



NEW

QUALITY

OF GROWTH

Annual report
2014



NOVATEK

**NEW
QUALITY
OF GROWTH**

ANNUAL REPORT 2014

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

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.

#4

globally among publicly traded companies by proved natural gas reserves

12.6

bln boe of proved hydrocarbon reserves under SEC

19%

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

#7

globally among publicly traded companies by natural gas production volumes

62.1

bcm of natural gas produced in 2014

10%

of total Russian natural gas production

CONTENTS

Letter to Shareholders	6
Strategic priorities	10
Key Events and Achievements 2014	11
Key Indicators	12
Main Achievements by Businesses 2014.....	14

Review of Operating Results 38

Licenses	38
Hydrocarbon Reserves	38
Geological Exploration.....	39
Field Development	40
Hydrocarbon Production	41
Yamal LNG Project	42
Processing of Gas Condensate	43
Natural Gas Sales.....	44
Liquid Hydrocarbon Sales.....	44

Environmental and Social Responsibility 46

Environmental Protection	46
Health and Safety	47
Human Resources.....	47
Social Policy and Charity.....	48

Management and Corporate Governance 51

Corporate Governance	51
General Meeting of Shareholders	51
Board of Directors	52
Board Committees	53
Management Board	54
Remuneration to Members of the Board of Directors and Management Board	54
Internal Control and Audit	55
Share Capital	56
Dividends	57
Information Transparency	57

Additional Information..... 59

Major Risk Factors	59
Risk Insurance	63
Information on Members of NOVATEK's Board of Directors and Management Board	63
Major Transactions and Interested Party Transactions	68
Contact Information.....	72



Our license areas 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 have a large conventional reserve base with high reserves concentration and high potential of new geological discoveries.

FIELDS AND LICENSE AREAS WITH COMMERCIAL PRODUCTION

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

main production asset

first field of NOVATEK launched into commercial production

ultra-high content of gas condensate in the Achimov layers

Purovsky Gas Condensate Processing Plant

key element in the production chain used for gas condensate stabilization

Ust-Luga Complex

processes stable gas condensate into higher value added products

— gas condensate pipeline of NOVATEK

- - - - trunk gas pipelines of Gazprom

PROSPECTIVE FIELDS AND LICENSE AREAS

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

reserve base for the Yamal LNG project

large crude oil field

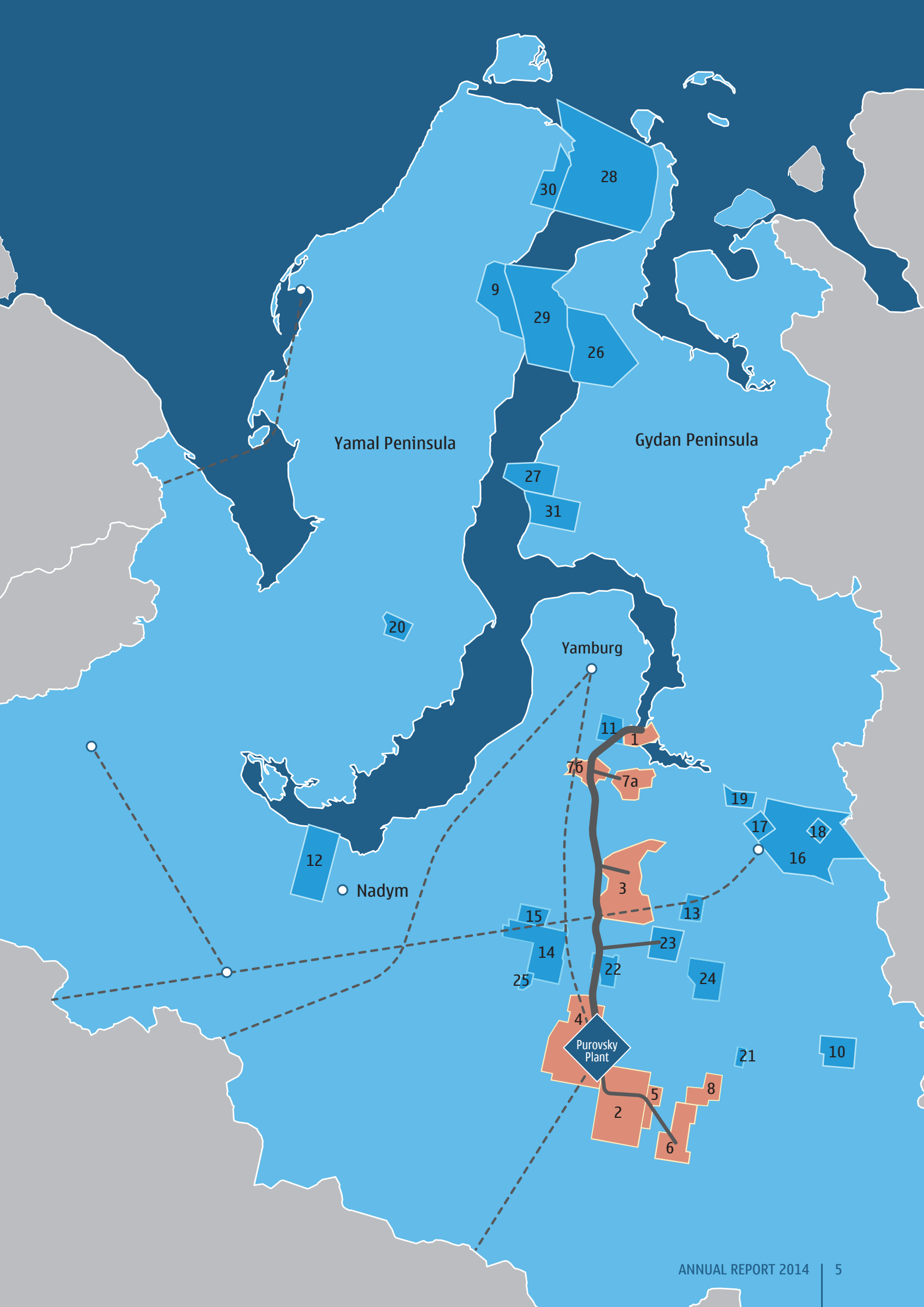
new prospective production cluster

reserve base for potential expansion of LNG production

geological exploration in the Gulf of Ob

license acquired in 2014

* Since October 2014 – North-Khancheykoye + Khadyryakhinskoye field.



LETTER TO SHAREHOLDERS

Dear Shareholders,

TWO THOUSAND AND FOURTEEN (2014) ushered in a new period of transition for NOVATEK as well as representing our 20th anniversary of operations. We are extremely proud of the many valued employees who have played a pivotal role in making the Company one of the largest natural gas producers in the world from our humble beginnings in 1994. Throughout this period, we remained focused on delivering exceptional operational and financial results, while adhering to international best practices of corporate governance, financial transparency, environmental excellence and sustainable development.

Our transition to a **NEW QUALITY OF GROWTH** underscored our mid-term strategy of increasing our liquid hydrocarbon production and the subsequent processing of hydrocarbons into value-added sales. In 2014, our marketable production of gas condensate and crude oil increased by 27% year-on-year, our throughput volumes at the Purovsky Plant grew by 36%, while the recently constructed Ust-Luga Complex increased its output by 2.5 times. As part of our strategic plans, we launched, expanded capacities and prepared for launching several large new fields that are expected to drive the growth of our gas condensate and natural gas production for the foreseeable future.

The production of natural gas and the marketing of natural gas sales on the Russian domestic market has traditionally been our core business. Since our inception, we have been actively expanding our hydrocarbon resource base through successful exploration and development activities, and currently rank amongst the Top Five globally among publicly traded companies in terms of proven



ALEXANDER NATALENKO

Chairman of the Board of Directors



LEONID MIKHELSON

Chairman of the Management Board



MARK GYETVAY

Deputy Chairman of the Management Board

natural gas reserves and 7th worldwide in terms of gas production volumes. Over the past 20 years, NOVATEK grew from a business idea to one of the world's largest natural gas producers with leading efficiency indicators.

Production, processing and sales of liquid hydrocarbons, including the exports of petroleum products with high added value, such as naphtha and jet fuel, are continuously gaining importance for us. These ongoing changes in our production output and sales structure are transformational for NOVATEK and the structure of our business.

During 2014, our production of liquids represented 11% of our total marketable output, whereas the share of liquids in the Company's consolidated revenues aggregated 35%, and their corresponding share in the Company's EBITDA – approximately 50%.

Our NEW TRANSITION TO QUALITY GROWTH, namely the increased production of liquid hydrocarbons, provides a much higher profitability per unit of sales as compared with our natural gas sales as well as a broader exposure to international sales and hard currency earnings. Moving forward, we consider gas condensate and oil production growth a key driver for increasing our financial results.

The past year was not without challenges as the oil and gas industry witnessed a dramatic fall in oil prices in the second half of 2014, forcing many oil and gas companies to proceed revise their plans, capital budgets and strategies. Our main competitive advantage has always been low "finding and development" and "lifting" cost structure ensuring sufficient flexibility and enabling us to continue implementing our strategy even in a sustained low oil-price environment. In particular, despite the drop in energy commodity prices, our proved reserves increased to 12.6 billion barrels of oil equivalent, while our year-on-year organic reserve replacement ratio exceeded 150%. We continued to fully fund our capital investment program with internally generated cash flows with the strategic aim of further developing of our production capacities.

In April 2014, we launched the Urengoykoye gas condensate field within the Samburgsky license area at our joint venture, SeverEnergiya, which is characterized by ultra-high content of gas condensate in the hydrocarbon production flow, and in December, we launched the second development phase of this field. In September 2014, we launched the third phase at the Samburgsky gas condensate field and in December – the North-Khancheykoye gas field. During the reporting year, we were very busy preparing several other new fields for the start of commercial production, including the Yaro-Yakhinskoye, Termokarstovoye and Yarudeyskoye fields with construction and equipment installation works largely completed at the first two fields as at year-end. All three of these new fields will be launched in 2015, ensuring further growth of liquid hydrocarbon production and the successful completion of our Five-Year Strategy as outlined in 2011.

We continued to demonstrate high-rates of production growth throughout 2014. In particular, the growth of our marketable gas production, excluding our share in Sibneftegas production in 2013, totaled 11.3%, while the overall production volumes exceeded 62 billion cubic meters, or bcm. Our crude oil and gas condensate production increased by 1.3 million tons, which increased the proportional share of liquid hydrocarbons in our overall production by 2.2 percentage points. With the field launches in the fourth quarter 2014 alone, we recorded a 42% growth in liquids production.

The successful implementation of our field development program and the rapid growth of gas condensate production will enable us, already in 2015, to fully utilize the processing capacities of our Purovsky Plant and the Ust-Luga Complex put into operation in 2013. During 2014, throughput volumes of stable gas condensate at the Ust-Luga complex increased to 4.7 million tons, while the expanded Purovsky Plant achieved 85% capacity utilization by year-end. The Ust-Luga Complex had a substantial positive impact on our financial results in 2014 by creating value added petroleum products by processing stable gas condensate into naphtha, jet fuel, fuel oil and gasoil alongside

One of the main competitive advantages of the Yamal LNG Project relative to other LNG projects globally is its high quality reserve base resulting in low cost development and production, while the Arctic climate substantially enhances the efficiency of the liquefaction process.

the savings we achieved on transportation costs due to the facility's convenient location on the Baltic Sea.

We continued to successfully implement our marketing strategy. Our natural gas sales volume exceeded 67 bcm, whereas the share of end-customers in our overall gas sales volumes mix increased from 89% to 94%. Total sales volumes of liquid hydrocarbons increased to seven million tons, or by 30% over 2013 volumes, and, in the fourth quarter, we recorded a 53% growth. Due to high quality of our petroleum products we successfully increased our international sales, diversified our customer base and expanded our sales geography.

Due to our growing production volumes and despite a rapid deterioration in the macroeconomic environment in the second half of 2014, we continued to demonstrate robust growth in our financial indicators. Our total revenues increased by 20% to RUR 357.6 bln. The Company's normalized EBITDA (including the share in EBITDA of joint ventures) increased by 23% and the free cash flow grew by 1.6 times. As a result, the Board of Directors recommended the General Meeting of Shareholders to approve dividends for the reporting year at RUR 10.3 per share, representing a growth of 31% compared with 2013.

We continued to implement our long-term strategy of expanding our eventual gas sales into the international gas markets via the LNG plant construction based on the hydrocarbon resource base of the South-Tambeyskoye field in the Yamal peninsula. The Yamal LNG Project is a unique and challenging project considering its geographical location in arctic climatic conditions. However, these challenges are offset by the substantial onshore conventional natural resources located on the prolific Yamal peninsula. One of the main competitive advantages of the Yamal LNG Project relative to other LNG projects globally is its high quality reserve base resulting in low cost development and production, while the Arctic climate

substantially enhances the efficiency of the liquefaction process. The combination of these factors makes the Yamal LNG project highly competitive in the end-consumer markets implying a low break-even price. We consider the reduction of energy prices in the second half of 2014 as an opportunity for natural gas to further grow its share in the global energy balance.

As part of the ongoing construction activities at the Yamal LNG Project, we completed the casting works for the external concrete walls on two LNG tanks for the plant's first train in 2014. We also contracted for the fabrication of LNG plant modules and, during the year, the steel cutting was done for the first modules and first LNG carriers of special Arctic design. We completed the first phase of construction at the International Sabetta Airport, where the milestone landing of the first Boeing 737 flight took place in December. At year-end 2014, 26 production wells were drilled at the South-Tambeyskoye field and the share of LNG volumes contracted exceeded 95%.

Our strong operating and financial results along with successful implementation of the Company's strategic projects would never be possible without adherence to the highest standards of corporate and social responsibility and commitment to environmental integrity and industrial safety. Since our core producing assets are located in the Far North, we support development in this region and cooperate with local administrations and organizations promoting the interests of indigenous minorities of the North. We also pay particular attention to the protection of the fragile environment of the North, employ world-class technologies enabling us to minimize the impact of our operations on the region's ecosystem, as well as actively participate in biodiversity conservation projects.

We would like to highlight the contribution of our employees, whose diverse expertise enables the Company to successfully implement its growth strategy, improve operating performance and realize our most challenging and advanced projects.

We recognize the current macro- and micro-economic environment will be quite challenging for us in the upcoming year but we believe we have the financial resources and operational capacity to withstand a period of market volatility, and it is our primary focus to steer the Company according to our long-term strategic objectives.

On behalf of the Board of Directors and Management, we are pleased to present the Annual Report of NOVATEK for 2014 and would like to thank our valued shareholders for your continued confidence in the Company and our long-term strategic plans.

Kind regards,



Alexander Natalenko
Chairman of the Board of Directors

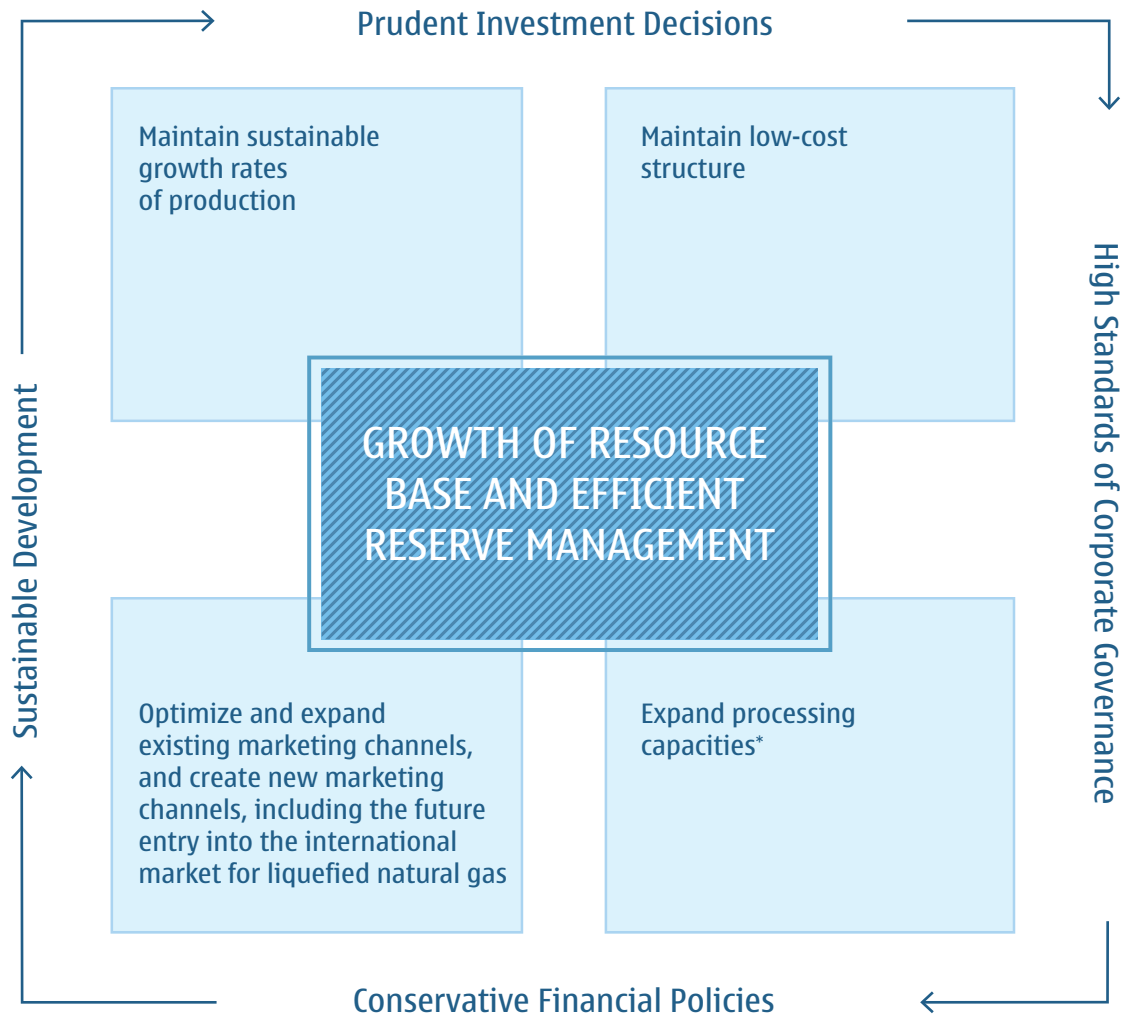


Leonid Mikhelson
Chairman of the Management Board



Mark Gyetvay
Deputy Chairman of the Management Board

STRATEGIC PRIORITIES



The Company has a number of key competitive advantages to successfully implement its strategy. Namely: the size and structure of its hydrocarbon resource base; the close proximity of existing infrastructure to core producing fields; a well-developed customer base for natural gas sales; its own facilities for gas condensate processing and product exports; and a well developed marketing channel 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.

* Fully accomplished in 2014.

KEY EVENTS AND ACHIEVEMENTS 2014

1

Launch of the third stage of the Samburgskoye field of the SeverEnergiya joint venture enabling the field to achieve full production capacity

2

Launch of the first and second stages of the Urengoykoye field development (within the Samburgsky license area of the SeverEnergiya joint venture), which is characterized by ultra-high content of gas condensate in the hydrocarbon production flow

3

Our marketable production of liquid hydrocarbons increased by a record 27% to six (6) million tons, including crude oil production growth by 55%

4

Despite the drop in energy commodity prices, our year-on-year organic proved reserve replacement ratio was 152%

5

Liquids exports increased by 20.5%, and the share of exports in the overall sales revenues grew to 28.2%

6

The Yaro-Yakhinskoye (SeverEnergiya joint venture) and Termokarstovoye (Terneftegas joint venture) gas and gas condensate fields were in advanced stages of preparation to be launched in the first half 2015

7

Construction progress on the EPC contract as part of the Yamal LNG project exceeded 20%

8

EBITDA increased by 23.4% to a historical record of RR 159.6 bln

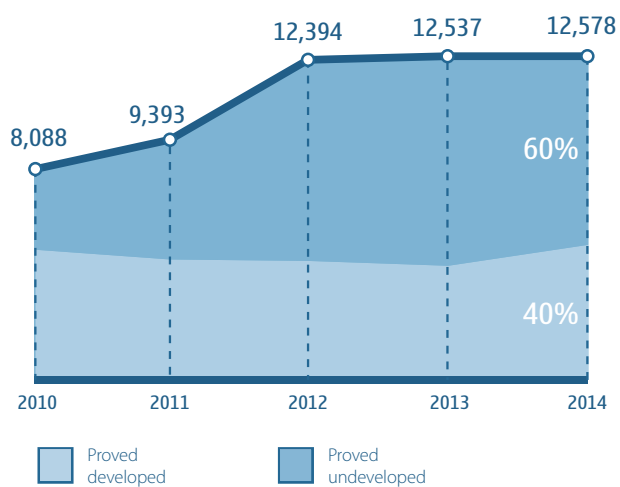
KEY INDICATORS

	Unit	2013	2014	Change
FINANCIAL INDICATORS				
Total revenues	RR mln	298,158	357,643	20.0%
Normalized profit from operations ⁽¹⁾	RR mln	106,277	125,140	17.7%
Normalized EBITDA (including share in EBITDA of JVs) ⁽¹⁾	RR mln	129,370	159,631	23.4%
Normalized profit attributable to shareholders of OAO NOVATEK ⁽¹⁾	RR mln	79,825	35,197	(55.9)%
Normalized earnings per share ⁽¹⁾	RR	26.35	11.65	(55.8)%
Net cash provided by operating activities	RR mln	88,525	110,253	24.5%
Capital expenditures ⁽²⁾	RR mln	59,254	63,179	6.6%
Free cash flow	RR mln	29,271	47,074	60.8%
Net debt	RR mln	157,732	204,361	29.6%
OPERATING INDICATORS				
Proved natural gas reserves (SEC)	bcm	1,740	1,747	0.4%
Proved liquid hydrocarbon reserves (SEC)	mmt	134	135	0.7%
Total hydrocarbon reserves (SEC)	mmboe	12,537	12,578	0.3%
Marketable production of natural gas	bcm	61.22	62.13	1.5%
Marketable production of liquid hydrocarbons	mt	4,751	6,036	27.0%
Total marketable production	mmboe	439.0	456.7	4.0%
POSITIONS IN THE RUSSIAN INDUSTRY				
Share in natural gas production	%	9.3%	9.7%	0.4 p.p.
Share in gas deliveries to the domestic market via UGSS	%	18.4%	18.8%	0.4 p.p.

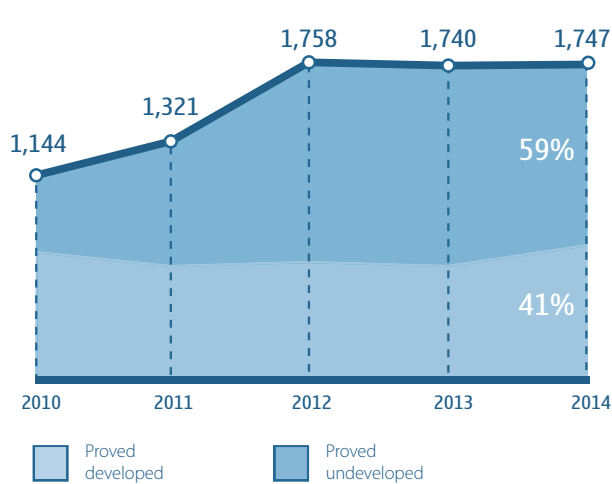
⁽¹⁾ Adjusted for the effect on disposal of interests in joint ventures.

⁽²⁾ Capital expenditures represent additions to property, plant and equipment excluding payments for mineral licenses.

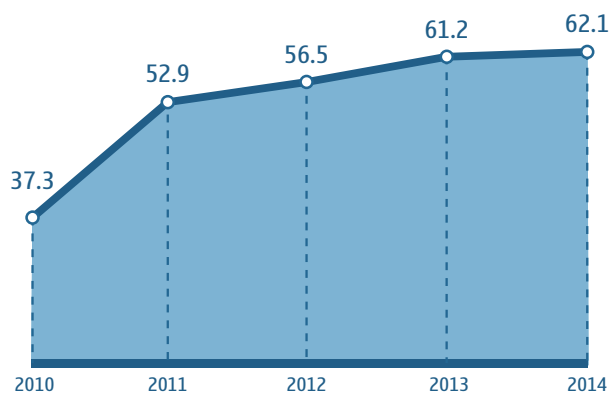
Total proved hydrocarbon reserves (SEC), mmboe



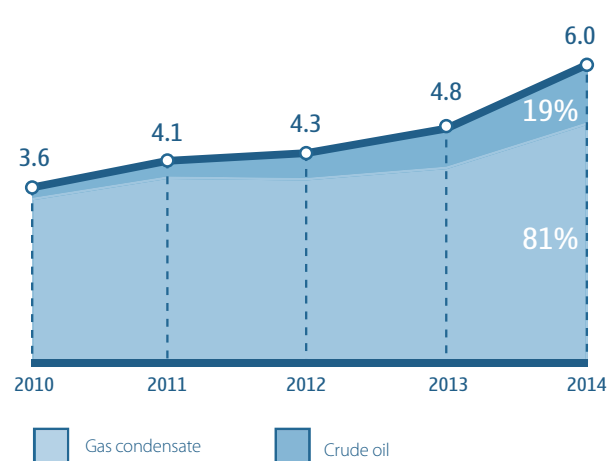
Proved natural gas reserves (SEC), bcm



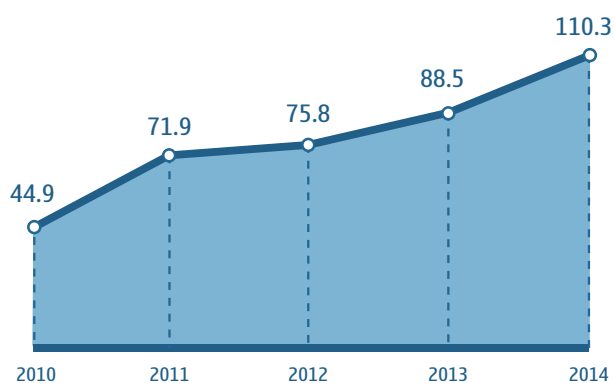
Marketable natural gas production, bcm



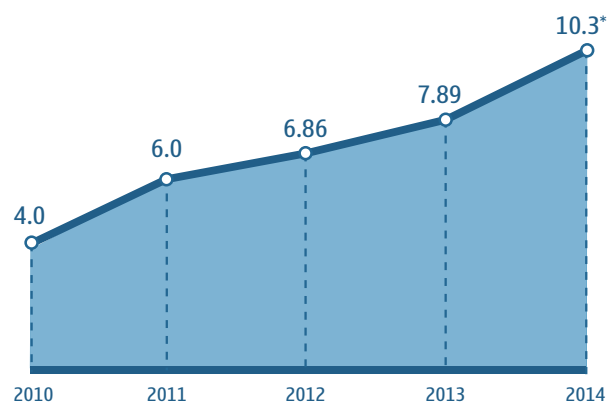
Marketable liquids production, mmt



Operating cash flow, RR bln



Dividends per share, RR



* Recommendation of the Board of Directors.

27%

LIQUID HYDROCARBON PRODUCTION GROWTH

Liquid hydrocarbon production growth was due to the launch of the two stages of the Urengoyskoye field and the third stage of the Samburgskoye field of the SeverEnergia joint venture, drilling of crude oil production wells at the East-Tarkosalinskoye field and production growth at the Eastern dome of the North-Urengoyskoye field of the Nortgas joint venture (launched in 2013).

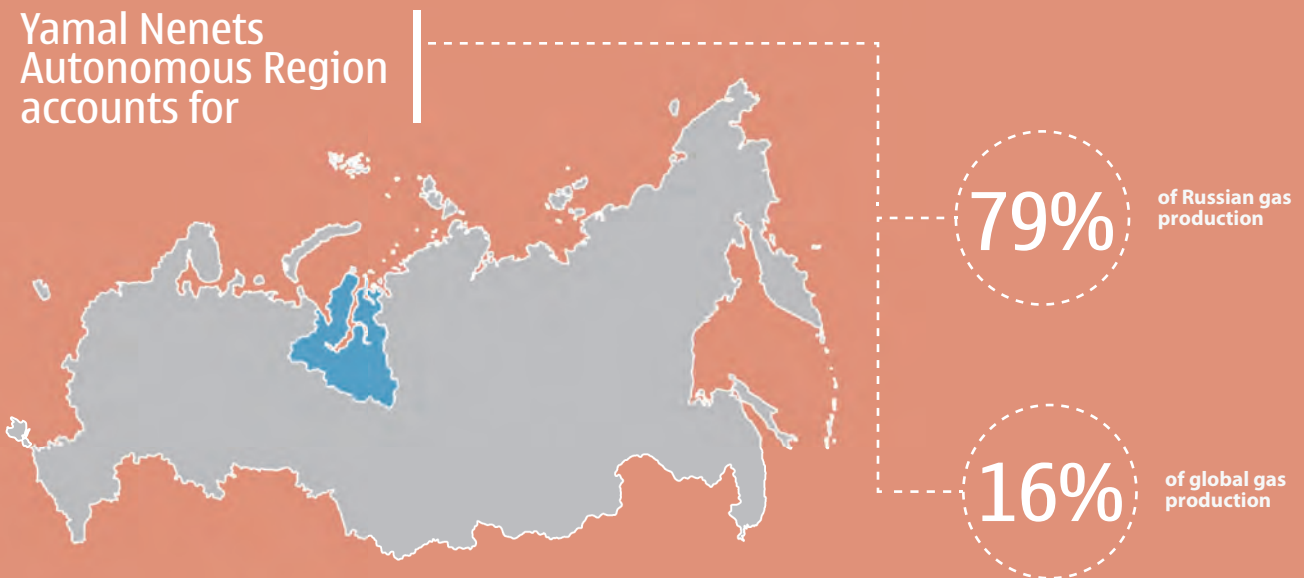
We continued preparing the Yaro-Yakhinskoye, Termokarstovoye and Yarudeyskoye fields for the launch scheduled for 2015.



South-Tambeyskoye field. Gas condensate well.

GEOLOGICAL EXPLORATION AND HYDROCARBON PRODUCTION

Yamal Nenets Autonomous Region accounts for



As of 31 December 2014, NOVATEK's SEC proved reserves, including the Company's proportionate share in joint ventures, aggregated 12,578 mmoeb, including 1,747 bcm of natural gas and 135 mmt of liquid hydrocarbons. Despite the price decline for benchmark crude oil prices on the international hydrocarbon market, the Company's reserve replacement rate was 109%. Excluding decrease in the Company's share in SeverEnergiya, organic reserve replacement rate was 152% due to successful exploration works and production drilling, which amounted to reserves addition of 733 million boe. At year-end 2014, the Company's reserve to production ratio was 28 years.

In 2014, NOVATEK continued full-scale exploration works at 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 exploration drilling on the Utrenneye field was conducted. Exploration work activities also continued

at the fields and license areas in the Nadym-Pur-Taz region, including the license areas of the SeverEnergiya joint venture. Supplementary exploration works were carried out at the Malo-Yamalskoye field located on the Yamal Peninsula.

In 2014, NOVATEK carried out commercial hydrocarbon production at 10 fields. Marketable production from all fields (including the Company's share in production of joint ventures) amounted to 457 mmoeb, representing an increase of 4.0% over 2013.

Total marketable production of natural gas including the share in production of joint ventures amounted to 62 bcm, representing 89% of our total hydrocarbon output. Marketable production of liquid hydrocarbons including the Company's share in production of joint ventures totalled 6 mmt, of which 81% was gas condensate and 19% – crude oil.

28

years – reserve to production ratio at year-end 2014

2.4

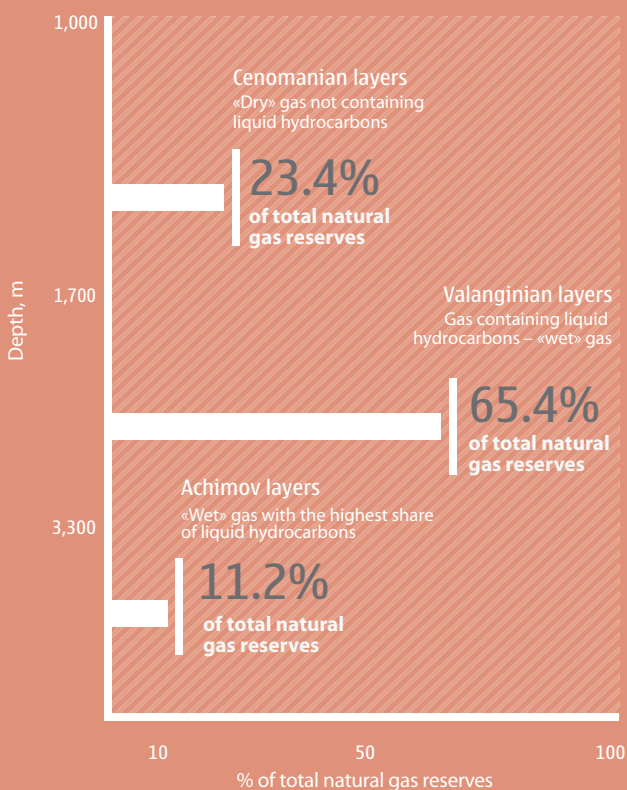
USD per boe – reserve replacement costs in 2012-2014

0.5

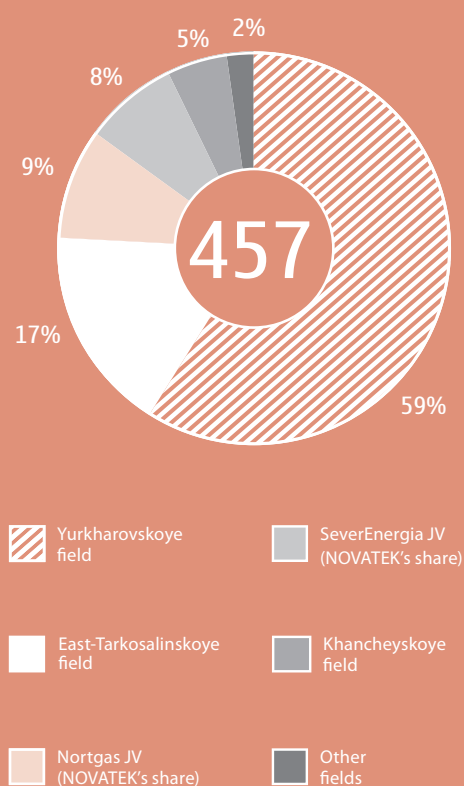
USD per boe – lifting costs in 2014

Proved reserves as of 31 December 2014 (SEC)

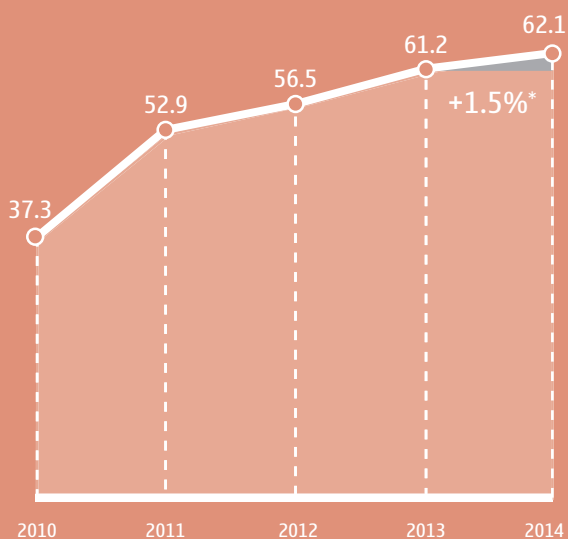
12.6 billion boe



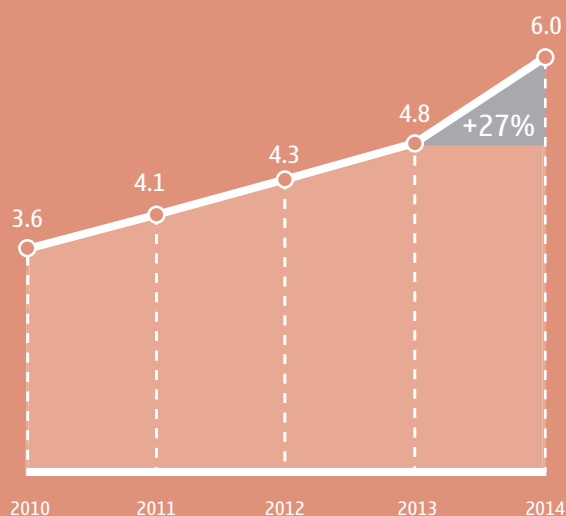
Marketable hydrocarbon production in 2014, mmboe



Marketable production of natural gas, bcm



Marketable production of liquid hydrocarbons, mmt



* +11.3% excluding natural gas produced by Sibneftegas.



153%

PRODUCT OUTPUT GROWTH AT THE UST-LUGA COMPLEX

Growth in gas condensate production resulted in substantial throughput increase at the Purovsky Gas Condensate Stabilization Plant leading to higher output of stable gas condensate. This enabled higher capacity utilization of the Ust-Luga Stable Gas Condensate Fractionation Complex and growth in output of higher value-added products.



Ust-Luga Complex. Stable gas condensate fractionation unit.

K-203

200 K-204

K-202

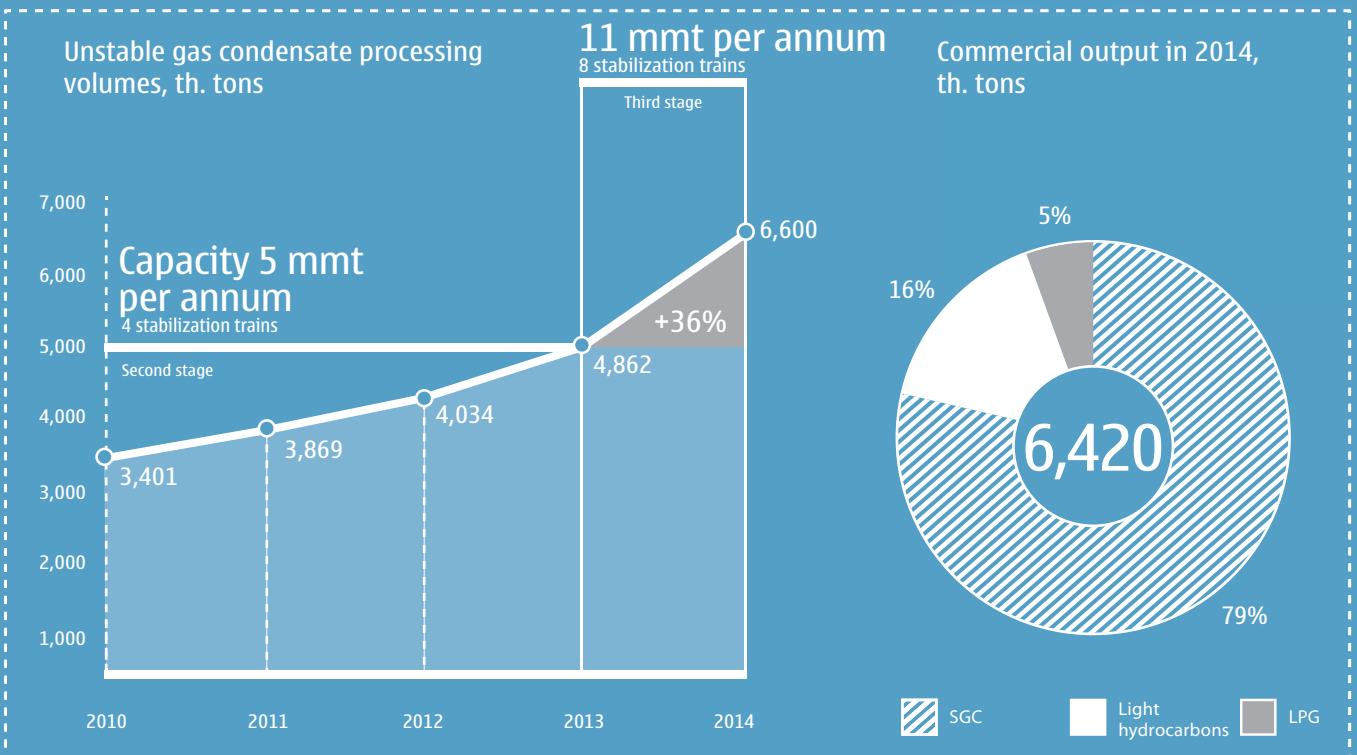
П-202

П-201

PUROVSKY GAS CONDENSATE STABILIZATION PLANT

Due to the estimated ramp up in gas condensate production, in early 2014 we completed the project for expanding the processing capacity of the Purovsky Plant from five (5) to 11 million tons. As a result, we have achieved a balance between our gas condensate production potential and processing capacity.

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. The Purovsky Plant produces stable gas condensate and light hydrocarbons (the feedstock for the production of marketable LPG). By the end of 2014, the capacity utilization rate at the Purovsky Plant reached 85%.



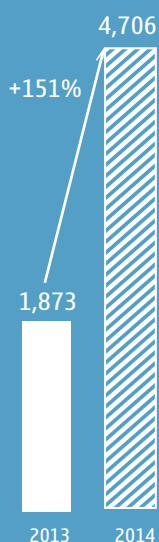
UST-LUGA STABLE GAS CONDENSATE FRACTIONATION COMPLEX

The Ust-Luga Complex expands our vertically integrated chain and increases sales of higher value added products as well as diversifying the geographical markets and expanding the customer base for our products.

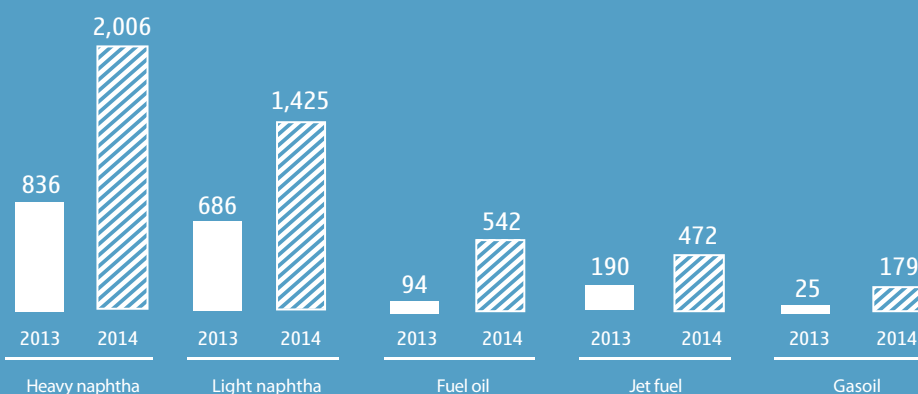
The Gas Condensate Fractionation and Transshipment Complex located at the all-season port of Ust-Luga on the Baltic Sea processes stable gas condensate into petroleum products like light and heavy naphtha, jet fuel, fuel oil and gasoil, and enables us to ship the value-added petroleum products to international markets. The overall gas condensate processing capacity of the Ust-Luga Complex is six (6) million tons per annum. The launch of the Ust-Luga Complex in 2013 allowed us to improve logistics and reduce transportation costs due to a more favorable geographical location of Ust-Luga as compared to the port of Vitino, which was previously used for gas condensate exports.



Stable gas condensate processing volumes, th. tons



Commercial output, th. tons





30%

LIQUIDS SALES VOLUMES GROWTH

In 2014 we sold 7.1 mmt of liquids compared with 5.4 mmt in 2013. The growth was due to higher volumes processed at the Purovsky Plant and the Ust-Luga Complex as well as higher crude oil production volumes.

Petroleum product sales volumes grew by 2.8 times to 4.4 mmt, and their share in total liquids sales increased to 63%.



Ust-Luga Complex. Loading arms at the deep-water berth.

LIQUID HYDROCARBON SALES

The replacement of stable gas condensate exports by the sales of petroleum products with higher value added margins positively impacted the financial results of the Company.

NOVATEK sells liquid hydrocarbons (stable gas condensate, petroleum products, light hydrocarbons, LPG and crude oil) domestically and internationally. We strive to respond quickly to changing market conditions by optimizing the customer base and supply geography.

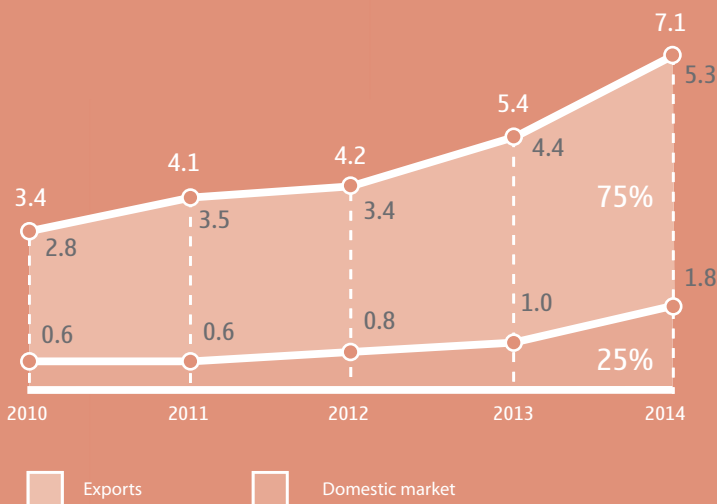
As a result of the launch of the Gas Condensate Fractionation and Transshipment Complex in the port of Ust-Luga in 2013 the Company ceased export deliveries of stable gas condensate and started exporting naphtha, jet fuel, fuel oil and gasoil.

We changed our LPG sales scheme since the second quarter 2014 – we started delivering all the volumes of light hydrocarbons (feedstock for marketable LPG production) produced at the Purovsky Plant to SIBUR's Tobolsky Petrochemical Complex.

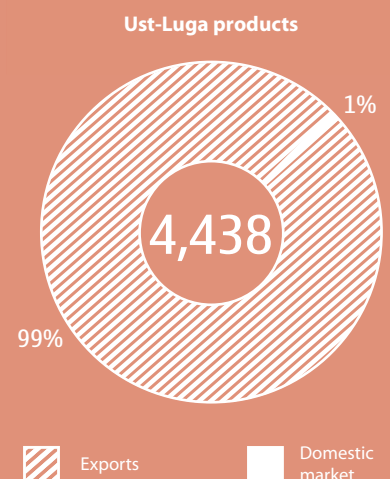
Geography of sales

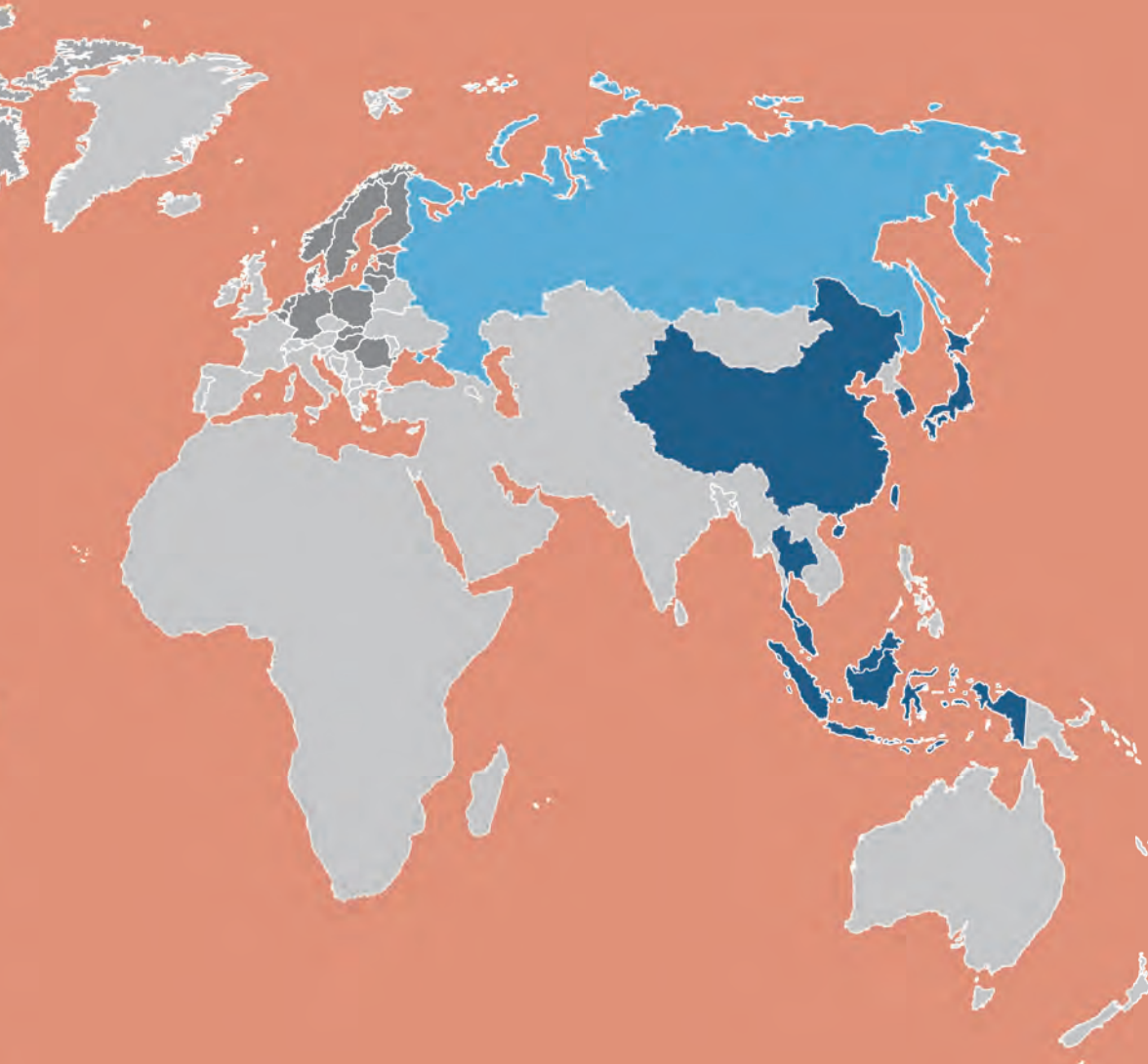


Liquids sales volumes, mmt



2014 liquids sales volumes breakdown, th. tons





■ Russia

■ Europe

- Belgium
- Denmark
- Estonia
- Finland
- Germany
- Hungary
- Latvia
- Lithuania
- Netherlands
- Norway
- Poland
- Romania
- Slovakia
- Sweden

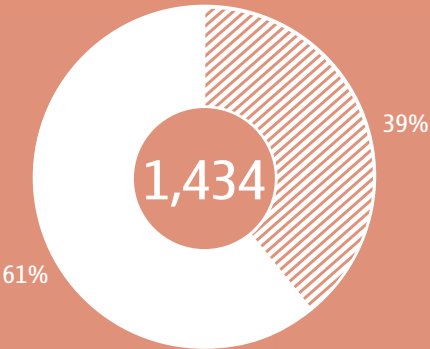
■ Asian-Pacific Region

- China
- Indonesia
- Japan
- Malaysia
- Singapore
- South Korea
- Taiwan
- Thailand

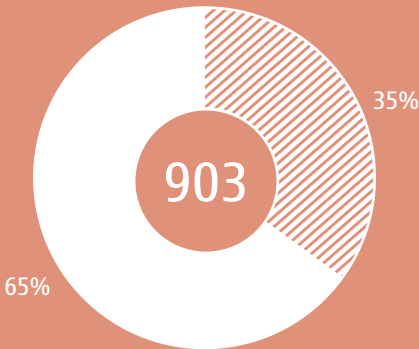
■ North and South America

- Brazil
- Canada
- USA

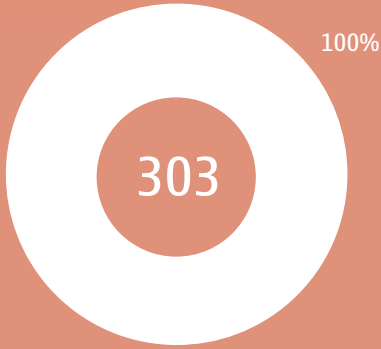
LPG and light hydrocarbons



Crude oil



Stable gas condensate

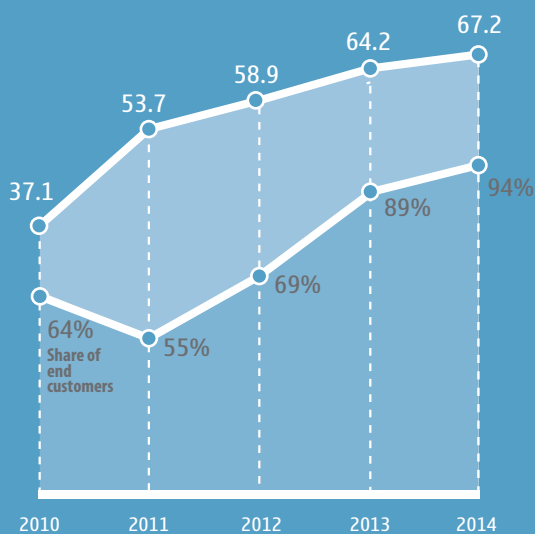


NATURAL GAS SALES

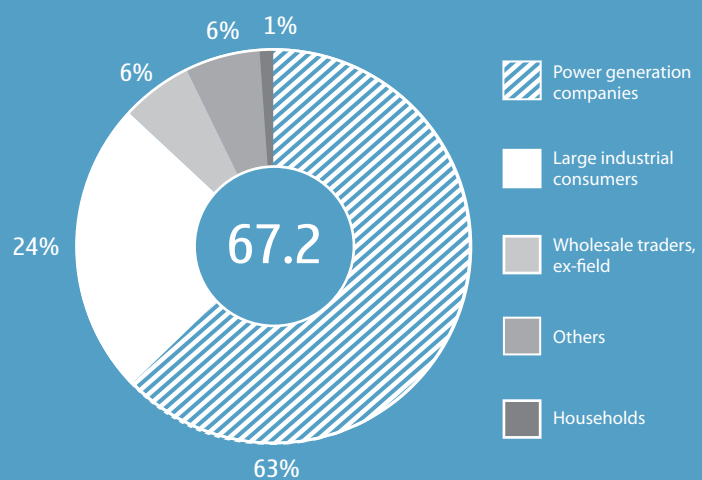
The share of natural gas sales to end customers in 2014 grew from 89% to 94% compared with 2013, which is fully in line with our marketing strategy aimed at diversifying sales, maximizing margins and increasing the stability of our business. NOVATEK's 2014 natural gas sales volumes totaled 67 bcm, representing an increase of 4.8% as compared to 2013 sales volumes of 64 bcm.

The growth in sales volumes was due to an increase in natural gas supplies to the Khanty-Mansiysk Autonomous Region and the Stavropol Region. Deliveries to these regions increased by 7.7 bcm as compared to 2013 due primarily to higher volumes delivered on existing contracts. During 2014, our total revenues from natural gas sales increased to RR 230 billion or by 12.4%, as compared to 2013, due to the combination of higher volumes sold, and an increase in year-average regulated gas prices in 2014 as compared to 2013, and the increase in the share of sales to end-customers.

Natural gas sales volumes, bcm



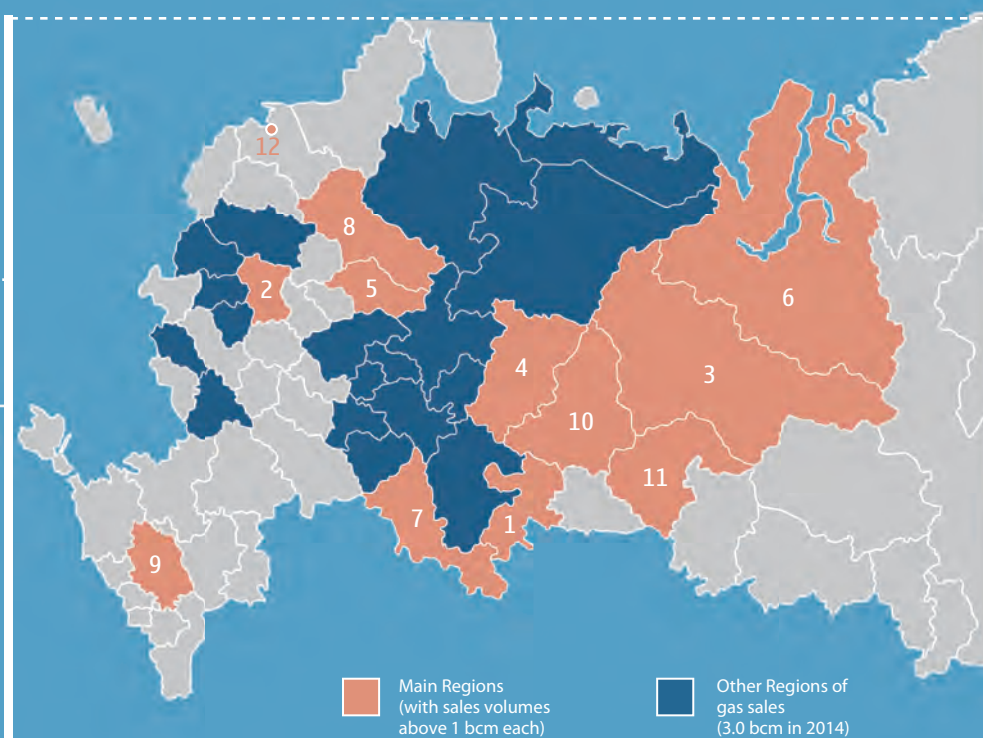
2014 natural gas sales volumes breakdown by customers, bcm



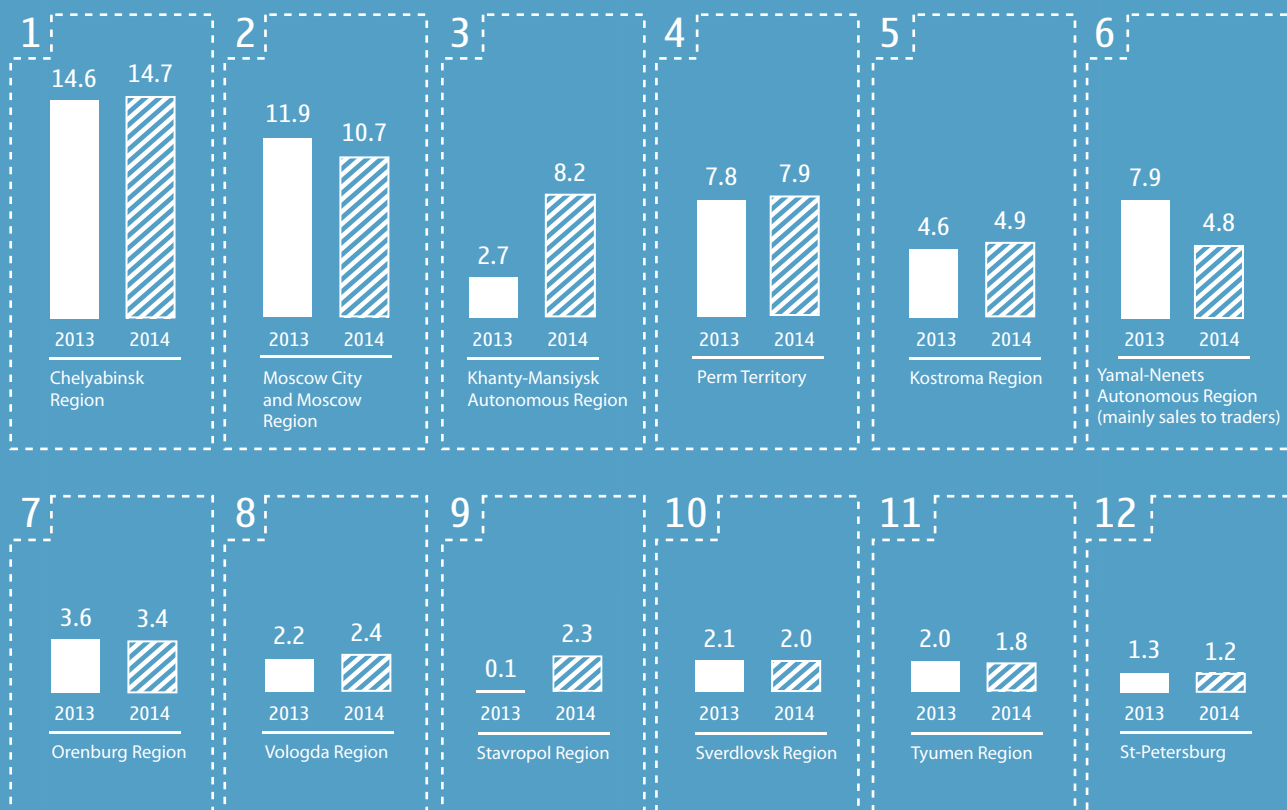
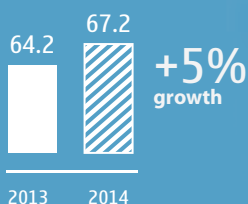
Regional breakdown of 2014 natural gas sales volumes, bcm

30

Regions of natural gas sales in 2014



Natural gas sales, bcm



20%

PROGRESS OF THE YAMAL LNG PLANT CONSTRUCTION

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.

LNG will be delivered to the export markets of the Asian-Pacific region and Europe by ice-class LNG carriers. In the summer navigation the Northern Sea Route will be used to transport the LNG to the Asian-Pacific countries.



Yamal LNG: Construction of the LNG tanks, April 2015.

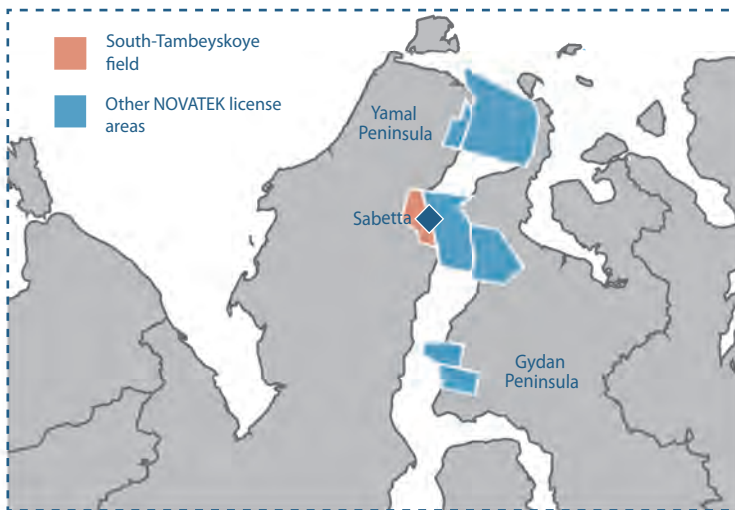
YAMAL LNG PROJECT

Entry into the international gas market as a result of the Yamal LNG project implementation will become another significant change in our quality of growth.

Natural gas produced at the South-Tambeyskoye 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 ARC-7 design will be used to transport the LNG.

With the opening of the first winter navigation season at the Sabetta port in 2013, the port facilities handled 2.1 million tons of construction materials and equipment in the reporting year. Casting works for the external concrete walls on two LNG tanks for the plant's first train were completed as well as roofing on the first tank. The first phase of construction at the International Sabetta Airport was finalized and the milestone landing of the first Boeing 737 flight took place in December 2014. Long-term contracts for more than 95% of LNG volumes were placed.

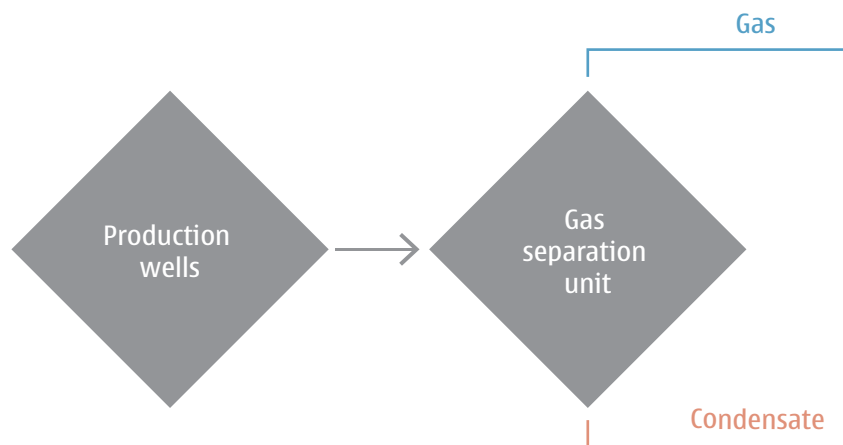
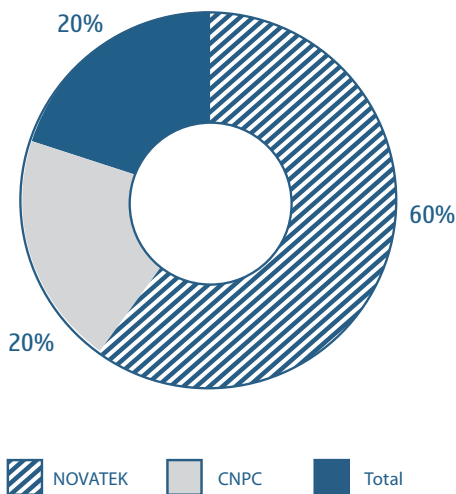


Proved and probable reserves of the South-Tambeyskoye field under PRMS

926
bcm of gas

30
mmt of liquid hydrocarbons

Shareholders of Yamal LNG :



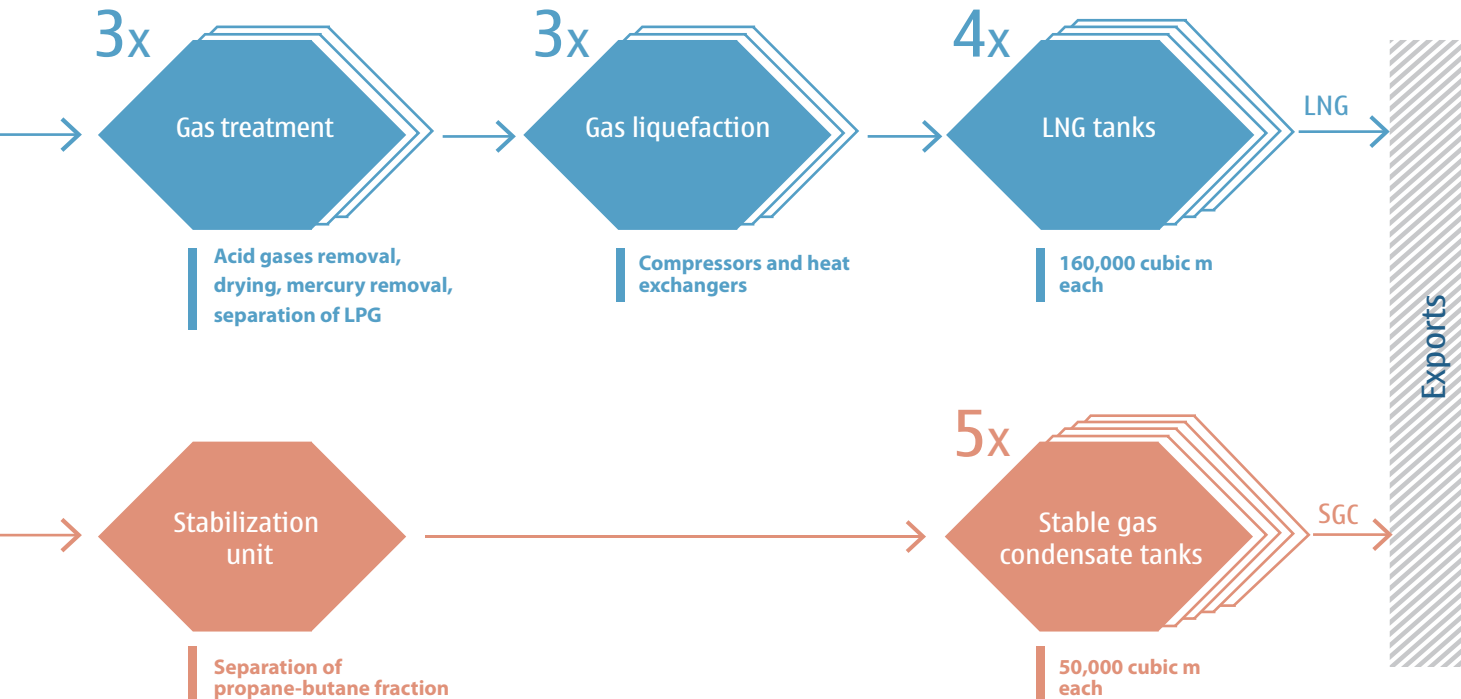
The development project of the South-Tambeyskoye field envisages drilling of

208
wells

Possible routes of LNG transportation from the Yamal Peninsula



LNG plant workflow



637 RR mln

ENVIRONMENTAL EXPENDITURES IN 2014

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



Landscape in the area of the Yurkharovskoye field.

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.

NOVATEK has implemented an Environment, Health and Safety Policy and all of the Company's principal subsidiaries and joint ventures operate an Integrated Health, Safety and Environment Management System (IMS) that comply with the international ISO 14001:2004 and OHSAS 18001:2007 standards. In 2014, NOVATEK successfully passed another IMS compliance audit.

In our Health, Safety and Environment (HSE) activities we pay special attention to preventive measures. In particular, the environmental aspects are taken into account in designing new production facilities: cutting-edge technology and equipment are used to considerably reduce the adverse environmental impact and risk of environmental accidents. The Company builds new and upgrades its existing waste disposal sites, equips its

facilities with state-of-the-art oil sludge treatment units, sets up new sewage treatment facilities and revamps older ones.

All NOVATEK's subsidiaries and joint ventures conduct safety training and all types of briefings; personnel training and development programs are offered, among others, by specialized training centers, and a proper knowledge assessment system is in place.

2,554

operating workplaces were certified in 2014

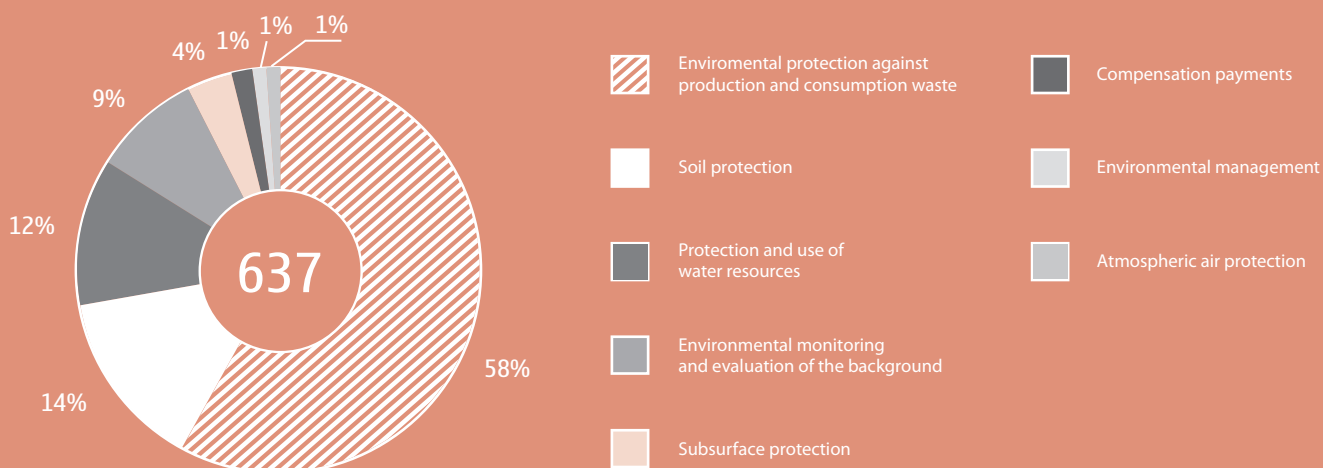
11

comprehensive inspections of NOVATEK subsidiaries for occupational health, industrial, fire and environmental safety requirements in 2014

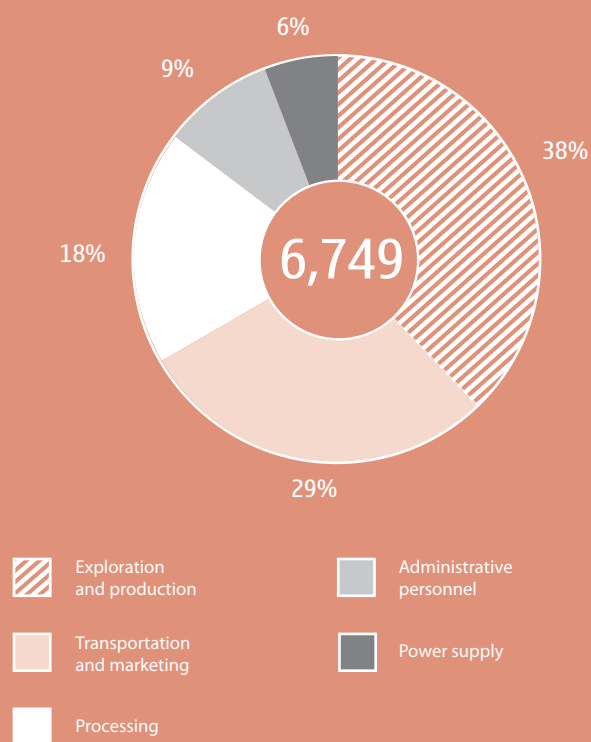
168

RR mln expenses on Occupational Health and Safety in 2014

Environmental Expenditures in 2014, RR mln



NOVATEK's headcount, people



Social Expenditures on employees, RR mln

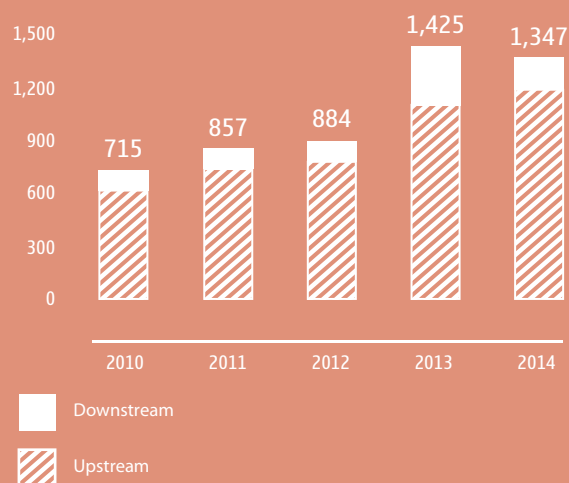


Employees are NOVATEK's most valuable resource, allowing the Company to grow rapidly and effectively. The Company's human resource management system is based on the principles of fairness, respect, equal opportunities for professional development, dialogue between management and employees, as well as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

Injury frequency rate (number of injuries per million working hours)



Water consumption by subsidiaries and joint ventures, th. cubic m



CORPORATE GOVERNANCE

The Board of Directors membership as of 31 December 2014



**MR. ALEXANDER Y.
NATALENKO**

Born in 1946

Chairman of the Board of Directors
Chairman of the Strategy Committee



**MR. ANDREI I.
AKIMOV**

Born in 1953

Member of the Strategy Committee



**MR. LEONID V.
MIKHELSON**

Born in 1955

Chairman of the Management Board



**MR. YVES LOUIS CHARLE JUSTIN
DARRICARRERE**

Born in 1951

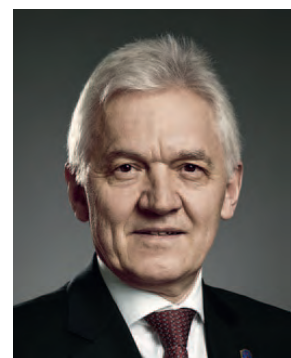
Member of the Strategy Committee



**MR. VLADIMIR A.
DMITRIEV**

Born in 1953

Member of the Strategy Committee



**MR. GENNADY N.
TIMCHENKO**

Born in 1952

Member of the Strategy Committee



**DR. BURCKHARD
BERGMANN**

Born in 1943

Independent Director

Member of the Remuneration and Nomination Committee

Member of the Audit Committee

Member of the Strategy Committee



**MR. ANDREI V.
SHARONOV**

Born in 1964

Independent Director

Chairman of the Audit Committee

Member of the Remuneration and Nomination Committee



**MR. VICTOR P.
ORLOV**

Born in 1940

Independent Director

Chairman of the Remuneration and Nomination Committee

Member of the Strategy Committee

Member of the Audit Committee

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.

**3 INDEPENDENT
BOARD
MEMBERS**

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 16% of global natural gas production and 80% of Russian natural gas production. The concentration of the Company's producing and prospective fields, license areas and processing facilities in this prolific gas-producing 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 hydrocarbon resource base. The Company has many years of experience working in the YNAO, enabling us to effectively capitalize on growth opportunities to increase shareholder value.

Exploration and production of hydrocarbons in Russia is subject to State licensing regulations. As of 31 December 2014, our subsidiaries and joint ventures held 31 licenses for fields and license areas, of which 29 are classified as either production or combined exploration and production licenses and two (2) 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.

In December 2014 "Arctic LNG 1" (the Company's subsidiary) won an auction for exploration and production at the Trekhbugorniy license area located on the Gydan Peninsula and bordering the Company's Geofizicheskoye license area. Estimated natural gas reserves of the Trekhbugorniy license area under the Russian C1+C2 reserve classification amount to 5.9 bcm, while the field's broader recoverable resources classification exceed one (1) tcm of natural gas and 90 mln tons of liquid hydrocarbons. Payment for the license amounted to RR 435 mln.

Hydrocarbon Reserves

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

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 reserve reporting standards.

As of 31 December 2014, NOVATEK's SEC proved reserves, including the Company's proportionate share in joint ventures, aggregated 12,578 mmmboe, including 1,747 bcm of natural gas and 135 mmt of liquid hydrocarbons. Despite the price decline for benchmark crude oil prices on the international hydrocarbon market, the Company's proved reserves increased by 0.3% compared to year-end 2013, and the reserve replacement rate was 109%. At year-end 2014, the Company's reserve to production ratio (or R/P ratio) was 28 years.

The reserves growth during the reporting period was affected by the decrease in the Company's proportional share in the SeverEnergiya joint venture from 59.8% as at year-end 2013 to 54.9% as at 31 December 2014 resulting from an agreement with "Gazprom Neft" concluded in March 2014, and providing for the gradual alignment of the ownership structure in "SeverEnergiya". Excluding this effect, the proved reserves grew by 2%, with an organic reserve replacement of 152% due to successful exploration works and production drilling, which amounted to reserves addition of 733 million boe, inclusive of 2014 production.

As a result of large-scale development and construction works at a number of large fields, our proved developed reserves grew by 623 mmmboe or 14%, and their share in overall proved reserves increased to 40.4% from 35.5% as at the end 2013.

Under the PRMS reserves reporting standards, the Company's total proved plus probable reserves, including our proportionate share in joint ventures, totalled 22,886 mmmboe, which includes 3,122 bcm of natural gas and 293 mln tons of liquid hydrocarbons, and represents a decline of 199 mmmboe compared with year-end 2013. Excluding the effect from the reduction of our ownership in "SeverEnergiya" as described above, our proven plus probable reserves increased by 203 mmmboe, or by 0.9%.

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 (2012-2014) and five-year (2010-2014) reserve replacement costs amounted to RR 78.4 (USD 2.37) per boe and RR 69.8 (USD 2.16) 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 2014, 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 exploration drilling on the Utrenneye field

was conducted. 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. Supplementary exploration works were carried out at the Malo-Yamalskoye field located on the Yamal Peninsula.

In 2014, NOVATEK completed 828 square km of three-dimensional (3D) seismic, including seismic activities run at our joint ventures. Seismic works were conducted at the North-Russkiy, Yarudeyskiy and Samburgskiy license areas, and seismic studies were completed at the offshore part of the Geofizicheskoye field in the Gulf of Ob.

Exploration drilling amounted to 26.3 thousand meters, the construction of six (6) prospecting and exploration wells was completed. As a result, Harbeyskoye oil and gas field with recoverable reserves (under the Russian reserve classification C1 + C2) of 26.7 bcm of natural gas and 7.8 mln tons of liquid hydrocarbons was discovered at the North-Russkiy license area. New hydrocarbon deposits were also discovered in the Jurassic sediments of the South-Tambeyskoye field, and wet gas reserves were increased in the Achimov deposits of the Urengoykoye field at the Samburgskiy and Olympiyskiy license areas.

Proved reserves under the SEC standards as of 31 December 2014 (based on our 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	363.4	17.2
South-Tambeyskoye	60%	2045	294.8	8.3
Utrenneye	100%	2031	259.8	9.6
East-Tarkosalinskoye	100%	2043	163.9	15.2
Urengoykoye (OAO "ARCTICGAS")	54.9%	2034	153.1	38.3
Geofizicheskoye	100%	2034	125.6	0.4
North-Urengoykoye	50%	2038	99.6	9.0
Yaro-Yakhinskoye	54.9%	2034	84.8	8.3
Samburgskoye	54.9%	2034	55.7	7.9
North-Chaselskoye	54.9%	the lifetime of the field	29.2	1.3
Khancheyskoye	100%	2044	26.7	3.1
North-Russkoye	100%	2031	22.5	1.9
Olympiyskiy license area	100%	2026	21.4	2.1
East-Tazovskoye	100%	2033	17.1	2.5
Termokarstovoye	51%	2021	15.6	4.5
Yarudeyskoye	51%	2029	4.4	5.1
Other	—	—	9.2	0.2
Total	—	—	1,746.7	135.0

Exploration works

	Units	2013	2014	Change
3D seismic	square km	2,677	828	(69)%
Subsidiaries	square km	1,821	730	(60)%
Joint ventures	square km	856	98	(89)%
Exploration drilling	th. m	37.3	26.3	(29)%
Subsidiaries	th. m	10.6	19.3	82%
Joint ventures	th. m	26.7	7.0	(74)%

Field Development

During 2014, NOVATEK's subsidiaries spent RR 57.8 billion on the development of hydrocarbon reserves as part of our capital investment program in order to achieve sustainable hydrocarbon production growth.

Production drilling in 2014, including joint ventures, reached 595 thousand meters which amounted to 17% less production drilling than in 2013. The decrease was due to the development of the Yurkharovskoye and North-Urengoyenskoye fields nearing completion. A total of 85 wells were put on stream, including 56 gas and gas condensate wells and 29 oil wells.

NEW FACILITIES COMMISSIONED AT PRODUCING FIELDS

In July 2014, the third stage of compressor booster station, which included five compressor units, was launched at the Yurkharovskoye field, thus increasing the overall compressor capacity at the station to 300 MW. The compressor booster station is required to keep the plateau production level at the field. To develop the Eastern part of the field and ensure even depletion of reservoirs, we continued drilling long-reach horizontal wells in 2014. Three (3) new gas condensate wells were put on stream and work over activities was performed on two (2) previously drilled wells. Wells at the Yurkharovskoye field reach 8.5 km in length with a vertical deviation of over seven (7) km and horizontal sections of up to 1.5 km.

In September 2014, the third phase of the Samburgskoye gas condensate field developed by SeverEnergiya (a joint venture between NOVATEK and GazpromNeft) was commissioned. The launch of the third stage, which exceeds two (2) bcm of natural gas per annum, will enable the field to achieve peak production capacity of approximately seven (7) bcm of natural gas and more than 900 thousand tons of gas condensate per annum. A total of 19 new production wells were commissioned at this field in 2014.

At the East-Tarkosalinskoye field intensive drilling was performed targeting the field's crude oil layers with 29 oil production wells

completed during the reporting year. The associated petroleum gas recovered during oil treatment is compressed at a booster compression station, which capacity was expanded from 3.5 to 10.5 MW as a result of launching two new compressor units in 2014. To maintain gas production capacity at the field, two new compressor units with a capacity of 16 MW each were launched at the natural gas booster compression station, thus increasing the overall capacity of the station to 128 MW.

In September 2014, the second train of the booster compression station including two compressor units with a capacity of 10 MW each was launched at the Western Dome of the North-Urengoyenskoye field (developed by the Nortgas joint venture), thus increasing the station's overall capacity to 40 MW. The compressor booster station enables maintaining production capacity of the field. Seven (7) new production wells were drilled at the North-Urengoyenskoye field in 2014.

NEW FIELDS COMMISSIONED IN 2014

The first phase of the Urengoyenskoye field development (the SeverEnergiya joint venture) was launched in April 2014, and the second phase followed in December 2014. Overall production capacity of the two phases is approximately 13 bcm of natural gas and 4.7 mmt of de-ethanized gas condensate per annum. Production drilling targets the Achimov deposits which are relatively deep (approximately 3,700 m) and are characterized by an ultra-high content of gas condensate in the hydrocarbon flow. As of the end of 2014, a total of 36 production wells were in operation at the field.

In December 2014, the North-Khancheyenskoye¹ gas field was commissioned with a total capacity of 0.4 bcm of natural gas per annum. Three (3) wells were in operation at the field as at year-end.

NEW FIELDS PREPARED FOR COMMISSIONING

During the reporting year the Company continued its development and construction activities at a number of large fields planned for commissioning in 2015.

¹ North-Khancheyenskoye+Khadyryakhinskoye from October 2014.

At the Yaro-Yakhinskoye field (developed by the SeverEnergia joint venture) gas and gas condensate pipelines connecting the field to the trunk pipeline system were completed, construction of gas treatment facility was almost completed and the equipment testing commenced. A total of 17 production wells were drilled at the field in 2014 and the total well stock increased to 41 wells by the year end.

In the reporting year, gas and gas condensate pipelines linking the Termokarstovoye field (developed by Terneftegas, a joint venture between NOVATEK (51%) and Total (49%)) were completed, as well as gas gathering lines. The gas treatment facility and gas condensate de-ethanization unit were almost completed by the year end – the equipment was installed and piping works were underway. There were 20 production wells drilled at the field as of the end of 2014. Production drilling targets Jurassic deposits and the wells have long horizontal sections between 1.2 km and 2 km.

At the Yarudeyskoye oil field developed by YARGEO (NOVATEK holds a 51% share) a central oil separation facility and a gas treatment unit were under construction. The construction of oil and gas pipelines linking the oil field to the trunk pipeline system were completed by more than 60%. Thirteen (13) production wells were drilled and two previously drilled exploration wells were side-tracked.

Hydrocarbon Production

In 2014, NOVATEK carried out commercial hydrocarbon production at 10 fields. Marketable production from all fields (including the Company's share in production of joint ventures) amounted to 456.7 mmoeb, representing an increase of 4.0% over the prior year.

Total marketable production of natural gas including the Company's share in production of joint ventures amounted to 62.13 bcm, representing 89% of our total hydrocarbon output. The share of gas produced from the Valanginian layers (or "wet

gas") in proportion to total gas production was 83%. Marketable production of natural gas increased by 1.5% or by 0.9 bcm, as compared to 2013 volumes.

The production growth is attributable to the Eastern Dome of the North-Urengoykoye field, Urengoykoye and Dobrovolskoye fields within the Olympiyskiy license area launched in 2013, Urengoykoye field within the Samburgskiy license area and the third stage of Samburgskoye field both launched in 2014, as well as the growth of production at Yurkharovskoye field, and the growth of our effective share in SeverEnergia from 25.5% in 2013 to 54.9% in 2014. Natural gas production was affected by the disposal of the Company's equity share in Sibneftegas at the end of 2013. Excluding the natural gas produced by Sibneftegas, NOVATEK's natural gas production increased by 11.3% or by 6.3 bcm.

Marketable production of liquid hydrocarbons including the Company's share in production of joint ventures totalled 6,036 thousand tons, of which 81% was unstable de-ethanized gas condensate and the remaining 19% consisted of crude oil. Marketable production of liquids increased by 27.0% or 1,285 thousand tons as compared with 2013, whereas crude oil production increased by 55.1% and amounted to 1,168 thousand tons.

Gas condensate production growth was due to the launch of the Urengoykoye field (within the Samburgskiy license area) in 2014, the growth of our effective share in SeverEnergia, the launch of the third stage of the Samburgskoye field in 2014, and the launch of Dobrovolskoye field and the Eastern dome of the North-Urengoykoye field in 2013.

The overall increase in crude oil production was mainly 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 18.9 (USD 0.49) per boe in 2014.

Marketable hydrocarbon production (including share in production by joint ventures)

	Units	2013	2014	Change
Gas	mmcm	61,216	62,129	1.5%
	mmoeb	400.4	406.3	
Liquid hydrocarbons	mmt	4,751	6,036	27.0%
	mmoeb	38.6	50.4	
Total production	mmoeb	439.0	456.7	4.0%

Marketable hydrocarbon production in 2014 (including share in production by joint ventures)

	Gas, mmcm			Liquids, mt		
	2013	2014	Change	2013	2014	Change
Yurkharovskoye (100%)	37,775	38,154	1.0%	2,712	2,496	(8.0)%
East-Tarkosalinskoye (100%)	10,946	10,348	(5.5)%	1,094	1,293	18.2%
North-Urengoyskoye (49% from 28 November 2012, 50% from 2 July 2013)	2,382	5,402	126.8%	250	633	153.2%
ARCTICGAS fields (59.8% until 31 March 2014, 54.9% from 1 April 2014)	1,224	4,129	237.3%	174	1,063	510.9%
Khancheykoye (100%)	3,256	2,933	(9.9)%	483	445	(7.9)%
North Khancheykoye (100%)	—	14	—	—	—	—
Urengoyskoye and Dobrovolskoye within the Olimpiyskiy license area (100%)	131	1,066	713.7%	8	85	962.5%
Sterkhovoye (100%)	106	83	(21.7)%	30	21	(30.0)%
Sibneftegas fields (51% until 26 December 2013)	5,396	—	—	—	—	—
Total	61,216	62,129	1.5%	4,751	6,036	27.0%

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 shareholder structure comprised NOVATEK (60%), Total (20%) and CNPC (20%). The launch of the first LNG train is planned for 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 2014, the field was estimated to contain 491 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 926 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.

The field development plan provides for the drilling of 208 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 liquefied natural gas, or LNG, which requires the 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 Arc-7 design will be used to transport the LNG to international markets.

At year-end 2014, 26 production wells were drilled at the South-Tambeyskoye field. Backfilling and piling for the first train of the LNG plant was underway, fabrication of LNG plant modules was contracted and, during the year, the steel cutting was done for the first modules. Casting works for the external concrete walls on two LNG tanks for the plant's first train were completed as well as roofing on the first tank. EPC-contract progress exceeded 20% by the year-end. Steel was cut for the first Arc-7 ice class LNG carriers, and more than 20 million cubic meters of soil were dredged at the approach channel to the Sabetta port.

With the opening of the first winter navigation season at the Sabetta port in 2013, the port facilities handled 2.1 million tons of construction materials and equipment (2.6 times more than in 2013) delivered by 95 marine ships and 351 river barges. The first phase of construction at the International Sabetta Airport was finalized and the milestone landing of the first Boeing 737 flight took place in December 2014. Long-term contracts for more than 95% of LNG volumes were placed as of the year-end and work continued on the external financing.

There were approximately 6,800 construction workers and 1,350 construction machinery units at the site as of the year end 2014.

Processing of Gas Condensate

PUROVSKY PLANT

Our subsidiaries and joint ventures are producing wet gas – a mixture of natural gas and gas condensate. After being separated at the field the unstable (de-ethanized) gas condensate is delivered via a system of condensate pipelines owned by the Company for further stabilization at our Purovsky Plant located in the YNAO in close proximity to the East-Tarkosalin-skoye field.

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. The Purovsky Plant produces stable gas condensate, and light hydrocarbons.

Due to the estimated ramp up in gas condensate production, in early 2014 we completed the project for expanding the processing capacity of the Purovsky plant from five (5) to 11 million tons. As a result, we have achieved a balance between our gas condensate production potential and processing capacity.

As a result of increasing wet gas production at our fields, the de-ethanized gas condensate processing volumes at the Purovsky Plant increased by 35.7% to 6.60 mmt in 2014. The corresponding output structure included 5,049 mt of stable gas condensate, 1,032 thousand tons of light hydrocarbons, 339 thousand tons of LPG and 14 thousand tons of regenerated methanol. By the end of 2014, the capacity utilization rate at the Purovsky Plant reached 85%.

The Purovsky Plant is connected via its own railway line to the Russian rail network at the Limbey rail station. Since the launch of the Ust-Luga Complex in June 2013, most of the stable gas condensate volumes produced at the Purovsky Plant are delivered by rail to Ust-Luga for further processing (stable gas condensate was formerly exported via the Port of Vitino).

Previously, the Purovsky Plant was producing marketable LPG which was shipped to customers by railway. Beginning in the second quarter 2014 all of the light hydrocarbon volumes (feedstock for LPG production) are delivered by pipeline to SIBUR's Tobolsky Petrochemical Complex for further processing. The agreements executed with SIBUR on supplying the light hydrocarbons to the Tobolsky Petrochemical Complex enabled NOVATEK to reduce costs on expanding the Purovsky Plant capacities by eliminating the need to build additional units for LPG production and additional railway capacities for LPG transportation. Moreover, the railway capacities earlier used for LPG transportation, are currently used for transporting stable gas condensate.

UST-LUGA STABLE GAS CONDENSATE TRANSSHIPMENT AND FRACTIONATION COMPLEX

The Gas Condensate Fractionation and Transshipment Complex located at the all-season port of Ust-Luga on the Baltic Sea (the Ust-Luga Complex) processes stable gas condensate into petroleum products like light and heavy naphtha, jet fuel, fuel oil and gasoil, and enables us to ship the value-added petroleum products to international markets. The Ust-Luga Complex also allows for transshipment of stable gas condensate to exports. The overall gas condensate processing capacity at the Ust-Luga Complex is six (6) million tons per annum. The first stage was launched in June 2013 and the second stage in October 2013.

The Ust-Luga Complex expands our vertically integrated chain and increases sales of higher value added products as well as diversifying the geographical markets and expanding the customer base for our products. The successful implementation of the project also allowed us to improve logistics and reduce transportation costs due to a more favorable geographical location of Ust-Luga as compared to the port of Vitino, which was previously used for gas condensate exports.

In 2014, the Ust-Luga Complex processed 4,706 thousand tons of stable gas condensate into 4,624 thousand tons of end products, including 3,431 thousand tons of light and heavy naphtha, 472 thousand tons of jet fuel and 721 thousand tons of fuel oil and gasoil. By the end of the reporting year, the Ust-Luga Complex reached its full design capacity as a result of the processing volumes growth at the Purovsky Plant.

Processing volumes and output of the Purovsky Plant, thousand tons

	2013	2014	Change
Processing of de-ethanized condensate	4,862	6,600	35.7%
Output:			
Stable gas condensate	3,712	5,049	36.0%
Light hydrocarbons	—	1,032	n/a
Marketable LPG	1,088	339	(68.8)%
Methanol	16	14	(12.5)%

Processing volumes and output of the Ust-Luga Complex, thousand tons

	2013	2014	Change
Stable gas condensate processing	1,873	4,706	151.3%
Output:			
Light naphtha	686	1,425	107.7%
Heavy naphtha	836	2,006	140.0%
Jet fuel	190	472	148.4%
Gasoil	25	179	616.0%
Fuel oil	94	542	476.6%

Natural Gas Sales

During 2014, NOVATEK supplied natural gas to 30 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, Stavropol, Moscow, Kostroma, Orenburg, Vologda, Sverdlovsk and Tyumen regions, Khanty-Mansiysk and Yamal-Nenets Autonomous Regions, and the cities of Moscow and St-Petersburg. The above-mentioned regions accounted for 96% of our total gas sales. The Company accounted for 18.8% of total natural gas deliveries to the domestic market through the Unified Gas Supply System (UGSS), representing an increase of 0.4 percentage points as compared to 2013.

NOVATEK's 2014 natural gas sales volumes totalled 67.2 bcm, representing an increase of 4.8% as compared to 2013 sales volumes of 64.2 bcm. The growth in sales volumes was due to an increase in natural gas supplies to the Khanty-Mansiysk Autonomous Region and the Stavropol Region. Deliveries to these regions increased by 7.7 bcm as compared to 2013 due primarily to higher volumes delivered on existing contracts.

During 2014, our total revenues from natural gas sales increased to RR 230.4 billion or by 12.4%, as compared to 2013, due to the combination of higher volumes sold, and an increase in year-average regulated gas prices in 2014 as compared to 2013, and the increase in the share of sales to end-customers.

The share of natural gas sales to end customers in 2014 grew by 5.2 percentage points compared to 2013, which is fully in line with the marketing strategy of the Company aimed at diversifying sales, maximizing margins and increasing the

stability of our business. In order to maintain production levels during periods of seasonal demand NOVATEK has entered into an agreement with Gazprom for underground storage services. Typically, 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 2014 our inventories of natural gas in gas storages amounted to 1.0 bcm.

Liquid Hydrocarbon Sales

NOVATEK sells liquid hydrocarbons (stable gas condensate, petroleum products, light hydrocarbons, LPG and crude oil) 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 our own logistics infrastructure.

Liquid hydrocarbons produced at the Purovsky Plant are transported by rail, products produced at the Ust-Luga Complex are exported by sea, while crude oil is transported through the trunk pipelines owned and operated by Transneft.

Total sales volumes of liquid hydrocarbons in 2014 aggregated 7,089 thousand tons, representing a 30.4% increase over 2013 volumes. The growth is attributed to higher processing volumes at the Purovsky Plant and Ust-Luga Complex, and to increased crude oil production. Our export deliveries in 2014 grew by 20.5% to 5,287 thousand tons.

Liquids sales revenues in 2014 increased to RR 125.2 billion, or by 35.3%, as compared to 2013. Revenue growth was mainly driven

Natural gas sales, bcm

	2013	2014	Change
Total gas sales, including:	64,152	67,231	4.8%
end customers	57,021	63,281	11.0%
traders	7,131	3,950	(44.6)%
Share of end-customers in total gas sales	88.9%	94.1%	5.2 p.p.

by the increase in sales volumes as well as the growth of the share of higher value added products.

As a result the launch of the Gas Condensate Fractionation and Transshipment Complex in the port of Ust-Luga in 2013 the Company ceased export deliveries of stable gas condensate and started exporting naphtha, jet fuel, fuel oil and gasoil. During 2014, stable gas condensate sales volumes decreased by 85.7% to 303 thousand tons with all the volumes sold on the domestic market.

Petroleum product sales volumes grew by 2.8 times to 4,438 thousand tons, and their share in total liquids sales increased to 62.6% as compared to 29.5% in 2013. We sold 3,319 thousand tons of naphtha, 433 thousand tons of jet fuel, 686 thousand tons of fuel oil and gasoil. Sales to Asian-Pacific region accounted for 46.9% of total product sales volumes, 40.6% were sold to the European markets and 12.5% to North and South America. Naphtha was mainly exported to the Asian-Pacific countries, while jet fuel, fuel oil and gasoil was shipped to North-Western Europe.

The replacement of stable gas condensate exports by the sales of petroleum products with higher value added margins positively impacted the financial results of the Company.

From the second quarter 2014 the LPG sales scheme changed – we started delivering all the volumes of light hydrocarbons (feedstock for marketable LPG production) produced at the Purovsky Plant to SIBUR's Tobolsky Petrochemical Complex. A portion of these volumes is processed at the Tobolsky Petrochemical Complex into marketable LPG on tolling terms, while

the remaining part is sold to SIBUR. In the reporting year, sales of light hydrocarbons to SIBUR amounted to 504 thousand tons.

LPG sales volumes totaled 930 thousand tons in 2014, representing a decrease of 13.7% compared to 2013. The start of LPG deliveries from SIBUR's Tobolsky Petrochemical Complex allowed us to reduce per-unit transportation costs due to a more favorable geographical location of the Tobolsky Complex compared to the Purovsky Plant.

In 2014, LPG export sales volumes amounted to 559 thousand tons or 60.1% of the total LPG sales volumes. Novatek Polska, our wholly owned LPG trading company in Poland, sold 355 thousand tons of LPG, representing 63.5% 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 2014, large wholesale supplies to the domestic market were 244 thousand tons, representing 26.2% of total LPG sales volumes. We were also selling LPG via the network of 63 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 126 thousand tons or by 16.6% as compared to 2013.

Sales of crude oil in 2014 totaled 903 thousand tons, representing a 44% increase over 2013 volumes. We sold 65% of our crude oil volumes on the domestic market with the remaining volumes supplied to export markets.

Liquid hydrocarbon sales, thousand tons

	2013	2014	Change
Petroleum products (Ust-Luga)	1,606	4,438	176.3%
LPG	1,078	930	(13.7)%
Crude oil	627	903	44.0%
Light hydrocarbons	0	504	n/a
Stable gas condensate	2,117	303	(85.7)%
Other	10	11	10.0%
Total	5,438	7,089	30.4%

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 and vulnerable environment. Throughout all of its operations the Company is committed to environment protection. In 2014 environmental expenditures of NOVATEK, its subsidiaries and joint ventures amounted to RR 637 mln.

NOVATEK has implemented an Environment, Health and Safety Policy and all of the Company's principal subsidiaries and joint ventures operate an Integrated Health, Safety and Environment Management System (IMS) that comply with the international ISO 14001:2004 and OHSAS 18001:2007 standards. In 2014, NOVATEK successfully passed another IMS compliance audit.

In our HSE activities we pay special attention to preventive measures. In particular, the environmental aspects are taken into account in designing new production facilities: cutting-edge technology and equipment are used to considerably reduce the adverse environmental impact and risk of environmental accidents. The Company builds new and upgrades its existing waste disposal sites, equips its facilities with state-of-the-art oil sludge treatment units, sets up new sewage treatment facilities and revamps older ones.

The Heritage Environmental Damage Remediation Program included actions to remediate land, surface and ground water and treat drilling sludge. In order to preserve biodiversity when developing our Yardeyskoye oil field, we released muksun young fishes into the Ob-Irtysh basin rivers.

Environmental monitoring was performed throughout 2014 at all of the license areas and production facilities of the Company. The monitoring process includes surveys into the condition of environment components and collecting samples of soil, ground, water, and river bed deposit. Plants, animals, and microorganisms that share the same habitats are checked. Air contamination level is inspected. The status of fish stock and fodder resources in water areas is studied as are hydrologic and hydrochemical parameters. The samples taken are later tested in certified laboratories, and based on the laboratory analysis the condition of the natural environment components is assessed and trends are observed over the year. The monitoring revealed that the natural environment components in the monitored locations were predominantly in a good condition.

The Company systemically works to decrease harmful greenhouse gas emissions into the environment. In 2014, the Program for Rational Use of Associated Petroleum Gas enabled us to reach a 96% petroleum gas utilization rate at the Samburgskoye field and 95% at the East-Tarkosalinskoye field.

In the reporting year, the Company continued its participation in the Carbon Disclosure Project (CDP) whereby information on greenhouse gas emissions and operational energy efficiency is disclosed. We also disclose data on the use of water resources as part of the CDP Water Disclosure Project. By taking part in these projects the Company intends to achieve a balance between the climate change risks and efficiency of investment projects. The Company offers all stakeholders full access to its environmental information, including by publications in federal and local media, its website, etc.

One of the Company's environmental 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, its subsidiaries and joint ventures in 2014.

Key Environmental Indicators of NOVATEK, its subsidiaries and joint ventures

	Unit	2013	2014	Change
Water consumption	th. cubic meters	1,425	1,347	(5.5)%
Atmosphere emissions	th. tons	29.4	51.4	74.8%*

* The increase is due to commissioning of the stable gas condensate transshipment and fractionation complex at the port of Ust-Luga, third stage of the Purovsky Gas Condensate Stabilization Plant, Eastern Dome of the North-Urengoykoye field, Urengoykoye field within the Samburgskiy license area, as well as third stage of the Samburgskoye field.

Energy Resource Consumption by NOVATEK, its subsidiaries and joint ventures in 2014

	Units	Volume	RR mln, net of VAT
Natural gas	mmcm	1,219	1,377.1
Electricity	MW*h	449,461	1,351.4
Heating energy	Gcal	257,880	294.0
Oil	tons	2,218	7.2
Motor gasoline	tons	861	37.5
Diesel fuel	tons	3,403	123.7
Other	tons	2,060	10.8

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 HSE requirements.

Workplace certification includes evaluating measures to control the harmful impact of hazardous factors in the workplace. Measures on improving working conditions are developed on the basis of the results of the certification process. In the reporting year, we certified 2,554 operating workplaces. No workplaces with unacceptable working conditions were identified.

In 2014, the NOVATEK commission continued comprehensive inspections of NOVATEK subsidiaries for occupational health, industrial, fire and environmental safety requirements. In the course of comprehensive inspections, occupational health, industrial, fire and environmental safety control systems are audited for compliance with international standards. In the re-

porting year, NOVATEK's commission performed comprehensive inspections of 11 entities, and, as a result, internal documents have been developed to address the violations noted.

All NOVATEK's subsidiaries and joint ventures conduct safety training and all types of briefings; personnel training and development programs are offered, among others, by specialized training centers, and a proper knowledge assessment system is in place. Due to changes in the number of legislative and regulatory acts of the Russian Federation, extra knowledge tests were organized in all entities and 4,880 employees underwent HSE training courses. In 2014, the financing of Occupational Health and Safety amounted to 168 million rubles.

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 2014, NOVATEK and its subsidiaries had a total of 6,749 employees, of which 38.0% work in exploration and production, 18.6% in processing, 28.7% in transportation and marketing, 5.9% in power supply with the remaining 8.8% classified as administrative personnel. The middle-aged group (25–44 years) prevails in the structure of NOVATEK's personnel, with the average age of 39 years.

Key Health and Safety Indicators of NOVATEK, its subsidiaries and joint ventures

	2013	2014	Change
Injury frequency rate (number of injuries per million working hours)	0.41	0.41	0%
Accident severity rate (total number of employee working hours lost per accident / number of accidents)	922	51	(94.5)%

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 2014, the primary goals of training and professional development included:

- 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;
- 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 Conference".

Ten of the Company's top managers continued 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. During 2014, Higher School of Management (on the base of the Higher School of Economics in Moscow) provided training program for managers, the main goal of the program is to systematize participants' knowledge of management principles of an oil and gas company. The managers took part in the following training courses: "Personal Effectiveness and HR", "Project Management", "Principles of Financial Management", "Decision Making and Management of Oil and Gas Resources: International and Russian Practices". The training was completed by presenting individual projects to the Company's senior management.

In 2014, NOVATEK continued its efforts to enhance employee skills, improve working conditions and ensure a safe environment at its production facilities. During the reporting year, 36.9% of our specialists and line workers have upgraded their respective qualifications, and 68% of the Company's engineers and technicians completed employee certification and industrial safety courses.

Specialized training courses for employees of production divisions under the Technical Training Program were conducted at the Gubkin State University, the Petroleum Education Center at Tomsk Polytechnic University, Petersburg Engineering Institute of Professional Development, NExT Schlumberger educational center and other centers. In 2014, 183 employees underwent training under the program.

During 2014, 231 people were tested under the Corporate Technical Competency Assessment System, including 39 people during the hiring process to fill vacant positions and 104 employees promoted to more senior positions.

In 2014, we had our second class of graduates of "Steps in Discovering Talents" program, whereby 20 young specialists participated in training activities. By the autumn of 2014, 33 new young specialists joined the program.

In 2014, for the first time young specialists participated in the «Mentoring Culture» training courses together with the mentors. In total, 15 mentors attended the training.

The 9th Interregional Research-to-Practice Conference for the Company's young specialists attended by 58 employees was held in Moscow in September 2014. Based on the results of the competition, all of the winners received cash prizes, while fifteen (15) prize-winners, who were nominated in the "Best Implemented Project" category, were offered to study in the international oil and gas training centers in the UAE and Qatar.

SOCIAL PROGRAMS

Employee relations primary focus is on implementing social programs, and 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 2014, 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

NOVATEK attaches considerable importance to social policy and charity. The Company pays close attention to projects intended to support culture, preserve and revive the national values and intangible legacy of Russia, promote and integrate Russian art in the international cultural space, as well as advance "sports for all" and "high-performance sports". NOVATEK enters into agreements with local regional governments where it operates and implements programs to facilitate improvement in local populations' living standards and preserve the distinctive cultural identity of the Far North indigenous peoples.

In 2014, NOVATEK and its subsidiaries directly invested 727 million rubles in charitable, cultural and educational projects and activities to support the Far North indigenous peoples.

COOPERATION WITH THE REGIONS

During the year, the Company was investing funds in the Yamal-Nenets Autonomous District, the Leningrad, Chelyabinsk, Tyumen, and Samara Regions under social agreements reached with regions where the Company maintains operations. The Company conducted children and youth educational programs, provided support to low-income families and allocated funds for repairs and upgrades of social infrastructure facilities.

COOPERATION WITH INDIGENOUS PEOPLES OF THE FAR NORTH

NOVATEK provided financial support to the "Yamal for Descendants" association and its district branches. We assisted indigenous peoples through financing arrangements for purchasing equipment and goods required by fishermen and reindeer herders, as well as fuel for air delivery of the nomadic population and food in remote areas.

In particular, the Company provided the following sponsorship in 2014:

- "The Association of Minority Indigenous Peoples of the Far North, Siberia, and Far East of the Russian Federation" – information and legal services, training and educational workshops, and printed media;
- Nadym District – purchase of a hovercraft to transport people across the Nadym river during transitional seasons;
- Tazovsky District – construction of the road to transport products from the cold storage facility in the village of Gyda to the bank of the Yuntose river; and
- Yamal District – financial aid to the persons among the indigenous people of the North who faced various hardships.

EDUCATIONAL PROGRAMS

NOVATEK continued to develop and support 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 also implemented two "Grants" programs for schoolchildren and teachers living in Purovsky District of the YNAO.

The "Grants" program for schoolchildren is aimed at academic and creative development and encouraging a responsible attitude towards studies. Under the program, students in grades five (5) through 11 are awarded grants from the Company. In 2014, the Company awarded 56 grants to students under this program.

The "Grants" program for teachers is intended to raise the prestige of the teaching profession and create favorable conditions for developing new and talented teachers. In 2014, four (4) teachers from the Purovsky District received grants under this program.

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 National Mineral Resources University (University of Mines), Gubkin Russian State University of Oil and Gas in Moscow and the Tyumen Oil and Gas University.

Students, who have passed their exams with good and 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 have 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 in 2014, namely the Russian State Museum (St.Petersburg), the Moscow Kremlin Museum, the Multimedia Art Museum (Moscow House of Photography), the Moscow Museum of Modern Art, the State Hermitage Museum (St.Petersburg).

In 2014, NOVATEK continued its partnership with the Imperial Gardens of Russia, an annual international festival organized by the Russian State Museum, as well with "Manifesto 10" European biennial of contemporary art held in St. Petersburg. Supported by NOVATEK, the Multimedia Art Museum hosted such exhibitions as "Arkady Shaikhet. Photographs 1932-1941", "Arctic" (as part of "Days of the Arctic in Moscow" festival), "New Orleans in Photography", and "Vsevolod Tarasevich. Episode 2. Lenin-grad". The Company's support enabled the Moscow Museum of Modern Art to hold the "Detective" exhibition with works by contemporary Russian artists created through the prism of the popular literary genre. In 2014, NOVATEK became a partner of a major cultural event, the "MONUMENTA" modern art exhibition. Grand Palais (Paris, France), one of Europe's leading cultural and exhibition centers, hosted the exhibition that featured the works of internationally celebrated Russian-born conceptual artists Ilya and Emilia Kabakov.

Another landmark cultural event of 2014 was the “2.0” exhibition co-organized by NOVATEK, the Multimedia Art Museum and the Moscow Museum of Modern Art and dedicated to NOVATEK’s 20th anniversary. The exhibition featured works by contemporary artists and photographers that looked into the evolution of Russian art in the 1990s and 2000s. The exhibition toured all of the regions where the Company operates, namely Novy Urengoy, Kostroma, Tyumen, Chelyabinsk, and Samara.

In 2014, NOVATEK supported the “Week of American dance” project of the Moscow Music Theatre of Stanislavsky and Nemirovich-Danchenko. During five evenings dancing groups from the United States headed by Azure Barton and Shen Wei gave performances for Russian audience.

NOVATEK also continued as a General Partner of the Moscow Soloists Chamber Ensemble led by Yuri Bashmet. NOVATEK supported a European tour of the Russian Youth Symphony Orchestra during which they visited Geneva, Brussels, and Paris. To celebrate its 20th anniversary the Company organized concerts by the Moscow Soloists Chamber Ensemble in Moscow, Kostroma, Chelyabinsk, and Novy Urengoy.

SPORTS PROJECTS

NOVATEK continued its support for popular and high-level 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 is the General Partner of the NOVA Volleyball Team (Novokuybyshevsk). In 2014, NOVATEK also was a General Partner of the Russian national football team. In 2014, the Company supported the Russian Federation of acrobatic rock ‘n’ roll and Student Basketball Association.

CHARITY

The Company continued its cooperation with Chulpan Khamatova’s Gift of Life charitable foundation in 2014. Jointly with the foundation, NOVATEK held two sessions at its Moscow headquarters during which the Company employees donated blood for the children treated in the Russian Children’s Clinical Hospital.

The All Together volunteer movement founded in 2008 carried on with its activities. The movement focuses on supporting orphans, children with various diseases, and the elderly as well as promoting blood donation.

MANAGEMENT AND CORPORATE GOVERNANCE

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.

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).

NOVATEK strives to consider the principles of corporate governance outlined in the Corporate Governance Code recommended by the Central Bank of Russia (Information Letter № 06-52/2463 dated 10 April 2014). 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, sharehold-

ers, investors, the government and public, consumers, suppliers, and other stakeholders.

In order to increase the effectiveness of the Company's corporate governance system and bring it into compliance with the new requirements of the Russian legislation, the new listing rules of Moscow Stock Exchange and the Corporate Governance Code following changes were made in the reporting year:

- the General Meeting of Shareholders held on 18 April 2014 approved amendments to the Charter, the Regulations on the General Meeting of Shareholders and the Board of Directors;
- the Board of Directors held on 18 April 2014 elected the members of the Audit Committee, the Remuneration and Nomination Committee and the Strategy Committee (previously the committees included the Audit Committee, the Strategy and Investment Committee, the Corporate Governance and Remuneration Committee), and inaugurated a Corporate Secretary position;
- the Board of Directors held on 28 April 2014 approved the Regulations on the Board of Directors' Committees, the Regulations on the Corporate Secretary, and the Regulations on Dividend Policy;
- the Board of Directors held on 1 September 2014 approved the Regulations on the Risk Management System and Internal Control, and the Anti-corruption Policy.

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 further alterations and amendments.

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 18 April 2014, the Annual General Meeting of Shareholders approved the annual report, annual financial statements (in ac-

cordance with the Russian Accounting Standards), distribution of profit and the size of dividends based on the results of FY2013, amendments to the Charter, to the Regulations on the General Meeting of Shareholders and the Regulations on the Board of Directors. The meeting also elected the Board of Directors 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 2014.

On 14 October 2014, the Extraordinary General Meeting of Shareholders approved the amount of interim dividend for the first half of 2014.

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 further alterations and 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 18 April 2014. The Board of Directors is comprised of nine (9) members, of which eight (8) are non-executive directors. Three (3) directors are considered to be independent as at the election date in accordance with the Corporate Governance Code recommended by the Central Bank of Russia and the UK Financial Reporting Council's Combined Code on Corporate Governance. The Board Chairman is Alexander E. 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.

In order to support efficient operation of the Board of Directors the Corporate Secretary position was inaugurated in the reporting year. The Secretary has sufficient independence (appointed and dismissed by the Board of Directors) and endowed with the necessary powers and resources to carry out its tasks in accordance with the Regulations on the Corporate Secretary. The Corporate Secretary appointed by the Board of Directors in 2014 has the knowledge, expertise and skills sufficient to perform assigned duties.

THE BOARD OF DIRECTORS MEMBERSHIP AS OF 31 DECEMBER 2014:

- Alexander E. Natalenko – Chairman of the Board
- Andrei I. Akimov
- Burckhard Bergmann
- Yves-Louis Darricarrère
- Vladimir A. Dmitriev
- Leonid V. Mikhelson
- Victor P. Orlov
- Gennady N. Timchenko
- Andrei V. Sharonov

On 18 April 2014 the following changes took place in the Board of Directors membership: Mark A. Gyetvay and Kirill G. Seleznev ceased their Board membership, and independent directors Victor P. Orlov and Andrei V. Sharonov joined the Board.

BOARD ACTIVITIES DURING THE 2014 CORPORATE YEAR¹

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 2014, the Board met eight (8) times, of which four (4) meetings were held in absentia. The following key issues were discussed and respective decision made:

- reviewed and approved the Company's 2014 full year operating and financial results;
- recommended an interim dividend for first half 2014, based on interim financial results for the period, and a full year dividend for 2014, based on full year financial results;
- reviewed and approved NOVATEK's business plan for 2015;
- approved the following internal documents:
 - the Regulations on the Audit Committee of the Board of Directors;
 - the Regulations on the Remuneration and Nomination Committee of the Board of Directors;
 - the Regulations on the Strategy Committee of the Board of Directors;
 - the Regulations on Dividend Policy;
 - the Regulations on the Corporate Secretary;
 - the Regulations on Risk Management and Internal Control System;
 - the Anti-corruption Policy.

¹ From the date of election on 18 April 2014 until the Annual General Meeting of Shareholders on 24 April 2015.

Board and Committee Meetings Attendance in the 2014 Corporate Year

Member	Independence	Board of Directors	Audit Committee	Remuneration and Nomination Committee	Strategy Committee
Alexander E. Natalenko		8/8			4/4
Andrei I. Akimov		8/8			4/4
Burckhard Bergmann	independent *	8/8	5/5	4/4	4/4
Yves-Louis Darricarrère		8/8			3/4
Vladimir A. Dmitriev		7/8			4/4
Leonid V. Mikhelson	executive	8/8			
Victor P. Orlov	independent *	8/8	5/5	4/4	4/4
Andrei V. Sharonov	independent *	8/8	5/5	4/4	
Gennady N. Timchenko		8/8			3/4

* Independent Director as at the election date in accordance with the Corporate Governance Code recommended by the Central Bank of Russia and the UK Financial Reporting Council's Combined Code on Corporate Governance.

Board Committees

The Company has three Board Committees: the Audit Committee, the Strategy Committee and the Remuneration and Nomination Committee. The Committees' activities are governed by the Committees Regulations approved by the Board of Directors and 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 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 COMMITTEE

The primary functions of the Strategy Committee are the determination of strategic objectives of the operations and control over the implementation of the strategy, as well as recommendations on the dividend policy.

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

- evaluating the effectiveness of the Company's operations in the long-term;
- preliminarily reviewing and making recommendations on the Company's participation in other organizations;

Committees membership as of 31 December 2014:

	Audit Committee	Strategy Committee	Remuneration and Nomination Committee
Chairman	Andrei V. Sharonov	Alexander E. Natalenko	Victor P. Orlov
Deputy Chairman	Victor P. Orlov	Victor P. Orlov	Andrei V. Sharonov
Members	Burckhard Bergmann	Andrei I. Akimov Burckhard Bergmann Yves-Louis Darricarrère Vladimir A. Dmitriev Gennady N. Timchenko	Burckhard Bergmann

- assessing voluntary and mandatory offers to acquire the Company's securities;
- considering the financial model and business valuation of the Company and its business segments in order to make recommendations to the Board of Directors in making decisions on the definition of business priorities of the Company;
- providing recommendations to the Board of Directors on transactions subject to approval by the Board of Directors; and
- providing recommendations to the Board of Directors with respect to the Company's policy on the use of its non-core assets.

In corporate year 2014, the Strategy Committee met four times.

REMUNERATION AND NOMINATION COMMITTEE

The primary functions of the Remuneration and Nomination Committee is development of an efficient and transparent compensation practice of members of the Company's management, enhancement of the professional expertise and improvement of the Board of Directors' effectiveness.

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

- develop and regularly review the Company's policy on remuneration of the members of the Board of Directors, members of the collective executive body and the sole executive body of the Company, oversee its implementation and realization;
- preliminarily assess the work of the executive body of the Company for the year in accordance with the Company's remuneration policy;
- assess the Board of Directors in terms of professional expertise, experience, independence and involvement of its members in the work of the Board of Directors, determine the priority areas for strengthening the Board of Directors;
- interact with shareholders in order to form the Board of Directors that best meets the goals and objectives of the Company; and
- plan appointments of members of the executive body and the sole executive body on the base of continuity principles.

In corporate year 2014, the Remuneration and Nomination Committee met four times.

AUDIT COMMITTEE

The primary function of the Audit Committee is control over financial and operating activities of the Company. In order to assist the Board in performing control functions the Committee is responsible for but not limited to evaluating accuracy and completeness of the Company's full year financial statements, the candidature of the Company's external auditor and the auditor's report, the efficiency of the Company's internal control procedures and risk management system.

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.

In corporate year 2014, the Audit Committee met five 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 Regulations on the Management Board 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. 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 acting as of 31 December 2014 is comprised of eight members elected by the Board of Directors on 30 August 2012 (Minutes No. 150 of 30 August 2012).

MANAGEMENT BOARD MEMBERS AS OF 31 DECEMBER 2014:

- Leonid V. Mikhelson – Chairman
- Vladimir A. Baskov – Deputy Chairman
- Mark A. Gyetvay – Deputy Chairman
- Tatyana S. Kuznetsova – Deputy Chairman – Director of Legal Department
- Iosif L. Levinzon – Deputy Chairman
- Mikhail V. Popov – First Deputy Chairman – Commercial Director
- Alexander M. Fridman – Deputy Chairman
- Kirill N. Yanovskiy – Director for Finance and Strategy

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.

Information on Remuneration of Members of NOVATEK's Board of Directors and Management Board in 2014, RR mln

	Board of Directors ¹	Management Board
Total paid, including:	106.0	1,662.9
Salaries	—	504.1
Bonuses	—	1,135.7
Fees	106.0	—
Other property advancements	—	23.1

Internal Control and Audit

The Company has a system of internal control over financial and business operations in accordance with international best practices. The process of internal control is an integral part of the risk management process.

The system of internal control consists of the Board of Directors, the Audit Committee, the Chairman of the Management Board, the Management Board, the Revision Commission 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.

In accordance with the Corporate Governance Code recommended by the Central Bank of the Russian Federation (Information Letter № 06-52/2463 dated 10 April 2014) at the meeting held on 1 September 2014 the Board of Directors approved the Anti-corruption Policy and the Regulations on the Risk Management System and Internal Control establishing goals, objectives, limitations and internal control principles (Minutes No. 170 of 01 September 2014). As part of the Anti-corruption Policy the Company established a "Hot Security Line". The measures taken are aimed at fighting corruption, reducing the regulatory, operational and reputational risks for the Company.

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 approved by the General Meeting of Shareholders in 2005 (Minutes No. 95 of 25 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 March 2015, the Revision Commission completed the on-site audit revision of financial and business activity of the Company for the year 2014. As a result, the conclusions about the reliability of the data contained in the Company's 2014 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 risk management and internal control system as well as corporate governance practices the Company carries out internal audit. The internal audit function is implemented by the independent Internal Audit Division, which has operated continuously since 2005.

The Internal Audit Division is functionally subordinate to the Board of Directors 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 approved by the Audit Committee 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 March 2015, the Audit Committee considered the report on the activities of the Internal Audit Division in 2014. The members of the Audit Committee unanimously resolved that the results of the Internal Audit Division activities were positive.

¹ 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.

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 audit of the Company's financial statements for 2014.

In selecting the auditor's candidature, attention is paid to 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 23 to the consolidated financial statements prepared in accordance with IFRS standards for 2014.

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 2014, NOVATEK did not have privileged shares.

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

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

Our Global Depository Receipts (GDR) are listed on the London Stock Exchange (symbol: NVTK), with each GDR representing

Equity stakes in NOVATEK's share capital and the number of shares owned by members of the Board of Directors and Management Board¹

	Equity stake as of 31 December 2014, %	Number of shares
Board of Directors		
Alexander E. Natalenko	—	—
Andrei I. Akimov	—	—
Burckhard Bergmann	0.0007	20,000*
Yves-Louis Darricarrère	—	—
Vladimir A. Dmitriev	—	—
Leonid V. Mikhelson	0.7152	21,717,112
Victor P. Orlov	—	—
Gennady N. Timchenko	—	—
Andrei V. Sharonov	—	—
Management Board		
Vladimir A. Baskov	0.0288	874,408
Tatyana S. Kuznetsova	0.1944	5,903,035
Iosif L. Levinzon	—	—
Mark A. Gyetvay	—	—
Mikhail V. Popov	0.1440	4,372,038
Alexander M. Fridman	0.0817	2,481,049
Kirill N. Yanovskiy	0.1051	3,192,530

* In the form of GDRs.

¹ The equity stakes are given based on the records in the register of NOVATEK's shareholders in accordance with the Russian Federation laws.

10 ordinary shares. As of 31 December 2014, NOVATEK's GDRs were issued on 906,637,970 ordinary shares comprising 29.86% of the Company's share capital.

In 2014 the Member of the Board of Directors and the Chairman of the Management Board of OAO "NOVATEK", L.V. Mikhelson made the following transactions on purchases of NOVATEK's shares:

Transaction date	Number of acquired shares
11.03.2014	199,850
17.03.2014	272,400
29.04.2014	362,110

Dividends

In order to improve the transparency of the dividend policy, in 2014, the Board of Directors approved the Regulations on Dividend Policy of OAO "NOVATEK" (Minutes No 168 of 28.04.2014). The main change compared with the previous dividend policy is application of consolidated net income under IFRS (instead of unconsolidated net income under RAS) for calculation of the dividend size.

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. In determining the recommended amount of dividend payments to be distributed the Board of Directors consider the current competitive and financial position of the Company, as well as its development prospects, including operating cash flow and capital expenditure forecasts, financing requirements, debt servicing and other such factors as it may deem relevant to maintaining financial stability and flexible capital structure of the Company. NOVATEK is strongly committed to its dividend policy.

On 12 March 2015, the Board of Directors of OAO NOVATEK recommended to the Annual General Meeting of Shareholders to pay dividends for FY 2014 in the amount of RR 5.2 per ordinary share or RR 52 per one Global Depository Receipt (GDR), exclusive of RR 5.1 of interim dividends per ordinary share or RR 51 per one GDR for the first six months of 2014.

Thus, should the General Meeting of Shareholders approve the above recommended dividend, the dividends for 2014 will total RR 10.3 per ordinary share (RR 103 per one GDR), and the total amount of dividends payable for 2014 will be RR 31,273,951,800. This will represent a 30.5% increase in dividend per share compared to 2013.

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 best practices 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 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 and material facts through authorized disclosure in accordance with the applicable laws of Russian Federation and United Kingdom. The Company discloses quarterly financial statements in accordance with the Russian ("RAS") and International Financial Reporting Standards ("IFRS"), Management's Discussion and Analysis of Financial Condition and Results of Operations as well as 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.

Accrued and paid dividends on NOVATEK shares for the period 2009 to 2014

Dividend Accrual Period	Amount of dividends, RR per share	Total amount of dividends accrued, RR	Total amount of dividends paid, RR
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
2013	7.89	23,956,454,340	23,956,348,044
First half 2014	5.10	15,485,160,600	15,485,113,250

The amount of paid dividends accrued for the years 2009 to 2013, and for the first six months 2014 is reported as of 31 December 2014. 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.

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 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 representa-

tives 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 2014, representatives of the Company participated in more than 20 exhibitions, conferences and round tables. One of the most important events of the past year was NOVATEK's participation in the 21st World Petroleum Congress and the WPC Exhibition 2014 held in Moscow.

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 business-

es. 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	Risk description	Risk management approaches used by the Company
OPERATIONAL RISKS		
Risks of emergencies and incidents	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, hazardous emissions or spills, which in turn may have a negative effect on the Company's business reputation and financial performance.	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 industrial safety management system that is certified under the OHSAS 18001:2007 standard. The Company holds property and business interruption insurance policies. The Company adheres to the principle of responsible investments which implies that new design solutions, technologies and equipment installed help significantly mitigate accident risks.
Monopoly risks	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.	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. 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 light hydrocarbons to Tobolsk Petrochemical Complex).
Competitive risks	The Company operates in an environment of tough competition with Russian and international oil and gas companies in the following areas: <ul style="list-style-type: none"> ■ obtaining of subsoil licenses and acquisition of companies holding subsoil licenses ■ selling natural gas on the Russian market ■ selling liquid hydrocarbons in the Russian and global markets ■ acquisition of oil and gas equipment and services ■ employment of highly qualified specialists to work for the Company and its subsidiaries and joint ventures. 	<p>The Company 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 regional 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. Given the volatility in international relations with certain countries that are providers of sophisticated oil & gas equipment, the Company pursues import replacement policies where it is appropriate.</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. To diversify its natural gas marketing portfolio, throughout the reporting period the Company was engaged in trading in the Natural Gas Section of the St. Petersburg International Mercantile Exchange.</p> <p>The Company implements an active HR policy and applies efficient mechanisms of attracting and retaining highly qualified employees.</p>

Risk	Risk description	Risk management approaches used by the Company
Commodity price risks	<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 has no power over the contracts' base prices. 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 and taxation peculiarities, the Company does not use commodity derivative financial instruments to reduce the risk of price changes for such type of products.</p>
Geological risks	<p>Exploration drilling is associated with multiple risks, including the risk of non-discovery of commercial reserves. Information on the Company's reserves depends on a number of factors and assumptions. Actual production volumes at the fields, along with the cost-effectiveness of reserve development may deviate from estimates.</p>	<p>To minimize geological risks, the Company relies on the geological modeling and engages major contractors that apply state-of-the-art exploration technologies and methods.</p> <p>The Company makes annual assessment and evaluation of its reserves based on the results of exploration and production drilling and other research information. An independent international adviser evaluates the Company's reserves according to international standards on annual basis.</p>
Risk of early termination, suspension or restriction of the right to use subsurface mineral resources	<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>
Environmental risks	<p>The Company is subject to the probability of events having adverse consequences for the environment and caused by a negative impact of its industrial 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>The Company adheres to the principle of responsible investment in operations which implies that new design solutions, technologies and equipment installed help minimize environmental impact.</p>
Ethical risks	<p>The Company is exposed to the risks of disturbed relationships within the Company and with its subsidiaries and 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.</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 Business Conduct and Ethics and Code of Corporate Conduct, as well as 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>In 2014 the Board of Directors approved NOVATEK Anti-Corruption Policy that establishes key principles and standards of anti-corruption practices for employees and includes a set of corruption prevention measures.</p>

Risk	Risk description	Risk management approaches used by the Company
Social risks	<p>The Company is subject to the following risks of a social nature:</p> <ul style="list-style-type: none"> ■ 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; ■ internal risks associated with potential impediments in normal production activities caused by the public living in proximity to the production facilities 	<p>The Company strives to ensure compliance of its social programs with the industry's average level and uses the up-to-date 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>
Terrorism risks	The Company is subject to a risk of terrorist threat.	The Company takes measures required to ensure strict compliance with Federal Law No. 256-FZ of 21 July 2011 concerning the Fuel and Energy Complex Security. A complex of organizational and practical measures is constantly in place to ensure security of facilities, including linear ones.
Country risk	<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>In 2014, dropping oil prices and international sanctions caused volatility in foreign currencies, growing inflation rates, an increase in interest rates and an economic growth slowdown.</p> <p>The said factors may have a negative impact on the Company's operational and financial performance.</p>	<p>Export of liquid hydrocarbons, a balanced financial policy and an active marketing policy enable the Company to mitigate the potential effect of the country risk.</p> <p>Moreover, the Company's management continuously analyzes the macro-economic environment and makes prompt decisions to mitigate potential risks.</p>
Regional risk	The Company produces and processes hydrocarbons within Western Siberia, a region with a challenging climate.	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.
FINANCIAL RISKS		
Credit risk	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>When selling natural gas on the domestic market, the Company continuously monitors the financial soundness of its consumers and takes actions in case there are overdue payments.</p> <p>Most of NOVATEK's international liquid sales are made to major customers with independent ratings. Almost all domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis.</p> <p>When selecting banks, the Company is governed by the bank's reliability confirmed by international ratings.</p>
Reinvestment risk	The Company's business requires substantial investments into field exploration and development, followed by the production, transportation, and processing of natural gas, oil, gas condensate and petroleum products. Insufficient funding for these and other expenditures may affect the Company's financial standing and performance.	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 taking into account the need to pay dividend and service its debt.

Risk	Risk description	Risk management approaches used by the Company
Interest risks	As a major borrower, the Company is subject to risks associated with an increase in interest rates. Interest rates on some of the Company's loans may be linked to floating international and Russian base rates which dynamics is hard to predict. Growth of the interest rates may restrict the use of borrowed capital as a financing source for the Company's investment activity and may increase interest rate expenses.	The Company pursues a balanced debt policy and strives to maximize the share of long-term liabilities with fixed rates in its debt portfolio. The Company works to maintain the flexibility of its investment program and to fund its capital expenditures mainly with its own funds.
Currency risks	Part of the Company's liabilities is denominated in foreign currencies 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 currencies which may lead to losses in the event of ruble appreciation.	The liabilities expressed in foreign currency on the one hand, and export proceeds on the other generally offset each other and serve as a natural mechanism to hedge currency risks.
Liquidity risk	Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.	<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 an adequate ratio between cash reserves and debt, monitors forecast and actual cash flows and matches the financial assets and liabilities maturity profiles.</p> <p>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 in the available markets.</p>
Inflation risk	Changes in the consumer price index have an impact on NOVATEK's profitability and, as a consequence, its financial standing. The significant ruble depreciation in 2014 caused a surge in inflation rates which are impossible to accurately predict.	<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 accordingly acts to mitigate its costs.</p>

LEGAL RISKS

Risk of law changes	<p>The Company is subject to a risk of facing consequences of changes in Russian laws in the following areas:</p> <ul style="list-style-type: none"> ■ currency laws (in areas concerning export/import and borrowing operations) ■ tax laws (in areas regulating taxation systems and rates applicable to companies in general, and to companies producing and marketing natural gas and liquid hydrocarbons, specifically) ■ customs laws (in areas concerning the export of liquid hydrocarbons, including petroleum products); and ■ licensing requirements for natural resource extraction. 	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.
Litigation risks	The Company may be involved as a defendant or plaintiff in a number of proceedings arising in the normal course of its business.	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.

Risk	Risk description	Risk management approaches used by the Company
Risk of sanctions	In 2014, the Company was included into the US sectoral sanctions list whereby the US persons are prohibited to participate in providing financing to the Company for more than 90 days. The sanctions imposed restrict the Company's ability to refinance its debt. Furthermore, there is a risk of tougher US sanctions and risk of including the Company into other countries' sanctions lists, which may undermine the Company performance.	The Company follows a balanced financial policy enabling it to minimize its fundraising needs. Moreover, the Company still has a full access to the Russian capital market and a limited access to the international market. In case the US sanctions are toughened and the Company is included in other countries' sanctions lists, the Company management will make every possible effort to minimize the negative impact on the Company's business operations and financial standing.

Risk Insurance

Risk insurance is an integral part of NOVATEK's risk management system. In 2014, the insurance coverage guaranteed adequate protection against the risks of damage to the business of the Company or its subsidiaries and joint ventures. Insurance is provided by reputable insurance companies that have high ratings by leading rating agencies (Expert RA, M. Best, Standard & Poor's) with the risks reinsured by major international insurance companies.

OBLIGATORY RISK INSURANCE

The Company and its subsidiaries and joint ventures 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, including the risk of mechanical failures;
- Insurance of the risk of damage from business interruption;
- Management liability insurance.

On 1 May 2014, the Company restructured and implemented a comprehensive program of property and business risk insurance with respect to its and its subsidiaries' and joint venture's key assets. The program makes it possible to reduce potential losses resulting from the materialization of technology-related risks at gas production, processing and marketing facilities, including possible losses from reduced volumes of hydrocarbon production and processing and, as a result, reduced sales proceeds. The cumulative insured amount for the risks of property damage and business interruption is RR 309 bln. 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 enterprises and the business processes of 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.

During the comprehensive insurance program validity period, an incident occurred that was recognized as an insured event. The cost of restoring the property reached RR 106 mln and was reimbursed by the insurance company less the deductibles, within the contractual deadlines. The claims settlement process was completed in 2014 without any disputes arising.

For more than nine (9) years the Company has maintained a management liability insurance for the top management of the Company and its subsidiaries 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 Euro 120 mln.

Information on Members of NOVATEK's Board of Directors

MR. ALEXANDER Y. NATALENKO

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

Born in 1946

Mr. Natalenko completed his studies at the Irkutsk State University in 1969 with a primary focus in Geological Engineering. Subsequently, he worked with the Yagodninskaya, 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 OAO Rosgeologia. From 2004 to present he is the Chairman of NOVATEK's Board of Directors.

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

MR. ANDREI I. AKIMOV

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

Born in 1953

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 Rosneft, OAO Rosneftegaz, Gazprom Germania GmbH, OOO Gazprom gas motor fuel, GPB International S.A. and other.

DR. BURCKHARD BERGMANN

- Member of NOVATEK's Board of Directors, its Remuneration and Nomination Committee, its Audit Committee and its Strategy Committee

Born in 1943

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. YVES-LOUIS CHARLE JUSTIN DARRICARRÈRE

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

Born in 1951

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

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

Born in 1953

In 1975, graduated from the Moscow Finance Institute, specialty – "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

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

Born in 1955

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 PJSC

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, the Order of Merit for the Fatherland 2 degree and the title of honor “Honored man of the gas industry”.

MR. VICTOR P. ORLOV

- Member of NOVATEK’s Board of Directors
- Chairman of NOVATEK’s Remuneration and Nomination Committee
- Member of NOVATEK’s Strategy Committee
- Member of NOVATEK’s Audit Committee

Born in 1940

In 1968, Mr. Orlov graduated from the Tomsk State University as a geological engineer with a degree in “Geological survey and exploration of mineral deposits”, and in 1986 from the Academy of National Economy under the USSR Council of Ministers, with a specialty in “Economics and Management of a National Economy”.

From 1957 to 1963, he worked at coal mine and served in the Soviet Army. From 1968 to 1975, he was head of a geological survey, prospecting and exploration works in the geological organizations of Western Siberia, held positions of the geologist, chief geologist, chief of geological exploration crew. 1975-1978 – Consultant on geological exploration works in Iran. 1979-1981 – Deputy Head of the Geological Division of the Production Geological Association of central areas of Russia (Tsentrgeologiya). 1981-1986 – Deputy Head of Geology and Production departments of the Ministry of Geology of the RSFSR. 1986-1990 – CEO of Tsentrgeologiya. 1990-1992 – Deputy Minister of Geology of the USSR, First Deputy Chairman of the RSFSR State Committee for Geology and Use of Energy and Mineral Resources. 1992-1996 – Chairman of the Russian Federation Committee on Geology and Mineral Resources. 1996-1999 – Minister of Natural Resources of the Russian Federation. 2001-2012 – Member of the Federation Council of the Federal Assembly of the Russian Federation. 2001-2004 – First Deputy Chairman of the Federation Council Committee on Natural Resources and Environmental Protection. 2004-2011 – Chairman of the Federation Council Committee on Natural Resources and Environmental Protection.

Professor, Doctor of Economics, Candidate of geological-mineralogical sciences, an Honored Geologist of Russia. Laureate of the State Prize of the Russian Federation in the field of science and technology. He was awarded the Order of Merit for the Fatherland 4 degree, 18 non-governmental awards, including 3 appreciation letters of the President of the Russian Federation, the Certificate of Merit of the Government of the Russian Federation.

MR. GENNADY N. TIMCHENKO

- Member of NOVATEK’s Board of Directors
- Chairman of NOVATEK’s Strategy Committee

Born in 1952

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 Kirishineft-ekhimexport, 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. Between 1997 and 2014, 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, Airfix Aviation OY. Since 2009, he is a member of the Board of Directors of OAO NOVATEK. He is a member of the Board of Directors of PJSC SIBUR Holding, the Chairman of the Board of Directors, President of the Ice Hockey Club SKA St-Petersburg, as well as the Chairman of the Board of Directors of OOO Kontinental Hockey League, a member of the Board of Trustees of the All-Russian public organization Russian Geographical Society, the Chairman of the Russian Council of the NPO Russian Chinese Business Council, the Chairman of the Board to promote OCD, Vice- President of the Olympic Committee of the Russian Federation, the Chairman of the Economic Council of the Franco-Russian Chamber of Commerce (CCIFR).

MR. ANDREI V. SHARONOV

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

Born in 1964

Mr. Sharonov graduated from the Ufa Aviation Institute and the Russian Academy of State Service at the President of the Russian Federation.

1989-1991 – Member of the USSR Parliament, until 1996 he headed the Committee for Matters Concerning Young Persons of the Russian Federation. From 1996 to 2007 – Head of Department, Deputy Minister, State Secretary in the Ministry of Economic Development and Trade of the Russian Federation. From 2007 to 2010 – Managing Director and Chairman of the Board of Directors of ZAO Investment Company Troika Dialog, head of the investment banking sector. From 2010 to 2013 – Deputy Mayor of Moscow for economic policy, was responsible for budgeting, procurement, industrial policy and business support, regulated market of trade and services. Served as a Chairman of the Regional Energy Commission. From September 2013 – President of the Moscow School of Management SKOLKOVO and Adviser to the Mayor of Moscow.

Member of ALROSA's Supervisory Board (OAO); Member of the Board of Directors of OAO Bank of Moscow; Member of the Board of Directors, Member of the Strategy Committee, Member

of Committee on Innovative Development and Technology Policy of OAO Sovkomflot; Chairman of the Board of Directors, an Independent Member of the Board of Directors of OOO Management Company NefteTransService; Chairman of the Board of Directors of OAO Management Company Eko-sistema.

Candidate of sociological sciences, an Honored Economist of the Russian Federation. He is the recipient of the "Aristos" Award in the "Independent Director" category in 2009, the National Award "Director of the Year – 2009" in the "Independent Director" category and the International Award "Person of the Year – 2012" in the "Business reputation" category. He was awarded the Order of Honor of the Russian Federation.

Information on Members of NOVATEK's Management Board

MR. LEONID V. MIKHELSON

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

Born in 1955

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

MR. VLADIMIR A. BASKOV

- Deputy Chairman of NOVATEK's Management Board

Born in 1960

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

- Deputy Chairman of NOVATEK's Management Board

Born in 1957

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.

From 2003 to 2014, Mr. Gyetvay became a member 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. Since July 2010, he became Deputy Chairman of NOVATEK's Management Board.

MS. TATYANA S. KUZNETSOVA

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

Born in 1960

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 Purneftegasegeologiya. 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. Has the title "Honored employee of OAO NOVATEK", awarded the Order of Merit for the Fatherland 2 degree.

MR. IOSIF L. LEVINZON

- Deputy Chairman of NOVATEK's Management Board

Born in 1956

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 Purneftegasegeologiya. 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

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

Born in 1969

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

- Deputy Chairman of NOVATEK's Management Board

Born in 1951

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 1973, 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. Fridman is the recipient of the title of honor "Honored man of the oil and gas industry".

MR. KIRILL N. YANOVSKIY

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

Born in 1967

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 Interested Party Transactions

In 2014, NOVATEK consummated no interested party and major transactions.

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.

Terms and Abbreviations

Mentions in this Annual Report of "OAO NOVATEK", "NOVATEK", "the Company", "we" and "our" refer to OAO NOVATEK and/or its subsidiaries (according to IFRS methodology) and/or joint ventures (accounted for on an equity basis according to IFRS standards), depending upon the context, in which the terms are used.

barrel	one stock tank barrel, or 42 US gallons of liquid volume
bcm	billion cubic meters
boe	barrels of oil equivalent
km	kilometer(s)
mboe	thousand boe
mcm	thousand cubic meters
mt	thousand metric tons
mmboe	million boe
mmcm	million cubic meters
mmt	million metric tons
ton	metric ton
SEC	United States Securities and Exchange Commission
PRMS	Petroleum Resources Management System
YNAO	Yamal-Nenets Autonomous Region
RR	Russian rouble
LPG	liquified petroleum gases
LNG	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

Press Service

Tel: +7 495 721-2207
E-mail: press@novatek.ru

Investor Relations

Tel: +7 495 730-6013
Fax: +7 495 730-6000
E-mail: 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

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

Website:

www.novatek.ru (Russian version)
www.novatek.ru/eng (English version)



WWW.NOVATEK.RU/EN