengoi. NOVATEK helped to reequip the health facilities in Purovsk School No. 1 by providing it with equipment for vision correction and purchased medicine for children with hearing and vision impairment at the Sergiev Posad Orphanage.

We also think the education of the next generation is extremely important. Since 1999, the Company has been running the program entitled "Gifted Children". Under this program, Secondary School No. 8 in Novokuibyshevsk and School No. 2 in Tarko-Sale select groups of talented children on a competitive basis. The program is intended for students in grades 10-11 who have above-average test scores or are prize-winners of regional, district or national contests in major school subjects.

We also established a program to reward students of high academic achievements. Under this initiative a program of grants are given twice a year to schoolchildren for good academic performance and who are winners of city, regional, district and national contests and competitions. Grant amounts vary from RR 1,000 to RR 2,000.

The Company has also developed and successfully implemented the "NOVATEK-VUZ" program, which seeks to ensure the maximum effectiveness of higher education institutions for professional education. Under this program, students majoring in certain subjects receive financial support in the form scholarships, stipends for school materials and payment for pre-university training.

In 2007, the Company held a "First Student" forum. For two days, 60 students who are NOVATEK scholarship recipients and studying at top universities in Samara, St Petersburg and Moscow, came together to get to know one another, share their plans for the future, take part in team-building activities and network with the Company's management.

Award statistics:

2006 – 92 pupils, RR 132,400 2007 – 136 pupils, RR 211,200

The goals of the "Gifted Children" program are to:

- Identify and develop individual abilities and children's creative potential;
- Adjust the learning and development process to fit children's specific abilities; and
- Motivate teaching staff and develop their professional skills.

Grant program goals:

- Encourage a responsible attitude to studies;
- Facilitate a favorable environment for helping children realize their potential; and
- Provide financial support for gifted children from dysfunctional or disadvantaged families.

Interaction with the mass media

Following principles of openness and transparency, we maintain an open dialogue with the mass media. The responsibility of communicating with the public and ensuring fair and full informational disclosure rests with the Public Relations Department. The Company cooperates with journalists by answering questions that are of interest to the community.

In 2006–2007, we:

- Held 5 press-conferences;
- Organized 6 press-tours and ten field visits for journalists to Group entities;
- Issued 106 press-releases and informational announcements.

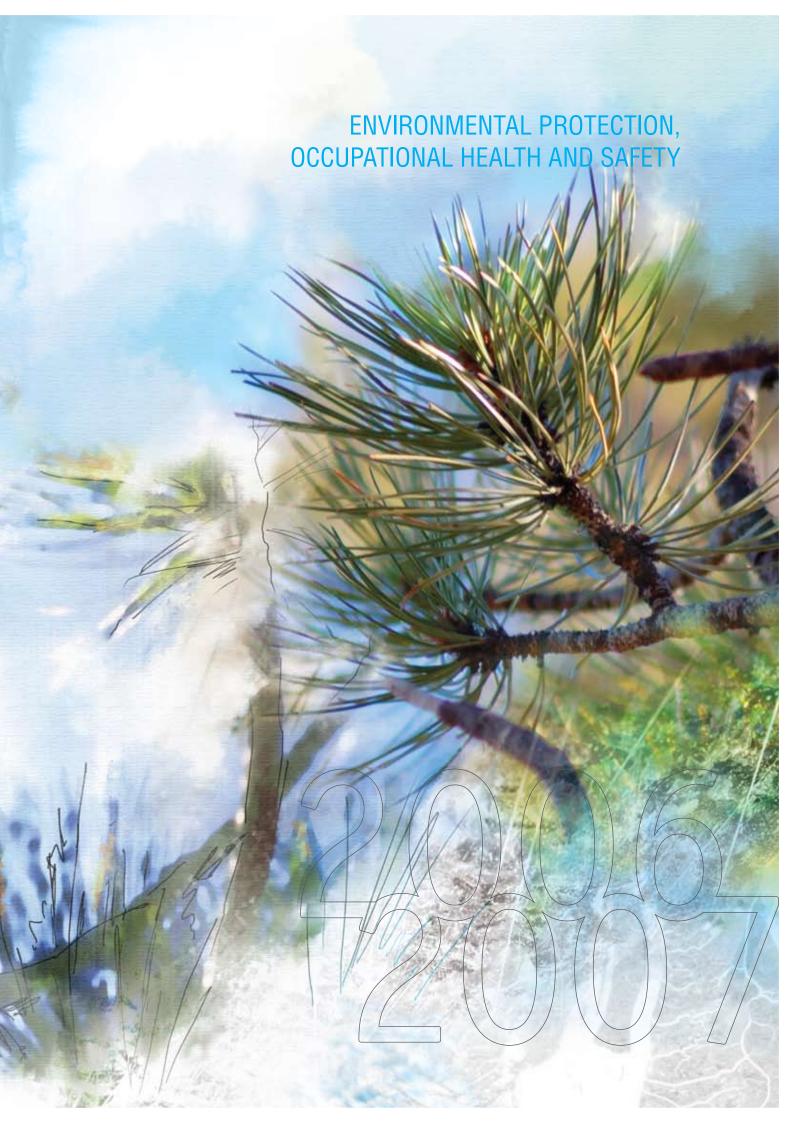
The Company cooperates with the mass media not only to disclose its activities, but also to draw the media's attention to issues related to the development of the oil and gas sector and the implementation of social projects.

NOVATEK and the YNAO Administration hold an annual tele-forum for Yamal's young people called "Our Time: the 21st Century". Young journalists have the opportunity to not only present their work, but also to attend a master class taught by renowned TV correspondents.

NOVATEK is also the general sponsor of an annual open contest for TV films called "Yamal Subsurface", where more than a dozen TV companies take part to film programs on YNAO's fuel and energy companies.







The following are NOVATEK's objectives for environmental protection and occupational health and safety (OHS):

- Rational use of natural resources and energy, implementing no-waste and low-waste technology, the safe accumulation and disposal of production and consumer wastes, and increasing the level of associated gas processing;
- Creating safe and comfortable conditions for employees in order to prevent illness and decrease the number of days lost to illness;
- Maintaining a high level of awareness of and responsibility for employees; thereby improving the efficiency of the Company's operations;
- Ongoing improvements to the system of preventing and mitigating the consequences of fires and accidents; and
- Ongoing improvement of the Integrated Management System for Environmental Protection and OHS.

Occupational health and safety

One of the biggest priorities for NOVATEK's environmental protection and OHS policy is to decrease and prevent any adverse affecting of its production and other activities, including; mitigating and preventing emergency situations, injuries and illnesses among its employees and the local population (taking into consideration the Company's current level of technology and capabilities).

In order to prevent technical accidents and their adverse impacts, the Company undertakes the following actions:

- · Identifying occupational hazards;
- Determining the level of protection on the basis of cost-efficiency; and
- Eliminating and minimizing all possible dangers.



Each entity has developed a program for ensuring occupational safety and improving labor conditions, including; enhancing the labor safety system, the technical state of production equipment and the level of awareness among employees. The Company's subsidiaries have labor protection commissions comprising representatives from labor collectives and administration.

Personnel health and safety is an integral part of the routine duties of each NOVATEK employee.

In order to ensure appropriate measures for preventing accidents at work as well as occupational illnesses, NOVATEK has developed and approved an internal regulation which sets forth general provisions for conducting briefings and trainings on occupational and fire safety as well as testing employees' knowledge of labor safety requirements. Introductory briefings on labor and fire safety are held for every newly hired or seconded staff member; all third party staff performing work on NOVATEK property on a contractual basis; and also, students participating in the Company's production activities. In addition to introductory briefings, employees also receive initial on-site briefings and refresher and supplementary briefings.

A special training center for OHS related issues

has been organized by OOO NOVATEK-Tarkosale-neftegaz.

All employees attend specially designed OHS training courses irrespective of the nature and level of danger of their positions, how many years they have served, and their education or qualification. Training courses are held at the Company's training center as well at other specialized organizations.

As part of our overall OHS management system, NOVATEK also complies with current Russian legislation and the principles and rules of the International Labor Organization.

To identify and promptly address any weaknesses in OHS arrangements, industrial monitoring commissions have been established in NOVATEK's subsidiaries to conduct internal assessments of working conditions and OHS compliance.

All extraordinary situations, emergencies and occupational accidents are investigated by the Company's subsidiaries in accordance with current Russian legislation as well as our internal regulations. Based on the results of these investigations, corrective measures are taken to eliminate the causes of these accidents and adjust plans for upgrading production facilities and OHS training.

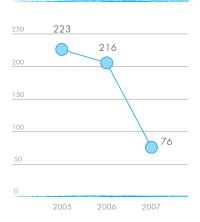
Serious Injury Frequency (no. of serious injuries/ million working hrs)



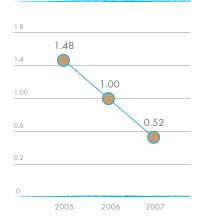
Percentage of Time Lost Due to Injuries (number of hrs lost/total working hrs)



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



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



Accident notification and prevention measures

Unfortunately, even the most advanced methods and sophisticated equipment do not enable the Company to completely avoid dangerous situations in the production cycle. However, we seek to implement all the necessary measures for ensuring the occupational safety of our staff and the local population. Improvements to the methodology for risk management, including fault tree analysis, play an important role in mitigating the risks of accidents and emergencies. A lot of attention goes into developing systems designed to monitor and control production processes and their automation.

To ensure a prompt response to any emergency, mitigate any fallout and also eliminate any after-effects of such accidents, we have emergency response teams at all our sites. They are equipped with modern equipment and vehicles and are always prepared thanks to regular drills.

Due to the specifics of their core operating activities, Group subsidiaries OAO NOVATEK-Tarkosaleneftegaz, OOO NOVATEK-Yurkharovneftegaz and OOO NOVATEK-Purovsky ZPK have developed the Plans for the Prevention and Clean-up of Oil, Oilproduct and Gas-condensate Spills at Production Sites, Warehouses and Transport Sites. They have also established disaster recovery procedures for specific circumstances, including a coordination chart for all services and divisions.

In 2006, to prevent the risk of fire and mitigate its consequences, we initiated the creation of our own fire and salvage services unit, utilizing the most ad-

vanced equipment and vehicles. Today, having an in house fire and salvage service unit is not a common occurrence. The necessity for such a service is conditioned by the restructuring of the Ministry of Emergency Situations' fire fighting units, which were previously in charge of protecting industrial facilities on a contractual basis. Therefore, major companies, mainly in the oil and gas sector, that face a high risk of fire now prefer to create their own services.

Today, the Group's facilities are protected by more than 250 fire fighters and rescuers. Five fire-fighting units and individual fire stations are equipped with new tools and instruments and the most advanced fire-fighting equipment. They have 26 new fully equipped fire-fighting vehicles and operating personnel is fully equipped with modern fire suits and protective equipment.

All production facilities have dedicated water supplies and other means of fighting fires. Property and production facilities are equipped with a fire warning system that operates independently from fire alarms. Processing plants are protected by automatic fire-extinguishing systems. OOO NOVATEK-Purovsky ZPK and OOO NOVATEK-Transervice also have a gas rescue team in addition to the fire-fighting unit. All entities regularly hold fire drills and simulated evacuations from offices and production facilities. All fire-rescue teams follow a general training schedule and are included in resource allocation plans for emergencies.

Environmental protection

Environmental policy

NOVATEK fully understands that activities connected with hydrocarbon extraction, transportation and processing pose a potential threat to the environment, employees and the local population. From the very beginning, the Company has implemented a range of organizational, investment and other measures to mitigate this threat. In 2005, the NOVATEK Environmental Protection and OHS Policy was formally adopted. It applies to all Company divisions and subsidiaries and serves as a basis for planning business activities of any type.

To meet these objectives, NOVATEK evaluates the potential environmental impact of planned activities before starting them; conducts ongoing ecological monitoring activities; takes requisite steps to manage environmental risks; improves technology and upgrades equipment; develops resource-conservation programs; and conducts environmental impact assessments on a regular basis.

The objectives and purposes of the policy are as follows:

- Minimizing adverse environmental impacts;
- Ensuring environmental compliance;
- Managing natural and energy resources;
- Improving environmental management systems;
- Maintaining a high level of environmental awareness and the responsibility of our employees;
- Ensuring safe working conditions; and
- Promoting comfortable living conditions for local communities.

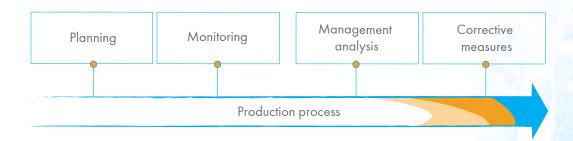


Integrated management system

NOVATEK has implemented an Integrated Management System for Environmental Protection and OHS ("IMS") that meets the requirements of ISO 14001:2004, which is headed by a member of the Company's top management. The NOVATEK Environmental Protection and OHS Policy and internal regulations of the Company establish that, as part of the implementation and improvement of IMS, all major subsidiaries should have environmental management systems in place that are certified according to international standards. In 2006, 000 NOVATEK-Yurkharovneftegaz obtained an ISO 14001:2004 certificate.

As part of the IMS, the Company actively uses an industrial and environmental risk assessment methodology to prevent any adverse environmental impact from its activities. In particular, the Company's specialists have developed a list of provisionally acceptable and unacceptable risks for NOVATEK, which reflects the Company's "precautionary principle". At the end of 2006, we held a meeting of the environmental protection and OHS services, during which we summarized the results of our work and developed solutions for further improvement of the IMS and industrial environmental monitoring at Group entities. We also came up with solutions for developing mid-term energy-saving programs, rational use of natural resources, maximizing the use of associated petroleum gas and other pressing issues.

INTEGRATED MANAGEMENT SYSTEM



Air emissions

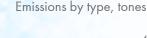
As part of its overall strategic objective to decrease emissions while maintaining production growth, the Company implemented targeted technical measures to optimize its production processes. In 2007, NOVATEK's total emissions amounted to 9.50 thousand tons, and in 2006, total emissions were 9.54 thousand tons. Carbon monoxide accounts for the largest portion of these emissions: 5.4 thousand tons in 2006 and 3.5 thousand tons in 2007. Emissions of sulphur dioxide amounted to 30.7 tons and 3.2 tons in 2006 and 2007, respectively. The Company's entities do not emit ozone depletors.

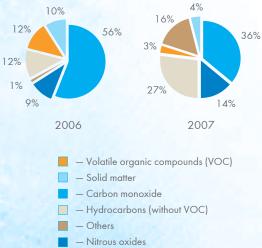
As our negative impact on the atmosphere continues to decrease, tests also point to the Company's steadily decreasing pollution of land, despite the regular commissioning of new production facilities and the dynamic growth of our Company. All of our boiler-houses and power stations run on environmentally-safe natural gas, which ensures

a minimum negative impact on the atmosphere. The impact of NOVATEK's production facilities on the quality of ambient air in adjacent territories is insignificant, which is confirmed by the results of periodic monitoring studies.

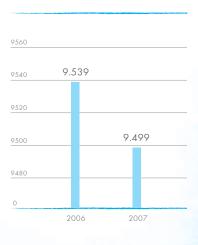
Significant efforts to decrease the volume of emissions in the reporting period include:

- Streamlining the gas transportation system from the Khancheyskoye field to the East-Tarkosalinskoye field, which enabled the Company to significantly decrease emissions from gas compressor units;
- Upgrading gas condensate equipment at 000 NOVATEK-Tarkosaleneftegaz, and introducing flash gas disposal systems, which enabled the Company to significantly decrease the volume of gas flared and emission levels.





Pollutant emissions, tons



Energy efficiency and implementation of the Kyoto Protocol

As a major energy company, NOVATEK pays special attention to developing power-saving technology and decreasing energy consumption. Group entities increased power consumption by 11% from 2005 to 2007 as a result of an increase in drilling operations and extraction and processing of hydrocarbons.

As additional contributions to the Kyoto Protocol (the global policy aimed at lowering greenhouse gas emissions), NOVATEK seeks to lower the energy-output ratio of its production facilities and conserve energy throughout the technological cycle. Toward this goal, we have selected several projects designed to lower greenhouse gas emissions. Specifically, we are planning to use our available gas condensate facilities at the East-Tarkosalinskoye field to prepare natural Valanginian gas and associated petroleum gas for transportation and processing. Ninety-five percent of this project's results will come from the preparation of associated petroleum gas (currently flared) and consequently greenhouse gas emissions will be lowered to 200 thousand tons of CO2/eq/year.

The rational use of natural resources and the efficient use of energy are the two most important requirements of the Kyoto Protocol's Directive 96/61/EC "On Integrated Pollution Prevention and Control".

In evaluating the environmental impact of our production process, we employ the production efficiency ratio, which not only examines the prudent use of resources, but also reflects the quantity of emissions, in particular, the amount of greenhouse gas per energy unit.

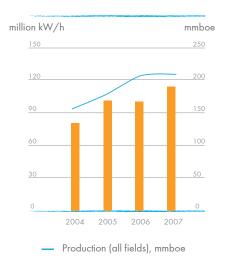


During the reporting period, NOVATEK launched the GTES-1500 gas turbine plant and the KGTES-1500 cogeneration plant, which supply the Yurkharovskoye Field with electricity and heat. The use of a combustion gas-heat recovery system has increased the power plant's efficiency to 72.2% and decreased greenhouse gas emissions by almost by 20 thousand tons of CO2/eq from 2006 to 2007.

We have tested an energy-independent linear telemetric system (LTS) using wind turbines and solar batteries at 000 NOVATEK-Tarkosaleneftegaz. The key factors for implementing the energy-independent LTS are as follows:

- Ensuring dependable service to linear pipelines;
- Preventing emergency situations and accidents;
- Decreasing capital construction and operating costs related to transmission facilities; and
- Ensuring environmentally safe production.

Energy consumption



Production and treatment of waste

Waste burial and transportation is extremely laborintensive and expensive in the Far North, which means that generating less waste not only lessens our environmental impact, but also saves money. Taking an economic approach to waste treatment is generally effective, and is in accord with the recommendations of the World Business Council for Sustainable Development.

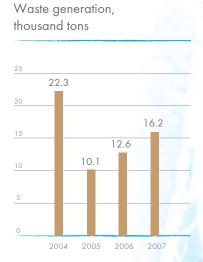
The Company consistently works to decrease the production and consumption of waste. This not only enables us to dispose of waste efficiently and in a manner that is environmentally safe, but it also proves economically useful.

NOVATEK currently employs the following in its waste treatment activities:

- Employs strategies to economize the use of raw materials and supplies;
- · Uses modern resource-saving and zero-emission technologies;
- · Adheres to a strict waste management system; and
- Builds its own landfills, which are in compliance with all environmental standards and equipped with modern monitoring facilities.



Due to increased drilling operations over the last three years, NOVATEK entities generate 1.5 times more waste – mainly drill cuttings, which are non-hazardous or less hazardous waste. In 2007, NOVATEK's entities recycled and reused 6.6 thousand tons, or 41%, of their waste.



Sustainability Report on the territory of Russian Federation 2006-2007

Water consumption and protection of water bodies

The protection of naturally occurring water in mining areas is a high priority for NOVATEK. During the past few years, the Company has sought to decrease the amount of water it consumes.

We pay close attention to water consumption and the disposal of industrial waste and and we have launched a number of modern water reclamation and waste treatment plants. NOVATEK does not discharge waste into surface water bodies.

OAO NOVATEK-Tarkosaleneftegaz has conducted a massive clean-up of wastewater sites and constructed biological treatment units for wastewater at the Pionerny Field support base. After biological treatment, wastewater is transferred to a containment pond.

We employ environmentally-efficient deep-ground discharge technology, which allows us to avoid discharging production and utility wastes into surface water bodies thereby preserving their natural purity. For example, we have deployed technology for the pre-purification and subsurface disposal of waste into deep isolated water-bearing horizons. We have also deployed a system for monitoring the quality of this waste and the state of the geological environment.

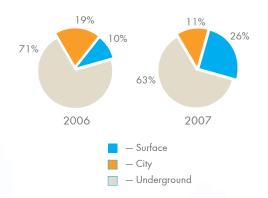
We have managed to significantly decrease water consumption through the use of water circulation systems as well as by reusing water received during the oil treatment process of the reservoir pressure maintenance system. As a result, we achieved a 20% decrease in water consumption by this system.

Total water consumption of our extracting and processing entities was 627 mcm in 2006 and 604 mcm in 2007, out of which mainly consisted of water taken from underground sources.

In early 2007, we began a pilot project to produce methanol at Yurkharovskoye field.

The facility is a unique component of an integrated process for refining gas – we are not aware of an equivalent small-tonnage plants on other domes-

Water withdrawal by source



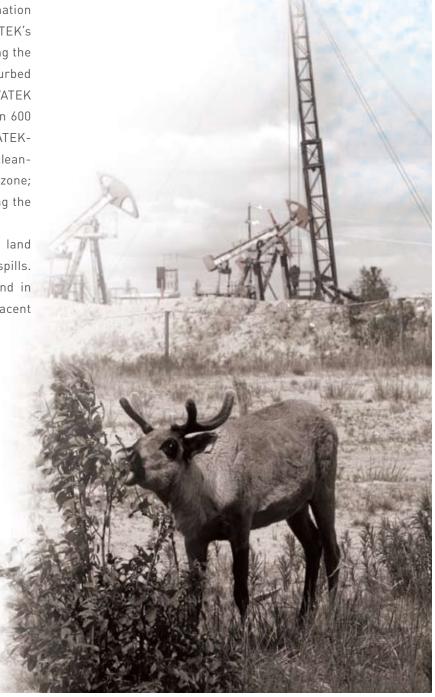
tic or international gas condensate fields. Prior to the launch of the new facility, NOVATEK delivered methanol to the field by water transport along the Ob and Pur Rivers and the Tazov Bay during the summer and by motor transport on ice roads during the winter. The on-site methanol production unit has allowed us to eliminate the environmental risks involved in transporting hazardous chemicals

via the northern rivers. The most serious environmental risk was associated with the transportation of methanol along the Pur River and Tazov Bay – bodies of water which are highly important to commercial fishing because they are feeding grounds for the valuable sturgeon and whitefish species. Contamination of these areas with methanol is inadmissible.

Land use and reclamation

Atimely and effective approach to land reclamation is one of the main concerns for NOVATEK's environmental activities, and as such, during the reporting period, we worked to reclaim disturbed and contaminated land. In 2006–2007, NOVATEK and its subsidiaries rehabilitated more than 600 hectares of land. In addition, 000 NOVATEK-Yurkharovneftegaz conducted a massive cleanup of wide strip of the Tazov Bay's coastal zone; 370 tons of metal scrap was removed during the navigable season.

Also, during the reporting period, no land was polluted as a result of hydrocarbon spills. Currently, NOVATEK does not own any land in nature-conservation zones, or within or adjacent to areas with unique biodiversity.





Environmental monitoring and industrial environmental oversight

To obtain unbiased information on the nature and level of NOVATEK's environmental impact, the Company has established a multi-level system to exercise control over technological processes and conduct environmental monitoring. The results obtained from the system are used to adapt production processes in order to minimize our environmental impact and comply with ecological standards. In order to obtain objective data on pollutants in the waste water and to establish within which hazardous waste class these products fall, the Company's

entities have set up their own certified chemical laboratories with all the necessary equipment. Modern spatial imaging and computer processing tools are used to obtain a complete picture of the condition of areas affected by NOVATEK's activities.

Systematic analysis of soil, ambient air, snow cover, surface and subsurface water shows that the ecological situation is favorable, even in areas where the Company's infrastructure is most developed.

Environmental expenditures

Although implementing environmental programs in the Far North presents significant organizational and technical difficulties and does not produce fast results, this does not damper our enthusiasm for having an advanced environmental policy that meets the world's highest standards. NOVATEK regularly increases environmental expenditures because it strives not only to minimize its environmental impact, but also to keep ecosystems lo-

cated near its production facilities intact. In 2007, environmental expenditures totaled approximately RR 106.80 million, of which 34.8% were spent on land rehabilitation. The Company paid RR 5.43 million as a result of environmental pollution in 2007, as well as paid fines of RR 151 thousand in 2006 and RR 255 thousand in 2007 for violating environmental legislation.



INDEPENDENT VERIFICATION/ ASSURANCE STATEMENT

SGS Vostok Ltd report on sustainability the assurance of activities in the OAO NOVATEK Sustainability Report on the territory of Russian Federation 2006 – 2007

Nature and Scope the assurance/verification

SGS Vostok Ltd was commissioned by OAO NOVATEK to conduct an independent assurance of the Sustainability Report 2006 - 2007. The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included the text, data and accompanying graphs and tables, contained in the review. Information and data on the company website, other than that included in the text of this report, were not included in this assurance process. The information in OAO NOVATEK Sustainability Report 2006 - 2007 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 2006 - 2007.

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

The SGS Group has developed a set of protocols for the Assurance of Sustainability Reports based on current best practice guidance provided in the Global Reporting Initiative Sustainability Reporting Guidelines (2006) and the AA1000 Assurance Standard (2003). These protocols follow differing levels of assurance depending on the reporting history and capabilities of the reporting organisation.

OAO NOVATEK Sustainability Report 2006 - 2007 has been assured using our Level 2 protocol for content veracity and the evaluation of the report against the Global Reporting Initiative Sustainability Reporting Guidelines. The assurance comprised a combination of pre-assurance research, documentation and record review, and interviews with employees during visits to the Head office of OAO NOVATEK, based in Moscow, documentation and record review and evaluation against the GR3 requirements.

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

Statement of Independence and Competence

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

SGS Vostok Limited affirm our independence from 0A0 NOVATEK, being free from bias and conflicts of interest with the organisation, its subsidiaries and stakeholders.

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

Assurance Opinion

On the basis of the methodology described we are satisfied that the text and statements made in the Sustainability Report 2006 - 2007 are supported by underlying evidence.

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

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

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

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

The recommendations for improvement made during the assurance of the previous report have been incorporated and the progression of reporting against the Global Reporting Initiative G3 Guidelines is a welcome step making the information more readily available and clearer to readers.

There are areas which we feel should be improved on for the next report, in order to raise it to the next level of application. A more detailed internal management report has been produced for OAO NOVATEK to address those issues during the next reporting period.

Signed:

For and on behalf of SGS Vostok Ltd

K.M. Timoshechkin

Business Manager, System and Services Certification

SGS Vostok Ltd

November 2008

WWW.SGS.COM

GRI PERFORMANCE INDICATORS

| Nº | Performance Indicator and description | Reference in the Report |
|-----|--|-------------------------|
| | 1. Strategy and analysis | |
| .1 | Statement from the senior decision maker of the organisation about the importance of sustainability to the organisation and its strategy | pp. 4, 5 |
| .2 | Description of key impacts, risks and opportunities | pp. 4, 5, 10, 11, 17 |
| | 2. Organisation's characteristics | |
| .1 | Name of the organisation. | p. 14 |
| .2 | Primary brands, products and/or services. | pp. 14, 20 |
| .3 | Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures. | www |
| .4 | Location of organisation's headquarters. | p. 76 |
| .5 | Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report. | p. 14 |
| .6 | Nature of ownership and legal form. | p. 4 |
| .7 | Markets served (including geographical breakdown, sectors served, and types of customers/beneficiaries. | p. 20 |
| .8 | Scale of the reporting organisation. | pp. 14, 20, 21, 22 |
| 9 | Significant changes during the reporting period regarding size, structure or ownership. | pp. 15, 20, 21, 22 |
| .10 | Rewards received in the reporting period. | p. 15 |
| | 3. Report's parameters | |
| .1 | Reporting period for information provided. | p. 8 |
| 2 | Date of most recent previous report. | p. 8 |
| 3 | Reporting cycle. | biennial |
| 4 | Contact point for questions regarding the report or its contents. | p. 76 |

| Nº | Performance Indicator and description | Reference in the Report | Comments |
|------|--|-------------------------|-------------------------|
| 3.5 | Process for defining report content. | pp. 8, 10, 11 | 11 19 4 |
| 3.6 | Boundary of the report. | p. 10 | |
| 3.7 | State any specific limitations on the scope or boundary of the report. | p. 10 | |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations. | p. 76 | |
| 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. | p. 8 | |
| 3.10 | Explanation of the effect of any restatements of information provided in earlier reports, and reasons for such restatement. | p. 10 | |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary and measurement methods applied in the report. | p. 11 | |
| 3.12 | Table identifying the location of the Standard Disclosures in the report. | p. 67 | |
| 3.13 | Policy and current practice with regard to seeking external assurance for the report. | pp. 11, 66 | |
| | 4. Governance, commitments and engagement | | |
| 4.1 | Governance structure of the organisation, including committees under the highest governance body. | | www |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer. | | www |
| 4.3 | For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/ or non-executive members. | | www, Annual Review 2007 |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. | p. 29 | www |
| 4.5 | Linkage between compensation for members of the highest governance body, senior managers, and executives and the organisation's performance. | | www |

Sustainability Report on the territory of Russian Federation 2006-2007

| Nº | Performance Indicator and description | Reference in the Report | Comments |
|------|---|-------------------------------|----------|
| 4.6 | Processes in place for the highest governance body to ensure conflicts of interest are avoided. | p. 16 | www |
| 4.7 | Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics. | | www |
| 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. | pp. 32, 33, 34, 42, 43, 50 | www |
| 4.9 | Procedures of the highest governance body for overseeing the organisation's identification and management of its economic, environmental and social performance. | p. 16 | www |
| 4.10 | Process for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance. | p. 16 | www |
| 4.11 | Explanation of whether and how the precautionary approach or principle is addressed by the organisation. | p. 50 | |
| 4.12 | Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or endorses. | p. 11 | |
| 4.13 | Memberships in associations. | p. 42 | |
| 4.14 | List of stakeholder groups engaged by the organisation. | p. 10 | |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage. | pp. 10, 11 | |
| 4.16 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group. | pp. 8, 9, 10, 31, 38, 39, 42 | |
| 4.17 | Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to them, including through its reporting. | pp. 8, 9 | |
| | 5. Information on management approaches and performa | ince indicators | |
| 5.1 | Economic performance. | | |
| E | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, payments to capital providers and governments. | pp. 20, 21, 22, 23, 39, 43 | 3 |

| 0 | Performance Indicator and description | Reference in the Report | Comments |
|-----|--|-------------------------|---|
| EC2 | Financial implications and other risks and opportunities for the organisation's activities due to climate change. | p.58 | Financial implications will be disclosed in the future after the relevant joint projects have been implemented and greenhouse gas limits have been adhered to. The Company plans to assess business risks associated with climate changes and global warming in future. |
| EC3 | Coverage of the organisation's defined benefit plan obligations. | pp. 33, 34 | |
| EC4 | Significant financial assistance received from the government. | p. 22 | |
| EC5 | Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation. | p. 21 | |
| EC6 | Policies, practices and proportion of spending on locally based suppliers at significant locations of operation. | p. 20 | |
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation. | pp. 28, 29 | |
| EC8 | Development and impact of infrastructure investments, and services provided primarily for public benefit through commercial, in-kind or pro bono engagement. | pp. 38-47 | |
| EC9 | Understanding and describing significant indirect economic impacts, including the extent of impacts. | pp. 20-23 | |
| | Environmental performance indicators | | |
| EN1 | Used materials by weight or volume. | p. 57 | |
| EN2 | Percentage of materials used that are recycled input materials. | pp. 58-59 | |

pp. 59, 60

pp. 59, 60

EN3 Direct energy consumption by primary energy

EN4 Indirect energy consumption by primary energy

source.

Performance Indicator and description

Reference in the Report

Comments

| EN5 | Energy saved due to conservation and efficiency improvements. | pp. 59, 60 | |
|------|--|------------|---|
| EN6 | Initiatives to provide energy-efficient or renewable energy based products and services and reductions in energy requirements as a result of these initiatives. | pp. 59, 60 | |
| EN7 | Initiatives to reduce indirect energy consumption, and reductions achieved . | p. 59 | |
| EN8 | Total water withdrawl by source. | p. 62 | |
| EN9 | Water sources significantly affected by withdrawal of water. | p. 62 | |
| EN10 | Percentage and total volume of water recycled and reused . | p. 62 | |
| EN11 | Location and size of land owned, leased, managed in, or adjacent to protected areas and areas of high biodiversity value outside protected areas. | p. 63 | |
| EN12 | Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. | | pp. 62, 63, 64, 65 of the Sustainability Report for 2004–2005 |
| EN13 | Habitats protected or restored. | p. 63 | |
| EN14 | Strategies, current actions and future plans for managing impacts on biodiversity. | | pp. 62, 63, 64, 65 of the Sustainability Report for 2004–2005 |
| EN15 | Number IUCN Red List species and national conservation list of species with habitats in areas affected by operations, by level of extinction risk. | pp. 56-57 | |
| EN16 | Total direct and indirect greenhouse gas emissions by weight. | pp. 56-57 | |
| EN17 | Other relevant indirect greenhouse gas emissions by weight. | p. 58 | |
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved . | p. 58 | |
| EN19 | Emissions of ozone-depleting substances by weight. | p. 58 | |
| EN20 | NO, SO and other significant air emissions by type and weight. | p. 58 | |

| Nº | | Performance Indicator and description | Reference in the Report | Comments |
|-----|------|---|----------------------------|---|
| | EN21 | Total water dischage by quality and destination. | pp. 62, 63 | |
| | EN22 | Total weight of waste by type and disposal method . | p. 61 | |
| | EN23 | Total number and volume of significant spills. | pp. 62, 63 | |
| | EN24 | Weight of transported, imported, exported or treated waste deemed hazardous under the terms of Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally. | p. 59 | |
| | EN25 | Identity, size, protection status and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff. | | We do not exercise dumping into water bodies. |
| | EN26 | Initiatives to mitigate environmental impact of products and services and extent of impact mitigation. | pp. 62, 63 | |
| | EN27 | Percentage of products sold and packaging materials that are reclaimed by category. | | N/A |
| | EN28 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. | p. 65 | |
| | EN29 | Significant environmental impact of transporting products and other goods and materials used for the organisation's operations, and transportating members of the workforce. | p. 62 | |
| | EN30 | Total environmental protection expenditures and investments by type. | p. 65 | |
| 5.3 | | Social performance | | |
| | LA1 | Total workforce by employment type, employment contract and region. | pp. 26, 27 | |
| | LA2 | Total number and rate of employee turnover by age group, gender and region. | pp. 26, 27 | |
| | LA3 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, broken down by major operations. | pp. 21, 31, 32, 33, 34, 35 | |
| | LA4 | Percentage of employees covered by collective bargaining agreements. | p. 28 | |

Sustainability Report on the territory of Russian Federation 2006-2007

| Nº | | Performance Indicator and description | Reference in the Report | Comments |
|----|------|---|----------------------------|---|
| | LA5 | Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreement. | p. 28 | |
| | LA7 | YRates of injury, occupational diseases, lost days, absenteeism, and number of work-related fatalities by region. | pp. 52, 53 | |
| | LA8 | Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families or community members regarding serious diseases. | pp. 31, 36, 53 | |
| 3 | LA9 | Health and safety topics covered in formal agreements with labour unions. | p. 36 | |
| ij | LA10 | Average hours training per year per employee by employee category. | p. 32 | |
| 3 | LA11 | Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. | pp. 31, 32, 33, 34 | |
| ×. | LA13 | Structure of the organisation's management bodies and workforce by gender, age group, minority group membership, and other indicators of diversity. | pp. 26, 27 | |
| Ñ | LA14 | ORatio of basic salary by men to women by employee category. | p. 27 | |
| | HR1 | Percentage and total number of significant investment agreements that include human rights clauses or have undergone human rights screening. | | We closely follow principles of equality and human rights in all of our activities. The Company operates in strict |
| | HR2 | Percentage of significant suppliers and contractors that have undergone screening on human rights, and actions taken. | | compliance with Russian law, which is based on requirements of international conventions. |
| | HR3 | Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including percentage of employees trained. | pp. 30-31 | |
| ø | HR4 | Total number of incidents of discrimination and actions taken. | p. 27 | |
| | HR5 | Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. | pp. 26-29 | The Company does not perform any operations in which the right to exercise freedom of association and collective bargaining is at significant risk. |

Reference in the Report

| HR6 | Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour. | | None. The Company operates in strict compliance with Russian law, which is based on requirements of |
|-------------|--|----------------|---|
| HR7 | Operations identified as having significant risk for incidents of forced or compulsory labour, and actions taken to eliminate forced or compulsory labour. | | international conventions. |
| HR9 | Total number of incidents of violations involving rights of indigenous people and actions taken. | pp. 41, 42, 43 | |
| S01 | Nature, scope and effectiveness of any programmes and practices that asses and manage the impacts of operations on communities, including entering, operating and exiting. | pp. 43, 44, 45 | |
| S02 | Percentage and total number of business units analysed for risks related to corruption. | p. 42 | |
| S03 | Percentage of staff trained in counter-corruption policies and procedures. | p. 42 | |
| S04 | Actions taken in response to incidents of corruption. | p. 42 | |
| S05 | Public policy positions and participation in public policy development and lobbying. | p. 42 | |
| S06 | Total value of financial and in-kind conttributions to political parties, politicians and related institutions by country. | p. 42 | |
| S08 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. | p. 65 | |
| PR1- PR9 | Product Responsibility Performance Indicators | p. 20 | The Company's entire output complies with technical |

output requirements and industry standards.

| i OAO MOVATEV | | |
|---------------|-------------------------|--|
| OAO NOVATEK | Investing in the future | |
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FEEDBACK QUESTIONNAIRE

Dear readers,

You have just read NOVATEK's second Sustainability Report.

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

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

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

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

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

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

Contact Information

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NOVATEK's website contains a variety of corporate information including the following:

- Key business and production results
- Press-releases
- Current share prices
- Annual reports
- Information disclosures to regulators
- Investor presentations
- Social and environmental activities

Website: www.novatek.ru (Russian version) and www.novatek.ru/eng (English version)

Mentions in this Annual Review of «OAO NOVATEK», «NOVATEK», «the Company», «we» and «our» refer to OAO NOVATEK and/or its subsidiary enterprises, depending upon the context, in which the terms are used.

Abbreviations

barrel one stock tank barrel, or 42 US gallons of liquid volume

bcm billion cubic meters

boe barrels of oil equivalent. For natural gas, we use the conversion factor of one

mcm equals 6.54 barrels. Liquid tons are converted to boe according to ratios found in our reserves appraisal report, ranging between 7.3 to 8.87 boe per ton, due to the differing quality of hydrocarbons at the fields, including

differences in calorific content

km kilometer(s)
mboe thousand boe
mmboe million boe

mcm thousand cubic meters
mmt million metric tons
mt/m thousand metric tons

ton metric ton hrs hours

kWh Kilowatt-Hour RR Russian rubles

YNAO Yamal-Nenets Autonomous Region

LSE London Stock Exchange

OECD Organization for Economic Cooperation and Development

CO2 carbon dioxide
SO2 sulphur dioxide
NO2 nitrogen dioxide

Forward-looking statements

This 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.



Sustainability Report

on the territory of Russian Federation

2006-2007