

# Creating Value Added



Russia's largest  
independent natural gas producer



# Creating Value Added

ANNUAL REPORT 2013

# CONTENTS

Letter to Shareholders .....	8
Strategy .....	12
Key Events 2013 .....	13
Key Indicators .....	14
Main Business Achievements 2013 .....	16

## **Review of Operating Results** .....

Licenses .....	46
Acquisitions .....	46
Hydrocarbon Reserves .....	46
Geological Exploration .....	48
Field Development .....	49
Hydrocarbon Production .....	50
Yamal LNG Project .....	51
Processing of Gas Condensate .....	52
Natural Gas Sales .....	53
Liquid Hydrocarbon Sales .....	54

## **Environmental and Social Responsibility** .....

Environmental Protection .....	55
Health and Safety .....	57
Human Resources .....	57
Social Policy and Charity .....	58

## **Management and Corporate Governance** .....

Corporate Governance .....	58
General Meeting of Shareholders .....	61
Board of Directors .....	61
Board Committees .....	62
Management Board .....	64
Remuneration to Members of the Board of Directors and Management Board .....	64
Internal Control and Audit .....	64
Share Capital .....	65
Dividends .....	66
Information Transparency .....	67

## **Additional Information** .....

Major Risk Factors .....	68
Risk Insurance .....	72
Information on Members of NOVATEK's Board of Directors .....	72
Information on Members of NOVATEK's Management Board .....	75
Major Transactions and Related Party Transactions .....	76
Contact Information .....	78

NOVATEK is Russia's largest independent natural gas producer and the second-largest natural gas producer in Russia.

**12.5**

bln boe of proved hydrocarbon reserves under SEC

**#4**

globally among publicly traded companies by proved natural gas reserves under SEC

**62.2**

bcm of natural gas produced in 2013

**#7**

globally among publicly traded companies by natural gas production volumes

**9%**

of total Russian natural gas production

**18%**

of total natural gas deliveries to the domestic market via the UGSS

NOVATEK's main businesses are exploration and production, processing, transportation and marketing of natural gas and liquid hydrocarbons. The Company's primary production assets are located in the Yamal-Nenets Autonomous Region (YNAO), one of the largest gas regions in the world.

The Company's main strategic priorities are: growth of the resource base and efficient reserve management, maintaining sustainable rates of growth of hydrocarbon production, maintaining a low-cost structure, and optimizing and expanding existing marketing channels, and creating new marketing channels, including the future entry into the international market for liquefied natural gas.



Our assets are located in the Yamal-Nenets Autonomous Region of the Russian Federation – one of the largest regions in the world in terms of gas reserves and production volumes.

We benefit from a large, highly concentrated conventional resource base with enormous exploration potential.

Our reserves enable us to maintain sustainably high hydrocarbon production growth rates.

We have one of the lowest finding and development as well as lifting costs in the global oil & gas industry.

We created a fully integrated chain for production, transportation and processing of gas condensate.

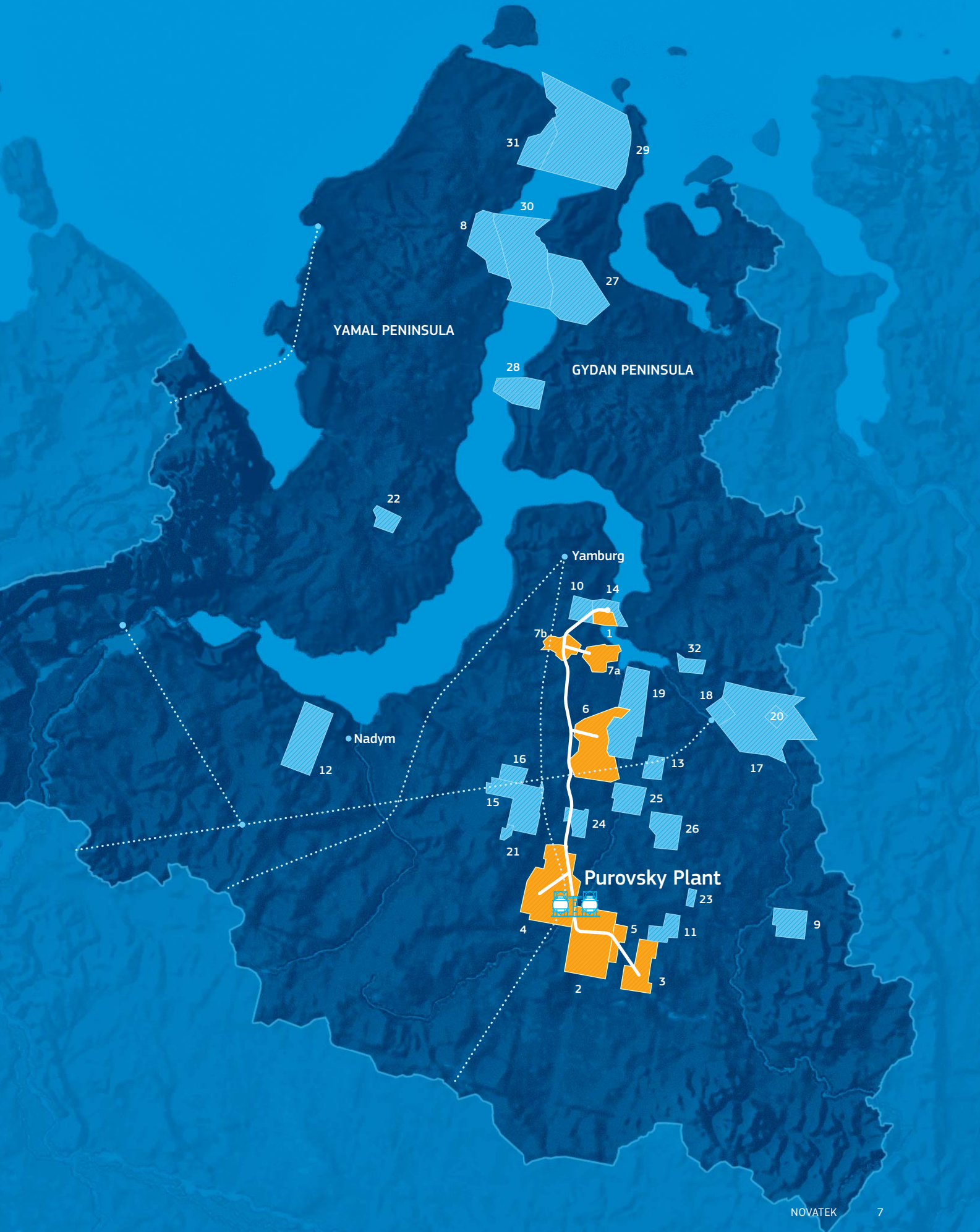
**FIELDS AND LICENSE AREAS WITH COMMERCIAL PRODUCTION**

1. Yurkharovskoye field
2. East-Tarkosalinskoye field
3. Khancheyskoye field
4. Olimpiyskiy license area
5. Yumantilskiy license area
6. Samburgskiy license area
7. North-Urengoyevskoye field
- 7a. Eastern Dome
- 7b. Western Dome

**PROSPECTIVE FIELDS AND LICENSE AREAS**

8. South-Tambeyskoye field
9. Termokarstovoye field
10. West-Yurkharovskoye field
11. North-Khancheyskoye field
12. Yarudeyskoye field
13. Raduzhnoye field
14. New Yurkharovskiy license area
15. West-Urengoyevskiy license area
16. North-Yubileynoye field
17. North-Russkiy license area
18. North-Russkoye field
19. West-Tazovskiy license area
20. Dorogovskoye field
21. Ukrainsko-Yubileynoye field
22. Malo-Yamalskoye field
23. West-Chaselskoye field
24. Yevo-Yakhinskiy license area
25. Yaro-Yakhinskiy license area
26. North-Chaselskiy license area
27. Utrenneye field
28. Geofizicheskiy license area
29. North-Obskiy license area
30. East-Tambeyskiy license area
31. Severo-Tasiyskiy license area
32. East-Tazovskoye field

- gas condensate pipelines of NOVATEK
- .... trunk gas pipelines



# LETTER TO SHAREHOLDERS

## Dear Shareholders,

CREATING SHAREHOLDER VALUE is a lofty business goal but it must be accompanied with a focus toward corporate responsibility. At NOVATEK, we maintain a strict and rigid adherence to the highest Health, Safety and Environmental standards as a primary goal in achieving our development strategy, and besides efficiently growing our reserve base and hydrocarbon production volumes, increasing the value added of our products is of equal importance for achieving our strategic goal. In the current reporting year, we delivered another stellar growth in our financial and operational results, while strengthening our competitive position and creating a strong base for future growth.

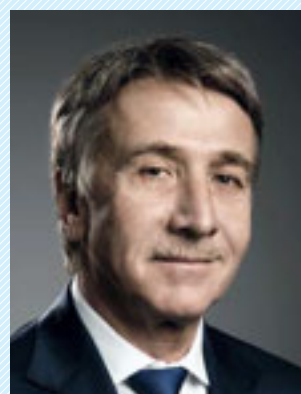
Firstly, we completed expanding our integrated value chain for gas condensate production taking into account the estimated growth in gas condensate production volumes, thus maximizing our profitability in this important value enhancing business segment. Secondly, we substantially increased the share of end-customers in our overall gas sales volumes mix, which raises our margins and enhances sustainability of our business.

The majority of our hydrocarbon production is geologically classified as wet gas, i.e. natural gas containing gas condensate. Our Purovsky gas condensate processing plant creates value added via efficient stabilization of our unstable gas condensate produced at our fields, and is the central element in our production value chain. In the 2014 to 2015 time period, we plan to launch several large gas fields containing a high condensate concentration mix, measured in grams of concentration per cubic meter of production in the natural gas stream, which will result in a rapid and substantial increase in our overall gas condensate production. To get ready for this planned production growth we successfully completed the expansion of the Purovsky plant capacity from five million tons to 11 million tons, enabling us to process all of the additional gas condensate volumes. During 2013, our gas condensate throughput at the Purovsky processing plant increased by 21% to 4.9 mln tons.

The official launch of the stable gas condensate transshipment and fractionation complex with overall processing capacity of six million tons per annum at the all-seasonal Baltic port of Ust-Luga (the "Ust-Luga complex") was one of the most important corporate



**ALEXANDER NATALENKO**  
Chairman of the Board  
of Directors



**LEONID MIKHELSON**  
Chairman  
of the Management Board



**MARK GYETVAY**  
Chief Financial Officer



The official launch of the stable gas condensate transshipment and fractionation complex with overall processing capacity of six million tons per annum at the all-seasonal Baltic port of Ust-Luga was one of the most important corporate events in the current reporting year. The Ust-Luga complex is an integral component of our fully integrated production chain, thereby allowing us to maximize our value-enhancing margins by fractionating our stable gas condensate into constituent petroleum products as well as diversifying our overall customer base.

events in the current reporting year. The Ust-Luga complex is an integral component of our fully integrated production chain, thereby allowing us to maximize our value-enhancing margins by fractionating our stable gas condensate into constituent petroleum products as well as diversifying our overall customer base. The commencement of operations at the Ust-Luga complex replaces the export of stable gas condensate by sales of more valuable basket of products, including light and heavy naphtha, diesel and jet fuel, fuel oil and bunker fuel. By selling a full slate of refined petroleum products instead of raw feedstock we create additional value added, diversify our client base and expand our sales geography. Moreover, the convenient location of the Ust-Luga complex allows us to save on transportation, including railroad costs to supply the feedstock and the freight rates to ship the products. In 2013, we processed 1.9 million tons of stable gas condensate into refined petroleum products with the first and second phases launched in June and October 2013, respectively.

In the reporting year first production was successfully launched at the Eastern Dome of the North-Urengoykoye field, which will allow achieving project daily production rates already in 2014. We were also very busy preparing several other new fields for the start of commercial production, including the Urengoykoye, Yaro-Yakhinskoye, Termokarstovoye and Yarudeyskoye fields, which, besides additional gas production volumes, will account for most of our estimated growth in liquid hydrocarbon production in the mid-term. We expect this growth to contribute substantially to our financial results subject to a stable and favorable price environment on both the international and domestic hydrocarbon markets.

At the end of 2013, we concluded two major deals on an asset acquisition and an asset swap. The combined transactions resulted in an increase in our equity stake in the SeverEnergiya joint venture from 25.5 to 59.8% and the divestment of our 51% equity stake in the Sibneftegas joint venture. The changes in our asset portfolio allows us to concentrate on developing fields rich in liquid hydrocarbons, which complements our long-term strategy of increasing the proportion of liquids in our production and sales mix, taking into account our existing infrastructure for transportation, stabilization and fractionation of stable gas condensate.

Over the past several years we began a gradual shift in our marketing strategy to be closer to the end-consumers in the market. The successful implementation of our marketing strategy resulted in a substantial increase in the proportional share of end-customers in our overall gas sales volumes mix, increasing to 89%, or by 20 percentage points as compared with 2012. During the reporting year, we supplied natural gas to 29 regions within Russia and effectively expanded our market presence in the Moscow, Vologda, Kostroma, Tyumen and Perm regions. The growth in natural gas sales volumes as well as the change in geography of sales and the percentage increase in end-customers were mainly due to several major marketing contracts concluded in 2012.

Our high-quality hydrocarbon reserve base, which is one of our main competitive advantages, is concentrated in the Yamal-Nenets Autonomous Region of Russia, one of the world's largest natural gas regions with well-developed infrastructure. This enables us to consistently report one of the lowest cost levels in the

In the reporting year first production was successfully launched at the Eastern Dome of the North-Urengoyskoye field, which will allow achieving project daily production rates already in 2014. We were also very busy preparing several other new fields for the start of commercial production, including the Urengoyskoye, Yaro-Yakhinskoye, Termokarstovoye and Yarudeyskoye fields, which, besides additional gas production volumes, will account for most of our estimated growth in liquid hydrocarbon production in the mid-term. We expect this growth to contribute substantially to our financial results subject to a stable and favorable price environment on both the international and domestic hydrocarbon markets.

oil and gas industry and remain competitive in various pricing scenarios. In the last three years our reserve replacement costs were RR 61.24 (USD 1.95) per boe and our lifting costs were RR 18.8 (USD 0.59) per boe.

In 2013, we continued to expand our reserve base and deliver sustainable growth in hydrocarbon production. We fully replaced our proved reserves despite selling a 20% stake in the Yamal LNG project and divesting our 51% stake in Sibneftegas. The reserve growth was due to successful exploration works, production drilling at our fields, acquisition of a license for the East-Tazovskoye field and an increase in our equity stake in the SeverEnergia Joint Venture. Our reserve replacement ratio in 2013 aggregated 130%, and our proved reserve life was 29 years as at the end of the year. The quality of our reserve base enables us to look into the future with confidence and continue efficiently growing our hydrocarbon production volumes.

Our gross natural gas production increased by 8.5% year-on-year to exceed 62 billion cubic meters, while our production of liquid hydrocarbons grew by 11.4% to 4.8 million tons, including crude oil production of 755 thousand tons, which represented a 46% increase year-on-year. The growth in our natural gas and gas condensate production was primarily due to expansion of production capacity at the Yurkharovskoye field and the acquisition of an equity stake in Nortgas Joint Venture late in 2012, as well as the launch of two stages of the Samburgskoye field during 2012. The notable increase in crude oil

production was fully organic and mainly due to ongoing drilling efforts at the East-Tarkosalinskoye field.

Looking ahead, our next major strategic step is the planned entry into the market for liquefied natural gas (LNG), which will accrete future value added due to the commencement of export sales of LNG to the international markets. The production of LNG is the most efficient solution to monetize our large-scale conventional reserve base on the Yamal peninsula, where, together with international partners Total and CNPC, we will implement the Yamal LNG project.

Yamal LNG benefits from a range of fundamental competitive advantages, including high-quality conventional reserve base defining very low level of development and lifting costs as well as convenient geographical location resulting in access to main consuming markets and high efficiency of the liquefaction process due to cold ambient climate. The Yamal LNG project is one of the most cost competitive projects among all the LNG projects currently implemented in the world, and the Yamal peninsula is one of the few areas globally offering project scalability due to the enormous resource base of conventional natural gas.

The Yamal LNG project is truly a transformational project for NOVATEK, and based on long-term supply estimates, the market will remain in deficit as customers increase their proportional share of natural gas in their overall energy balances. We believe the timing of

our planned launch of Yamal LNG will capture market share in key consuming markets, including the markets of the Asian Pacific Region.

During 2013, we demonstrated good progress in the implementation of the Yamal LNG project according to the project's plan. The final investment decision, or FID, was made at the end of the year, production drilling at the South-Tambeyskoye field and backfilling for the LNG plant began, dredging of the loading area was completed in the port of Sabetta and dredging of the harbor channel was underway, operation of the materials offloading berths began enabling year-round supplies of construction cargoes, first stage of the construction housing was completed as well as all the basic infrastructure required to start main construction works. Engineering was finalized and positive state environmental and expert approvals received, including construction permit. In addition, the main tenders were held and the EPC contractors as well as key sub-contractors were selected, main contracts for the equipment and construction works were concluded, and more than 75% of LNG output was contracted.

We concluded the sale of a 20% stake in the Yamal LNG project to China National Petroleum Corporation (CNPC), who became our second international partner in the project. In addition to the direct equity stake in the project, CNPC will buy at least three million tons of LNG per annum thus providing the project with access to the fast growing Chinese market. Cooperation with CNPC also opens access to financing from the Chinese financial institutions. We believe the current well balanced shareholder structure of Yamal LNG allows us to successfully and timely complete the project, which has already entered into the active construction stage.

We continued to report strong financial results in 2013 underpinned by our commitment and focus on cost controls, prudent investment decisions, and commensurate with the growth profile of our operations. Our consolidated IFRS earnings per share increased to RR 36.31, or by 59% compared to the level of 2012. Our earnings adjusted for the effect of asset sale and swap increased by 15% to RR 26.35 per share. As a result, the Board of Directors recommended the General Meeting of Shareholders to approve dividends for the reporting year at RR 7.89 per share, which is 15% more than dividends for 2012.

In all of our activities, we adhere to the highest standards of social responsibility and are committed to

environmental integrity and industrial safety as well as supporting the regional development in the Far North of Russia, where our core operational assets are located. We would never reach the level of success we have achieved without the dedication and commitment of our employees, who are truly considered one of our key assets and the foundation for implementing our corporate strategy.

To create value for our shareholders, we employ all of our capabilities and resources to strengthen the competitive advantages of NOVATEK to achieve sustainable operating and financial results in the markets where we operate. On behalf of the Board of Directors and Management, we are pleased to present the Annual report of NOVATEK for 2013 and we would like to thank our valued shareholders for your confidence in the Company and our long-term strategic plans.

Two thousand and fourteen is a special year for the Company as we celebrate our 20th Anniversary, and we believe we have built a world-class natural gas company that has the capabilities and resources to continue delivering efficient growth in the future.



Alexander Natalenko



Leonid Mikhelson

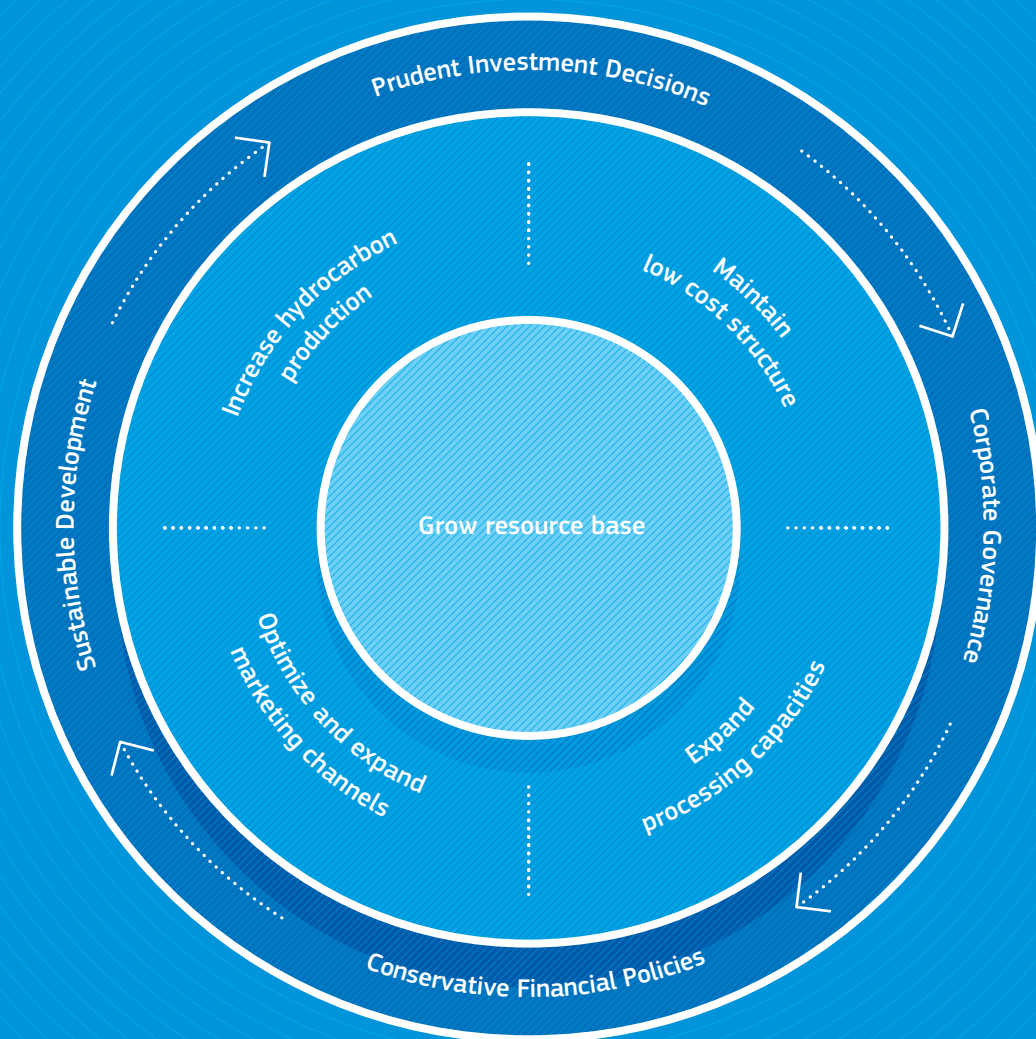


Mark Gyetvay

# STRATEGY

## Our strategic priorities are:

- Growth of the resource base and efficient reserve management;
- Maintaining sustainable rates of growth of hydrocarbon production;
- Maintaining a low-cost structure; and
- Optimizing and expanding existing marketing channels, and creating new marketing channels, including the future entry into the international market for liquefied natural gas.



NOVATEK’s success in strategy implementation is based on competitive advantages which include: size and structure of the resource base; existing infrastructure close to core producing fields; a well-developed customer base for natural gas sales; own facilities for gas condensate processing and exports; and developed marketing channels for liquefied petroleum gases (LPG). Our high level of operational flexibility and our consistent

and efficient use of leading edge technologies in production and processing practices as well as our adherence to sound and prudent business management support our competitive position.

Our commitment to social responsibility and to observing the latest environmental, health and safety standards are integral parts of NOVATEK’s development strategy.

# KEY EVENTS 2013

1

Launch of the stable gas condensate transshipment and fractionation complex at the all-seasonal Baltic port of Ust-Luga with overall processing capacity of six million tons per annum

*(p. 24, p. 53)*

2

Sale of a 20% direct equity stake in the Yamal LNG project to CNPC

*(p. 36, p. 51)*

3

Completion of the expansion at the Purovsky plant capacity from five million tons to 11 million tons per annum

*(p. 20, p. 52)*

4

Launch of the Dobrovolskoye field and part of the Urengoykoye field located within the Olimpiyskiy license area

*(p. 49)*

5

Increase in NOVATEK's effective share in the SeverEnergiya joint venture (subsequently renamed "ArcticGas") from 25.5% to 59.8% as a result of an asset acquisition and an asset swap deals

*(p. 46)*

6

Successful placement of a four-year rouble denominated Eurobond issue for an aggregate amount of RR 14.0 billion

7

Launch of the Eastern Dome of the North-Urengoykoye field developed by the Nortgas joint venture

*(p. 49)*

8

Winning an auction for exploration and production license for the East-Tazovskoye field

*(p. 46)*

# KEY INDICATORS

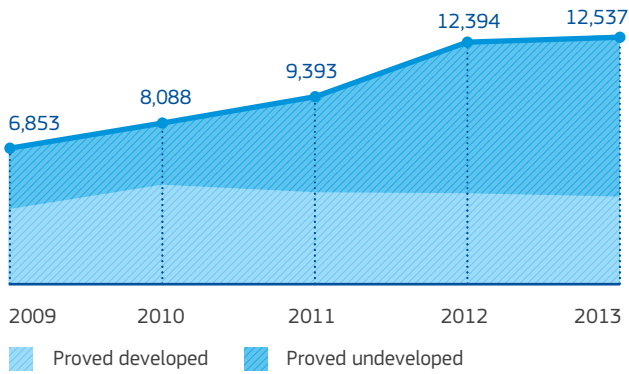
	Unit	2012	2013	Change
<b>FINANCIAL INDICATORS</b>				
Total revenues <sup>(1)</sup>	RR mln	210,973	298,158	41.3%
Profit from operations <sup>(2)</sup>	RR mln	85,394	106,277	24.5%
EBITDA <sup>(2)</sup>	RR mln	95,166	121,791	28.0%
Profit attributable to shareholders of OAO NOVATEK <sup>(2)</sup>	RR mln	69,518	79,825	14.8%
Earnings per share <sup>(2)</sup>	RR	22.91	26.35	15.0%
Net cash provided by operating activities	RR mln	75,825	88,525	16.7%
Capital expenditures <sup>(3)</sup>	RR mln	43,554	59,254	36.0%
Free cash flow	RR mln	32,271	29,271	(9.3)%
Net debt	RR mln	114,067	157,732	38.3%
Total debt to total equity	x	0.45	0.44	(2.2)%
<b>OPERATING INDICATORS</b>				
Proved natural gas reserves (SEC)	bcm	1,758	1,740	(1.0)%
Proved liquid hydrocarbon reserves (SEC)	mmt	106	134	26.4%
Total hydrocarbon reserves (SEC)	mmboc	12,394	12,537	1.2%
Gross production of natural gas	bcm	57.32	62.22	8.5%
Gross production of liquid hydrocarbons	mt	4,287	4,774	11.4%
<b>POSITIONS IN THE RUSSIAN INDUSTRY</b>				
Share in natural gas production	%	8.8%	9.3%	0.5 p.p
Share in gas deliveries to the domestic market via UGSS	%	16.3%	18.4%	2.1 p.p

<sup>(1)</sup> Net of VAT, export duties, excise and fuel taxes.

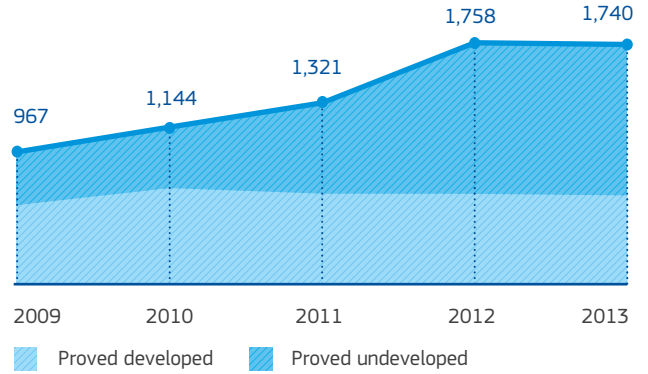
<sup>(2)</sup> Adjusted for the effect on disposal of interests in subsidiaries and joint ventures.

<sup>(3)</sup> Capital expenditures represent additions to property, plant and equipment excluding payments for mineral licenses.

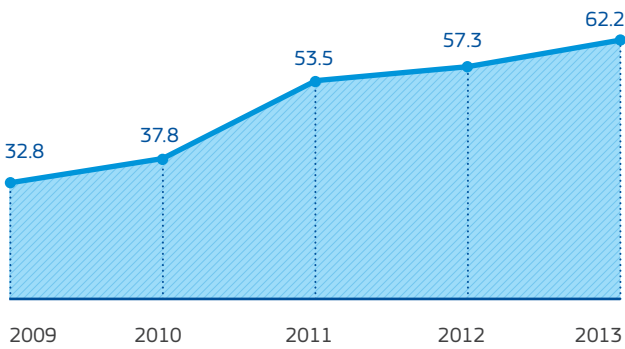
**Total proved hydrocarbon reserves (SEC),  
mmboe**



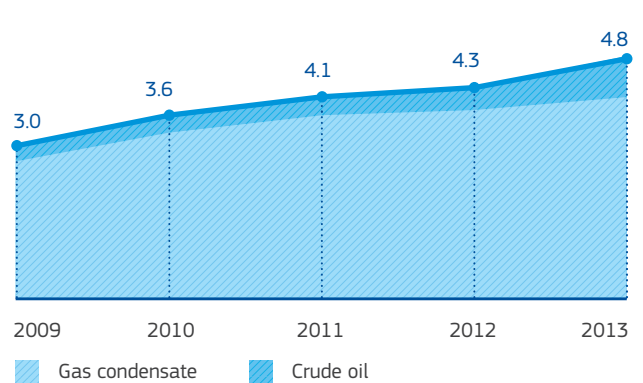
**Proved natural gas reserves (SEC),  
bcm**



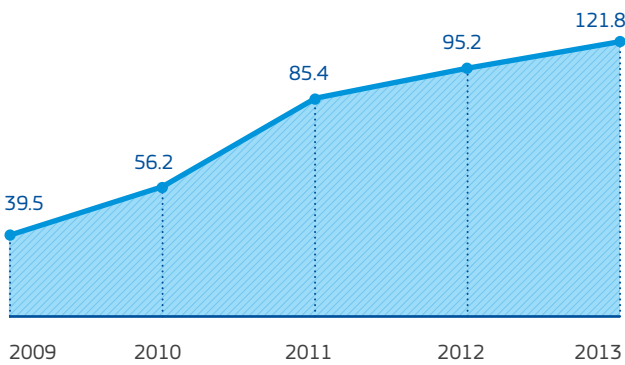
**Gross natural gas production,  
bcm**



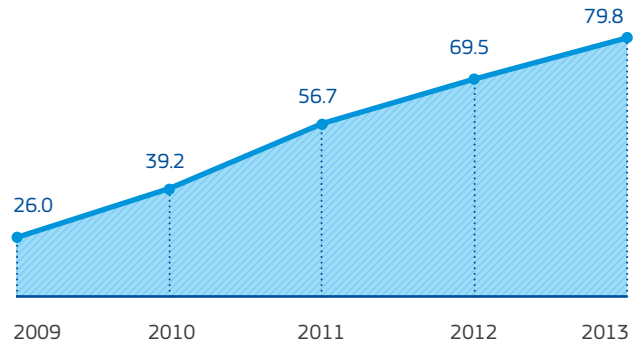
**Gross liquids production,  
mmt**



**EBITDA\*, RR bln**



**Profit attributable to shareholders  
of OAO NOVATEK\*, RR bln**



\* Adjusted for the effect on disposal of interests in subsidiaries and joint ventures.



# Delivering Sustainable Production Growth

In 2013, we increased our natural gas production by 8.5% or by 4.9 billion cubic meters, while our production of liquid hydrocarbons grew by 11.4% or by 487 thousand tons.

We achieved full replacement of our proved reserves despite the divestiture of several assets, and continued to actively work on preparing the launch of new large fields, which will enable us to continue growing our hydrocarbon production in the future.

**9%**

hydrocarbon  
production  
growth rate  
in 2013





Yurkharovskoye field, compressor booster station. March 2014

# EXPLORATION AND PRODUCTION

The Yamal-Nenets Autonomous District of Russia accounts for approximately 17% of global natural gas production and 90% of Russian natural gas production.



As of 31 December 2013, our SEC proved reserves totaled 12.5 bln boe, including 1,740 bcm of natural gas and 134 mmt of liquid hydrocarbons. In 2013, we recorded a reserve replacement rate of 132%.

Our proved reserves of liquid hydrocarbons increased by 26% as compared to year-end 2012, and its share in the overall proved hydrocarbon reserves increased from 7.2% to 9.2%. At year-end 2013, our reserve to production ratio (or R/P ratio) was 29 years.

Most of our reserves are located onshore or can be developed from onshore locations and are considered conventional reserves (capable of being exploited using conventional technologies, in contrast to unconventional gas deposits such as shale gas).

In 2013, we continued full-scale exploration works at our license areas located on the Gydan Peninsula and offshore in the Gulf of Ob, as well as at the fields and license areas in the Nadym-Pur-Taz region.

In 2013, we completed approximately 609 linear kilometers of two-dimensional (2D) seismic and 2,677 square km of three-dimensional (3D) seismic, including seismic activities at our joint ventures.

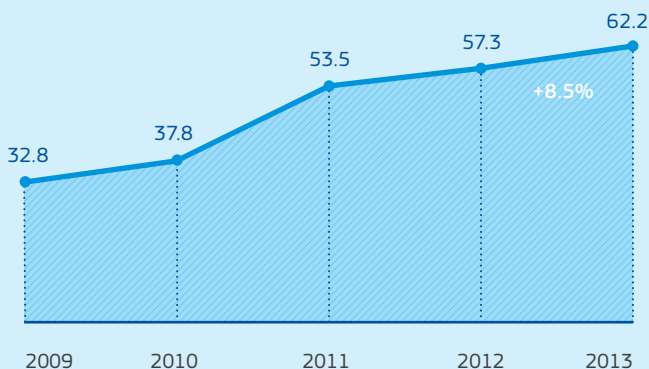
Exploration drilling in 2013 amounted to 37.3 thousand meters. The construction of eight prospecting and exploration wells were completed leading to a better understanding of the geology of previously discovered deposits and discovery of the Dorogovskoye field at the North-Russkiy license area.

We started commercial hydrocarbon production at the Eastern Dome of the North-Urengoyevskoye field as well as at Dobrovolskoye and Urengoyevskoye fields located within the Olimpiyskiy license area. We also continued to actively work on preparing the launch of several new large fields.

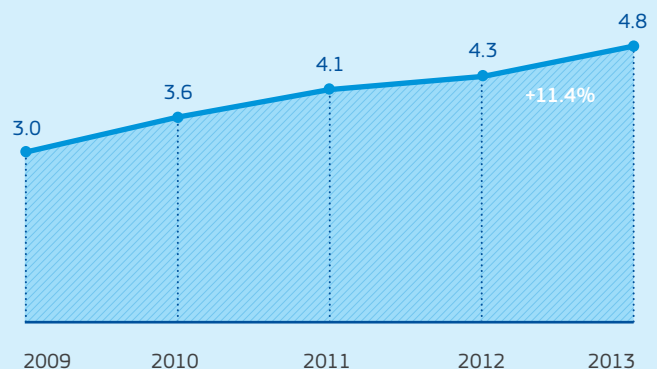
In 2013, our total gross production of natural gas increased by 8.5% to exceed 62 bcm, while our production of liquid hydrocarbons grew by 11.4% to 4.8 mmt, including crude oil production of 755 thousand tons, which increased by 46%. Natural gas and gas condensate production growth was mainly driven by the expansion of production capacities of the Yurkharovskoye field and acquisition of a stake in the Nortgas joint venture at the end of 2012, as well as by the launch of two stages of the Samburgskoye field during 2012.

The notable increase in crude oil production was due to production drilling efforts at the East-Tarkosalinskoye field.

Gross natural gas production, bcm



Gross liquids production, mmt



# 29

years – SEC proved reserve life as of 31 December 2013

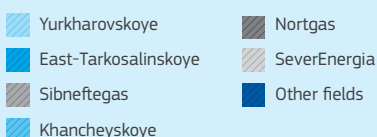
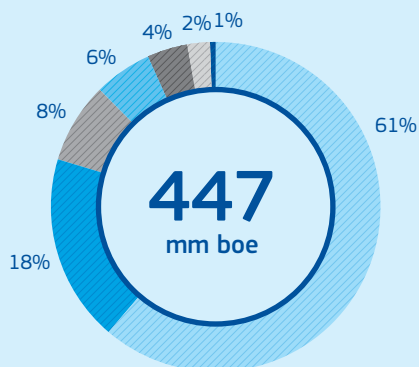
# 2.0

USD per boe – Reserve Replacement Cost in 2011–2013

# 0.6

USD per boe – Lifting Cost in 2013

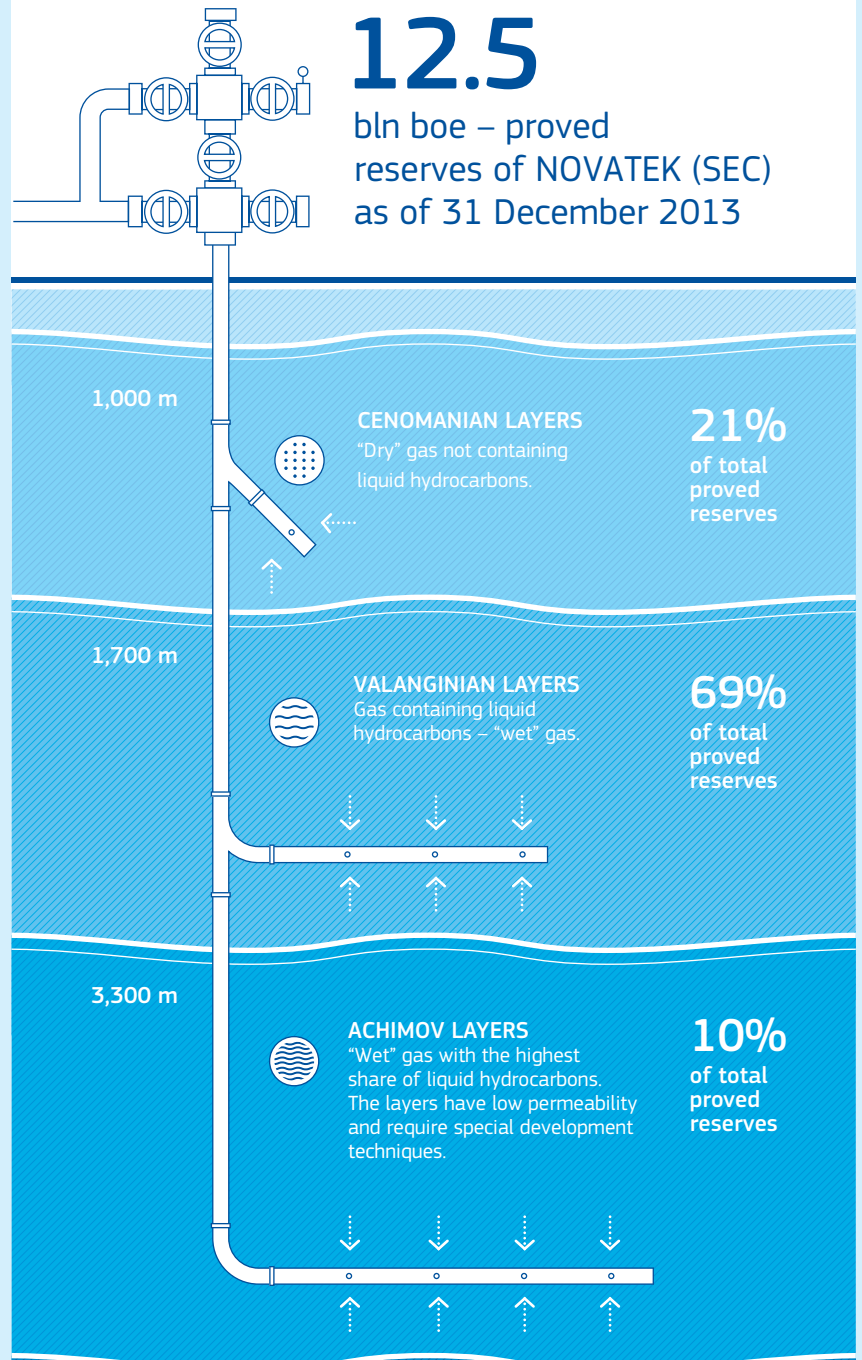
### Gross hydrocarbon production in 2013



## Proved hydrocarbon reserves

# 12.5

bln boe – proved reserves of NOVATEK (SEC) as of 31 December 2013



NOVATEK is developing Valanginian and Achimov deposits with horizontal wells enabling us to achieve high flow rates, which significantly raises the efficiency of field development. In 2013, we drilled several record horizontal wells: at the Yurkharovskoye field a 8,495-meter well was completed with a horizontal section of 1,500 meters, at the Termokarstovoye field a 5,201 meters well was drilled with a horizontal section of 2,083 meters.



# Expanding Our Processing Capacities

In 2013, we completed the expansion project at our Purovsky gas condensate stabilization plant from five (5) to 11 million tons per annum.

Our future unstable gas condensate production growth is now fully covered by the processing capacities.



**11**

mln tons per annum –  
capacity of the Purovsky  
plant after expansion



Purovsky Plant, third train. *November 2013*

# PUROVSKY PLANT

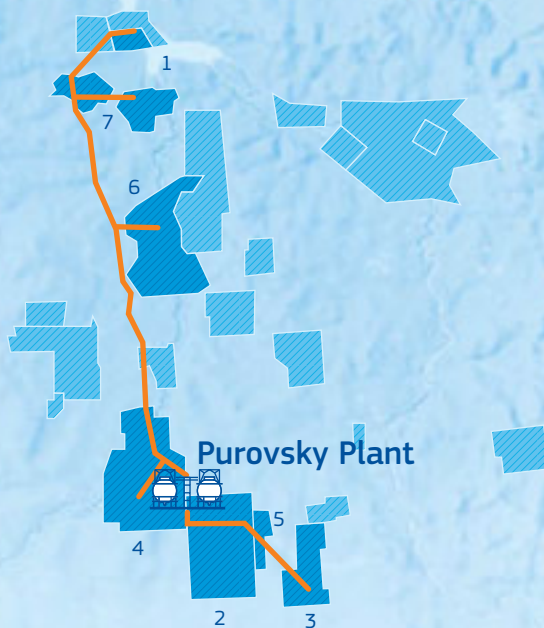
In 2013 and early 2014, four (4) new gas condensate stabilization trains with six (6) million tons per annum overall capacity were launched at the Purovsky plant resulting in completion of a project for expanding capacity of the plant from five to 11 million tons.

Expansion of the Purovsky plant resulted in achieving a balance between our gas condensate production potential and processing capacity.

The Purovsky plant processes de-ethanized (unstable) gas condensate into stable gas condensate and marketable liquefied petroleum gas (LPG).

The feedstock is supplied to the plant via our own gas condensate pipeline network, which has a total length of more than 650 kilometers. The products are shipped by rail.

The Purovsky Plant is the central element in our production value chain that provides us complete operational control over our processing needs and access to higher yielding marketing channels for our stable gas condensate.

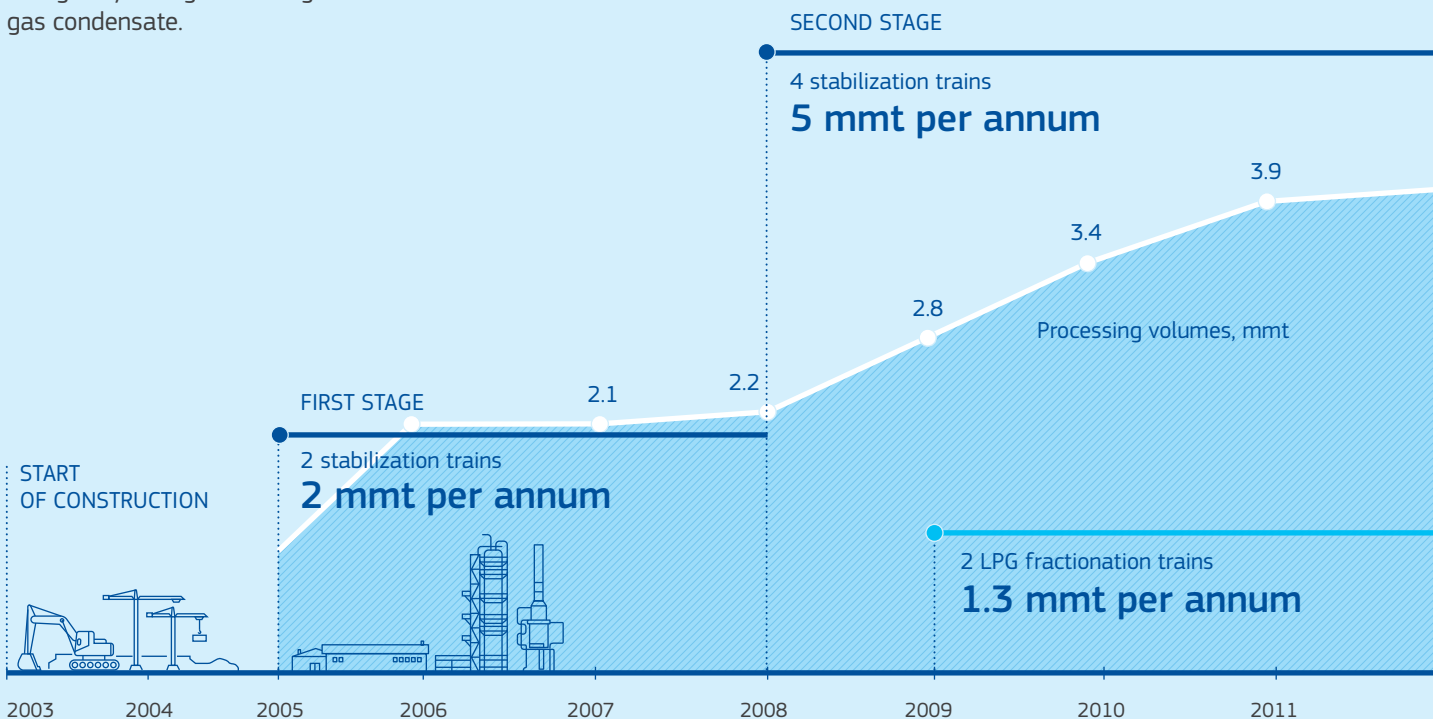


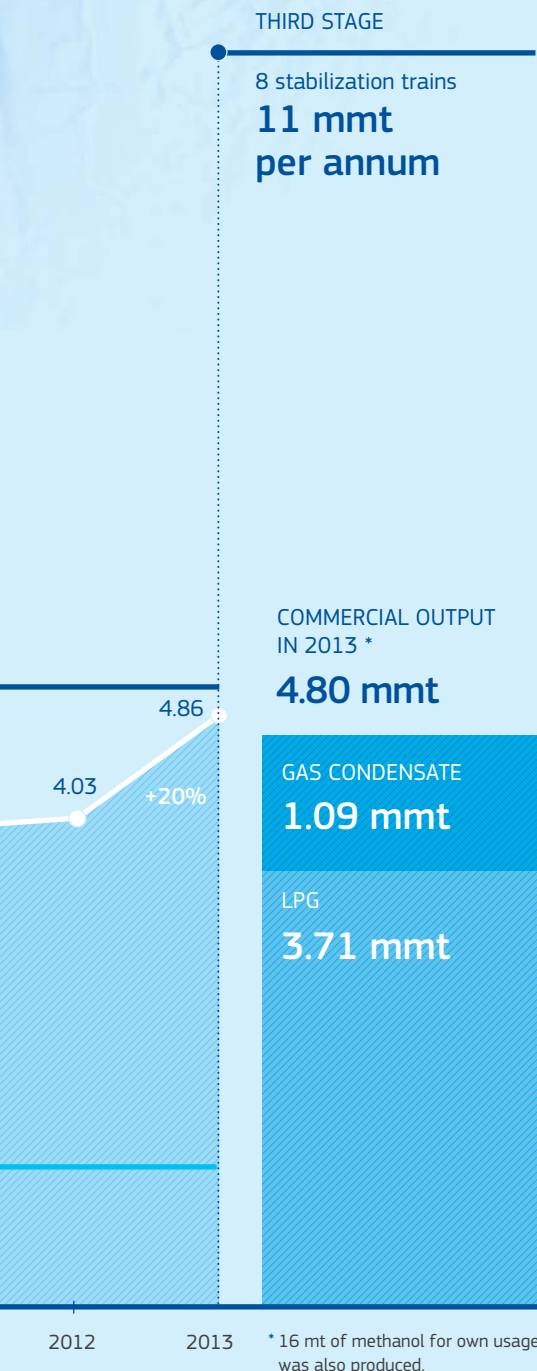
### PRODUCING FIELDS

1. Yurkharovskoye field
2. East-Tarkosalinskoye field
3. Khancheyskoye field
4. Olimpiyskiy license area
5. Yumantilskiy license area
6. Samburgskiy license area
7. North-Urengoyevskoye field

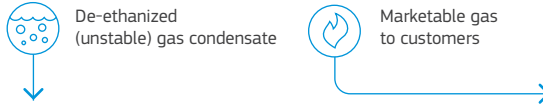
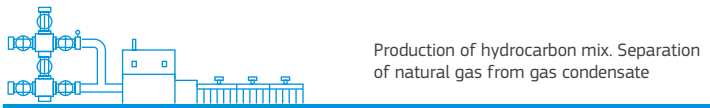
### LEGEND

- fields with commercial production
- prospective fields and license areas
- gas condensate pipelines



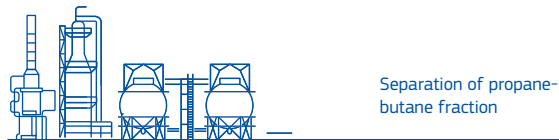


**PRODUCING FIELDS**

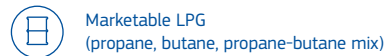


**Purovsky Plant**

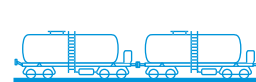
**STABILIZATION UNIT**



**LPG FRACTIONATION UNIT**



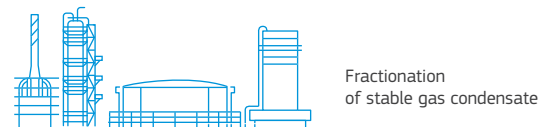
**WHOLESALE AND RETAIL**  
in Russia and abroad



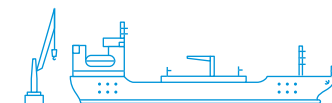
**OWN NETWORK OF CAR FILLING STATIONS**  
in Russia



**UST-LUGA**



**EXPORT TO INTERNATIONAL MARKETS**



\* In 2014 we plan to start delivering light hydrocarbons produced to Sibur's Tobolsk Petrochemical Complex for further processing.



# Enhancing the Level of Our Vertical Integration

In 2013, we executed an important element of our strategy – expanding our vertically integrated chain.

We launched the Gas Condensate Fractionation and Transshipment Complex at the all-season port of Ust-Luga on the Baltic Sea.

We are now selling higher value added products instead of stable gas condensate.

6

mmt per annum –  
project capacity  
of the gas condensate  
fractionation complex





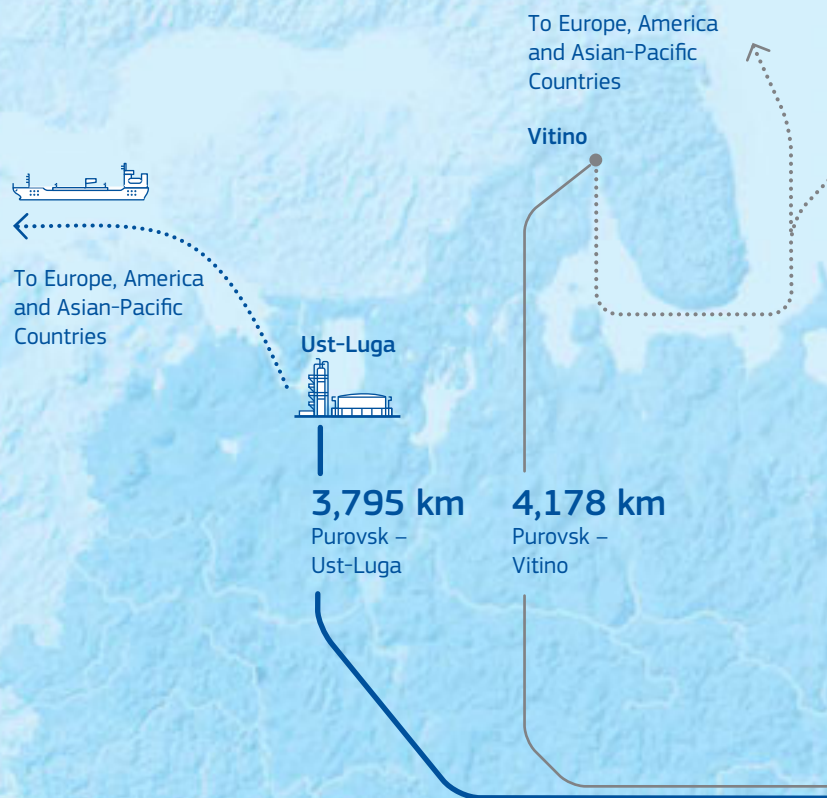
Ust-Luga Complex, stable gas condensate fractionation unit. November 2013

# UST-LUGA COMPLEX

The Ust-Luga Complex allowed us to expand our vertically integrated chain and increase sales of higher value added products, as well as to diversify the product slate and markets and to expand the customer base for our products.

# 1.9

mmt of stable gas condensate processed at the Complex in 2013



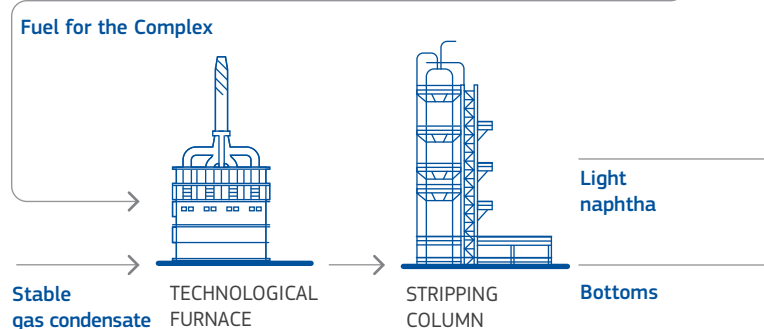
The Gas Condensate Fractionation and Transshipment Complex at Ust-Luga processes stable gas condensate into petroleum products like light and heavy naphtha, jet fuel, heating oil and gasoil, and enables us to ship the petroleum products to international markets. The overall stable gas condensate processing capacity of the complex is six (6) million tons per annum.

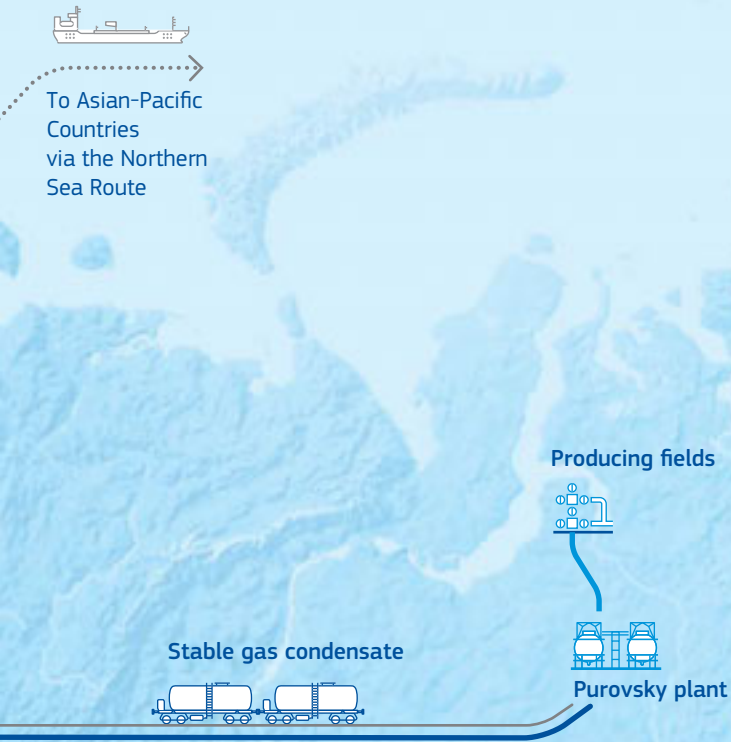
Following the launch of the Ust-Luga complex we stopped supplying gas condensate to international markets via the port of Vitino. That allowed us to improve logistics and reduce transportation costs as the railroad transportation distance is 383 km shorter and the freight rates are lower due to a more favorable geographical location of Ust-Luga compared to the port of Vitino, and the possibility of using tankers with higher deadweights. The start of petroleum product exports allowed us to increase average liquids sales prices and diversify our customer base.

## WORKFLOW OF THE COMPLEX

# 3.0

mmt per annum capacity of each of the 2 technological trains





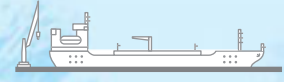
## Cargo capacity, mt

### Ust-Luga



Naphtha	90
Jet fuel	18
Gasoil	18
Heating oil	15
Stable gas condensate	90

### Vitino

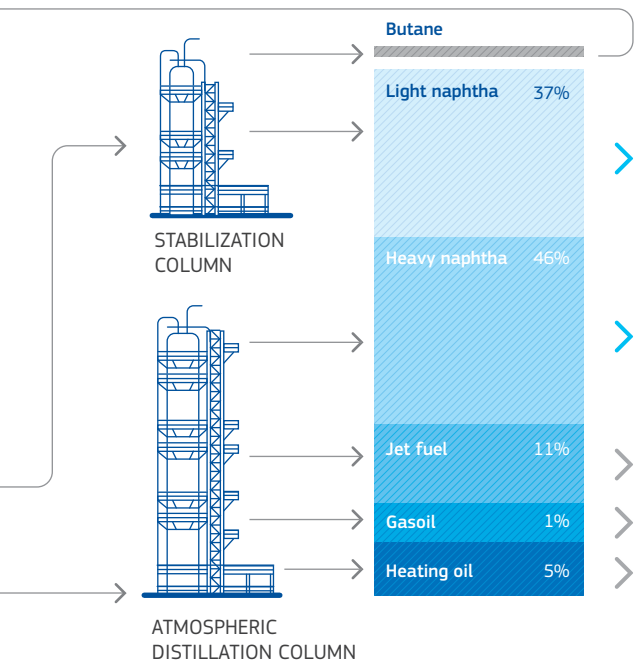


Stable gas condensate	60
-----------------------	----

### LEGEND

	Gas condensate pipeline		Transportation by sea
	Railway transportation Purovsk – Vitino		Railway transportation Purovsk – Ust-Luga

## COMMERCIAL OUTPUT IN 2013



## TARGET MARKETS



# MAIN FACILITIES OF THE UST-LUGA COMPLEX

1

## Storage tanks for diesel fraction

Three vertical steel tanks equipped with pontoons of 30 thousand cubic meters each. Height – 18 m, diameter – 46m.

2

## Storage tanks for jet fuel

Three vertical steel tanks equipped with pontoons of 30 thousand cubic meters each. Height – 18 m, diameter – 46 m. Two vertical steel tanks for intermediate storage of 5 thousand cubic meters each. Height – 15 m, diameter – 21 m.

3

## Storage tanks for stable gas condensate

Two vertical steel tanks equipped with pontoons of 30 thousand cubic meters each. Height – 18 m, diameter – 46 m.

4

## Storage tanks for heating oil

Three vertical steel tanks of 10 thousand cubic meters each. Height – 18 m, diameter – 29 m.



10

## Service-operational unit

The unit includes chemical-analytical laboratory, environmental laboratory, metrology laboratory, production and dispatch service, office and residential premises of the complex staff.

11

## Fractionation unit

Used for fractionation of stable gas condensate. Consists of two processing trains with capacity of 3 million tons per annum each. Each train is composed of five distillation columns (stripping column for gas condensate, atmospheric distillation column, two steam-stripping columns for kerosene and diesel fractions, stabilization column), three

12

## Closed fire flaring system

blocks of furnaces, heat exchangers, pumps and tanks.

Distillation columns are up to 49 m high, with diameter of up to 4.5 m and are equipped with 141 distillation plates with fixed valves (this kind of plates ensures high performance and resistance to impurity).

Used for disposal of technological gases of the Complex and loading berths. The system has a large firing area and allows to minimize harmful emissions, it meets the most stringent environmental requirements. Closed fire allows to minimize the land area used by the unit. The diameter of the flaring system is 15 m, height – 43 m.

5

### Storage tanks for light naphtha

Four vertical steel tanks equipped with pontoons of 30 thousand cubic meters each. Height – 18 m, diameter – 46 m.

6

### Storage tanks for heavy naphtha

Four vertical steel tanks equipped with pontoons of 30 thousand cubic meters each. Height – 18 m, diameter – 46 m.

7 8

### Loading berths No1 and No2

Each berth has 8 standers, 7 of which are 400 mm in diameter and 1 stander designed for loading heating oil, 300 mm in diameter.

The maximum cargo dead-weight is 142,000 tons. Maximum speed of loading – 8,000 cm per hour. Water depth of the berths is 17 m.

9

### Metering station

Includes individual measurement lines for each product. Performance of a single measuring line is from 400 to 8,000 cm per hour (light products), and from 200 to 2,400 cm per hour (dark products).



## KEY FEATURES OF THE COMPLEX

- Ultra-compact layout
- Built on alluvial area
- High level of process automation
- Rectifying plates of improved performance, resistant to impurity
- Oil-based heat transfer agent – two times less furnaces, higher stability of the technological regime
- Compact plate heat exchangers
- Closed Fire Flaring System – compliance with the highest environmental standards



# Diversifying Our Customer Base

In 2013, we substantially increased the share of end-customers in our overall gas sales volumes mix, which raises our margins and enhances sustainability of our business.

Beginning supplies of petroleum products from the Ust-Luga gas condensate fractionation and transshipment complex enabled us to optimize logistics and diversify geography of sales and customer base.

**89%**

share of end-customers  
in the overall gas sales  
volumes mix in 2013



Loading of a tanker at the Ust-Luga Complex. November 2013

# LIQUID HYDROCARBON SALES

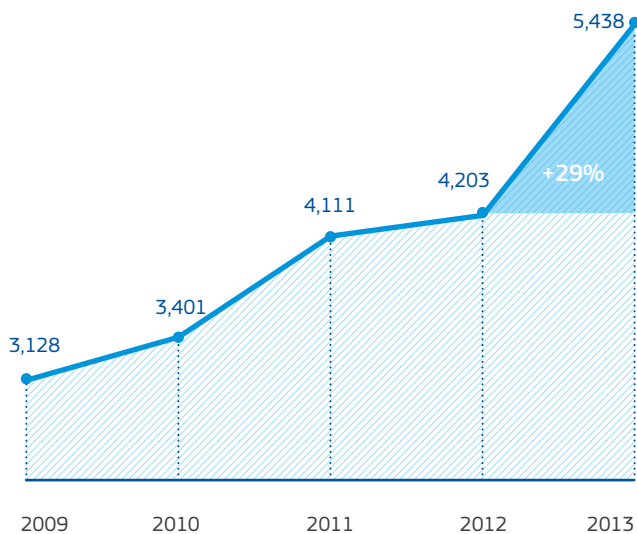
In 2013, our liquid hydrocarbon sales business changed significantly due to the launch of the stable gas condensate transshipment and fractionation complex at the port of Ust-Luga on the Baltic Sea. We started supplying stable gas condensate, which we previously exported through the port of Vitino, to the Ust-Luga complex for further processing. The start of petroleum product (light and heavy naphtha, jet fuel, heating oil and gasoil) exports allowed us to increase average liquids sales prices and diversify our customer base.



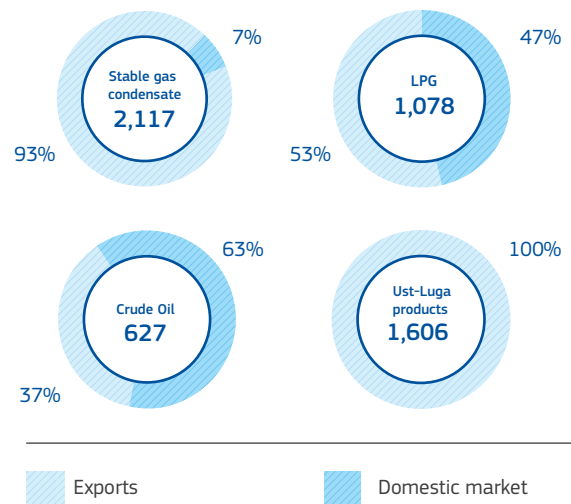
### LEGEND

- Naphtha
- Stable gas condensate
- LPG
- Crude oil
- Jet fuel, gasoil, heating oil
- Countries of delivery in 2012
- New countries of delivery in 2013

LIQUIDS SALES VOLUMES, MT



2013 LIQUIDS SALES VOLUMES BREAKDOWN, MT

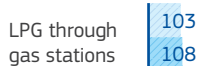
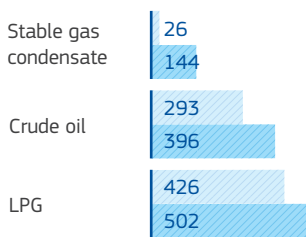




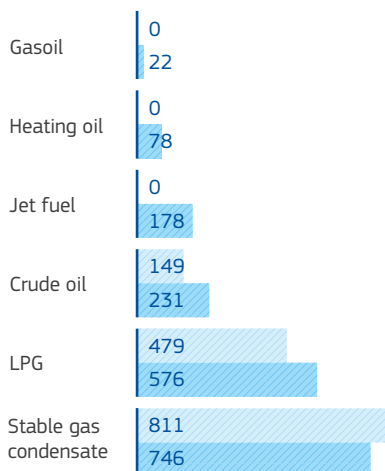


**67**  
 tanker shipments  
 of liquid hydrocarbons  
 sold in 2013

**RUSSIA**



**EUROPE**



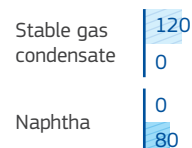
**ASIAN-PACIFIC COUNTRIES**



**NORTH AMERICA**



**SOUTH AMERICA**



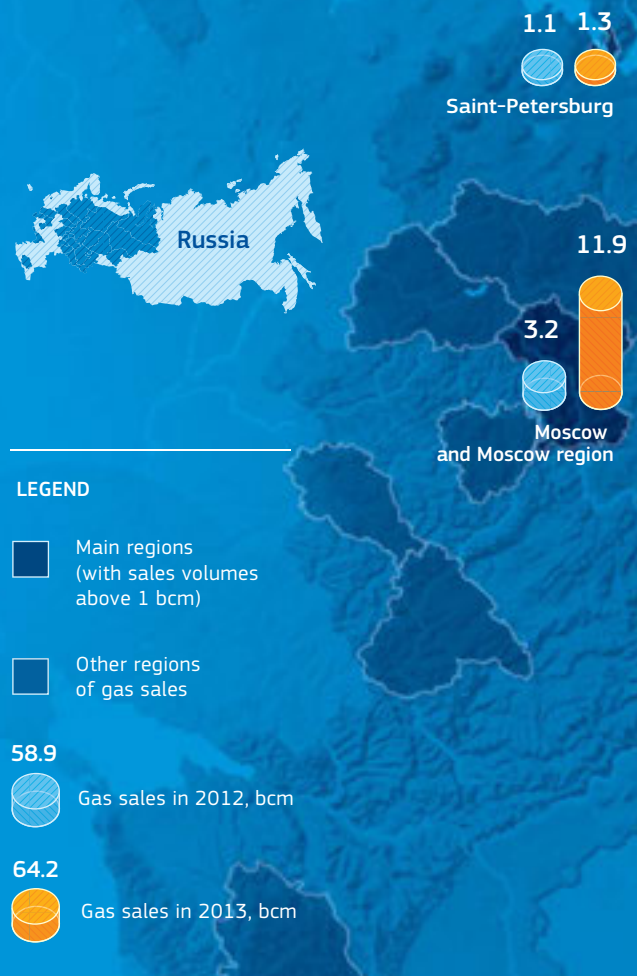
LEGEND    2012    2013

# NATURAL GAS SALES

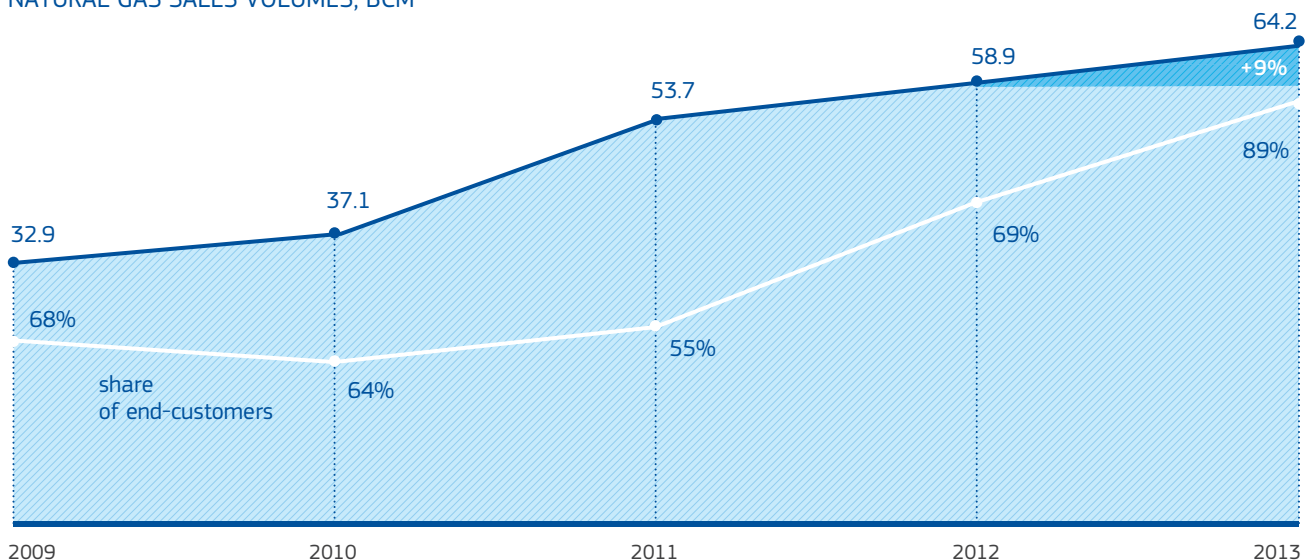
In 2013, we substantially increased the share of end-customers in our overall gas sales volumes mix. This indicator increased from 69.3% in 2012 to 88.9% in 2013.

The Company accounted for 18.4% of total natural gas deliveries to the domestic market through the Unified Gas Supply System (UGSS), representing an increase of 2.1 percentage points as compared to 2012.

The growth in natural gas sales volumes was due to an increase in natural gas supplies to the Moscow, Kostroma, Vologda, Perm and Tyumen regions. Deliveries to these regions increased by 17.2 bcm as compared to 2012 due to new long-term delivery contracts with end-customers signed in 2012 and the acquisition of an 82% stake in Gazprom Mezhregiongas Kostroma in December 2012 (renamed to OOO NOVATEK-Kostroma).



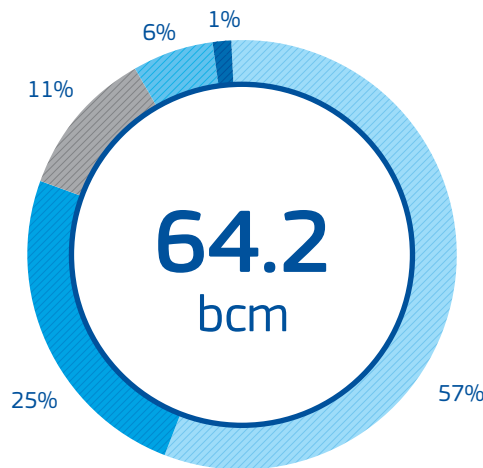
NATURAL GAS SALES VOLUMES, BCM





BREAKDOWN OF 2013 NATURAL GAS SALES VOLUMES BY CUSTOMERS

**29**  
regions  
of natural gas  
sales in 2013



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



# Implementing Large-scale Projects

In December 2013, a final investment decision (FID) was taken on the Yamal LNG project envisaging the construction of an LNG plant with annual capacity of 16.5 million tons per annum based on the feedstock resources of the South-Tambeyskoye field located in the north-east of the Yamal Peninsula.

In 2013, works were underway on drilling production wells, backfilling for the production facilities, the construction of the port facilities, the airport and the living camp.

**16.5**

mmt per annum –  
project capacity of the  
LNG plant  
on Yamal



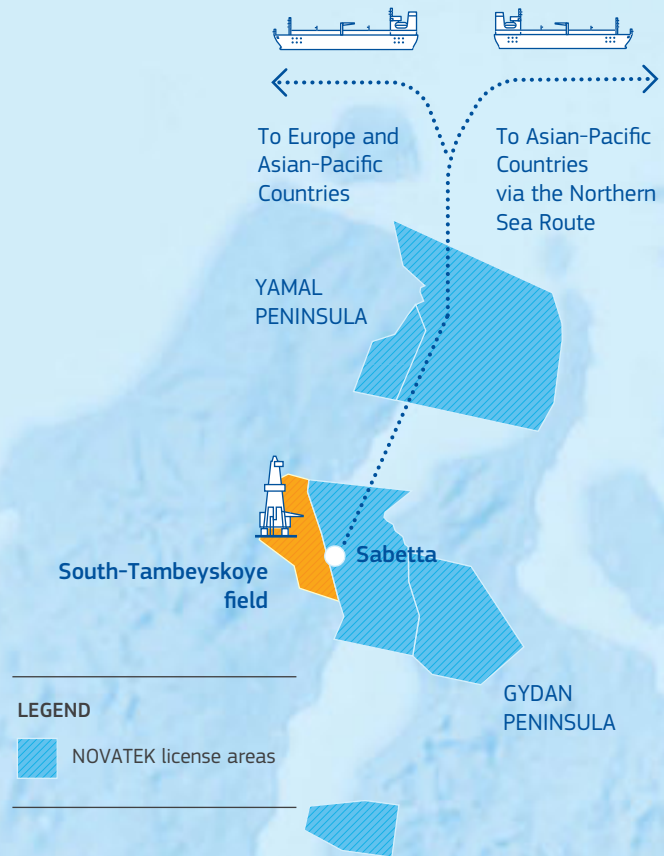
Yamal LNG, construction camp and material storage yard. *September 2013*

# THE YAMAL LNG PROJECT

The Yamal LNG project is a transformational project for NOVATEK, it will enable us to accrete future value and establish a new business segment due to the commencement of export sales of LNG to international markets.

# 927

bcm proved and probable reserves of the South-Tambeyskoye field under PRMS



## Key Competitive Advantages

### LOW-COST, LONG-LIVED FEEDSTOCK

- Large onshore conventional reserve base with high concentration of reserves
- Well known geology and proven development technologies
- Very low F&D and lifting costs

### CONVENIENT LOCATION

- Reserves are located at the coast line and highly concentrated
- High efficiency factor of gas liquefaction process due to sub-zero temperatures
- Access to both European and Asian markets

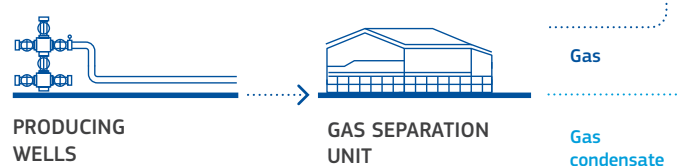
### STRONG RUSSIAN STATE SUPPORT

- Tax concessions
- Financing of new strategic arctic port infrastructure

## LNG plant workflow

# 5.5

mmt per annum – capacity of each of the 3 technological trains



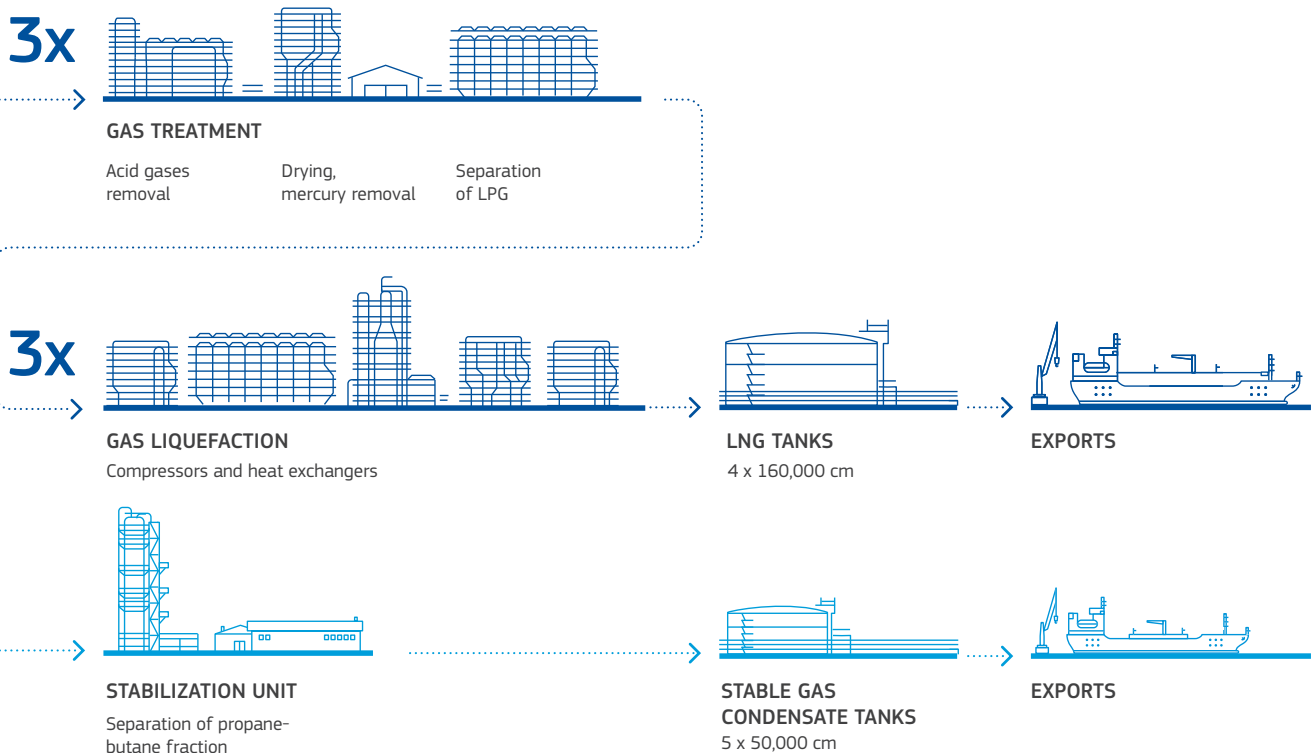
The Yamal LNG project envisages the construction of an LNG plant with annual capacity of 16.5 million tons per annum based on the feedstock resources of the South-Tambeyskoye field located in the north-east of the Yamal Peninsula.

Yamal LNG is the operator of the project, the license holder and owner of all the assets. At year-end 2013, the shareholders are NOVATEK (60%), Total (20%) and CNPC (20%).

The South-Tambeyskoye field has 42 gas and gas condensate horizons. The depth of the horizons varies from between 900 to 2,850 meters. According to the PRMS reserves standards, the proved and probable reserves of the South-Tambeyskoye field were appraised at 927 billion cubic meters of natural gas and 30 mmt of liquid hydrocarbons as at 31 December 2013. The field development plan provides for the drilling of slightly more than 200 wells at 19 well drilling pads, and the production potential of the field exceeds 27 bcm of natural gas per annum.

In 2013, production drilling began at the South-Tambeyskoye field with eight (8) wells completed by the year-end, backfilling for the LNG plant began, dredging of the loading area was completed in the port of Sabetta and dredging of the harbor channel was underway, operation of the materials offloading berths began enabling year-round supplies of construction cargoes, first stage of the construction housing was completed as well as all the basic infrastructure required to start main construction works. Engineering was finalized and positive state environmental and expert approvals received, including construction permit. In addition, the main tenders were held and the EPC contractors as well as key sub-contractors were selected, main contracts for the equipment and construction works were concluded, and more than 75% of LNG output was contracted.

Special attention to the health, safety and environmental issues, including preservation of the unique nature of the North, is an integral part of the Yamal LNG project. An integrated HSE system according to the international ISO 14001:201304 and OHSAS 18000 standards was being set up at the Yamal LNG joint venture in 2013.





# Preserving the Unique Nature of the North

We pay great attention to environmental protection issues in our activity.

NOVATEK has implemented an Environmental, Health and Safety Policy, while at the same time an Integrated Management System for Environmental Protection, Occupational Health and Safety (IMS) in compliance with requirements of international standards has been implemented at all of our main subsidiaries.


## 6

entities of NOVATEK group are certified to ISO 14001:2004 standards





Yamal peninsula landscape. *September 2013*



# Implementing Wide-range Social Programs

We provide assistance to indigenous peoples of the North on an ongoing basis.

We are strengthening our partnership relations with Russia's leading cultural and educational institutions, creative groups and charity funds.

We are implementing our own educational programs and supporting the developments of sports.

# 1.18

RR billion  
was invested in 2013  
on social programs

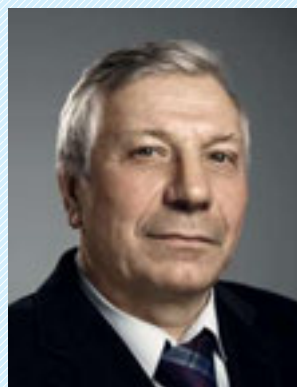


Camp of the indigenous people on the Yamal Peninsula. *September 2013*

# Adhering to the Highest Corporate Governance Standards

The Company has established an effective and transparent system of corporate governance complying with both Russian and international standards. The Company adheres to the internal Corporate Governance Code and the internal Code of Business Ethics and has a well-established and efficient internal control and audit system.

## Board of Directors as at 31.12.2013



**MR. ALEXANDER Y. NATALENKO**

*Born in 1946*

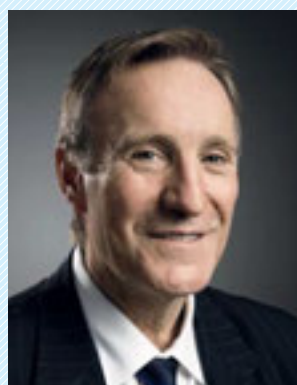
Chairman of NOVATEK's Board of Directors, Chairman of its Strategy and Investments Committee



**MR. ANDREI I. AKIMOV**

*Born in 1953*

Member of NOVATEK's Board of Directors, Chairman of its Corporate Governance and Remuneration Committee, Chairman of the Management Board of Gazprombank (OAO)



**MR. MARK A. GYETVAY**

*Born in 1957*

Member of NOVATEK's Board of Directors, Member of its Strategy and Investments Committee, Member and Deputy Chairman of NOVATEK's Management Board, Chief Financial Officer

# 6

independent  
directors  
out of nine\*

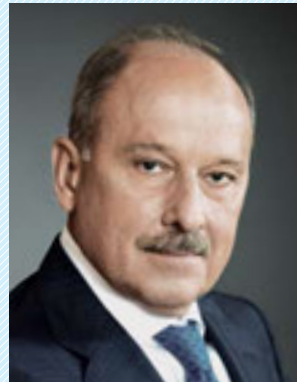
\* As at the election date in accordance with the Corporate Governance Code recommended by the Russian FFCM.



**DR. BURCKHARD  
BERGMANN**

*Born in 1943*

Member of NOVATEK's Board of Directors, Member of its Corporate Governance and Remuneration Committee, its Audit Committee and its Strategy and Investments Committee, Board Member of the Presidium of the German-Russian Chamber of Commerce, Member of the Advisory Board of the Union of German Science Funds



**MR. VLADIMIR A.  
DMITRIEV**

*Born in 1953*

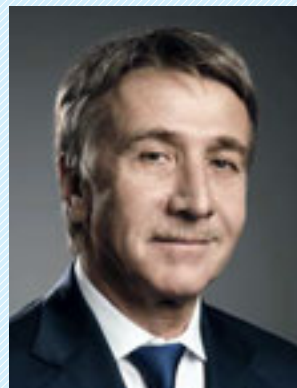
Member of NOVATEK's Board of Directors, Chairman of its Audit Committee



**MR. YVES LOUIS  
CHARLE JUSTIN  
DARRICARRERE**

*Born in 1951*

Member of NOVATEK's Board of Directors, Member of its Strategy and Investments Committee, President of Total Upstream



**MR. LEONID V.  
MIKHELSON**

*Born in 1955*

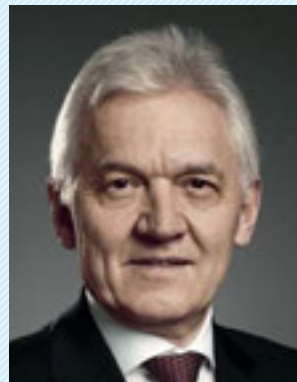
Member of NOVATEK's Board of Directors, Chairman of NOVATEK's Management Board



**MR. KIRILL G.  
SELEZNEV**

*Born in 1974*

Member of NOVATEK's Board of Directors, Member of its Corporate Governance and Remuneration Committee, Member of the Management Board, Director of Gas and Liquid Hydrocarbons Marketing and Processing Department of OAO Gazprom, General Director of OOO Gazprom Mezhrefiongaz



**MR. GENNADY N.  
TIMCHENKO**

*Born in 1952*

Member of NOVATEK's Board of Directors, Member of its Strategy and Investments Committee and Audit Committee

# REVIEW OF OPERATING RESULTS

## Licenses

NOVATEK's fields and license areas are located in the YNAO of the Russian Federation, which is one of the world's largest natural gas producing regions and accounts for approximately 17% of global natural gas production and 90% of Russian natural gas production. The concentration of the Company's producing and prospective fields, license areas and processing facilities in this region combined with the Region's vast oil and gas infrastructure have allowed NOVATEK to minimize the risks associated with developing its assets and expanding its resource base. The Company has many years of experience working in the YNAO, which has enabled us to effectively capitalize on growth opportunities to increase shareholder value.

Exploration and production of hydrocarbons in Russia is subject to licensing. As of 31 December 2013, our subsidiaries and joint ventures held 32 licenses for fields and license areas, of which 28 are classified as either production or combined exploration and production licenses and four are classified as exploration licenses. The duration of licenses for our core fields exceeds 20 years: the license for the Yurkharovskoye field is valid until 2034, the East-Tarkosalinskoye field expires in 2043, and the South-Tambeyskoye field in 2045. NOVATEK is strictly observing all of its license obligations pursuant to current Russian legislation, and conducts continuous monitoring of license tenders in order to expand its resource base in strategically important regions.

## Acquisitions

In March 2013, the Company's wholly owned subsidiary, OOO NOVATEK-Tarkosaleneftegas, won an auction for the exploration and production license for the East-Tazovskoye field, with a payment for the license set at RR 3.19 billion. The East-Tazovskoye field is located in close proximity to the North-Russkoye field, a license also held by OOO NOVATEK-Tarkosaleneftegas, and as of 31 December 2013, proved reserves of the East-Tazovskoye field under the SEC reserves methodology were estimated at 17.1 billion cubic meters of natural gas and 2.5 million tons of liquid hydrocarbons.

In June 2013, we increased our equity stake in Nortgas joint venture from 49% to 50% as a result of an additional issue of shares.

Two deals were concluded at the end of 2013 resulting in the increase of NOVATEK's effective share in the SeverEnergiya joint venture from 25.5% to 59.8%:

- NOVATEK signed an agreement with Rosneft on an asset swap, whereby the Company's 51% stake in Sibneftegas was swapped for Rosneft's 40% stake in Artic Russia B.V., which owned a 49% equity stake in SeverEnergiya together with Italian energy company ENI. Following the completion of this transaction, NOVATEK's effective share in SeverEnergiya increased by 19.6% to 45.1%.
- In addition, Yamal Development (a 50/50 joint venture between NOVATEK and OAO Gazprom Neft) signed an agreement with ENI on acquiring their respective 60% equity stake in Artic Russia B.V. for approximately USD 2.94 billion. Following the completion of this transaction in early 2014, NOVATEK's effective share in SeverEnergiya increased by another 14.7% to reach 59.8%, with the remaining 40.2% equity stake in the SeverEnergiya joint venture owned by Gazprom Neft.

SeverEnergiya via its fully consolidated subsidiary Arcticgas holds exploration and production licenses for the Samburgskiy, Yevo-Yakhinskiy, Yaro-Yakhinskiy and North-Chaselskiy license areas. As at 31 December 2013, the proved reserves of SeverEnergiya under the SEC proven reserves standards were estimated at 486 bcm of natural gas and 91 mln tons of liquid hydrocarbons.

SeverEnergiya has significant potential for increasing natural gas, gas condensate and crude oil production. The increase our effective share in SeverEnergiya allows the Company to concentrate on developing the fields rich in liquid hydrocarbons, which complements NOVATEK's long-term strategy, taking into account our existing infrastructure for transportation, stabilization and fractionation of gas condensate.

## Hydrocarbon Reserves

Most of the Company's reserves are located onshore or can be developed from onshore locations and are attributed to the conventional categories (capable of being exploited using conventional technologies, in contrast to unconventional gas deposits such as shale gas).

The Company's reserves are appraised on an annual basis by independent petroleum engineers, "DeGolyer and MacNaughton" ("D&M") under both the SEC and PRMS reserves reporting standards.

As of 31 December 2013, NOVATEK's SEC proved reserves totalled 12,537 mmbbl, based on our equity

ownership interest in the respective fields, representing a 1.2% increase as compared to proved reserves volumes as of the end of 2012. Proved gas reserves amounted to 1,740 bcm and reserves of liquid hydrocarbons were estimated at 134 mln tonnes. In the reporting year, we added 582 mboe of proved reserves, inclusive of 2013 production and recorded a reserve replacement rate of 132%. At year-end 2013, the Company's reserve to production ratio (or R/P ratio) was 29 years.

Our proved reserves of liquid hydrocarbons increased by 26% as compared to year-end 2012, and its share in the overall proved hydrocarbon reserves increased from 7.2% to 9.2%. The ongoing field development at SeverEnergiya contributed a substantial proportion of this increase, with the successful exploration works at these fields contributing approximately 10 mln tons of gas condensate to our overall proved reserves, based on our increased ownership in this joint venture.

The dynamics and structure of our reserves were, among other factors, influenced by several transactions: the sale of a 20% stake in the Yamal LNG joint venture, the purchase of a mineral license for the East-Tazovskoye field, the increase of NOVATEK's

share in SeverEnergiya from 25.5% to 59.8%, including the swap of the Company's 51% equity stake in Sibneftegas for a 40% stake in Artic Russia B.V., as well as the increase of our share in Nortgas from 49% to 50%. The above transactions resulted in the increase of proved liquids reserves by 23 mln tons and a corresponding decrease of proved gas reserves by 39 bcm. Organic reserve replacement rate (excluding the transactions) amounted to 144%, and was due to successful exploration works and production drilling at our fields.

Under the PRMS reserves reporting standards, the Company's total proved and probable reserves (based on our equity ownership interest in the respective fields) totalled 23,085 mboe, which includes 3,125 bcm of natural gas and 314 mln tons of liquid hydrocarbons, and represents an increase of 730 mboe compared with year-end 2012.

As of 31 December 2013, NOVATEK's total recoverable reserves under the Russian reserve classification ABC1 + C2 totalled 4,839 bcm of natural gas and 767 mmt of liquid hydrocarbons, based on our equity ownership interest in the respective fields. Natural gas reserves increased by 434 bcm, while reserves of liquid

#### PROVED RESERVES UNDER THE SEC STANDARDS AS OF 31 DECEMBER 2013 (BASED ON NOVATEK'S EQUITY OWNERSHIP INTEREST IN THE RESPECTIVE FIELDS) AND DURATION OF LICENSES

Field / license area	Ownership	Duration of license	Gas reserves, bcm	Liquids reserves, mln tons
Yurkharovskoye	100%	2034	402.1	21.0
South-Tambeyskoye	60%	2045	295.4	8.3
Utrenneye	100%	2031	235.2	8.6
East-Tarkosalinskoye	100%	2043	181.7	15.3
Urengoyenskoye (SeverEnergiya JV)	59.8%	2018	137.8	33.1
Geofizicheskoye	100%	2031	124.9	0.4
North-Urengoyenskoye	50%	2018	97.7	9.4
Yaro-Yakhinskoye	59.8%	2018	67.3	11.2
Samburgskoye	59.8%	2018	53.6	8.6
North-Chaselskoye	59.8%	the lifetime of the field	31.8	1.4
Khancheyenskoye	100%	2044	29.4	3.1
North-Russkoe	100%	2031	22.5	1.9
Olimpiyskiy license area	100%	2026	22.1	2.9
East-Tazovskoye	100%	2033	17.1	2.5
Termokarstovoye	51%	2021	13.9	4.0
Other	-	-	7.9	2.6
<b>Total</b>	-	-	<b>1,740</b>	<b>134</b>

hydrocarbons grew by 245 mmt as compared to the year-end 2012.

The high quality of the reserve base enables NOVATEK to maintain its position as one of the lowest cost producers in the global oil and gas industry. Our three-year (2011–2013) and five-year (2009–2013) reserve replacement costs amounted to RR 61.24 (USD 1.95) per boe and RR 47.92 (USD 1.54) per boe, respectively.

## Geological Exploration

NOVATEK aims to expand its resource base through geological exploration at fields and license areas not only in close proximity to existing transportation and production infrastructure, but also in new potentially prospective hydrocarbon areas. The Company ensures the efficiency of geological exploration work by deploying state-of-the-art technologies and relying on the experience and expertise of the specialists in its geology department, and the Company's Scientific and Technical Center located in Tyumen.

The Company uses a systematic and comprehensive approach to exploration and development of its fields and license areas, beginning with the collection and interpretation of seismic data to the creation of dynamic field models for the placement of exploration and production wells. We employ modern geological and hydrodynamic modelling as well as new well drilling and completion techniques to maximize the ultimate recovery of hydrocarbons in a cost effective manner.

In 2013, we continued full-scale exploration works at our license areas located on the Gydan Peninsula and offshore in the Gulf of Ob – assessment of the

resource potential of the license areas was completed and preparatory works for exploration drilling on the Gydan Peninsula began. Exploration work activities also continued at the fields and license areas in the Nadym-Pur-Taz region, including the license areas of the SeverEnergia joint venture. The exploration activities at these fields targeted gas condensate bearing Lower Cretaceous (including Achimov) deposits at subsurface depths of between 2,000 to 4,400 meters.

In 2013, NOVATEK completed approximately 609 linear kilometers of two-dimensional (2D) seismic and 2,677 square km of three-dimensional (3D) seismic, including seismic activities run at our joint ventures. Seismic studies were mainly conducted in the new regions (at the Utrenneye field on the Gydan Peninsula), at the fields prepared for launch (Termokarstoviy, Samburgskiy and Yevo-Yakhinskiy license areas), as well as at the East-Tarkosalinskoye field in the framework of the oil program.

Exploration drilling in 2013 amounted to 37.3 thousand meters. The construction of eight prospecting and exploration wells was completed leading to a better understanding of the geology of previously discovered deposits and discovery of the Dorogovskoye field at the North-Russkiy license area. As of 31 December 2013, recoverable reserves of the newly discovered Dorogovskoye field under the Russian ABC1 + C2 reserve classification was estimated at 35 bcm of natural gas and 2 mln tons of gas condensate.

As a result of the exploration works main reserve growth was due to detailing of the geological model of the Utrenneye field and supplementary exploration of the Urengovskoye (within the Samburgskiy license area) and Yurkharovskoye fields. Positive results were also obtained during supplementary exploration of oil deposits at the East-Tarkoslinskoye field.

## EXPLORATION WORKS

	Units	2012	2013	Change
<b>2D SEISMIC</b>	linear km	7,001	609	(91)%
Subsidiaries		7,001	609	(91)%
Joint ventures		0	0	-
<b>3D SEISMIC</b>	square km	2,799	2,677	(4)%
Subsidiaries		2,258	1,821	(19)%
Joint ventures		541	856	58%
<b>EXPLORATION DRILLING</b>	th. m	36.2	37.3	3%
Subsidiaries		26.8	10.6	(60)%
Joint ventures		9.4	26.7	184%



## Field Development

During 2013, NOVATEK's subsidiaries invested RR 39.9 billion in the development and construction at our producing and prospective fields as part of our capital investment program in order to achieve sustainable hydrocarbon production growth.

Production drilling in 2013, including joint ventures, amounted to 718.5 thousand meters, which is 2.9 times more than the meters drilled in 2012. The notable growth was mainly due to preparation for launch of large gas condensate fields. A total of 87 production wells, including 59 natural gas and gas condensate and 28 oil wells, were completed and commissioned into operation.

### NEW FACILITIES PUT INTO OPERATION AT PRODUCING FIELDS

In August 2013, the second stage of compressor booster station, which included four compressor units with a total capacity of 100 MW were launched, thus increasing the overall compressor capacity at the station to 175 MW. The booster compression station is required to keep the plateau production level at the Yurkharovskoye field. A new record was set for the wellbore length at the field following the completion of an 8,495-meter well with a horizontal section of 1,500 meters.

A total of six (6) new gas condensate wells were launched at the field with average initial flow rate of 1.8 mmcm of natural gas per day. Within the pilot oil program the second oil well was drilled at the field and achieved the initial flow rate of 74 tons per day.

In October 2013, commercial production was launched at the Eastern dome of the North-Urengoyevskoye field developed by the Nortgas joint venture. Twenty three (23) production wells have been completed at the Eastern dome by year-end, and its infrastructure included a gas treatment facility with annual capacity of six (6) billion cubic meters (bcm), a gas gathering networks, and gas and gas condensate pipelines connected to the Western dome of the field. The Eastern dome allows the joint venture to achieve peak production capacity.

Active production drilling for crude oil at the East-Tarkosalinskoye field resulted in the launch of 21 production wells with average initial flow rate of 85 tons per day.

### NEW FIELDS COMMISSIONED IN 2013

In October 2013, NOVATEK launched a part of the Urengoyevskoye field, located within the Company's Olimpiyskiy license area, with the field's production

capacity estimated at one bcm of natural gas per annum. Four (4) production wells were operating at this field as of the end of 2013.

The Dobrovolskoye field, which is also located within the Olimpiyskiy license area, was commissioned at the end of 2013. The field's production capacity is estimated at 0.7 bcm of natural gas and 0.2 mmt of gas condensate per annum. Five (5) production wells were in operation at the field as of the end of 2013.

### NEW FIELDS PREPARED FOR COMMISSIONING

Preparation works for the launch of a number of large fields continued in the reporting year. In particular, active construction and drilling operations were conducted at the fields of the SeverEnergiya joint venture.

Gas and gas condensate pipelines were completed to transport production from the Urengoyevskoye field. The construction of power lines was also completed at the field, the works on the well pads, gas gathering system and gas treatment facility were underway. Thirty one (31) production wells have been drilled by the year-end.

Production drilling at the Urengoyevskoye field targets the Achimov deposits, which are relatively deep (approximately 3,700 meters) and are characterized by low permeability and high pressure. Drilling vertical wells with hydro fractures is the common way of developing such deposits. As part of NOVATEK's innovative approach, pilot horizontal drilling was done at the Urengoyevskoye field, resulting in successful completion of five wells with horizontal sections of 600–1,200 meters. The horizontal wells delivered two times higher flow rates compared with the fractured vertical wells. A decision was made to review the field development plan and replace vertical wells by horizontals, which will reduce the total number of wells needed to develop the field thus optimizing capital expenditures, accelerating production ramp up and increasing the field's gas condensate recovery rate.

At the Yaro-Yakhinskoye field construction efforts were focused on building gas and gas condensate pipelines, well pads, gas treatment facility, gas gathering network, power lines and living quarters. A power plant was launched at the field and construction of the first stage of an oil treatment facility was completed. Thirty (30) production wells have been drilled by the year-end.

Backfilling for the main production facilities was completed at the Termokarstovoye field, developed by the Terneftegas joint venture between NOVATEK (51%) and Total (49%). Piling and construction of a living camp and gas and gas condensate pipelines were also

underway. A record was set for the wellbore length at the field following the completion of a 5,201-meter gas condensate well with a horizontal section of 2,083 meters. At total of nine (9) production wells have been completed at the field by the year-end.

At the Yarudeyskoye field developed by the Yargeo joint venture (NOVATEK's share – 51%), the backfilling of well pads, roads and oil treatment facility started, as well as construction of power lines and gas and crude oil pipelines.

## Hydrocarbon Production

In 2013, NOVATEK carried out commercial hydrocarbon production at 10 fields. Gross production from all fields (including the Company's share in production of joint ventures) amounted to 447 mmbœ (439 mmbœ of sales production), representing an increase of 8.8% over the prior year.

In 2013, total gross production of natural gas including the Company's share in production of joint ventures amounted to 62.22 bcm (sales production – 61.22 bcm), representing 91% of our total hydrocarbon output. The share of gas produced from the Valanginian layers (or "wet gas") in proportion to total gas production was 76%. Gross natural gas production increased by 8.5% or by 4.9 bcm, as compared to 2012 volumes.

Organic growth at the Yurkharovskoye field was the main factor for the overall gas production increase, and was due to the launch of the fourth stage of Phase Two development of the field in October 2012, the launch of two stages of a booster compressor station, and drilling of additional production wells. The second major gas production growth factor was the acquisition of an equity stake in ZAO Nortgas, which is developing the North-Urengoyevskoye field, in November 2012, and the launch of the Eastern dome of the field in October 2013. The launch of the Samburgskoye field in April 2012, expansion of its

### GROSS HYDROCARBON PRODUCTION (INCLUDING SHARE IN PRODUCTION BY JOINT VENTURES)

	Units	2012	2013	Change
Gas	bcm	57.32	62.22	8.5%
	mmbœ	374.9	406.9	
Liquid hydrocarbons	mmt	4.287	4.774	11.4%
	mmbœ	35.9	40.0	
<b>Total production</b>	<b>mmbœ</b>	<b>410.8</b>	<b>446.9</b>	<b>8.8%</b>

### GROSS HYDROCARBON PRODUCTION IN 2013 (INCLUDING SHARE IN PRODUCTION BY JOINT VENTURES)

	Gas, bcm			Liquids, mmt		
	2012	2013	Change	2012	2013	Change
Yurkharovskoye (100%)	34.36	38.26	11.4%	2.68	2.72	1.5%
East-Tarkosalinskoye (100%)	13.13	11.24	(14.4)%	0.99	1.10	11.1%
Sibneftegas fields (51% until 26 December 2013)	5.35	5.41	1.1%	-	-	-
Khancheyevskoye (100%)	3.69	3.29	(10.8)%	0.52	0.48	(7.7)%
North-Urengoyevskoye (49% from 28 November 2012, 50% from 2 July 2013)	0.20	2.37	x11.9	0.02	0.25	x12.5
Samburgskoye (25,5% until 26 December 2013, 45,1% from 27 December 2013)	0.45	1.25	177.8%	0.06	0.17	183.3%
Sterkhovoye (100%)	0.07	0.11	57.1%	0.02	0.03	50.0%
Urengoyevskoye and Dobrovolskoye within the Olimpiyskiy license area (100%)	-	0.13	-	-	0.01	-
Other	0.07	0.14	100.0%	0.01	0.02	100.0%
<b>Total</b>	<b>57.32</b>	<b>62.22</b>	<b>8.5%</b>	<b>4.29</b>	<b>4.77</b>	<b>11.4%</b>

capacity in December 2012 and drilling of new production wells at this field also contributed to overall production growth.

Gross production of liquid hydrocarbons including the Company's share in production of joint ventures totalled 4.77 mmt (sales production was 4.75 mmt), of which 84.2% was unstable de-ethanized gas condensate and 15.8% consisted of crude oil. Gross production of liquids increased by 11.4% or 487 thousand tons as compared with 2012, whereas crude oil production increased by 45.8% and amounted to 755 thousand tons. Gas condensate production growth was driven by the North-Urengoykoye and Samburgskoye fields, while notable increase in crude oil production was due to production drilling efforts at the East-Tarkosalinskoye field.

We continued to achieve some of the lowest lifting costs in the industry (expenses directly related to the extraction and processing of natural gas, gas condensate and crude oil from the reservoir). The Company's lifting costs were RR 18.8 (USD 0.59) per boe in 2013.

## Yamal LNG Project

The Yamal LNG project envisages the construction of an LNG plant with annual capacity of 16.5 million tons per annum based on the feedstock resources of the South-Tambeyskoye field located in the north-east of the Yamal Peninsula.

Yamal LNG is the operator of the project, the license holder and owner of all the assets. At year-end, the shareholders are NOVATEK (60%), Total (20%) and CNPC (20%). The final investment decision for the project was made in December 2013 with the planned commercial launch of the first LNG train in 2017.

The South-Tambeyskoye field was discovered in 1974 and comprises five (5) shallow gas horizons and 37 deeper gas condensate horizons. The depth of the horizons varies from between 900 to 2,850 meters. The license for exploration and production at the South-Tambeyskoye field is valid until 2045.

As of 31 December 2013, the field was estimated to contain 492 bcm of proved natural gas reserves and 14 mmt of proved liquid hydrocarbon reserves, under the SEC reserves methodology. Based on total proved hydrocarbon reserves, the South-Tambeyskoye field is the largest field in NOVATEK reserves portfolio. According to the PRMS reserves standards, the proved and probable reserves of the South-Tambeyskoye field were appraised at 927 billion cubic meters of natural gas and 30 mmt of liquid hydrocarbons.

The South-Tambeyskoye field has already been thoroughly studied with a complex of exploration activities, including running 3D seismic and exploration drilling, creation of the fields' geological model and reserves appraisal. A new exploration well was being drilled in 2013, which is expected to clarify the additional potential of the field.

The field development plan provides for the drilling of slightly more than 200 wells at 19 well drilling pads, and the production potential of the field exceeds 27 bcm of natural gas per annum.

Natural gas produced at the field will be delivered to the international markets in a form of LNG which requires construction of a liquefaction plant consisting of three (3) production trains of 5.5 mmt annual capacity each. The shipping infrastructure will include a jetty with two tanker loading berths at the port of Sabetta equipped with ice protection facilities. Ice-class LNG carriers of special design ARC-7 will be used to transport the LNG to international markets.

In 2013, the main tenders were completed and key contracts were signed as a part of the project implementation. In particular, the EPC contract has been awarded to the joint venture of Technip and JGC. A slot reservation agreement was signed with Daewoo Shipbuilding & Marine Engineering Company for construction of up to 16 ARC-7 ice-class LNG carriers. As of year-end 2013, the orders for long-lead items (including cryogenic heat exchangers, gas turbines, and the compressors for the liquefaction trains) have been placed. Order for the first ice-class LNG carrier was also placed by a selected shipping company in 2013.

Long-term contracts for more than 75% of LNG volumes were placed as of the year-end. A group of export credit agencies and commercial banks was formed and a financing term-sheet was drafted to begin negotiating the terms and conditions of the project financing.

Two drilling rigs began production drilling in 2013, eight (8) production wells were completed during the year, and their testing confirmed the basic parameters of the fields' geological model.

Operation of the materials offloading berths in the port of Sabetta began enabling the first winter navigation at the port, which ensures year-round delivery of construction materials. During 2013, 513 thousand tons of construction materials were delivered to the field utilizing the material offloading facility.

We prepared construction sites for the first train of the LNG plant, power plant and LNG storage facilities. Piles were purchased and contractors were mobilized to

start piling operations. Basic infrastructure was being built in 2013, including the airport, roads, fuel storages, power station, utility networks, boiler house, living quarters and canteens. Sixty percent (60%) of the airstrip was completed and the construction of the airport terminal and other specialized operational facilities began. There were approximately 3,000 construction workers and over 540 construction machinery units at the site as of the year end 2013.

## COOPERATION WITH CNPC

NOVATEK and CNPC concluded an agreement on cooperation within the Yamal LNG project in June 2013. The agreement provided for the acquisition by CNPC of a 20% stake in the project, conclusion of a long-term contract for supply of at least three (3) million tons of LNG per annum and the active assistance by CNPC in organizing the provision of external financing for the project from Chinese financial institutions.

An agreement on purchase of a 20% participation interest in Yamal LNG project was concluded in September 2013 and the deal was effectively closed in January 2014. In addition to the payment for CNPC's participation interest and proportional reimbursement of past costs of NOVATEK, the entrance of CNPC into the Project also envisages disproportional financing for the project through contributions to the charter capital of Yamal LNG and shareholder loans.

In September 2013, NOVATEK, CNPC and a consortium of Chinese financial institutions concluded a memorandum on project financing for the Yamal LNG project. According to the memorandum, the Chinese commercial banks – China Development Bank Corporation, Industrial and Commercial Bank of China, Bank of China and China Construction Bank – will consider actively participating in the external project financing transaction of the project. Final documentation with the Chinese commercial banks will be executed simultaneously with all of the other lenders participating in project financing of Yamal LNG, including, but not limited to, foreign export credit agencies, international

and Russian commercial banks and other financial institutions.

The HOA (Heads of Agreement) for the supply of LNG between Yamal LNG and CNPC was concluded in October 2013. The document provides for the supply of no less than three (3) million tons of LNG per annum at delivered ex-ship (DES) terms for a period of 15 years with possible supply extension, with the LNG price indexed to the Japanese Crude Cocktail.

## Processing of Gas Condensate

### PUROVSKY PLANT

Gas condensate is produced from our fields in an unstable form and requires further processing before it can be delivered to our customers. Our primary gas condensate processing asset is the Purovsky Plant located in the YNAO in close proximity to the East-Tarkosalinskoye field. We also own a system of condensate pipelines, enabling delivery of de-ethanized unstable gas condensate from our fields to the Purovsky Plant.

The Purovsky Plant is the central element in our production value chain that provides us complete operational control over our processing needs and access to higher yielding marketing channels for our stable gas condensate.

In 2013 and early 2014, four (4) new gas condensate stabilization trains with six (6) million tons per annum overall capacity were launched at the Purovsky plant resulting in completion of a project for expanding capacity of the plant from five to 11 million tons. As a result, we have achieved a balance between our gas condensate production potential and processing capacity.

In 2013, the Purovsky Plant received feedstock from the Yurkharovskoye, East-Tarkosalinskoye, Khanchevskoye, Sterkhovoye, Dobrovolskoye,

## PROCESSING VOLUMES AND OUTPUT OF THE PUROVSKY PLANT, THOUSAND TONS

	2012	2013	Change
PROCESSING OF DE-ETHANIZED CONDENSATE	4,034	4,862	20.5%
OUTPUT:			
Stable gas condensate	3,081	3,712	20.5%
LPG	903	1,088	20.5%
Methanol	17	16	(5.9)%

Samburgskoye, Yumantilskoye and North-Urengoyevskoye fields. The Plant processed 4.86 mmt of de-ethanized unstable gas condensate, or 20.5% more than in 2012, resulting in the commercial production of 3,712 mt of stable gas condensate, 1,088 thousand tons of LPG and 16 thousand tons of methanol produced during the LPG scrubbing process. The growth in processing volumes mainly reflects the increase of production at the Samburgskoye field and the start of deliveries to the Purovsky Plant of de-ethanized gas condensate from the North-Urengoyevskoye field at the end of 2012 and launch of the Eastern dome of the field in October 2013.

The Purovsky Plant is connected to the Russian rail network at the Limbey rail station. Since the launch of Ust-Luga Complex in June 2013 practically all of the stable gas condensate produced at the Purovsky Plant is delivered by rail to the Ust-Luga for further processing (previously the stable gas condensate was sent for exports through the Port of Vitino). Railway transport is also used to supply LPG to the domestic market and for exports.

#### UST-LUGA STABLE GAS CONDENSATE TRANSSHIPMENT AND FRACTIONATION COMPLEX

As part of our strategy to maximize margins through value added products, in 2013, we launched the Gas Condensate Fractionation and Transshipment Complex located at the all-season port of Ust-Luga on the Baltic Sea. The first stage of the complex was launched in June and the second stage was completed in October 2013, which provides us with overall gas condensate processing capacity of six (6) million tons per annum. The Ust-Luga Complex processes stable gas condensate into petroleum products like light and heavy naphtha, jet fuel, heating oil and gasoil, and enables us to ship the petroleum products to international markets.

The Ust-Luga Complex includes two stable gas condensate fractionation trains with capacity of three (3) million tons per annum each, 520 thousand cubic meters of storage facilities for feedstock and products, two (2)

deep-water berths equipped with loading arms capable of loading tankers up to 120 thousand deadweight tons, administrative buildings and living quarters, engineering systems and networks, and sewage treatment facilities.

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

The Ust-Luga Complex allowed us to expand our vertically integrated chain and increase sales of higher value added products, as well as to diversify the markets and to expand the customer base for our products. Implementation of the project also allowed us to improve logistics and reduce transportation costs due to a more favorable geographical location of Ust-Luga compared to the port of Vitino, through which we had previously exported our gas condensate.

In 2013, the Ust-Luga Complex processed 1,873 thousand tons of stable gas condensate into 1,831 thousand tons of end products, including 1,522 thousand tons of light and heavy naphtha, 190 thousand tons of jet fuel and 119 thousand tons of heating oil and gasoil.

### Natural Gas Sales

During 2013, NOVATEK supplied natural gas to 29 regions of the Russian Federation. Our customers were located primarily in the following regions (with gas sales of more than one (1) bcm per annum per region): Chelyabinsk, Perm, Moscow, Kostroma, Orenburg, Vologda, Sverdlovsk and Tyumen regions, Khanty-Mansiysk Autonomous Region, and the cities of Moscow and St. Petersburg. The above-mentioned regions accounted for 82% of our total gas sales. The Company accounted for 18.4% of total natural gas deliveries to the domestic market

#### NATURAL GAS SALES, BCM

	2012	2013	Change
TOTAL GAS SALES, INCLUDING:	58,880	64,152	9.0%
End customers	40,806	57,021	39.7%
Traders	18,074	7,131	(60.5)%
Share of end-customers in total gas sales	69.3%	88.9%	19.6 p.p.

through the Unified Gas Supply System (UGSS), representing an increase of 2.1% percentage points as compared to 2012.

NOVATEK's 2013 natural gas sales volumes totaled 64.2 bcm, representing an increase of 9.0% as compared to 2012 sales volumes of 58.9 bcm. The growth in sales volumes was due to an increase in natural gas supplies to the Moscow, Kostroma, Vologda, Perm and Tyumen regions. Deliveries to these regions increased by 17.2 bcm as compared to 2012 due to new long-term delivery contracts with end-customers signed in 2012 and the acquisition of an 82% stake in Gazprom Mezhregiongas Kostroma in December 2012 (renamed to OOO NOVATEK-Kostroma).

The signing of new sales contracts and acquisition of Gazprom Mezhregiongas Kostroma resulted in the increase in our proportionate share of sales to the end-customer segment in our total sales volumes mix from 69.3% to 88.9%.

During 2013, our total revenues from natural gas sales increased to RR 205.0 billion or by 43.7%, as compared to 2012, due to the combination of higher volumes sold, increase of sales to the end-customer segment and an increase in the regulated gas tariff.

In order to maintain production levels during periods of seasonal demand NOVATEK has entered into an agreement with OAO Gazprom for the storage services. Natural gas inventories are accumulated during warmer periods when demand is lower and then used to meet increased demand during periods of colder weather. As at the end of 2013 our inventories of natural gas amounted to 3.3 bcm

## Liquid Hydrocarbon Sales

NOVATEK produces stable gas condensate, petroleum products, liquefied petroleum gas (LPG) and crude oil, which are sold domestically and internationally.

We strive to respond quickly to changing market conditions by optimizing the customer base and supply

geography, as well as developing and maintaining logistics infrastructure.

In 2013, our liquid hydrocarbon sales business changed significantly due to the launch of the stable gas condensate transshipment and fractionation complex at the port of Ust-Luga on the Baltic Sea. We started supplying stable gas condensate, which we previously exported through the port of Vitino, to the Ust-Luga complex for further processing. That allowed us to improve logistics and reduce transportation costs as the railroad transportation distance is 383 km shorter and the freight rates are lower due to a more favorable geographical location of Ust-Luga compared to the port of Vitino, and the possibility of using tankers with higher deadweights. The start of petroleum product (light and heavy naphtha, jet fuel, heating oil and gasoil) exports allowed us to increase average liquids sales prices and diversify our customer base. In the second half of 2013, stable gas condensate exports were discontinued and fully replaced by the exports of petroleum products.

Total sales volumes of liquid hydrocarbons in 2013 amounted to 5,438 thousand tons, a 29.4% increase over 2012 volumes. The growth is attributed to higher unstable gas condensate processing volumes at the Purovsky Plant and to the increased crude oil production.

Liquids sales revenues in 2013 increased to RR 92.5 billion, or by 36.8%, as compared to 2012. Revenue growth was driven by the increase in sales volumes and higher prices, which were mainly a result of the launch of the Ust-Luga Complex.

Liquid hydrocarbons processed at the Purovsky Plant are transported by rail. At the end of 2013 we owned and leased 7,900 rail cisterns, of which 3,400 were used for the transportation of LPG and the remaining part for the transportation of stable gas condensate. Our crude oil is transported through the trunk pipelines owned and operated by OAO Transneft.

During 2013, we sold 2,117 thousand tons of stable gas condensate, a 25.6% decrease as compared to the volumes sold in 2012. The decrease in sales volumes

### LIQUID HYDROCARBON SALES, THOUSAND TONS

	2012	2013	Change
Stable gas condensate sales	2,847	2,117	(25.6)%
Petroleum products sales	-	1,606	n/a
LPG sales	905	1,078	19.1%
Crude oil sales	442	627	41.9%

was due to the start of fractionation of stable gas condensate at Ust-Luga Complex. We exported 92% of all stable gas condensate sales volumes, or 1,946 thousand tons, via the all season port of Vitino on the White Sea. Approximately 27 thousand tons of stable gas condensate was exported via the port of Ust-Luga. The remaining volumes of stable gas condensate, or 144 thousand tons, were sold on the domestic market. Fifty six percent (56%) of export volumes were sold to countries in the Asian-Pacific region, 38% to European markets and 6% to the USA.

During 2013, we sold 1,606 thousand tons of petroleum products from the Ust-Luga complex, including 1,328 thousand tons of naphtha, 178 thousand tons of jet fuel, 100 thousand tons of heating oil and gasoil. Ninety four percent (94%) of naphtha were sold to the Asian-Pacific countries with the remaining volumes sold to South American markets. Other products of the Ust-Luga Complex were all sold to Europe.

In 2013, total LPG sales volumes amounted to 1,078 thousand tons both on export and domestic markets, of which 53.4% were exported. Novatek Polska, our wholly owned LPG trading company in Poland, was responsible for 54.6% of our total LPG export sales. Other export markets for LPG were Finland, Hungary, Lithuania, Slovakia and Romania.

On the domestic market, our LPG is sold through large wholesale channels, as well as through our network of retail and small wholesale stations. In 2013, large wholesale supplies to the domestic market were 394 thousand tons, representing 36.5% of total LPG sales volumes. We were also selling LPG via the network of 64 retail stations and seven (7) small wholesale stations in Chelyabinsk, Volgograd, Rostov and Astrakhan regions. The total amount of LPG sold through our domestic network of retail and small wholesale stations increased to 108 thousand tons or by 4.9% as compared to 2012.

Sales of crude oil in 2013 were 627 thousand tons, a 41.9% increase over 2012 volumes. We sold 63.2% of our crude oil volumes on the domestic market with the remaining volumes supplied to export markets.

## ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

NOVATEK adheres to the principles of effective and responsible business conduct and considers the welfare of its employees and their families, environmental and industrial safety, the creation of a stable and beneficial social environment as well as contributing to Russia's overall economic development as priorities and responsibilities of the Company.

### Environmental Protection

NOVATEK's core producing assets are located in the Far North, a harsh Arctic region with vast mineral resources and a fragile, easily vulnerable environment. The Company is committed to environmental protection in its operations.

NOVATEK has implemented an Environmental, Health and Safety Policy, while at the same time an Integrated Management System for Environmental Protection, Occupational Health and Safety (IMS) in compliance with requirements of international standards has been implemented at all of our main subsidiaries.

In 2013, we successfully passed another IMS compliance audit, which confirmed that:

- the Company's IMS meets ISO 14001:2004 and OHSAS 18001:2007 requirements.
- the certification plan has been implemented.
- Environmental, Health and Safety goals and objectives have been achieved.

In 2013, as part of our ongoing commitment to IMS, our joint venture, Terneftegas, was certified in accordance with ISO 14001:2004 international standards. As of the end of 2013, six (6) NOVATEK subsidiaries and joint ventures were certified according to these standards.

Efficient implementation of the Program for improvement of the rational use of associated petroleum gas enabled us to increase the associated gas utilization rate at the East-Tarkosalinskoye field to 95% in 2013. As a result, greenhouse gas emissions to the atmosphere in 2013 were reduced by 772 thousand tons of CO<sub>2</sub> equivalent.

In 2013, we commissioned a new major processing complex for the transshipment and fractionation of

stable gas condensate at the port of Ust-Luga on the Baltic Sea. The facility operates in strict compliance with the applicable environmental laws of the Russian Federation and international conventions. The state-of-the-art equipment has been installed at the Ust-Luga Complex ensuring maximum automation of technological processes, as well as providing the highest level of industrial and environmental safety.

Among other things, the Ust-Luga Complex is equipped with an innovative closed flare system for process gas utilization. The flare system has a large burning surface and enables to reduce the amount of harmful emissions to the atmosphere, while the absence of open flames allows us to minimize the environmental footprint.

The Ust-Luga Complex is also equipped with an advanced biological wastewater treatment facility with capacity of 100 cubic meters per day. Due to operating a marine tanker terminal we pay special attention to the condition of the Luga Bay of the Gulf of Finland and its water protection zones. We carry out environmental monitoring of this area under the program approved by the Neva-Ladoga Water Basin Committee. Analysis of the samples taken in the Luga Bay in 2013 shows that hydrochemical parameters and concentrations of pollutants in the sea water fall within the maximum allowable limits for commercial fishing waters.

In 2013, NOVATEK continued its participation in the Carbon Disclosure Project (CDP), which discloses information on greenhouse gas emissions and the energy efficiency of production, and CDP Water Disclosure Project, which discloses information on the use of water resources. By taking part in these projects, the Company strives to find the balance between climate change risks and investment project efficiency. The Company provides access to information regarding the effect of its operations on the environment to all our stakeholders in a wide range of federal and regional media and on the Company's website.

In 2013, the Company was an active participant of various environmental contests. The project "Drill Cuttings Treatment Technology for the Yurkharovskoye Field" won the Vernadsky National Environmental Prize in the Innovative Eco-efficient Technologies for Industrial Application category. The Company's employees took part in the IV All-Russia Environmental Protection Congress held in Moscow under the auspices of the Russian Ministry of Natural Resources and Environment.

One of the Company's priorities is the rational usage of resources, including energy resources. The table below sets out the physical volumes and the Russian rouble equivalent of energy resources consumed by the Company in 2013.

## KEY ENVIRONMENTAL INDICATORS OF NOVATEK, ITS SUBSIDIARIES AND JOINT VENTURES

	Unit	2012	2013*	Change
Water consumption	th. cubic meters	881	1,425	61.7%
Atmosphere emissions	th. tons	23.4	29.4	25.6%

\* Increase in water consumption was due to the launch of new facilities at our producing fields and fields prepared for launch, as well as start of operations at the Gas Condensate Fractionation and Transshipment Complex at the port of Ust-Luga, including water consumption during the hydraulic tests of the Complex. Increase in atmosphere emissions is due to growing production volumes.

## ENERGY RESOURCE CONSUMPTION BY NOVATEK AND ITS SUBSIDIARIES IN 2013

	Unit	Volume	RR mln, net of VAT
Natural gas	mmcm	826	375.7
Electricity	MW*h	278,677	556.8
Heating energy	Gcal	184,706	96.8
Oil	tons	717	0.0*
Motor gasoline	tons	754	26.5
Diesel fuel	tons	3,470	114.2
Other	tons	30,334	12.8

\* 717 tons of own crude oil consumed by NOVATEK-Yurkharovneftegas.



## KEY HEALTH AND SAFETY INDICATORS OF NOVATEK, ITS SUBSIDIARIES AND JOINT VENTURES

	2012	2013	Change
Injury frequency rate (number of injuries per million working hours)	0.92	0.41	(55.4)%
Accident severity rate (total number of employee working hours lost per accident / number of accidents)	290	922	x3.2*

\* Increase in accident severity rate was due to an incident at the Purovsky Plant. The incident was properly investigated and measures were taken to enhance operational safety and prevent any recurrence.

## Health and Safety

Our strategic goal is to achieve a leading position amongst oil and gas companies on all key indicators in terms of Occupational Health and Safety. In order to accomplish this goal, the Company continually updates its IMS, improves employees' qualification and applies advanced technologies.

In accordance with the requirements of the federal law "On Industrial Safety of Hazardous Production Facilities" and "Rules on the Organization and Implementation of Industrial Control for Compliance with Requirements of Industrial Safety at Hazardous Production Facilities" all of our subsidiaries have developed their own rules for the organization and implementation of industrial control for compliance with these requirements. We have also established industrial control compliance commissions, which carry out periodic audits of departments and production facilities to comply with the EHS requirements.

In 2013, 3,127 employees, including workers and middle management, underwent HSE training courses.

## Human Resources

Employees are NOVATEK's most valuable resource, allowing the Company to grow rapidly and effectively. The Company's human resource management system is based on the principles of fairness, respect, equal opportunities for professional development, dialogue between management and employees, as well as continuous, comprehensive training and development opportunities for the Company's employees at all levels.

As of the end of 2013, NOVATEK and its subsidiaries had 5,997 employees, 38.5% of whom work in exploration and production, 20.5% in processing, 31.3% in transportation and marketing, and 9.8% is administrative personnel.

## PERSONNEL TRAINING AND DEVELOPMENT

In an environment of rapidly developing technologies and management systems, our multilevel training and professional development program enables our employees to contribute to raising the Company's competitiveness. In 2013, the primary goals of training and professional development included:

- developing and implementing a program aimed at providing the Company with a talent pool of senior managers;
- implementing the "Steps in Discovering Talents" program for young specialists targeted at training highly qualified personnel whose competence level fully meets business needs;
- developing and implementing the "Technical Training" program based on the results of tests in the Corporate Technical Competency Assessment System for various lines of business; and
- involving young specialists in NOVATEK's "Research-to-Practice Conferences" and the "Fuel and Energy Complex (FEC) Competitions".

In 2013 our twelve executives started participating in training activities aimed at developing a common understanding of the goals and strategy of NOVATEK in order to prepare for higher level positions within the Company. A specialized 1.5-year training program was launched in September 2013 at the Higher School of Management (on the base of the Higher School of Economics in Moscow) and its main goal is to systematize participants' knowledge of corporate management principles and broaden their views on the industry and business in general.

During the past year, NOVATEK continued its efforts to increase employee training, improve working conditions and ensure a safe environment at its production facilities. In 2013, 38% of our specialists and line workers upgraded their respective qualifications, and 58% of the Company's engineers and technicians completed employee certification and industrial safety courses.

Specialized training courses for employees of production divisions started in September 2012 under the Technical Training program at Gubkin Russian State University Training and Research Center, the Petroleum Learning Center at Tomsk Polytechnic University, NExT Schlumberger and other centers. A total of 209 employees underwent training through the program, including 128 employees in 2013.

Under the Corporate Technical Competency Assessment System tests for several new areas were developed. A total of 668 people were tested under the system during the year (including 351 people tested with newly developed tests), including 47 people during the hiring process to fill vacant positions and 41 employees promoted to more senior positions.

In 2013, we had our first class of graduates of Steps in Discovering Talents program, whereby 39 young specialists participated in training activities. In autumn 2013, 36 new young specialists joined the program.

The Company continues to form mentoring for young specialists. Mentors assigned to young specialists help them to adapt quickly and effectively and develop successfully as professionals. In 2013, 20 mentors participated in a Mentorship Practicum, which became a platform for the discussion of new skills of working with young specialists and to build knowledge.

The 8th Interregional Research-to-Practice Conference for the Company's young specialists attended by 64 employees was held in Moscow in September 2013. Based on the results of the competition, all the winners received cash prizes, while nine (9) of the first place winners were also awarded a trip to a petroleum training center in South Korea. The winner nominated in the category "Best Implemented Project" was awarded a cash prize, and the top 14 projects advanced to the FEC 2013 Competition for Youth Projects, held by the Russian Federation's Ministry of Energy. In 2013, one of NOVATEK's young specialists, the winner of the FEC-2012 Competition, received commendation from the Ministry of Energy.

## SOCIAL PROGRAMS

The focus in employee relations is on implementing social programs. According to the Core Concept of the Company's social policy which was adopted in 2006, the social benefits package for employees includes the following programs:

- voluntary medical insurance for employees;
- therapeutic resort treatment for employees and members of their families;
- provision of special-purpose short-term loans;

- special-purpose compensation and social support payments;
- provision of special-purpose interest-free loans to purchase housing, and
- pension program.

Along with providing an optimum social benefits package, the Company is also committed to creating opportunities for employees to play sports and get involved in sports and cultural events. In 2013, our employees and their family members visited exhibitions at Russia's national museums, classical music concerts, and attended sporting events like hockey, basketball and football (soccer) games in their free time with the Company's assistance.

The Company publishes its corporate newsletter "NOVATEK", including the "NOVATEK Family" feature and corporate magazine "NOVATEK Plus" to inform employees about the Company's activities and get employees, specialists and managers actively involved in business, cultural, sports, charitable and corporate activities.

## Social Policy and Charity

During 2013, NOVATEK continued to contribute to an improvement in the living standards of local populations in the YNAO as well as the Samara, Chelyabinsk and Tyumen regions. Special priority was given to the performance of our long-term agreements with the municipalities of these regions for financing programs targeting education and youth development, support for low-income families, repair and modernization of socially important facilities and preservation of the culture heritage of the indigenous peoples of the Far North and Russia as a whole. In 2013, NOVATEK and its subsidiaries invested more than RR 1.18 billion on projects and activities related to the support of indigenous peoples, charitable contributions and educational programs.

### COOPERATION WITH INDIGENOUS PEOPLES OF THE FAR NORTH

During 2013, NOVATEK provided financial support to the "Yamal for Descendants" association and its district branches. We achieved our statutory goals, including the support of the youth branch of the Association, assistance to indigenous peoples through financing arrangements for housing construction, repair service and maintenance of social purpose, fuel purchases for air delivery of the nomadic population and food in remote areas.

Throughout the year, the Company also provided sponsorship assistance to the following organizations:

- The Association of Minority Populations of Indigenous Peoples of the Far North, Siberia, and Far East of the Russian Federation – for legal services, training courses and seminars, and publishing;
- The Purovsky and Krasnoselkupsky Districts to upgrade farming facilities;
- The Tazov District for construction of a cold storage facility in the village of Gyda and houses repair in the Tanamo and Razvilka villages; and
- The Nadym District for the construction of a residential house in the Nyda village.

## EDUCATIONAL PROGRAMS

NOVATEK continued to develop the Company's continuing education program, which provides opportunities to gifted students, from the regions where we operate, to further their education at top rated universities, participate in NOVATEK internships and, upon completion of their studies, possible employment with the Company.

Recruitment and career guidance for promising employees start with the "Gifted Children" program implemented at School No. 8 in Novokuybyshevsk and School No. 2 in Tarko-Sale. Special classes are formed on a competitive basis from the most talented grade 10 and 11 students with above-average test scores.

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

The "Grants" program for schoolchildren is an educational support program, which we have been administering since 2004. Under the program, students in grades five (5) through 11 living in the districts are awarded grants from the Company to support their academic and creative development and to encourage a responsible attitude towards their studies. In 2013, the Company awarded 74 grants.

The "Grants" program for the teachers is intended to raise the prestige of the teaching profession and create favorable conditions for developing new and talented teachers. Since the program was launched, 57 teachers have received grants, including five (5) in 2013.

In an effort to create conditions for more effective use of university and college resources in preparing students for future professional activities, the Company has developed and successfully implemented the

NOVATEK-VUZ program. The program is an action plan for focused, high-quality training for specialists with higher education in key areas of expertise in order to grow the Company's business and meet its needs for young specialists. The program is based at the St. Petersburg State Mining University, Gubkin Russian State University of Oil and Gas in Moscow and the Tyumen Oil and Gas University.

Students who pass their exams with good or excellent results receive additional monthly payments. During their studies, the students are offered paid field, engineering and directed internships. This experience allows them to apply the knowledge obtained at lectures and seminars to real-life situations and gain experience in the professions they've chosen, while the Company receives an opportunity to meet potential employees.

## SUPPORT OF CULTURAL TRADITIONS

The strengthening of partnership relations between the Company and Russia's leading cultural and educational institutions, creative groups and charity funds continued during the 2013 period, namely the Russian State Museum (St. Petersburg), the Moscow Kremlin Museum, the State Tretyakov Gallery, the Multimedia Art Museum (the Moscow House of Photography Museum and Exhibition Complex), the Moscow Museum of Modern Art and the Samara Regional Art Museum.

In 2013, NOVATEK continued to support the annual International Festival "Imperial Gardens of Russia" in St. Petersburg (the Russian State Museum). The Company was an exclusive partner of the exhibition "I am not..." by Yury Albert (the Moscow Museum of Modern Art) and the exhibition "Malevich. Before and after the square" (the Russian State Museum), held in Moscow and St. Petersburg.

NOVATEK also remained a General Partner of the Moscow Soloists Chamber Ensemble under the direction of Yuri Bashmet.

## SPORTS PROJECTS

NOVATEK has continued its support for semi-professional and high-level amateur sports programs. The Company, its subsidiaries and joint ventures organize regular tournaments in the most popular sports, including soccer, volleyball, swimming to name a few. The Company's mini-football, volleyball and hockey teams play in corporate tournament in Moscow on an annual basis. In 2013, our football team became a champion of the tournament "Champions League of Business" and volleyball and hockey players won prizes in various competitions.

The Company is the General Partner of the Spartak Basketball Club (St. Petersburg), the NOVA Volleyball Team (Novokuybyshevsk) and the Dynamo Hockey Club (Moscow). In 2013, NOVATEK signed an agreement on cooperation with the Russian Football Union and became a General Partner of the Russian national football team.

## CHARITY

The Company continued its cooperation with Chulpan Khamatova's Gift of Life charitable foundation in 2013. Funds raised from events are directed to children's hospitals to buy modern medical equipment. In 2013, the Company held two blood donor sessions for children from the Russian Children's Clinical Hospital at its Moscow headquarters in collaboration with the foundation.

We continued our charitable activities of the Company's All Together volunteer movement founded in 2008. As in previous years, the volunteers participated in a number of causes including support for orphans and children with various illnesses, veterans, orphaned animals, as well as support for the blood donor movement and the organization of other charitable programs.

# MANAGEMENT AND CORPORATE GOVERNANCE

NOVATEK strives to commit to the highest standards of corporate governance. We believe that such standards are an essential prerequisite to business integrity and performance and provide a framework for socially responsible management of the Company's operations.

## Corporate Governance

The Company has established an effective and transparent system of corporate governance complying with both Russian and international standards. NOVATEK's supreme governing body is the General Meeting of Shareholders. The corporate governance system also includes the Board of Directors, the Board Committees, and the Management Board, as well as the system of internal control and audit bodies. The activity of all these bodies is governed by the applicable laws of the Russian Federation, NOVATEK's Charter and internal documents available on our website ([www.novatek.ru](http://www.novatek.ru)).

NOVATEK strives to consider the principles of corporate governance outlined in the Corporate Governance Code recommended by the Russian Federation's Federal Commission for Securities Market dated 4 April 2002 №421/r. The Company follows the recommendations of the Code, as well as offering to our shareholders and investors other solutions that are intended to protect their rights and legitimate interests.

Since the Company's shares are listed on the London Stock Exchange in the form of depositary receipts, NOVATEK places great emphasis on the UK Financial Reporting Council's Combined Code on Corporate Governance and follows its recommendations as far as practicable.

The Company adheres to the internal Corporate Governance Code approved by the Board of Directors in 2005 (Minutes No. 60 of 15 December 2005). This Code has been elaborated on in accordance with best Russian and international practices in corporate governance, ethical norms and specific conditions of the Company's operations and in accordance with Russian legislation and the Company's Charter.

The Company also adheres to the internal Code of Business Ethics approved by the Board of Directors in 2011 (Minutes No. 133 of 24 March 2011). The

Code establishes general norms and principles governing the conduct of members of the Board of Directors, Management Board and Revision Commission, as well as NOVATEK's management and employees, which were elaborated on the basis of moral and ethical values and professional standards. The Code also determines the rules which govern mutual relationships inside the Company and NOVATEK's relationships with its subsidiaries and joint ventures, shareholders, investors, the government and public, consumers, suppliers, and other stakeholders.

NOVATEK's corporate governance practices make it possible for its executive bodies to effectively manage ongoing operations in a reasonable and good faith manner and solely to the benefit of the Company and its shareholders.

## General Meeting of Shareholders

The General Meeting of Shareholders is NOVATEK's supreme governing body. The activity of the General Meeting of Shareholders is governed by the laws of the Russian Federation, the Company's Charter, and the Regulations on the General Meetings approved by NOVATEK's General Meeting of Shareholders in 2005 (Minutes No. 95 of 28 March 2005) with amendments. The Guidelines were elaborated in accordance with Russian legislation, the Company's Charter and the recommendations of the Russian Corporate Code of Conduct.

The General Meeting of Shareholders is responsible for the approval of annual reports, annual financial statements, the distribution of profit, including dividends payout, the election of Board of Directors and Revision Commission, approval of the Company's Auditor and other corporate and business matters.

On 25 April 2013, the Annual General Meeting of Shareholders approved the annual report, annual financial statements (in accordance with Russian Accounting Standards), distribution of profit and the size of dividends based on the results of FY2012. The meeting also elected the Board of Directors, Chairman of the Management Board and the Revision Commission, as well as approved remuneration to members of the Board of Directors, Revision Commission and the Company's external auditor for 2013.

On 22 October 2013, the Extraordinary General Meeting of Shareholders approved the amount of interim dividend for the first half of 2013.

## Board of Directors

The Board of Directors (the Board) activity is governed by the laws of the Russian Federation, the Company's Charter and the Regulations on the Board of Directors approved by NOVATEK's General Meeting of Shareholders in 2005 (Minutes No. 96 of 17 June 2005) with amendments.

The Board carries out the overall strategic management of the Company's activity on behalf of and in the interests of all its shareholders, and ensures the Company's efficient performance in order to increase its shareholder value.

The Board determines the Company's strategy and priority lines of business, endorses long-term and annual business plans, reviews financial performance, internal control, risk management and other matters within its competence, including optimization of corporate and capital structure, approval of major transactions, making decisions on investment projects and recommendations on the size of dividend per share and its payment procedure, and convening General Meeting of Shareholders. The members of the Board are elected by the General Meeting of Shareholders.

The current members of the Board were elected at the Annual General Meeting of Shareholders on 25 April 2013. The Board of Directors is comprised of nine members, of which seven are non-executive directors. Six (6) directors are considered to be independent as at the election date in accordance with the Corporate Governance Code recommended by the Russian Federation's Federal Commission for Securities Market, and two in accordance with requirements of the UK Financial Reporting Council's Combined Code on Corporate Governance. The Board Chairman is Alexander Egorovich Natalenko. The Chairman is responsible for leading the Board and ensuring its effectiveness.

The members of NOVATEK's Board have a wide range of expertise as well as significant experience in strategic, financial, commercial and oil and gas activities. The Board members hold regular meetings with NOVATEK's senior management to enable them to acquire a detailed understanding of NOVATEK's business activities and strategy and the key risks. In addition to these formal processes, Directors have access to the Company's medium-level managers for both formal and informal discussions to ensure regular exchange of information they need to participate in the Board meetings and make balanced decisions in a timely manner.

## THE BOARD OF DIRECTORS MEMBERSHIP AS OF 31 DECEMBER 2013

- Alexander Y. Natalenko – Chairman of the Board
- Andrei I. Akimov
- Burckhard Bergmann
- Yves Louis Darricarrère
- Vladimir A. Dmitriev
- Mark A. Gyetvay
- Leonid V. Mikhelson
- Kirill G. Seleznev
- Gennady N. Timchenko

## BOARD ACTIVITIES DURING THE 2013 CORPORATE YEAR\*\*\*

To ensure the Company's efficient performance, the Board meetings shall be convened on a regular basis at least once every two months. In corporate year 2013, the Board met eight times, of which four meetings were held in absentia. During the year, the following key issues were discussed and respective decision made:

- reviewed and approved the Company's 2013 full year operating and financial results;
- recommended an interim dividend for first half 2013, based on interim financial results for the period and a full year dividend for 2013, based on full year financial results;
- reviewed and approved NOVATEK's business plan for 2014;

- approved the sale of a 20% participation interest in the Yamal LNG project to CNODC, a subsidiary of China National Petroleum Corporation; and
- approved a swap of a 51% share in Sibneftegas for a 40% interest in Artic Russia B.V.

## Board Committees

The Company has three Board Committees: the Audit Committee, the Strategy and Investments Committee and the Corporate Governance and Remuneration Committee.

The Committees' activities are governed by the Committees Charters approved by the Board of Directors. The specific terms of reference for each of the Board Committees are available on our website.

The Committees play a vital role in ensuring that the high standards for corporate governance are maintained throughout the Company and that specific decisions are analyzed and the necessary recommendations are issued prior to general Board discussions. The minutes of the Committees meetings are circulated to the Board members and are accompanied by any necessary materials and explanatory notes.

In order to carry out their duties, the Committees may request information or documents from members of the Company's executive bodies or heads of the

## BOARD AND COMMITTEE MEETINGS ATTENDANCE IN THE 2013 CORPORATE YEAR\*\*\*

Member	Independence	Board of Directors	Audit Committee	Corporate Governance and Remuneration Committee	Strategy and Investments Committee
Alexander Natalenko	independent *	8/8			4/4
Andrei Akimov	independent **	8/8		4/4	
Burckhard Bergmann	independent **	7/8	3/3	4/4	4/4
Yves-Louis Darricarrère	independent **	8/8			4/4
Vladimir Dmitriev	independent ***	7/8	3/3		
Mark Gyetvay	executive	8/8			4/4
Leonid Mikhelson	executive	8/8			
Kirill Seleznev	independent **	6/8		4/4	
Gennady Timchenko	independent **	8/8	3/3		4/4

\* Independent Director as at the election date in accordance with the UKLA Combined Code.

\*\* Independent Director as at the election date in accordance with the Corporate Governance Code recommended by the Russian Federation's Federal Commission for Securities Market.

\*\*\* From the date of election on 25 April 2013 till the Annual General Meeting of Shareholders on 18 April 2014.

## COMMITTEES MEMBERSHIP AS OF 31 DECEMBER 2013

Audit Committee	Strategy and Investments Committee	Corporate Governance and Remuneration Committee
Vladimir Dmitriev (Chairman)	Alexander Natalenko (Chairman)	Andrei Akimov (Chairman)
Burckhard Bergmann	Burckhard Bergmann	Burckhard Bergmann
Gennady Timchenko	Yves-Louis Darricarrère	Kirill Seleznev
	Mark Gyetvay	
	Gennady Timchenko	

Company's relevant departments. For the purpose of considering any issues being within their competence, the Committees may engage experts and advisers having necessary professional knowledge and skills.

## STRATEGY AND INVESTMENTS COMMITTEE

The primary function of the Strategy and Investments Committee is to develop and give recommendations to the Board for determining of priorities of the Company's operations and assessing the effectiveness of investment projects and their impact on NOVATEK's shareholder value.

In carrying out its responsibilities and assisting the members of the Board in discharging their duties, the Strategy and Investment Committee is responsible for but not limited to:

- analyzing concepts, programs, and plans of the Company's strategic development and giving recommendations to the Board;
- developing recommendations to the Board with respect to any transactions with assets the value of which exceeds 5% of the Company's assets book value, as calculated in accordance with the accounting data as of the last reporting date;
- developing recommendations to the Board following the consideration of investment projects proposed by the Company's executive bodies for implementation; and
- developing recommendations to the Board for utilization of the Company's reserves and provisions

In corporate year 2013, the Strategy and Investments Committee met four times.

## CORPORATE GOVERNANCE AND REMUNERATION COMMITTEE

The primary function of the Corporate Governance and Remuneration Committee is to improve the corporate governance system and to review the Company's practices and policies to ensure compliance of the

Company's business practices and internal regulatory documents with applicable standards of corporate governance and Russian and international best practice standards. The Corporate Governance and Remuneration Committee is also responsible for determining the policy for executive remuneration and for the remuneration and benefits of individual executive directors and senior executives.

In order to assist the Board, the Committee performs the following functions:

- develop and regularly review our corporate governance documents and documents regulating corporate conflicts;
- develop recommendations with respect to our dividend policy and distribution;
- evaluate the Company's Investor Relations and Shareholder communications policies;
- develop procedures for and perform an annual evaluation of the work performed by the Board; and
- determine the annual compensation for the Board and the Revision Commission members.

In corporate year 2013, the Corporate Governance and Remuneration Committee met four times.

## AUDIT COMMITTEE

The primary function of the Audit Committee is to assist the Board in exercising effective control by assessing:

- the accuracy, transparency, and completeness of the Company's financial statements prepared in accordance with Russian and International accounting standards;
- the candidature of the Company's external auditor;
- the independent auditor's report with respect to the Company's annual financial statements;
- the efficiency of the Company's internal control procedures and proposals for their improvement; and
- the Company's compliance with applicable laws of the Russian Federation.

The Audit Committee works actively with the Company's executive bodies, inviting NOVATEK's managers responsible for the preparation of the financial statements to attend the Committee meetings.

The Committee reviews NOVATEK's Annual Report and gives recommendations on the report preliminary approval by the Board of Directors.

In corporate year 2013, the Audit Committee met three times.

## Management Board

NOVATEK's Management Board is a collegial executive body responsible for the day-to-day management of the Company's operations. The Management Board is governed by the laws of the Russian Federation, NOVATEK's Charter, decisions of the General Meetings of Shareholders and the Board of Directors and by other internal documents. More information regarding the Management Board's competence is provided in the Management Board Regulations approved by NOVATEK's General Meeting of Shareholders in 2005 (Minutes No. 95 of 28 March 2005).

Members of the Management Board are elected by the Board of Directors from among the Company's key employees. The Management Board is subordinated to the Board of Directors and the General Meeting of Shareholders. The Chairman of the Management Board is responsible for leading the Board and ensuring its effectiveness as well as organizing the Management Board meetings and implementing decisions of the General Meeting of Shareholders and the Board of Directors. The Management Board is currently comprised of eight members elected by the Board of Directors on 3 December 2009 and 24 March 2011 (Minutes No. 118 of 3 December 2009 and Minutes

No. 113 of 24 March 2011). The Chairman of the Management Board is Leonid Viktorovich Mikhelson.

### MANAGEMENT BOARD MEMBERS AS OF 31 DECEMBER 2013:

- Leonid Mikhelson (Chairman)
- Mikhail Popov
- Vladimir Baskov
- Mark Gyetvay
- Tatyana Kuznetsova
- Iosif Levinzon
- Alexander Fridman
- Kirill Yanovskiy

## Remuneration to Members of the Board of Directors and Management Board

The procedure for and criteria of calculating remuneration to members of NOVATEK's Board of Directors, as well as the compensation of their expenses, are prescribed in the Company's Charter and Regulations on NOVATEK's Board of Directors.

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

## Internal Control and Audit

The Company has a system of internal control over financial and business operations with the respect to modern international best practices. The system of internal control consists of the Audit Committee, the Revision Commission, the Chairman of the Management Board, the Management Board, the

### INFORMATION ON REMUNERATION OF MEMBERS OF NOVATEK'S BOARD OF DIRECTORS AND MANAGEMENT BOARD IN 2013

Payment Description, mln RR	Board of Directors *	Management Board
TOTAL PAID, INCLUDING:	106.8	1,610.3
Salaries	-	532.2
Bonuses	-	1,060.6
Fees	106.3	-
Other property advancements	0.5	17.6

\* Some members of NOVATEK's Board of Directors are simultaneously members of the Management Board. Payments to such members in relation to their activities as members of the Management Board are included in the total payments to members of the Management Board.



Company's management and the Internal Audit Division.

The objects of internal control are OAO NOVATEK, its subsidiaries and joint ventures, and their subdivisions, as well as their ongoing business processes.

The goals, objectives and internal control procedures are established by the Regulations on NOVATEK's Internal Control, approved by the Board of Directors in 2009 (Minutes No. 114 of 31 August 2009).

## REVISION COMMISSION

Revision Commission consisting of four members is elected at the Annual General Meeting of Shareholders for a period of one year. The competence of the Revision Commission is governed by the Russian Federation Law On Joint Stock Companies No. 208-FZ dated 26 December 1995 as well as the Company's Charter and the Regulations on the Revision Commission Procedures approved by the General Meeting of Shareholders in 2005 (Minutes No. 95 of 28 March 2005).

The Revision Commission is an internal control body responsible for oversight of the Company's financial and business activities. The Revision Commission audits the Company's financial and business performance for the year, as well as for any other period as may be decided by its members or other persons authorized in accordance with Russian Federation law and the Company's Charter. The results are presented in the form of findings by the Revision Commission.

In February 2014, the Revision Commission held one on-site audit revision of financial and business activity of the Company for the year 2013. As a result the conclusions about the reliability of the data contained in the Company's 2013 Financial Statements and Annual Report were prepared and submitted to the Annual General Meeting of Shareholders.

## INTERNAL AUDIT DIVISION

In order to conduct a systematic, independent evaluation of the reliability and effectiveness of the internal control and risk management system the Company carries out internal audit. The internal audit function is implemented by the independent Internal Audit Division, which operates continuously since 2005.

The Internal Audit Division is functionally subordinate to the Audit Committee and is guided by International professional internal audit standards of Institute of Internal Auditors.

The Division carries out its activities on the basis of a strategic plan of inspections and uses a combination of risk-based and cyclic approaches. According to the results of inspections it develops measures to eliminate identified risks and optimize financial and business activities.

To improve the efficiency and optimize the costs the Internal Audit Division employees serve on the revision commissions of subsidiaries and joint ventures.

In February 2014, the Audit Committee considered the report on the activities of the Internal Audit Division in 2013. The members of the Audit Committee unanimously resolved that the results of the Internal Audit Division activities in 2013 were positive.

## EXTERNAL AUDITOR

The Annual General Meeting of Shareholders appoints an external auditor to conduct independent review of NOVATEK's financial statements. The Audit Committee gives recommendations to the Company's Board of Directors regarding the candidatures of external auditors and the price of their services. Based on the Committee's recommendations, the Board proposes the auditor's candidature for the consideration and for approval by the Annual General Meeting of Shareholders.

ZAO PricewaterhouseCoopers Audit was approved as the Company's external auditor to conduct independent review of the Company's financial statements for 2013.

In selecting the auditor's candidature, attention shall be paid to the level of their professional qualifications, independence, possible risk of any conflict of interest, terms of the contract, and an amount of remuneration requested by the candidates. The Audit Committee oversees the external auditor's independence and objectivity as well as the quality of the audit conducted. The Committee annually provides to the Board of Directors the results of review and evaluation of the audit opinion regarding the Company's financial statements. The Audit Committee meets with the auditor's representatives at least once per year.

NOVATEK's management is aware of and accepts recommendations on independence of the external auditor by restricting such auditor's involvement in providing non-audit services. Remuneration paid to the principle auditors for auditing and other services is specified in the Note 24 to the consolidated financial statements prepared in accordance with IFRS standards for 2013.

## Share Capital

Our share capital is RR 303,630,600 and consists of 3,036,306,000 ordinary shares, each with a nominal value of RR 0.1. As of 31 December 2013, NOVATEK did not have privileged shares.

Our shares are traded in US dollars and Russian roubles on the MICEX-RTS Stock Exchange and have an A1 listing (symbol: NVTK).

The Federal Financial Market Service issued to NOVATEK a permit for circulation beyond Russian Federation of 910,589,000 ordinary shares comprising 29.99% of the Company's share capital.

Our Global Depositary Receipts (GDR) are listed on the London Stock Exchange (symbol: NVTK). Each GDR represents 10 ordinary shares. As of 31 December 2013, NOVATEK's GDRs were issued on 909,613,290 ordinary shares comprising 29.96% of the Company's share capital.

## Dividends

NOVATEK's dividend policy is based on keeping the balance between the Company's business goals and shareholder's interests. A decision to pay dividends as well as the size, payout time and form of the dividend is passed by the Annual General Meeting of Shareholders according to the recommendation of the Board of Directors. Dividends are paid twice a year; their size depends on market conditions, cash flow and the Company's capital structure and investment program. NOVATEK is strongly committed to its dividend policy.

On 03 March 2014, the Board of Directors of OAO NOVATEK recommended to the Annual General Meeting of Shareholders to pay dividends for FY 2013 in the amount of RR 4.49 per ordinary share or RR 44.9 per one Global Depositary Receipt (GDR), exclusive of RR 3.40 of interim dividends per ordinary share or RR 34.0 per one GDR for the first six months of 2013.

Thus, should the General Meeting of Shareholders approve the above recommended dividend, the dividends for 2013 will total RR 7.89 per ordinary

### EQUITY STAKES IN NOVATEK'S SHARE CAPITAL AND THE NUMBER OF SHARES OWNED BY MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT BOARD\*

	Equity stake as of 31 December 2013, %	Number of shares, each
<b>BOARD OF DIRECTORS</b>		
Alexander Natalenko	-	-
Andrei Akimov	-	-
Burckhard Bergmann	0.0007	20,000
Mark Gyetvay	-	-
Yves-Louis Darricarrère	-	-
Leonid Mikhelson	0.6878	20,883,242
Kirill Seleznev	-	-
Gennady Timchenko	-	-
Vladimir Dmitriev	-	-
<b>MANAGEMENT BOARD</b>		
Vladimir Baskov	0.0288	874,408
Tatyana Kuznetsova	0.1944	5,903,035
Iosif Levinzon	-	-
Mikhail Popov	0.1440	4,372,038
Alexander Fridman	0.0817	2,481,049
Kirill Yanovskiy	0.1051	3,192,530

\* The equity stakes are given based on the records in the register of NOVATEK's shareholders in accordance with the Russian Federation laws.

## ACCRUED AND PAID DIVIDENDS ON NOVATEK SHARES FOR THE PERIOD 2008 TO 2013\*

Dividend Accrual Period	Amount of dividends, RR per share	Total amount of dividends accrued, RR	Total amount of dividends paid, RR
2008	2.52	7,651,491,120	7,651,310,957
2009	2.75	8,349,841,500	8,349,681,894
2010	4.00	12,145,224,000	12,144,967,156
2011	6.00	18,217,836,000	18,217,663,073
2012	6.86	20,829,059,160	20,829,052,028
First half 2013	3.40	10,323,440,400	10,323,387,326

\* The amount of paid dividends accrued for the years 2008 to 2012, and for the first six months of 2013 is reported as of 31 December 2013. Partial payment of the accrued dividends was made due to provision by shareholders (nominee holders) of incorrect postal and/or banking details and insufficient information regarding banking or postal details of shareholders.

share (RR 78.9 per one GDR), and the total amount of dividends payable for 2013 will be RR 23,956,454,340. This will represent a 15% increase in dividend per share compared to 2012.

## Information Transparency

NOVATEK is committed to providing objective, reliable, and consistent information about the Company and its activities to all stakeholders and also complies with modern standards for information disclosure while adhering to a maximum level of transparency. The Regulations on Information Policy approved by the Board of Directors (Minutes No. 45 of 10 May 2005), define the main principles for disclosing information and increasing information transparency.

Material information about the Company is disclosed in a timely manner in the form of press releases through authorized disclosure in accordance with the applicable laws of the Russian Federation and the United Kingdom. The Company discloses quarterly financial statements in accordance with the International Financial Reporting Standards ("IFRS"), Management's Discussion and Analysis of Financial Condition and Results of Operations as well as various presentations for investors.

In addition to press releases and material facts, the Company's website provides detailed information on all aspects of its activities, including our Sustainability Report. We regularly participate in information disclosure on greenhouse gas emissions and energy efficiency of production – the Carbon Disclosure Project (CDP), and on the use of water resources – the CDP Water Disclosure Project, as well as other industry's publications and studies.

The Company maintains an ongoing dialogue with shareholders and investors in order to ensure full awareness of investment community about its activities.

The main channels of communication with the investment community are through the Chairman of the Management Board, Deputy Chairman (the Chief Financial Officer) and the Investor Relations department. The Company's representatives meet on a regular base with key financial audiences to discuss issues of interest to them.

In accordance with principles of its unified information policy, NOVATEK conducts an active, ongoing dialog with representatives of media outlets. The information disclosed to mass media comprises all aspects of the Company's activities, including financial and operating results and projects under development, as well as socially or environmentally important aspects.

NOVATEK actively involves in a variety of outside Exhibitions and Conferences. During 2013, representatives of the Company participated in more than 20 exhibitions, conferences and round tables and gave seven presentations on key industry issues. One of the most important events was the participation of NOVATEK and Yamal LNG delegations in the 17th World Congress and Exhibition on LNG (LNG 17) in Houston, USA.

# ADDITIONAL INFORMATION

## Major Risk Factors

The Company's activities are subject to risks inherent only to the Company or associated with the Company's core businesses. The risks described herein are not

exhaustive and reflect an opinion about the most material risks based on the estimates of the Company's management.

Risk description	Risk management approaches used by the Company
<b>OPERATIONAL RISKS</b>	
<p><b>Risks of emergencies and incidents</b></p> <p>The Company's subsidiaries and joint ventures are subject to the risks of emergencies and incidents at hazardous production facilities that may entail business interruption which in turn will have a negative effect on the Company's financial performance.</p>	<p>The Company performs continuous monitoring of industrial safety compliance, develops and implements organizational and technical measures aimed at mitigating the risks of emergencies and incidents and reducing potential losses as part of its existing integrated system of industrial safety management. The Company holds property and business interruption insurance policies.</p>
<p><b>Monopoly risks</b></p> <p>The Company depends on monopoly suppliers of transport services (such as Gazprom, RZD, or Transneft). The Company has no influence on the capacity of transport facilities of the above monopolies and rates established by the Federal Tariff Service.</p>	<p>The Company enters into long-term agreements and in a timely manner arranges for interaction with monopolies regarding hydrocarbon transportation by pipeline and railway transport.</p> <p>To reduce its dependency, the Company implements investment projects that reduce the length of transportation of finished products, and concludes agreements enabling it to use alternative methods of product transportation (an agreement with SIBUR for the supply of LPG to Tobolsk Petrochemical Complex).</p>
<p><b>Competitive risks</b></p> <p>The Company operates in an environment of tough competition with Russian and international oil and gas companies in the following areas:</p> <ul style="list-style-type: none"> <li>obtaining of subsoil licenses and acquisition of companies holding subsoil licenses;</li> <li>selling natural gas on the Russian market;</li> <li>acquisition of oil and gas equipment and services;</li> <li>employment of highly qualified specialists to work for the Company and its subsidiaries and affiliates.</li> </ul>	<p>The Company continuously monitors commercially available assets with regard to the objectives of its long-term development strategy, enabling the Company to make an objective assessment of its competitive positions and to take the maximum benefit of its competitive advantages that include extensive work experience and synergy with the existing producing, transport, processing and distribution infrastructure.</p> <p>When acquiring equipment and services, the Company holds public tenders allowing it to diversify the suppliers and to ensure the best conditions. The Company works continuously to structure its relations with key service providers.</p> <p>The Company pursues an active marketing policy and takes efforts to expand its customer base, and to enter into long-term agreements with buyers.</p> <p>The Company implements an active HR policy and applies efficient mechanisms of attracting and retaining highly qualified employees.</p>

Risk description	Risk management approaches used by the Company
<p><b>Commodity price risks</b></p> <p>As an independent natural gas producer, NOVATEK is not subject to state regulation of natural gas prices. Nevertheless, the Company's prices are strongly influenced by the prices established by the Federal Tariff Service (FTS).</p> <p>Moreover, the Company is exposed to the current pricing environment on the Russian and international liquid hydrocarbon markets as it sells its products under spot contracts. Reduction of prices for liquid hydrocarbons may have a negative effect on the Company's financial performance.</p>	<p>State regulation of gas prices significantly reduces the risk of price volatility on the Russian gas market, but does not exclude potential price reduction.</p> <p>In view of the vertically integrated production chain for liquid hydrocarbons, the Company does not use commodity derivative financial instruments to reduce the risk of price changes for such type of products.</p>
<p><b>Geological risks</b></p> <p>Exploration drilling is associated with multiple risks, including the risk of non-availability of commercial reserves. Information on the Company's reserves is estimated and depends on a number of factors and assumptions. Actual production volumes across fields, along with the cost-effectiveness of reserve exploitation may deviate from estimated figures.</p>	<p>To minimize geological risks, the Company applies modern technologies and methods of geological exploration and geological modeling.</p> <p>The Company makes an annual assessment and evaluation of its reserves based on the exploration and production drilling and other research information. An independent international adviser evaluates the Company's reserves according to international standards.</p>
<p><b>Risk of early termination, suspension or restriction of the right to use subsurface mineral resources</b></p> <p>Exploration and production of hydrocarbons in Russia is subject to licensing. The Company is thus exposed to the risk of early termination, suspension or restriction of its right to use subsurface mineral resources.</p>	<p>The Company strives to comply, and maintains a continuous monitoring of its compliance with the license agreements and the subsoil use laws, and submits timely requests for adjusting the terms of its license agreements.</p>
<p><b>Environmental risks</b></p> <p>The Company is subject to the probability of events having adverse consequences for the environment and caused by a negative impact of its economic and other activities, as well as natural and technology-related emergencies.</p>	<p>The Company and its key subsidiaries have an environmental management system according to ISO 14001:2004 standard to ensure rational use of resources and to minimize the adverse effect the Company's operation may have on the environment.</p>
<p><b>Ethical risks</b></p> <p>The Company is exposed to the risks of disturbed relationships within the Company and with its subsidiaries or joint ventures, shareholders, investors, the government, the public, consumers or suppliers or other corporate entities or individuals, including the risk of fraud, corruption, and conflict of interest.</p>	<p>In 2011, in order to minimize ethical risks, the Company introduced a Code of Business Conduct and Ethics approved by Resolution of the Board of Directors. For any violations of the Code, the Company's personnel may be subjected to disciplinary sanctions.</p> <p>To exclude ethical risks with respect to its shareholders and investors, the Company is governed by the provisions of the internal Code of Corporate Conduct and the applicable Russian and English law in terms of public company regulation.</p> <p>To exclude ethical risks in its relations with third parties, the Company carries out tender procedures to select counterparties and has a well established internal control and audit system.</p>
<p><b>Social risks</b></p> <p>The Company is subject to the following risks of a social nature:</p> <ul style="list-style-type: none"> <li>• internal risks associated with a possible incompliance of social programs implemented by the Company with the industry's average level that may lead to a higher labor turnover;</li> <li>• external risks associated with potential impediments in normal production activities caused by the public living in proximity to the production facilities.</li> </ul>	<p>The Company strives to ensure compliance of its social programs with the industry's average level and uses the latest mechanisms for attracting and retaining highly professional employees.</p> <p>The Company's production facilities are located outside densely populated territories, and the Company monitors compliance with the rules and regulations while operating its facilities. The risks related to possible military conflicts, announcement of a state of emergency, or strikes, are insignificant, as the Company operates in economically and socially stable regions.</p>
<p><b>Terrorism risks</b></p> <p>The Company is subject to a risk of terrorist threat.</p>	<p>The Company takes measures required to ensure strict compliance with Federal Law No. 256-FZ of July 21, 2011 concerning the Fuel and Energy Complex Security.</p> <p>A complex of organizational and practical measures is constantly in place to ensure security of facilities, including linear ones.</p>

Risk description	Risk management approaches used by the Company
<p><b>Country risk</b></p> <p>NOVATEK is a Russian company operating in a number of Russian regions. Country risk is defined by the fact that Russia is still an emerging economy, the economic environment of which is not sufficiently stable.</p>	<p>Export of liquid hydrocarbons, a balanced financial policy, access to international capital markets, and an active marketing policy enable the Company to mitigate the potential effect of the country risk.</p>
<p><b>Regional risk</b></p> <p>The Company produces and processes hydrocarbons within Western Siberia, a region with a challenging climate.</p>	<p>The Company's vulnerability to region-specific impacts is insignificant and is entirely taken into account by the Company's management when carrying out financial and production operations.</p>
<p><b>FINANCIAL RISKS</b></p>	
<p><b>Credit risk</b></p> <p>The Company is exposed to a risk of losses related to a failure by counterparties to perform their contractual financial obligations when due, and in particular depends on the reliability of banks in which the Company deposits its available cash.</p>	<p>When selling natural gas on the domestic market, the Company continuously monitors the financial soundness of its counterparties and strives to diversify its customer base as much as possible.</p> <p>Most of NOVATEK's international liquid sales are made to major customers with independent external ratings. Almost all domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis.</p> <p>Although the Company does not require any collateral in respect of trade and other receivables, it has developed standard credit payment terms and constantly monitors the status of trade receivables and the creditworthiness of its customers.</p> <p>When selecting banks, the Company is governed by the bank's reliability, confirmed by international ratings.</p>
<p><b>Reinvestment risk</b></p> <p>The Company's operations require substantial investments into field exploration and development, followed by the production, transportation, and processing of natural gas, oil, and gas condensate. Insufficient funding for these and other expenditures may affect the Company's financial standing and performance.</p>	<p>The Company's capital investment plans are defined in its long-term development strategy, are revised on an annual basis and are generally in line with the Company's ability to generate cash flow from operations with regard to the need to pay dividend.</p> <p>Access to Russian and international capital markets is an additional source of financing the Company's investment program.</p> <p>Provided the hydrocarbon market maintains favorable conditions, the reinvestment risk is insignificant.</p>
<p><b>Interest risks</b></p> <p>As a major borrower, the Company is subject to risks associated with an increase in interest rates. The growth of interest rates may restrict the use of borrowed capital as a financing source for the Company's investment activity.</p>	<p>The Company pursues a balanced fundraising policy and strives to maximize the share of long-term liabilities with fixed rates in its debt portfolio. The Company tries to preserve the flexibility of its investment program and to finance its capital expenditures mainly out of its own funds.</p>
<p><b>Currency risks</b></p> <p>Part of the Company's liabilities is denominated in foreign currency, which may lead to losses in the event of ruble depreciation. On the other hand, part of the Company's proceeds is also denominated in foreign currency, which may lead to losses in the event of ruble appreciation.</p>	<p>The liabilities expressed in foreign currency on the one hand, and export proceeds on the other generally compensate each other and are a natural mechanism of currency risk hedging. The volume of proceeds from export generally ensures servicing of currency liabilities. Consequently, currency risks will not have a material effect on the Company's business.</p>

Risk description	Risk management approaches used by the Company
<p><b>Liquidity risk</b></p> <p>Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.</p>	<p>The Company's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. In managing its liquidity risk, NOVATEK maintains adequate cash reserves and debt facilities, continuously monitors forecasted and actual cash flows and matches the maturity profiles of financial assets and liabilities.</p> <p>The Company prepares various financial plans (monthly, quarterly and annually) that ensure the Company has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. The Company uses various short-term borrowings. The Company may use credit facilities and bank overdrafts to satisfy its short-term finance needs. To satisfy its needs for cash on a more permanent basis, the Company will normally raise long-term loans on international and domestic markets.</p>
<p><b>Inflation risk</b></p> <p>Changes in the consumer price index have an impact on NOVATEK's profitability and, as a consequence, its financial standing and ability to pay on liabilities and securities.</p>	<p>NOVATEK may not be able to predict the inflation level, since, apart from the consumer price level, it is necessary to take into account the change in the real purchasing power of the Russian ruble, the pricing conditions in liquid hydrocarbon export markets, and government policy in relation to tariffs for natural gas.</p> <p>NOVATEK monitors the consumer price index and takes this factor into account when determining its selling prices.</p>
<p><b>Risk associated with the impact of the global financial crisis</b></p> <p>The main negative consequences of the financial crisis for the Company may include ruble depreciation and reduced demand for natural gas as a result of decreased industrial production in Russia.</p>	<p>The Company pursues an active sales policy, enabling it to sell all produced gas with continuously growing production volumes. In the event of a possible drop in demand for natural gas on the part of industrial consumers, the Company will exert every effort to find new consumers.</p>
<p><b>LEGAL RISKS</b></p>	
<p><b>Risk of law changes</b></p> <p>The Company is subject to a risk of consequences of changes in Russian laws in the following areas:</p> <ul style="list-style-type: none"> <li>• currency laws (in areas concerning export/import and borrowing operations);</li> <li>• tax laws (in areas regulating taxation systems and rates applicable to companies in general, and to companies marketing natural gas and liquid hydrocarbons, specifically);</li> <li>• customs laws (in areas concerning the export of liquid hydrocarbons and their derivatives); and</li> <li>• licensing requirements for natural resource extraction.</li> </ul>	<p>The Company is constantly monitoring draft laws, enabling it to evaluate the consequences of such changes and to take them into account in its plans.</p>
<p><b>Litigation risks</b></p> <p>The Company may be involved as a defendant or plaintiff in a number of proceedings arising in the normal course of its business.</p>	<p>When conducting its business, the Company adheres to the principle of prudence. Due to this fact, as of the approval date of the Annual Report, the Company was not involved in any material litigation and the associated risks are insignificant.</p>

## Risk insurance

Risk insurance is an integral part of NOVATEK's risk management system. In 2013, the insurance coverage guaranteed adequate protection against the risks of damage to the business of the Company or its subsidiaries and affiliates. Insurance is provided by reputable domestic insurance companies that have the highest insurance ratings in Russia (Standard & Poor's BBB-/ Stable on National Scale: ruAA +) with risk reinsurance by major world insurance companies.

### OBLIGATORY RISK INSURANCE

The Company and its subsidiaries and affiliates fully meet the requirements of the applicable laws for maintaining obligatory insurance, such as civil liability insurance of:

- owners of hazardous production facilities;
- owners of transport vehicles.

### OPTIONAL RISK INSURANCE

To reduce the risk of financial losses, the Company and its subsidiaries and affiliates maintain the following types of optional insurance:

- insurance of the risk of property damage/loss;
- insurance of the risk of damage from business interruption;
- management liability insurance.

Since 1 May 2013, the Company structured and implemented a comprehensive program of property and business risk insurance with respect to its and its subsidiaries' and affiliates' key assets. The program makes it possible to reduce potential losses resulting from the materialization of technology-related risks at gas production, processing and selling facilities, including possible losses from reduced volumes of hydrocarbon extraction and processing by subsidiaries and, as a result, reduced sales proceeds. The cumulative insured amount for the risks of property damage and business interruption exceeds 259 billion rubles. Full cost recovery is in place. The program meets all current international standards for oil and gas insurance, takes into account the technological characteristics of NOVATEK companies and the business processes arranged by the Company. The implemented program is viewed by the Company's management as an additional measure for mitigating the consequences of potential accidents and provides additional guarantees for the attainment of the expected net profit and key indicators of the Company's performance in the short and long term.

For more than eight (8) years the Company has maintained management liability insurance for the top management of the Company and its subsidiaries and affiliates against possible third-party claims for any losses incurred through any wrong action (or decision) made by its management bodies. The overall limit of all insurance coverage is 150 million U.S. dollars.

## Information on Members of NOVATEK's Board of Directors

### MR. ALEXANDER Y. NATALENKO

*Born in 1946*

- Chairman of NOVATEK's Board of Directors and Chairman of its Strategy and Investments Committee

Mr. Natalenko completed his studies at the Irkutsk State University in 1969 with a primary focus in Geological Engineering. Subsequently, he worked with the Yagodinskaya, Bagdarinskaya, Berelekhskaya, Anadirskaya and East-Chukotskaya geological expeditions. In 1986, Mr. Natalenko headed the North-East Industrial and Geological Association and, in 1992, he was elected president of AO "Magadan Gold & Silver Company". He subsequently held various executive positions in Russian and foreign geological organizations. From 1996 to 2001, Mr. Natalenko held the position of Deputy Minister of Natural Resources of the Russian Federation. He is a member of the Board of Directors of ZAO GC VERTEX and OAO Rosgeologia.

Mr. Natalenko is the recipient of the State Prize of the Russian Federation and an Honored Geologist of Russia.

### MR. ANDREI I. AKIMOV

*Born in 1953*

- Member of NOVATEK's Board of Directors and Chairman of its Corporate Governance and Remuneration Committee
- Chairman of the Management Board of "Gazprombank" (OAO)

Mr. Akimov graduated from the Moscow Financial Institute in 1975 where he specialized in international economics. Between 1974 and 1987, Mr. Akimov held various executive positions in the Bank for Foreign Trade of the USSR. From 1985 to 1987 he served as Deputy Chief General Manager of the Bank for Foreign Trade branch in Zurich (Switzerland) and between 1987 and 1990, Mr. Akimov was the Chairman of the Management Board of Donau Bank in Vienna (Austria). From February 1991 to January 2003 he was Managing Director of financial company, IMAG Investment Management & Advisory Group AG (Austria). Since 2003, Mr. Akimov has been the Chairman of the Management Board of Gazprombank (OAO). He is a member of Board of Directors of OAO Gazprom, Gazprombank (OAO), OAO Rosneftegaz, Gazprom Germania GmbH, OOO Gazprom gas motor fuel, GPB International S.A. and other.

### DR. BURCKHARD BERGMANN

*Born in 1943*

- Member of NOVATEK's Board of Directors, its Corporate Governance and Remuneration Committee, its Audit Committee and its Strategy and Investments Committee



- Board Member of the Presidium of the German-Russian Chamber of Commerce
- Member of the Advisory Board of the Union of German Science Funds

Dr. Bergmann studied physics at the Freiburg and Aachen Universities from 1962 to 1968 and was awarded a Doctorate in Engineering by Aachen University of Technology in 1970. From 1968 to 1969, Dr. Bergmann worked at the German Federal Ministry for Research and Technology and from 1969 to 1972 – at the Jülich Nuclear Research Center. In 1972, Dr. Bergmann joined Ruhrgas AG (from 1 July 2004 – E.ON Ruhrgas AG), heading the LNG Purchasing Department. In 1978, he became Head of the Gas Purchasing Division responsible for gas purchasing, commercial aspects of gas transmission and storage. In 1980, he was elected as a member of the Management Board of E.ON Ruhrgas AG, serving from June 1996 as its Vice-Chairman and from June 2001 to February 2008 as its Chairman. From March 2003 to February 2008 he was also a member of the Management Board of E.ON AG.

Dr. Bergmann is also a member of the Board of Directors (Supervisory Board) of: Allianz Lebensversicherungs-AG, (till 2013), Commerzbank AG, (till 2013), Contilia GmbH, Telenor ASA. In addition, he is a member of the Advisory Boards for Dana Gas International, IVG Immobilien AG. He has been elected as Chairman of the Advisory Board of Jaeger Beteiligungsgesellschaft mbH & Co KG, Vice Chairman of the Advisory Board of Accumulatoren-werke Hoppecke GmbH and is elected a member of the Board of Trustees of RAG AG.

Dr. Bergmann holds the following distinctions: Commander of the Royal Norwegian Order of Merit (1997); Honorary Consul of the Russian Federation in the State of North Rhine-Westphalia a Foreign Member of the Academy of Technological Sciences of the Russian Federation (2003); Order of Merit of the State of North Rhine-Westphalia (2004) as well as a winner of Director of the Year, Moscow (2007); Officer's Cross of the Order of Merit of the Federal Republic of Germany (2008). In June 2011, by means of presidential Decree he became a recipient of the Order of the Friendship of Peoples award for significant contribution in development of the Russian-German relations.

#### MR. MARK A. GYETVAY *Born in 1957*

- Member of NOVATEK's Board of Directors and Member of its Strategy and Investments Committee
- Member and Deputy Chairman of NOVATEK's Management Board
- Chief Financial Officer

Mr. Gyetvay studied at Arizona State University (Bachelor of Science, Accounting, 1981) and later at Pace University, New York (Graduate Studies in Strategic Management, 1995). After graduation, Mr. Gyetvay worked in various capacities at a number of independent oil and gas companies (Champlin Petroleum Co., Texas, Ensource

Inc. and MAG Enterprises, Colorado, and Amerada Hess Corporation, New Jersey) where he specialized in financial and economic analysis for both upstream and downstream segments of the petroleum industry.

In 1994, Mr. Gyetvay began his work at Coopers and Lybrand, as Director, Strategic Energy Advisory Services. He subsequently moved to Moscow in 1995 with Coopers & Lybrand to lead the oil and gas practice. He was admitted as a partner of PricewaterhouseCoopers Global Energy where he assumed the role of client service engagement partner, Utilities and Mining practice, based in Russia (Moscow office). Mr. Gyetvay was an engagement partner on various energy and mining clients providing overall project management, financial and operational expertise, maintaining and supporting client service relationships as well as serving as concurring partner on transaction services to the petroleum sector.

Mr. Gyetvay is a Certified Public Accountant, a member of the American Institute of Certified Public Accountants and an associate member of the Society of Petroleum Engineers.

In 2003, Mr. Gyetvay became a member of NOVATEK's Board of Directors and is also a Member of the Strategy and Investments Committee of NOVATEK's Board of Directors. Since 2004–2008, he has been Chief Financial Officer and, in August 2007, Mr. Gyetvay was elected to NOVATEK's Management Board and, in July 2010, he became Deputy Director of NOVATEK's Management Board.

#### MR. YVES LOUIS CHARLE JUSTIN DARRICARRERE *Born in 1951*

- Member of NOVATEK's Board of Directors and its Strategy and Investments Committee
- President of Total Upstream

After lecturing at the Ecole des Mines de Paris for 3 years, Yves-Louis Darricarrère began his career in Elf Aquitaine in 1978, first in the Mining Division in Australia and later in the Exploration & Production Branch, where he was appointed successively Country Representative for Australia and Egypt at head office; Managing Director of the subsidiaries in Egypt and then in Colombia; Director Business development and new ventures, then Finance Director of the Exploration & Production Branch and of the Oil and Gas directorate. In 1998, he was appointed Deputy Director-General of Elf Exploration-Production responsible for Europe and the United States and was nominated a member of the Management Board of Elf-Aquitaine.

In 2000, he was appointed Senior Vice-President for Exploration & Production Northern Europe and became a member of the Total Group Management Board. On 1st September 2003, Yves-Louis Darricarrère was nominated to the Group's Executive Committee and was appointed President of Total Gas & Power. On 14th February 2007, he became President of Total Exploration & Production. On 1st July 2012, he became President of Total Upstream regrouping Total Exploration & Production and Total Gas & Power.

Yves-Louis Darricarrère is a graduate of the Ecole Nationale Supérieure des Mines and the Institut d'Etudes Politiques in Paris and holds a master's degree in economic science. He is chevalier de la Légion d'Honneur (Knight of the French Legion of Honour).

#### MR. VLADIMIR A. DMITRIEV

*Born in 1953*

- Member of NOVATEK's Board of Directors and Chairman of its Audit Committee

In 1975, graduated from the Moscow Finance Institute, speciality – "International Economic Relations". Doctor of Economics. Corresponding member, Russian Academy of Natural Sciences.

1975–1979 – State Committee of USSR Council of Ministers for Foreign Economic Relations, engineer.  
1979–1986 – Attache, third secretary, USSR Foreign Ministry Department. 1986–1987 – Institute of World Economics and International Relations, USSR Academy of Sciences, research worker. 1987–1992 – USSR Embassy of USSR Ministry for Foreign Affairs, Second, First Secretary. 1992–1993 – Russian Embassy of Russian Ministry for Foreign Affairs, First Secretary. 1993–1997 – Deputy Chief Executive Officer, Russian Finance Ministry Department. 1997–2002 – Bank for Foreign Economic Affairs of the USSR, First Deputy Chairman.

2002–2004 – Bank for Foreign Trade of the USSR (OJSC), Deputy President – Chairman of the Board.  
2004–2007 – Bank for Foreign Economic Affairs of the USSR, Chairman. From June 2007 – State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)", Chairman.

For outstanding contribution to the development of the financial and banking system of Russia, long-standing and dedicated work he was awarded the Order of Alexander Nevsky, the Order "For Merits and Dedicated Service to the Country", IV Degree, the Order of Honor, the Order of Saint Sergiy Radonezhsky, II Degree, the Order of Blessed Prince Daniil Moskovsky, II Degree, the Medal of the Order "For the Merits and Dedicated Service to the Country", the Order of the Banner of the Republic of Serbia with Golden Wreath, the Order of Merit of the Italian Republic, Grand Officer Grade, the Russian Association of Banks Decoration of Honor "For Merits and Dedicated Service to the Banking Community", "Excellent Employee of Vnesheconombank" Badge, his name is recorded in Vnesheconombank's Book of Honor, he was also officially thanked by the President and the Government of the Russian Federation.

#### MR. LEONID V. MIKHELSON

*Born in 1955*

- Member of NOVATEK's Board of Directors
- Chairman of NOVATEK's Management Board

Mr. Mikhelson received his primary degree from the Samara Institute of Civil Engineering in 1977, where he specialized in Industrial Civil Engineering. That same year, Mr. Mikhelson began his career as foreman of a construction and assembling company in Surgut, Tyumen region, where he worked on the construction of the first section of Urengoi-Chelyabinsk gas pipeline. In 1985, Mr. Mikhelson was appointed Chief Engineer of Ryazantruboprovodstroy. In 1987, he became General Director of Kuibishevtruboprovodstroy, which in 1991, was the first company in the region to sell its shares and became private company, AO SNP NOVA. Mr. Mikhelson remained SNP NOVA's Managing Director from 1987 through 1994. Subsequently, he became a General Director of the management company "Novafininvest".

Since 2003, Mr. Mikhelson has served as a member of the Board of Directors and Chairman of the Management Board of NOVATEK. From March 2008 to December 2010, he has been a member of the Board of Directors of OAO Stroytransgas. From 2009 to 2010 he was the Chairman of the Board of Directors of OAO Yamal LNG and from 2008 to 2011 he was a member of the Board of Directors of OOO Art Finance. From 2011 he is the Chairman of the Board of Directors of OAO SIBUR Holding and from 2011 to 2013 he was a member of the Supervisory Board of the OAO Russian Regional Development Bank. Mr. Mikhelson is the recipient of the Russian Federation's Order of the Badge of Honor and the Order of Merit of the Italian Republic.

#### MR. KIRILL G. SELEZNEV

*Born in 1974*

- Member of NOVATEK's Board of Directors and its Corporate Governance and Remuneration Committee
- Member of the Management Board, Director of Gas and Liquid Hydrocarbons Marketing and Processing Department of OAO "Gazprom"
- General Director of OOO Gazprom Mezhregiongaz

Mr. Seleznev, graduated from the D.F. Ustinov Baltic State Institute of Technology in 1997 and, in 2002, received a degree in Finance and Credit from the St. Petersburg State University. Upon completion of his university studies, Mr. Seleznev managed OOO "Baltic Finance Company", OAO Investment and Financial Group "Management Investments Development" and OAO "St. Petersburg Sea Port", all of which are located in St. Petersburg, Russia. In 2000, Mr. Seleznev was appointed as Chief of the Tax Group at OAO "Baltic Pipeline System", St. Petersburg, Russia. Between 2001 and 2002, Mr. Seleznev held the position of Deputy Chief of Staff of the Management Board and Assistant to Chief Executive Officer of OAO Gazprom, in Moscow, Russia. Since 2002, he has been the head of the Gas and Liquid Hydrocarbons Marketing and Processing Department of OAO Gazprom and a Member of the OAO Gazprom Management Board. Since 2003, Mr. Seleznev has been the General Director of OOO Gazprom Mezhregiongaz.

Mr. Seleznev is also a member of the Board of Directors and Supervisory Board of several other entities.

**MR. GENNADY TIMCHENKO***Born in 1952*

- Member of NOVATEK's Board of Directors and its Strategy and Investments Committee and its Audit Committee

In 1976, Mr. Timchenko graduated with a Master's of Science from the Mechanical University in Leningrad. He began his career at the Izjorskii Factory in Leningrad, an industrial plant which made components for the energy industry. Between 1982 and 1988, he was a Senior Engineer at the Ministry of Foreign Trade. Mr. Timchenko has more than 20 years of experience in Russian and International energy sectors and he has built interests in trading, logistics and transportation related companies.

In 1988, Mr. Timchenko became a vice president of Kirishineftekhimexport, the export and trading arm of the Kirishi refinery in the Leningrad region. In 1991, he worked for Urals Finland which specialized in oil and petrochemical trading. Between 1994 and 2001, Mr. Timchenko was managing Director of IPP OY Finland and IPP AB Sweden. In 1997, he co-founded Gunvor, a leading independent oil-trading company. Mr. Timchenko was a member of the Board of Directors of OOO Transoil and OOO BalttransService. Mr. Timchenko is also the Chairman of the Board of Directors and President of the Ice Hockey Club SKA St-Petersburg, as well as the Chairman of the Board of Directors of OOO Kontinental Hockey League.

## Information on Members of NOVATEK's Management Board

**MR. LEONID V. MIKHELSON***Born in 1955*

- Chairman of NOVATEK's Management Board
- Member of NOVATEK's Board of Directors

Details on Mr. Leonid V. Mikhelson are available in the "Information on Members of NOVATEK's Board of Directors" section.

**MR. VLADIMIR A. BASKOV***Born in 1960*

- Deputy Chairman of NOVATEK's Management Board

In 1986, Mr. Baskov graduated from the Moscow Higher Police School of the USSR. In 2000, he completed courses at the Management Academy at the Russian Ministry for Internal Affairs. From 1981 to 2003, he served in various departments within the Russian Ministry for Internal Affairs. From 1991 to 2003, Mr. Baskov held managerial positions within the aforementioned Ministry's organizational structures. In 2003 he was appointed Director of the Business Support Department for NOVATEK. In 2005 he was appointed Deputy Chairman of NOVATEK's

Management Board and in August 2007 he became a member of NOVATEK's Management Board. Candidate of legal Sciences. He was awarded the Order For Personal Courage, the Russian Federation's Order of the Badge of Honor and other state and departmental awards: Honorary Diplomas of the President of the Russian Federation, the Ministry of Internal Affairs, the Governor of the Moscow Region. He also has the awards of the Russian Orthodox Church (Order of Holy Prince Daniel of Moscow and a medal of St. Sergius).

**MR. MARK A. GYETVAY***Born in 1957*

- Deputy Chairman of NOVATEK's Management Board, Chief Financial Officer
- Member of NOVATEK's Board of Directors and its Strategy and Investments Committee

Details on Mr. Mark A. Gyetvay are available in the "Information on Members of NOVATEK's Board of Directors" section.

**MS. TATYANA S. KUZNETSOVA***Born in 1960*

- Deputy Chairman of NOVATEK's Management Board
- Director of NOVATEK's Legal Department

Ms. Kuznetsova graduated from the Far East State University with a degree in Law. From 1986, she was Senior Legal Advisor for a legal bureau. In 1993, Ms. Kuznetsova became Deputy General Director for Legal Issues and from 1996, Marketing Director for OAO Purneftegasgeologiya. In 1998, she was appointed Deputy General Director of OAO Nordpipes. Since 2002, she has been Director of the Legal Department for NOVATEK. Since 2005, she has been the Deputy Chairman of NOVATEK's Management Board – Director of NOVATEK's Legal Department and in August 2007, she became a member of NOVATEK's Management Board.

**MR. IOSIF L. LEVINZON***Born in 1956*

- Deputy Chairman of NOVATEK's Management Board

Mr. Levinzon graduated from the Tyumen Industrial Institute specializing in geology and is a Candidate of Geological and Mineralogical Science. He continued postgraduate studies in Perm State Technical University. From 1978 to 1987, he was the Head of the Urengoy oil expedition and from 1987 to 1996 he was the General Director of Purneftegasgeologiya. From 1996 to 2005, Mr. Levinzon was the Deputy Governor, 1st Deputy Governor and Vice-Governor of the Yamal-Nenets Autonomous Region. From 2005 to 2006, Mr. Levinzon he has been an Advisor to the Chairman of the Federation Council of the Federal Assembly of the Russian Federation. From 2006 to 2009, Mr. Levinzon has been an Advisor on Corporate and Strategic Development

at ZAO OSTER and also at ZAO Investgeoservis. Since August 2009, Mr. Levinzon has held the position of Deputy Chairman of NOVATEK's Management Board and in December 2009 he was elected a member of NOVATEK's Management Board. Mr. Levinzon is a recipient of the Honored Geologist of Russia, the Order of the Badge of Honor and the Order of the Friendship of Peoples awards and has been awarded the Certificate of Merit from the Governor of the Yamal-Nenets Autonomous Region.

#### MR. MIKHAIL V. POPOV

*Born in 1969*

- First Deputy Chairman of NOVATEK's Management Board
- Commercial Director

Mr. Popov studied at the Gubkin State Academy of Oil and Gas until 1992 and in 1994, graduated from the Kiev Institute of National Economy. In 1992, he held the position of Deputy Chairman of AO Bankomsvyaz's Managing Committee (Kiev). In 2002, he was appointed Director of the Capital Construction Department and Deputy General Director of OAO Novafininvest. From 2003, Mr. Popov served as Director of Crude Oil and Oil Products Department of OAO NOVATEK. In 2004, Mr. Popov was elected First Deputy Chairman of NOVATEK's Management Board. Since August 2007, he has been a member of the Management Board and since May 2011, he has been NOVATEK's First Deputy Chairman-Commercial Director.

#### MR. ALEXANDER M. FRIDMAN

*Born in: 1951*

- Deputy Chairman of NOVATEK's Management Board

In 1973, Mr. Fridman graduated from the Gubkin Institute of Oil and Gas in Moscow, with a degree in Oil and Gas Fields Development and Exploitation. Since 1984, he was employed by various Gazprom companies: as Chief Engineer of Nadymgazprom, Head of the Production and Technical Department of the Industrial Association, and Chief Engineer of Mostransgaz's Kaluga Department for Gas Transportation and Underground Storage. From 1992 to 2003, he was First Deputy General Director of a joint venture established by OAO Gazprom and DKG-EAST (Hungary). Since 2003 Mr. Fridman was the Deputy General Director of Novafininvest. In 2004, Mr. Fridman was elected Deputy Chairman of the Management Board of OAO NOVATEK. In August 2007, he has been a member of NOVATEK's Management Board.

#### MR. KIRILL N. YANOVSKIY

*Born in 1967*

- Member of NOVATEK's Management Board
- Director for Finance and Strategy

In 1991, Mr. Yanovskiy graduated from the Gubkin Institute of Oil and Gas in Moscow. From 1992, he headed a department of the Yugorsky Joint-Stock Bank. From 1995, he

headed the Securities Department at the Neftek Joint-Stock Commercial Bank. Since 2002, he has been Director of NOVATEK's Financial Planning, Analysis and Control Department. In August 2007, Mr. Yanovskiy was elected to NOVATEK's Management Board and in 2007 was appointed Deputy Director for Finance and Strategy. Since May 2011 he has been Director for Finance and Strategy.

## Major Transactions and Related Party Transactions

In 2013, NOVATEK consummated one related party transaction and no major transactions.

**Type of the transaction:** related party transaction.

**Subject-matter of the transaction:** Natural Gas Liquids (NGL) Supply Contract between OAO NOVATEK (Supplier) and OAO SIBUR Holding (Buyer).

**Transaction date:** 17.12.2013.

**Substance of the transaction including the civil rights and obligations intended to be established, changed or terminated by the consummated transaction:** Supply of natural gas liquids (NGL) by OAO NOVATEK (Supplier) to OAO SIBUR Holding (Buyer).

**Term of obligations performance under the transaction:** Delivery period: 2014 through 2033 (inclusive).

**Parties and beneficiaries to the transaction:** OAO NOVATEK (Supplier) and OAO SIBUR Holding (Buyer).

**Transaction price:** Not more than RR 410,000,000,000 (four hundred and ten billion) including 18% VAT. The NGL price is calculated for the period from 2014 to 2033 according to formula based on the market value of products received as a result of NGL processing subject to forecasted increase of formula components.

**Size of the transaction as percentage of the issuer's asset value:** 118.69.

**The issuer's asset value as of the end date of the reporting period (quarter, year) preceding to the transaction consummation (Date of the Contract) in relation to which the accounting statements have been prepared in accordance with the applicable laws of Russian Federation:** RR 345,410,212,000.

**Information on the transaction approval in the event that such transaction was approved by the issuer's authorized management body:** NOVATEK EGM Minutes № 117 dated 10 January 2013.

**Interested parties:** Chairman of NOVATEK'S Management Committee and NOVATEK's Board Member Leonid Viktorovich Mikhelson; NOVATEK's Board Member Gennady Nikolaevich Timchenko.

## Forward-looking statements

This Annual Review 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 Annual Report and Accounts, 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 Annual Review 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.

## Abbreviations

Mentions in this Annual Report 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.

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

## Conversion factors

1000 cubic meters of gas = 6.54 boe.

To convert crude oil and gas condensate reserves from tons to barrels we used various coefficients depending on the liquids density at each field.

# CONTACT INFORMATION

## Legal address

22 A Pobedy Street, Tarko-Sale, Yamal-Nenets  
Autonomous Region, 629850, Russia

## Office in Moscow

2, Udaltsova Street, 119415, Moscow, Russia

## Central Information Service

Tel: +7 495 730-6000

Fax: +7 495 721-2253

E-mail: [novatek@novatek.ru](mailto:novatek@novatek.ru)

## Press Service

Tel: +7 495 721-2207

E-mail: [press@novatek.ru](mailto:press@novatek.ru)

## Investor Relations

Tel: +7 495 730-6013

Fax: +7 495 730-6000

E-mail: [ir@novatek.ru](mailto:ir@novatek.ru)

## Registrar

ZAO "Computershare Registrar"  
8 Ivana Franko Street, Moscow  
Russia 121108

Tel: +7 (495) 926-8160

Fax: +7 (495) 926-8178

E-mail: [info@nrcreg.ru](mailto:info@nrcreg.ru)

## GDR program Administrator

Deutsche Bank Trust Company Americas  
60 Wall Street, New York, New York  
100056, USA

London +44 20 7547 6500

New York +1 212 250 9100

Moscow +7 495 797 5209

## Independent Auditor

ZAO PricewaterhouseCoopers Audit

White Square Office Center, Butyrsky Val 10,  
125047 Moscow, Russia

Tel: +7 495 967-6000

Fax: +7 495 967-6001

## Independent Reserves Auditor

DeGolyer and MacNaughton

5001 Spring Valley Road, Suite 800, East Dallas  
Texas 75244, USA

Tel: +1 214 368-6391

Fax: +1 214 369-4061

E-mail: [degolyer@demac.com](mailto:degolyer@demac.com)

## Website

[www.novatek.ru](http://www.novatek.ru) (Russian version)

[www.novatek.ru/eng](http://www.novatek.ru/eng) (English version)





[WWW.NOVATEK.RU/EN](http://WWW.NOVATEK.RU/EN)