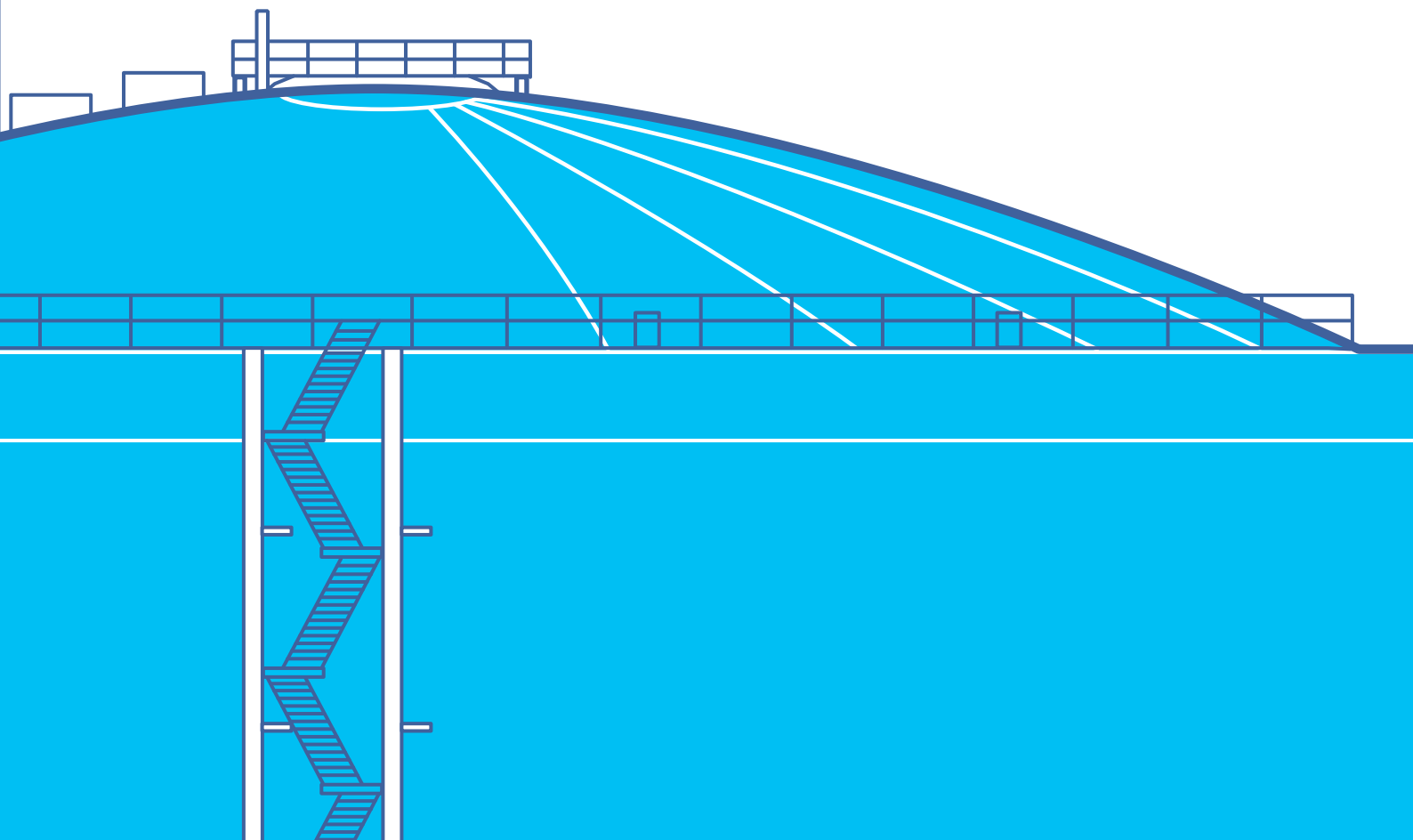




# DELIVERING RESULTS 2016

Annual Report



# CONTENTS

NOVATEK is one of the largest independent natural gas producers in Russia.

NOVATEK's main businesses are the exploration and production, processing, transportation and marketing of natural gas and liquid hydrocarbons.

# 6

Letter to Shareholders .....	6
Strategic Priorities.....	10
Key Events and Achievements 2016 .....	11
Key Indicators .....	12

# 46

<b>REVIEW OF OPERATING RESULTS</b>	<b>46</b>
Licenses .....	46
Hydrocarbon Reserves .....	46
Geological Exploration .....	48
Field Development.....	48
Hydrocarbon Production .....	49
Yamal LNG Project .....	50
Processing of Gas	
Condensate.....	52
Natural Gas Sales.....	53
Liquid Hydrocarbon Sales .....	53

55

61

71

**ENVIRONMENTAL AND  
SOCIAL RESPONSIBILITY 55**

Environmental Protection.....	55
Industrial Safety and Occupational Health.....	57
Human Resources .....	57
Social Policy and Charity.....	59

**MANAGEMENT AND  
CORPORATE GOVERNANCE 61**

Corporate Governance System .....	61
General Meeting of Shareholders.....	62
Board of Directors .....	62
Board Committees .....	63
Management Board .....	65
Remuneration to Members of the Board of Directors and Management Board.....	65
Internal Control and Audit .....	66
Share Capital.....	67
Dividends .....	68
Information Transparency .....	69

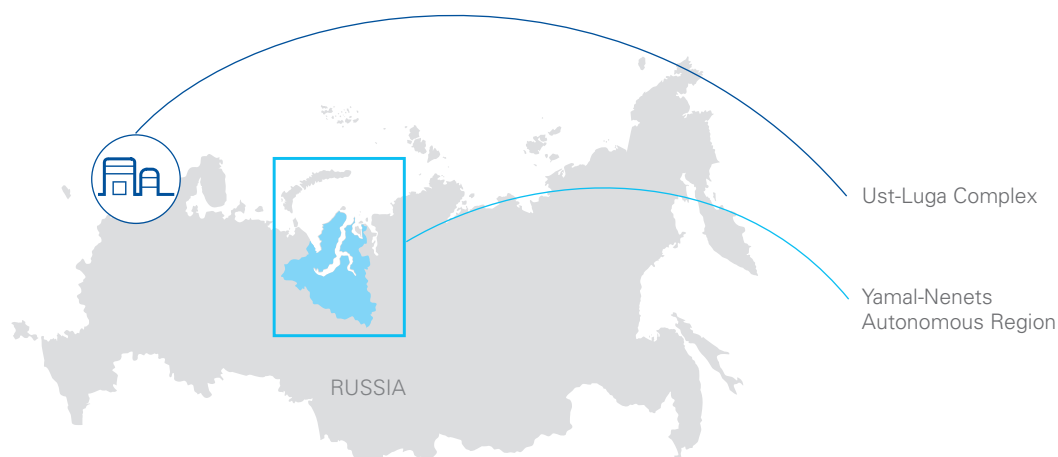
**ADDITIONAL  
INFORMATION 71**

Risk Management System.....	71
Information on Members of NOVATEK's Board of Directors	76
Information on Members of NOVATEK's Management Board .....	80
Report on Major, and Interested-Party Transactions that the Company did in the Reporting Year.....	83
Corporate Governance Code Compliance Report.....	90
Forward-looking Statements...	108
Terms and Abbreviations .....	109
Conversion Factors .....	109
Contact Information .....	110

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

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

Our reserves allow us to maintain stable high growth rates of hydrocarbon production.

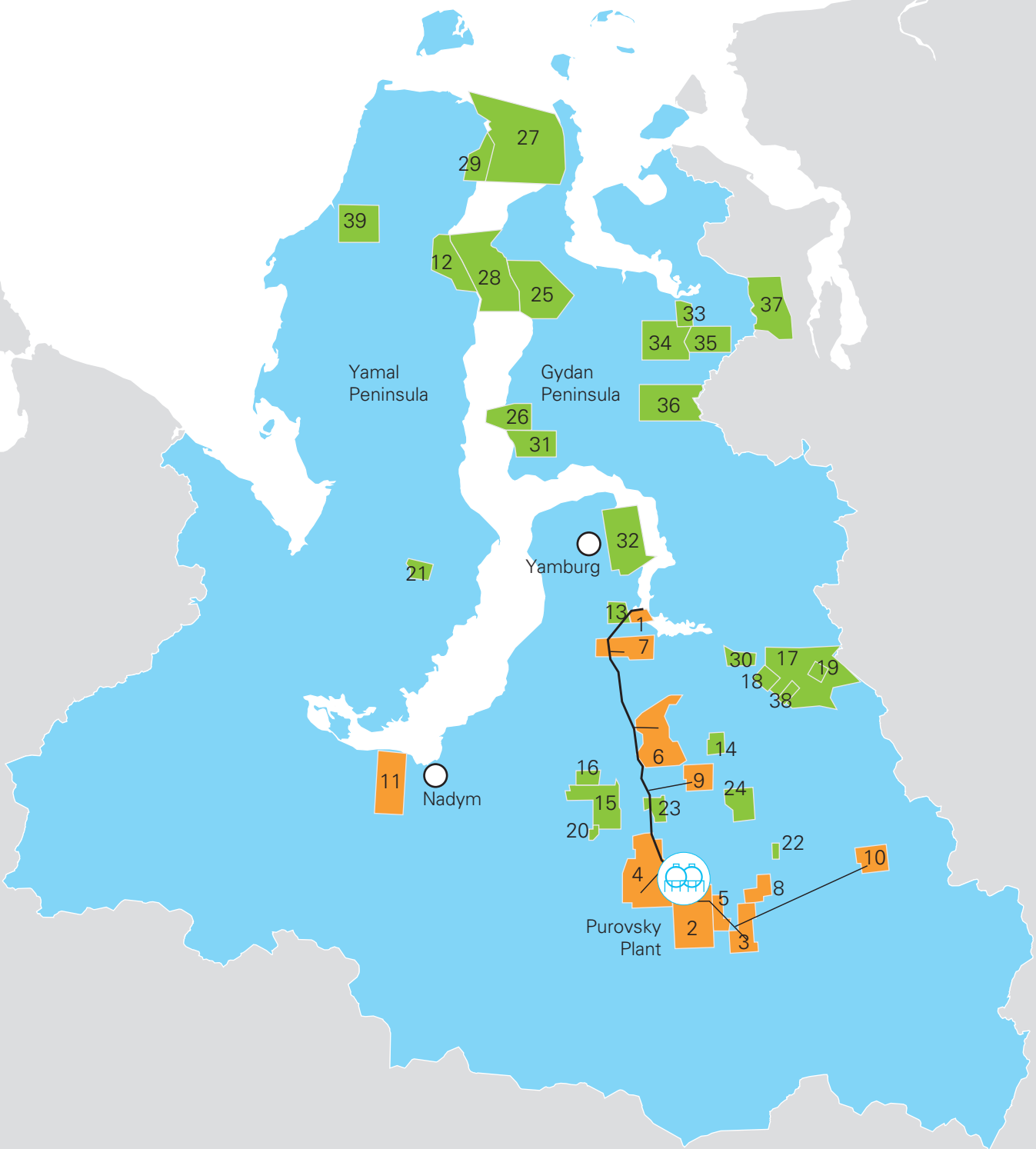


## PRODUCTION

1. Yurkharovskoye field
2. East-Tarkosalinskoye field
3. Khancheyskoye field
4. Olimpiyskiy license area
5. Yumantilskiy license area
6. Samburgskiy license area
7. North-Urengoyenskoye field
8. North-Khancheyskoye field
9. Yaro-Yakhinskiy license area
10. Termokarstovoye field
11. Yarudeyskoye field

## PROSPECTIVE FIELDS AND LICENSE AREAS

12. South-Tambeyskoye field
13. West-Yurkharovskoye field
14. Raduzhnoye field
15. West-Urengoyanskiy license area
16. North-Yubileynoye field
17. North-Russkiy license area
18. North-Russkoye field
19. Dorogovskoye field
20. Ukrainsko-Yubileynoye field
21. Malo-Yamalskoye field
22. West-Chaselskoye field
23. Yevo-Yakhinskoye field
24. North-Chaselskiy license area
25. Utrenneye field
26. Geofizicheskiy license area
27. North-Obskiy license area
28. East-Tambeyskiy license area
29. North-Tasiyskiy license area
30. East-Tazovskoye field
31. Trekhbugorni license area
32. Nyakhartinskiy license area
33. Ladertoyskiy license area
34. Nyavuyahskiy license area
35. West-Solpatinskiy license area
36. North-Tanamskiy license area
37. Tanamskiy license area
38. Kharbeyskoye field
39. Syadorskiy license area



# 39

Fields and license areas



Purovsky Gas Condensate Processing Plant.  
Key element in the production chain used for gas condensate stabilization.

— Gas condensate pipelines of NOVATEK.

# LETTER TO SHAREHOLDERS



**ALEXANDER NATALENKO**  
Chairman of NOVATEK's  
Board of Directors



**LEONID MIKHELSON**  
Chairman of NOVATEK's  
Management Board



**MARK GYETVAY**  
Deputy Chairman of NOVATEK's  
Management Board

DELIVERING RESULTS UNDERSCORES OUR VALUE CREATION MODEL TO OUR SHAREHOLDERS. WE REACHED IMPORTANT MILESTONES IN OUR FIRST INTERNATIONAL LNG PROJECT AND CONTINUED DELIVERING POSITIVE OPERATIONAL AND FINANCIAL RESULTS TO OUR SHAREHOLDERS.

## +37%

growth in liquid hydrocarbon production

## 88%

completion rate on the first LNG train

## DEAR SHAREHOLDERS,

TWO THOUSAND AND SIXTEEN was another year of sustained growth in our operations and earnings despite the challenging macro-economic environment, the cyclicity in global hydrocarbon prices and the high volatility in foreign exchange rates. We reached important milestones in our first international LNG project and continued delivering positive operational and financial results to our shareholders.

DELIVERING RESULTS underscores our value creation model to our shareholders. During the past year, total hydrocarbon production increased by 3% to 537 million barrels of oil equivalent (mmbœ), representing nine consecutive years of total hydrocarbon production growth. Driving this growth was the record level of liquids production of 12.4 million tons, an increase of 37%, allowing us to fully load our gas condensate processing facilities at Purovsky and Ust-Luga. The Yarudeyskoye crude oil field launched in the end of 2015 reached its full rated capacity and became the main source for NOVATEK's more than three-fold crude oil production growth for the year. We experienced a natural decline in our core gas production by 2.7%, but the next step forward in growing gas production is expected from the Yamal LNG project planned to come on stream in 2017.

YAMAL LNG REMAINS OUR FLAGSHIP PROJECT. At year-end 2016, construction of the plant's first LNG train was approximately 88% complete, which puts us on track to launch the project on schedule in 2017.

We have reached our main goal for 2016 - we successfully concluded the external financing package for Yamal LNG, achieving a very important milestone for the project. We spent a significant amount of time ensuring the timely completion of the external financing package and, accordingly, did not allow a single delay in financing and constructing the project. Loan agreements were signed with the Russian banks Sberbank and Gazprombank, China Development Bank and the Export-Import Bank of China, the Italian bank Intesa Sanpaolo with insurance coverage by the Italian export credit agency SACE and the French export credit agency COFACE, and with the Japan Bank for International Cooperation (JBIC). The

## WE HAVE REACHED OUR MAIN GOAL FOR 2016 – WE SUCCESSFULLY CONCLUDED THE EXTERNAL FINANCING PACKAGE FOR YAMAL LNG, ACHIEVING A VERY IMPORTANT MILESTONE FOR THE PROJECT.

successful participation of international banks and export credit agencies demonstrates the global significance and world scale nature of the Yamal LNG project.

We also successfully closed the sale of a 9.9% equity stake in the Yamal LNG project to China's Silk Road Fund and reached the targeted shareholding structure with 50.1% stake owned by NOVATEK.

Significant progress was made in all areas of the project throughout the past year.

We continued our robust drilling at the South-Tambeyskoye field and completed 73 production wells, exceeding the well stock of 58 wells required for the plant's first LNG train. The main cryogenic heat exchanger for LNG train #1 was installed into the liquefaction module, and the remaining two other main cryogenic exchanges for LNG trains #2 and #3 were delivered to the construction site. All four cryogenic LNG tanks successfully passed hydro-testing, and the sea port ice protection barrier with the loading pipe rack and two shipping berths were under construction.

The first Arc7 ice-class vessel was put on water and fully equipped in 2016 and by year-end the LNG carrier successfully passed sea acceptance tests.

The growth in our liquids production remained the main driver of our financial results in 2016, as we increased the liquids share in our total production by 4 percentage points to 19%. The contribution from our liquid sales had a strong positive effect on our profitability. Our revenues increased by 13.1% to RR 537 bln and our normalized EBITDA increased by 13.2% to RR 242 bln. Based on the Company's financial results, the Board of Directors recommended to the General Meeting of Shareholders to approve dividends for 2016 at RR 13.9 per share, exceeding the dividend paid out for the previous year by 3%.



**AT YEAR-END 2016, CONSTRUCTION OF THE PLANT'S FIRST LNG TRAIN WAS APPROXIMATELY 88% COMPLETE, WHICH PUTS US ON TRACK TO LAUNCH THE PROJECT ON SCHEDULE IN 2017.**

As we delivered growth in our hydrocarbon production, we significantly decreased our capital expenditures, benefitting from the launches of several major fields in 2015. We increased our free cash flow by RR 57 bln, a record high for the Company, while our operating cash flow exceeded our capital expenditures by five times. The increased cash flow allows us to successfully repay outstanding debt, pay out dividends and invest into new prospective projects. In 2016, we fully repaid our five-year USD 600 million Eurobond at its maturity date.

We retained our core competitive advantage being ranked among the lowest cost hydrocarbon producers globally, and our lifting costs remained at a very low level of \$0.57 per BOE. We created shareholder value in a cyclical price environment whereas many international companies cut capital expenditures, laid off personnel and wrote down

significant oil and gas reserves. We remain fully committed to our strategy providing for strict cost control and conservative financial policies while maintaining the highest standards of corporate governance and sustainable development – DELIVERING RESULTS in challenging macro conditions.

For the past year, despite low hydrocarbon prices, we managed to achieve an organic reserve replacement ratio of 168% and recorded a reserve to production ratio of 24 years, a solid achievement among the global oil and gas companies. We are increasing our resource base having obtained the exploration rights for the Nyakhartinskiy, Ladertoyskiy, Nyavuyahskiy, West-Solpatinskiy, Syadorskiy, North-Tanamskiy and Tanamskiy license areas. The new license areas support our strategic objective aimed at expanding our resource base in the hydrocarbon rich Yamal and Gydan peninsulas as we actively study the region's geological potential for implementing future LNG projects. We also explore additional opportunities for supporting and expanding our hydrocarbons production in our current core production region.

We diversified our exploration activities in 2016 by signing a concession contract with



the Government of Montenegro for the exploration and production of hydrocarbons on four offshore blocks in the Adriatic Sea in partnership with Italian energy company, Eni.

Our prolific hydrocarbon resource base, the successful implementation of the Yamal LNG project and our experience in navigating the Northern Sea Route create a great platform for developing mutually beneficial cooperation in LNG projects. In 2016, we concluded Memorandums of Understanding with the Mitsubishi Corporation, Mitsui and Marubeni Corporation aimed at strategic cooperation for implementing LNG projects in Russia and supplying LNG and liquid hydrocarbons. We also signed a Memorandum of Understanding for Strategic Partnership with JBIC confirming the parties' intentions to cooperate in the implementation of NOVATEK's LNG projects, including financing and investment. We continue to consider opportunities of increasing our LNG production and supplying projects.

We successfully completed the first transformation stage of our business by evolving from a pure domestic gas business to production, processing and global marketing of liquid hydrocarbons. Now, we enter a new transformative stage with exciting prospects to grow the Company into a global player in the LNG market. We have achieved historically high growth rates and we aim to remain a growth company with the portfolio of exciting opportunities DELIVERING RESULTS and creating shareholder value.

Sustainable development practices remains at the forefront of our business. Our assets are located in the vulnerable and fragile environment of the Arctic region and we are strongly committed at preserving both the nature and traditional lifestyle of the indigenous minorities living in the areas where we operate. We also contribute to the development of the local societies by supporting education and sports programs as well as developing local infrastructure.

Environment protection and industrial safety remain our core focus helping us minimize environmental impact and achieve economic efficiencies by applying state-of-the art equipment and technologies.

One of our main sources of growth has always been and will always remain our highly qualified and dedicated team of professionals contributing their effort, know-how and energy into the implementation of our strategy to transform our business into a global LNG player. Our valued employees have a proven track record of DELIVERING RESULTS in a

**ONE OF OUR MAIN SOURCES OF GROWTH HAS ALWAYS BEEN AND WILL ALWAYS REMAIN OUR HIGHLY QUALIFIED AND DEDICATED TEAM OF PROFESSIONALS CONTRIBUTING THEIR EFFORT, KNOW-HOW AND ENERGY INTO THE IMPLEMENTATION OF OUR STRATEGY TO TRANSFORM OUR BUSINESS INTO A GLOBAL LNG PLAYER.**

sustainable manner despite challenging macro-economic environments. Their dedication and persistence is much appreciated.

On behalf of the Board of Directors and Management Board, we are pleased to present to our valued stakeholders the NOVATEK's 2016 Annual Report. We would like to thank everyone for your continued support, as we remain committed to growing our company in a new strategic direction while implementing best international practices and principles of sustainable development and corporate governance.

Kind regards,

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



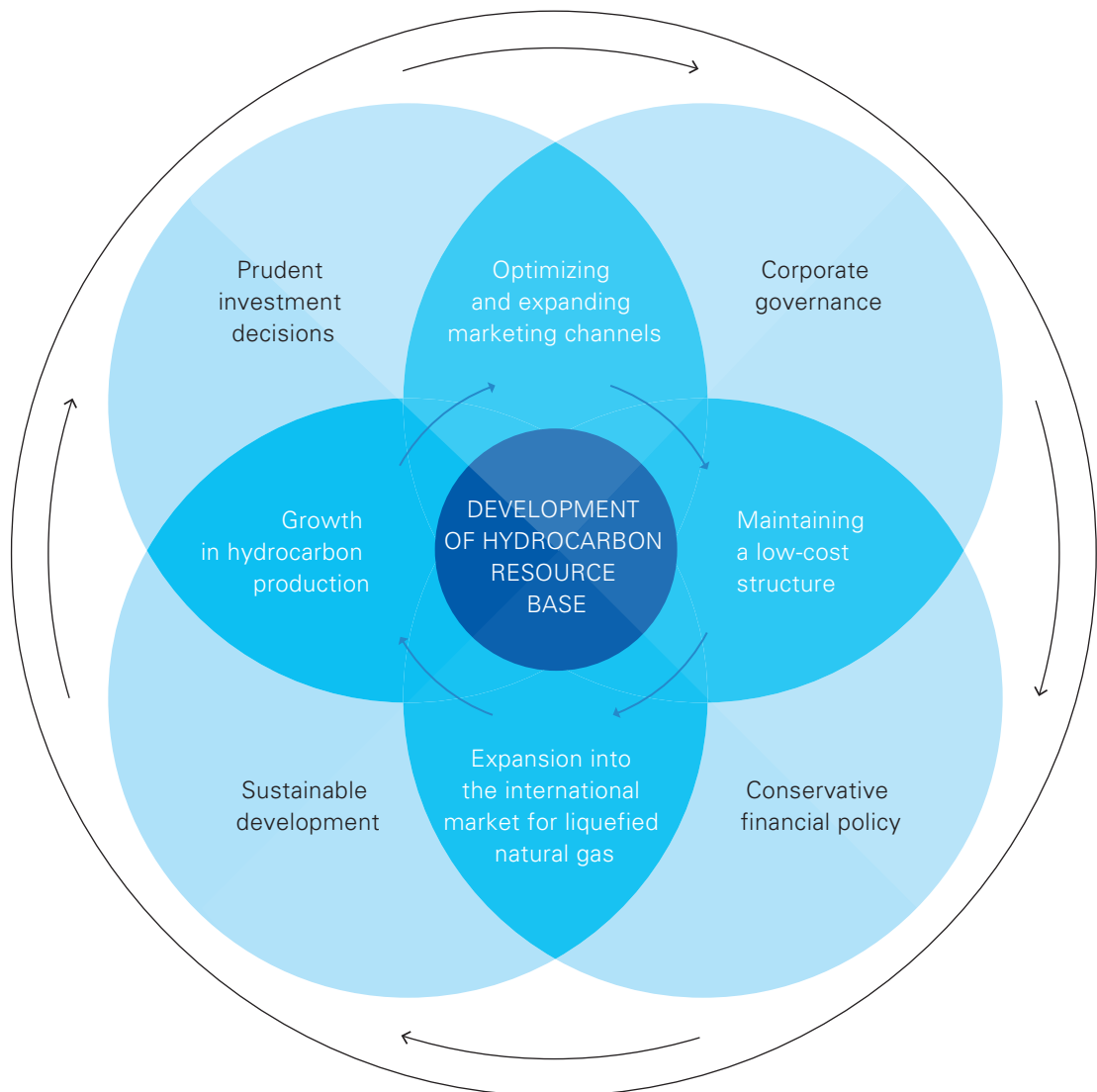
**LEONID MIKHELSON**  
Chairman of the  
Management Board



**MARK GYETVAY**  
Deputy Chairman of the  
Management Board



# STRATEGIC PRIORITIES



The Company has a number of key competitive advantages to successfully implement its strategy: 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 gas (LPG). Our high level of

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

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

# KEY EVENTS AND ACHIEVEMENTS 2016

## USD 19 bln



Finalization of external financing package for the Yamal LNG project for the total amount equivalent to USD 19 bln with participation of Russian and international banks, the National Welfare Fund of Russia and international export credit agencies.



Signing of Memorandums of Understanding with the Mitsubishi Corporation, Mitsui, Marubeni Corporation and PTT, and a Memorandum of Understanding for Strategic Partnership with the Japan Bank for International Cooperation (JBIC).



Obtaining the rights for the Nyakhartinskiy, Ladertoyskiy, Nyavuyahskiy, West-Solpatinskiy, Syadorskiy, North-Tanamskiy and Tanamskiy license areas as well as for the Kharbeyskoye field.



## 3.5 mmt

Successfully reaching the Yarudeyskoye crude oil field's full production capacity of 3.5 mmt annualized and launching an associated petroleum gas treatment unit at the field.

## 9.9%



Closing of the sale of a 9.9% equity stake in the Yamal LNG project to China's Silk Road Fund.



Signing of a concession contract with the State of Montenegro for the exploration and production of hydrocarbons on four offshore blocks in the Adriatic.



Strategic partnership



LNG projects



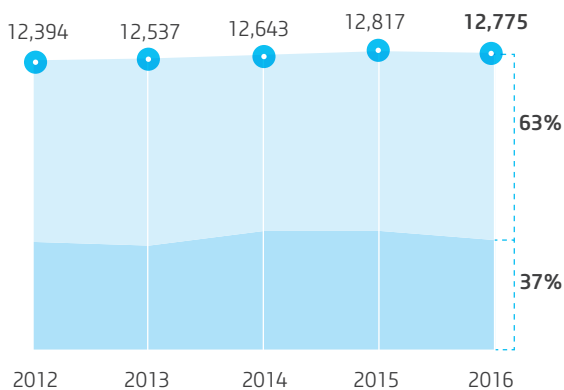
Development of the resource base and hydrocarbon production

# KEY INDICATORS

	Unit	2015	2016	Change
<b>FINANCIAL INDICATORS</b>				
Total revenues	RR mln	475,325	537,472	13.1%
Normalized profit from operations <sup>1</sup>	RR mln	139,741	152,194	8.9%
Normalized EBITDA (including share in EBITDA of JVs) <sup>1</sup>	RR mln	214,189	242,407	13.2%
Profit attributable to shareholders of PAO NOVATEK	RR mln	74,396	257,795	246.5%
Earnings per share, basic and diluted	RR	24.63	85.41	246.8%
Net cash provided by operating activities	RR mln	132,864	173,791	30.8%
Net cash used for capital expenditures <sup>2</sup>	RR mln	50,584	34,413	(32.0%)
Free cash flow	RR mln	82,280	139,378	69.4%
<b>OPERATING INDICATORS</b>				
Proved natural gas reserves (SEC)	bcm	1,775	1,755	(1.1%)
Proved liquid hydrocarbon reserves (SEC)	mmt	143	152	6.3%
Total hydrocarbon reserves (SEC)	mmboe	12,817	12,775	(0.3%)
Total hydrocarbon reserves excluding the effect of sale of 9.9% stake in Yamal LNG	mmboe	12,817	13,182	2.8%
Marketable production of natural gas	bcm	67.9	66.1	(2.7%)
Marketable production of liquid hydrocarbons	mt	9,094	12,441	36.8%
Total marketable production	mmboe	521.6	537.0	3.0%
<b>POSITIONS IN RUSSIA</b>				
Share in natural gas production	%	10.8%	10.5%	(0.3) p.p.
Share in liquid hydrocarbon production	%	1.7%	2.3%	0.6 p.p.

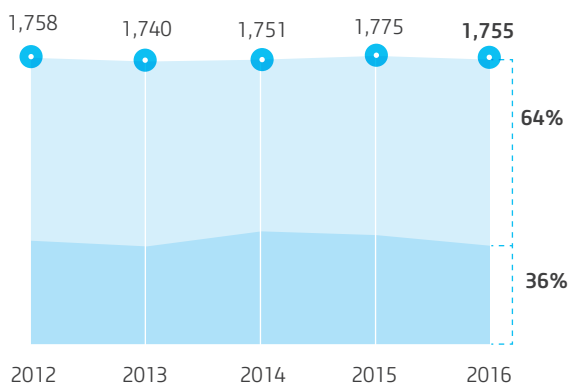
<sup>1</sup> Adjusted for the effect on disposal of interests in joint ventures.

<sup>2</sup> Cash used for capital expenditures represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries.



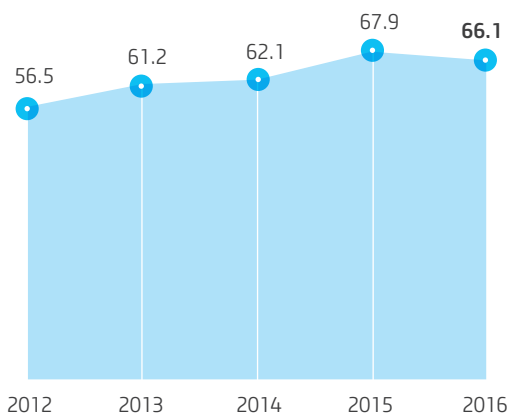
■ Proved developed  
■ Proved undeveloped

↑ Total proved hydrocarbon reserves (SEC), mmboe

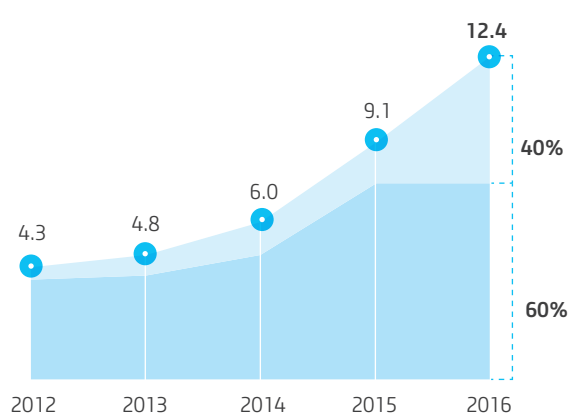


■ Proved developed  
■ Proved undeveloped

↑ Proved natural gas reserves (SEC), bcm

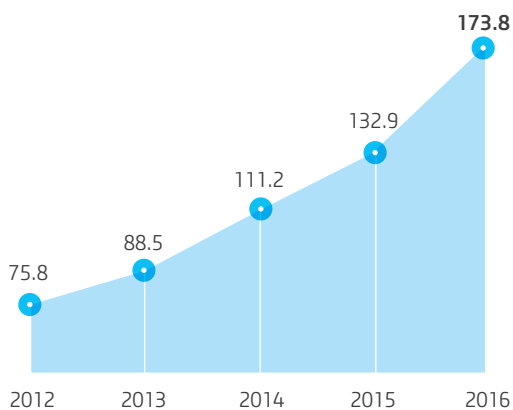


↑ Marketable natural gas production, bcm

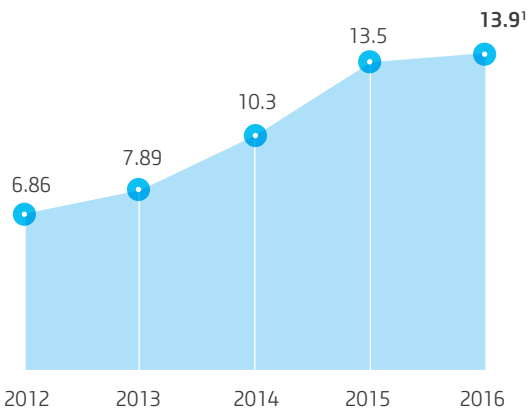


■ Crude oil  
■ Gas condensate

↑ Marketable liquids production, mmt



↑ Operating cash flow, RR bln



↑ Dividends per share, RR

<sup>1</sup> Recommendation of the Board of Directors.

# DELIVERING RESULTS

## YAMAL LNG PROJECT

Photo: the LNG plant construction site.



88%

COMPLETION RATE  
OF THE FIRST  
LNG TRAIN AS  
OF YEAR-END 2016



## LNG MODULES INSTALLATION

In 2016 we significantly sped up the construction progress as the LNG modules constructed on contractor's shipyards were being delivered and installed.

# 78

 modules

All of the first train LNG modules were installed on the prepared foundations

# 22,000

workers on the construction site by year-end 2016

Photo: installation of the main cryogenic heat exchanger for train #1.







## CONSTRUCTION OF THE SHIPMENT INFRASTRUCTURE

A two (2) km ice barrier was being constructed to protect the port harbor. LNG and stable gas condensate shipment pipe rack with shipping berths was being built at the ice barrier.

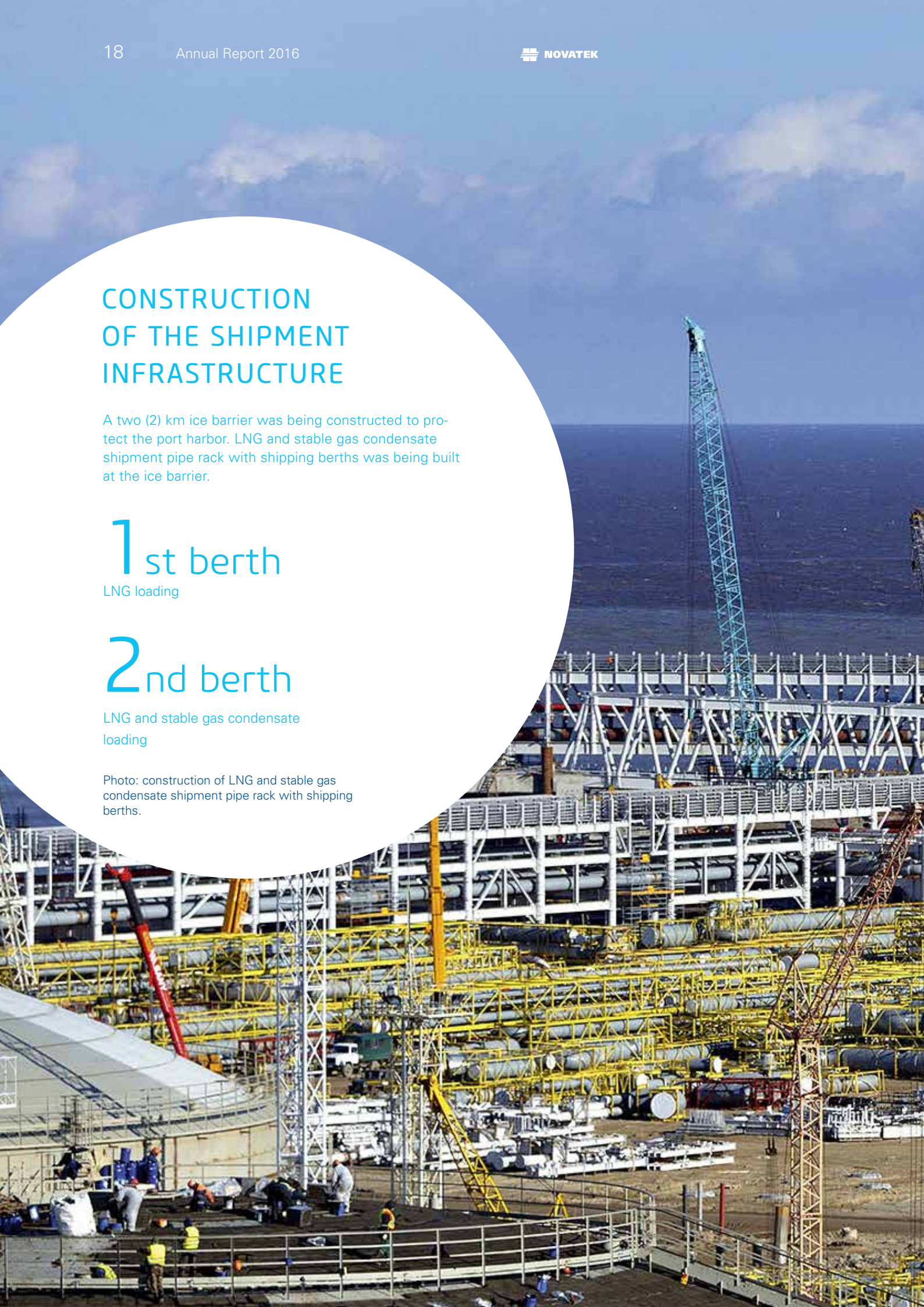
### 1<sup>st</sup> berth

LNG loading

### 2<sup>nd</sup> berth

LNG and stable gas condensate loading

Photo: construction of LNG and stable gas condensate shipment pipe rack with shipping berths.





## FIRST ARC7 LNG TANKER

The first Arc7 ice-class LNG carrier was placed from dry-dock into water and by year-end it successfully passed sea acceptance tests.

# 170,000 cm

the LNG tanker capacity

# 19.5 knots

The speed is 19.5 knots in open water and 7.2 knots in ice 1.5 m thick

Photo: the first Arc7 LNG tanker.





# YAMAL LNG PROJECT

At year-end the construction progress on the first train was 88% and the construction progress of all three trains — 75%.

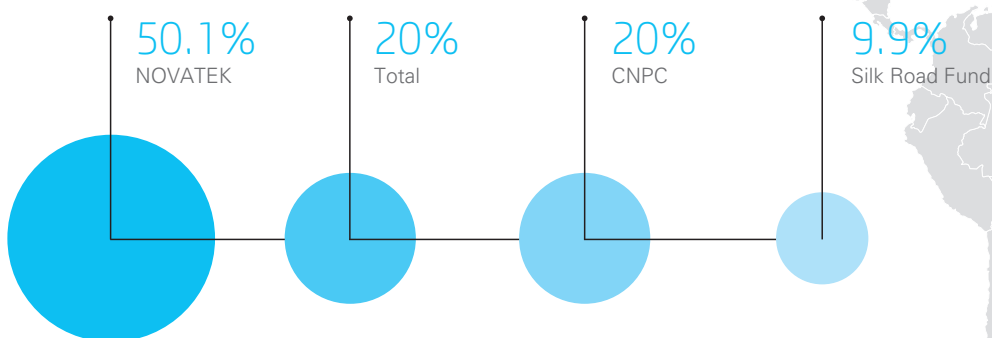
## 942 bcm

of natural gas

## 31 mmt

of liquid hydrocarbons

↑ Proved and probable reserves of the South-Tambeyskoye field under PRMS as of 31.12.16



↑ Shareholders of Yamal LNG as of 31.12.16

Yamal LNG is the flagship project in NOVATEK asset portfolio and is considered a transformational move for the Company into the international gas market. Yamal LNG envisages the construction of an LNG liquefaction plant with annual capacity of 16.5 million tons per annum, utilizing the prolific feedstock resources of the South-Tambeyskoye field located in the Northeast of the Yamal Peninsula. The launch of the first LNG train is planned for 2017.

As of 31 December 2016, the field was estimated to contain 607 bcm of proved natural gas reserves and 18 mmt of proved liquid

hydrocarbon reserves, under the SEC reserves methodology. In 2016 the production drilling results allowed us to increase the proved natural gas SEC reserves at the South-Tambeyskoye field by 85 bcm compared to year-end 2015. 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 942 billion cubic meters of natural gas and 31 mmt of liquid hydrocarbons.



At year-end the construction progress on the first train was 88% and the construction progress of all three trains - 75%. The project's infrastructure includes the sea port, the international airport, automobile roads, power lines, gas gathering lines and the living quarters.

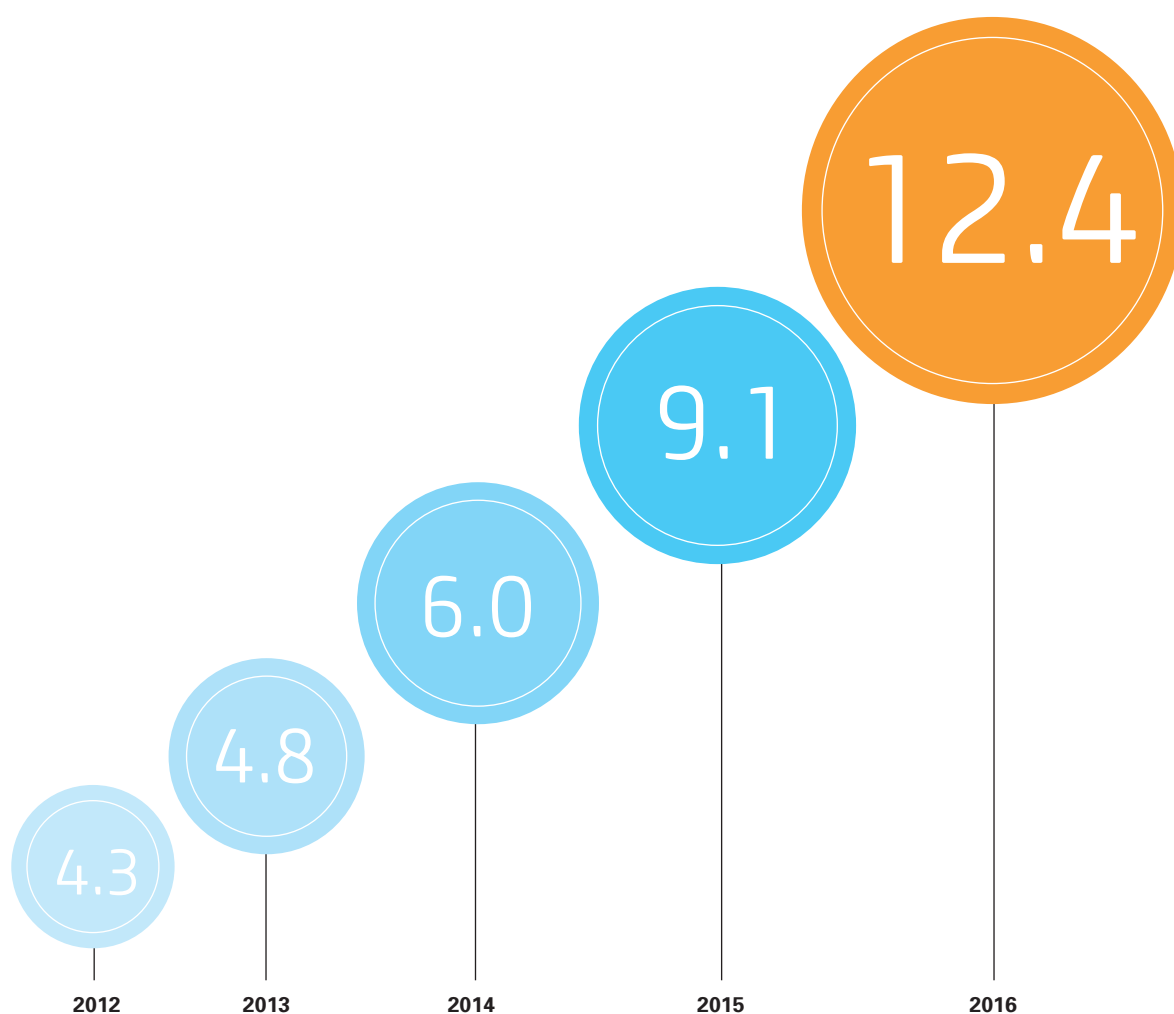
As of 31 December 2016, all the first train LNG modules were installed on the prepared foundations, and hook up was underway. The main cryogenic heat exchanger for LNG train #1 was installed into the liquefaction module. Compressor equipment for the first train and the backup heater were installed on the

foundations, as well as over 67,500 tons of steel work for pipe racks.

More than 95% of the LNG plant output has been contracted on a long-term basis. Specially designed Arc7 ice-class LNG carriers will be used for LNG transportation, and the first tanker was placed from dry-dock into water in early 2016, fully equipped and by year-end the LNG carrier successfully passed sea acceptance tests. As of year-end 2016, five (5) other LNG carriers and the two (2) Arc7 condensate tankers to be chartered by the project were under construction.

# RECORD GROWTH OF LIQUID HYDROCARBON PRODUCTION

Marketable production of liquids increased by 37% as compared with 2015. Our growth in liquids production was mainly due to the launch of the Yarudeyskoye crude oil field ramped up to its full capacity of 3.5 mmt per annum.



↑ Marketable production of liquid hydrocarbons, mmt



# 37%

MARKETABLE PRODUCTION  
OF LIQUIDS INCREASED  
BY 37% AS COMPARED  
WITH 2015

Photo: Yarudeyskoye  
crude oil field.





## SUCCESSFUL GEOLOGICAL EXPLORATION

# 9 deposits

Nine (9) new gas condensate deposits were discovered at the Utrenneye, South-Tambeyskoye and Yevo-Yakhinskoye fields

# 10.2

thousand meters of exploration drilling

Photo: exploration well at the Utrenneye field on the Gydan Peninsula.

# GEOLOGICAL EXPLORATION AND PRODUCTION

The Yamal-Nenets Autonomous District of Russia where our producing assets are located accounts for approximately 80% of Russian and 16% of global natural gas production.

As of 31 December 2016, NOVATEK's SEC proved reserves, including the Company's proportionate share in joint ventures, aggregated 12,775 million barrels of oil equivalent (boe), including 1,755 billion cubic meters (bcm) of natural gas and 152 million metric tons (mmt) of liquid hydrocarbons.

Excluding the decrease in the Company's proportional share in the Yamal LNG joint venture, total proved reserves increased by 2.8% year-on-year, with an organic reserve replacement rate of 168% due to successful exploration works and drilling, which amounted to reserves addition of 902 million boe, inclusive of 2016 production. The primary contributors to reserves additions were the Utrenneye, the South-Tambeyskoye, the Kharbeyskoye, the Dorogovskoye and the Yarudeyskoye fields.

At year-end 2016, the Company's reserve to production ratio (or R/P ratio) was 24 years.

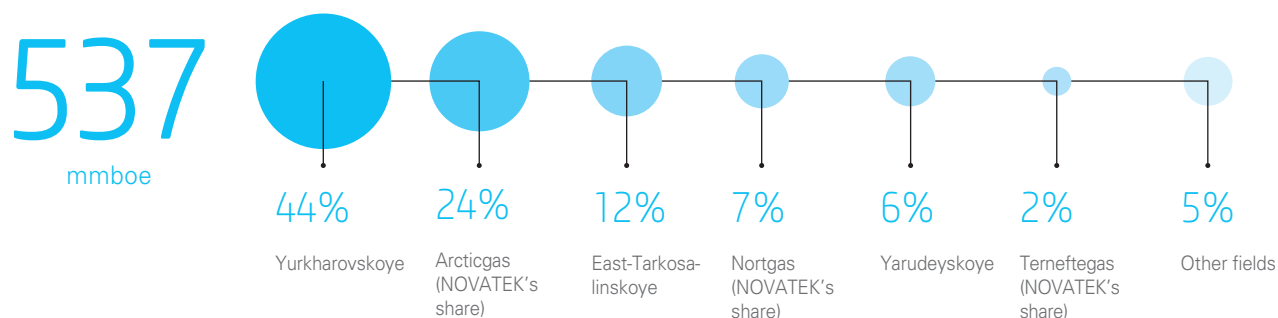
In 2016, we continued full-scale exploration works at our license areas located on the Gydan Peninsula and offshore in the Gulf of Ob to properly assess the resource potential of this strategically important region. We carried out three-dimensional (3D) seismic studies at the North-Obskiy offshore license area and also completed drilling of an exploration well at

the Utrenneye field. In total we have drilled five exploration wells at the Utrenneye field in 2014 to 2016, and the well testing results allowed us to increase the appraised reserves volumes and confirm higher well flows at the field.

Exploration activities also continued at the fields and license areas in the Nadym-Purtaz region. Seismic studies were done at the Yarudeyskoye field and the North-Russkiy and Dorogovskiy license areas while exploration drilling was performed at the Kharbeyskoye, West-Yurkharovskoye and Yevo-Yakhinskoye fields.

In 2016, NOVATEK carried out commercial hydrocarbon production at 13 fields. Marketable production from all fields (including the Company's share in production of joint ventures) amounted to 537.0 mmmboe, representing an increase of 3.0% over the prior year.

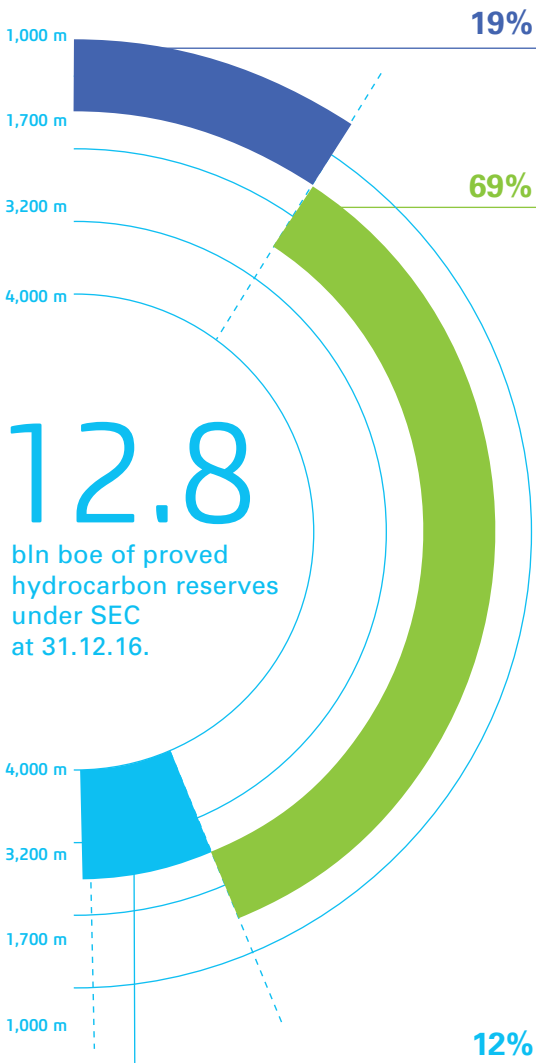
Total marketable production of natural gas including the Company's share in production of joint ventures aggregated 66.10 bcm, representing 80.5% of our total hydrocarbon output. Marketable production of liquid hydrocarbons including the Company's share in production of joint ventures totalled a record 12,441 thousand tons, of which 60.5% was unstable de-ethanized gas condensate and the remaining 39.5% consisted of crude oil.



USD 2.3 24

per boe — 2012-2016 reserve replacement costs

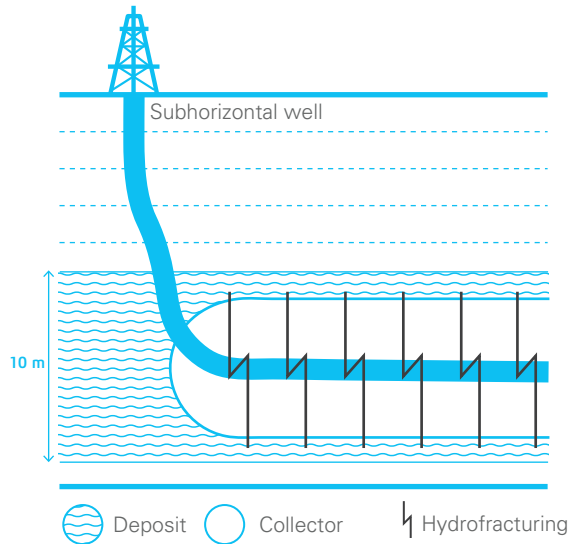
years – reserve to production ratio at year-end 2016



**CENOMANIAN LAYERS**  
«Dry» gas **not containing liquid hydrocarbons.**

**VALANGINIAN LAYERS**  
Gas **containing liquid hydrocarbons** — «wet» gas.

**ACHIMOV LAYERS**  
«Wet» gas **with high share of liquid hydrocarbons.** The layers have low permeability and require special development techniques.

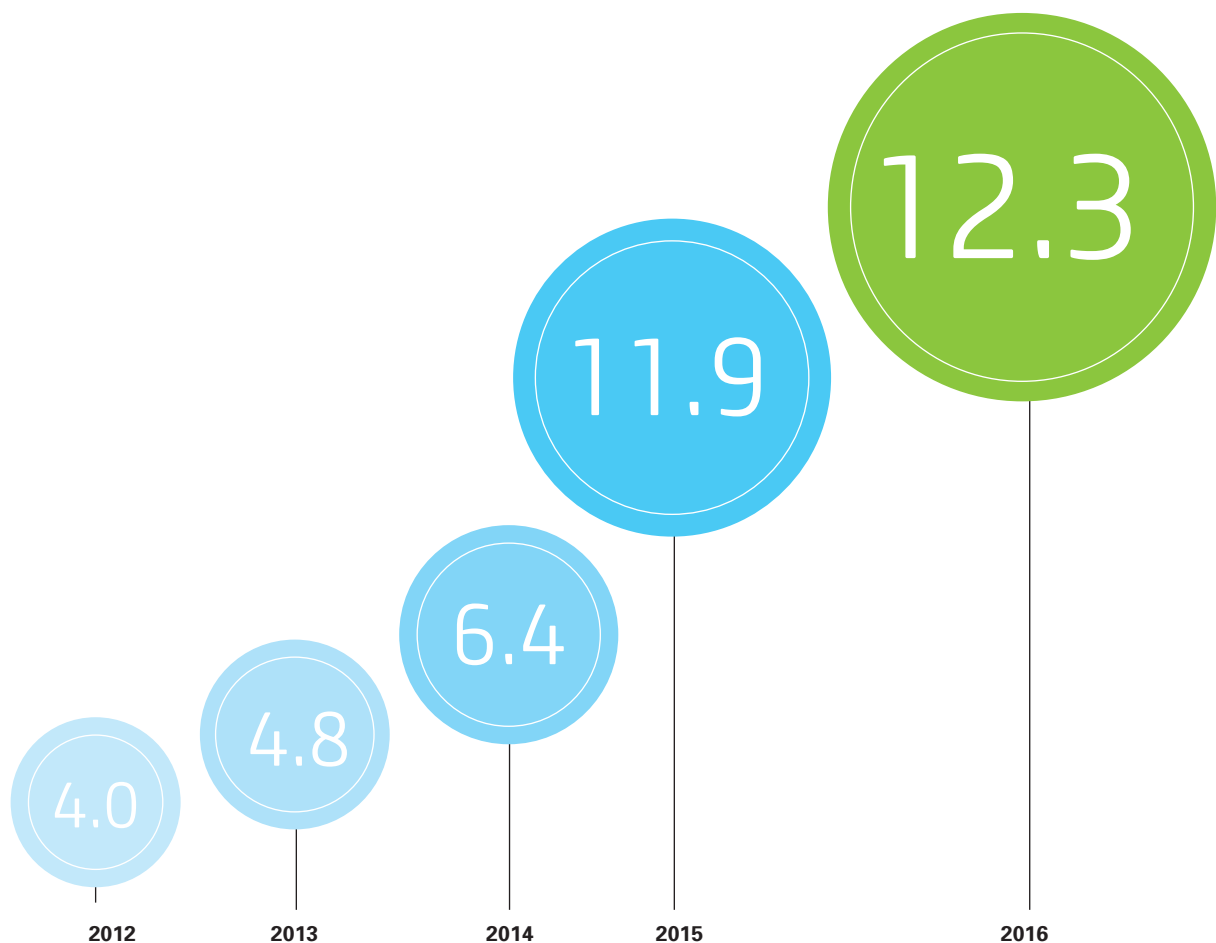


At the Urengoykoye field, we successfully drilled a subhorizontal well with a six-stage hydrofracturing into the Achimov deposits. The length of the horizontal part is 1,497 m. This is an outstanding industry achievement considering the complex geology conditions.

**JURASSIC LAYERS**  
«Wet» gas **with the highest share of liquid hydrocarbons.** The deposits are characterized with complex geology and difficult drilling conditions due to abnormally high formation pressure.

# LOADING OUR PROCESSING CAPACITIES

Utilization of our integrated value-added chain for gas condensate allows us to maximize the economic effect for the Company and is one of our priorities. The Purovsky Plant's processing capacity matches the overall gas condensate production capacity of the Company's fields in operation.



↑ Output of the Purovsky Plant, mmt

# 12.3

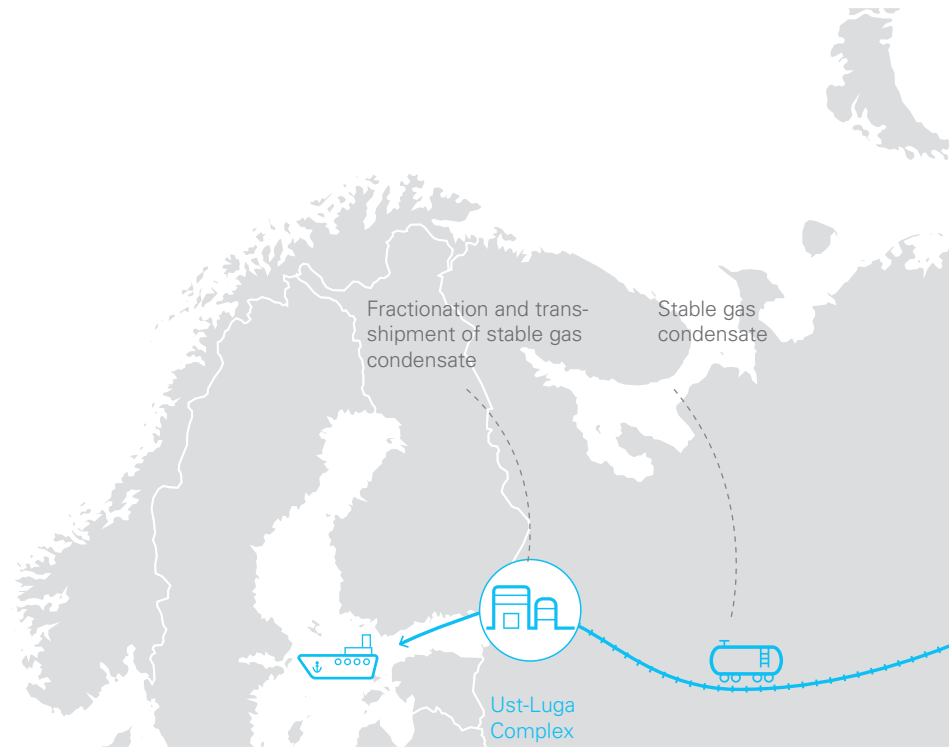
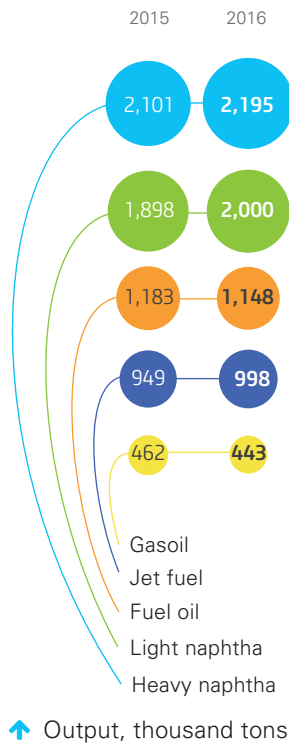
MILLION TONS —  
OUTPUT OF THE  
PUROVSKY PLANT  
IN 2016

Photo: Purovsky Plant.



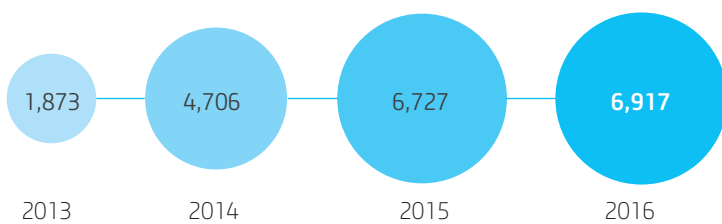
# UST-LUGA COMPLEX

High value-added petroleum products produced at the Ust-Luga Complex have a significant positive impact on the profitability of our liquid hydrocarbon sales and the Company's cash flow generation.



The Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea processes stable gas condensate into high value-added products like light and heavy naphtha, jet fuel, fuel oil and gasoil. Finished products are shipped to

international markets and stable gas condensate is transhipped to exports. The Complex expands our vertically integrated chain, positively impacts the unit profitability of our liquids sales, widens the variety of products and allows to diversify our customer base.



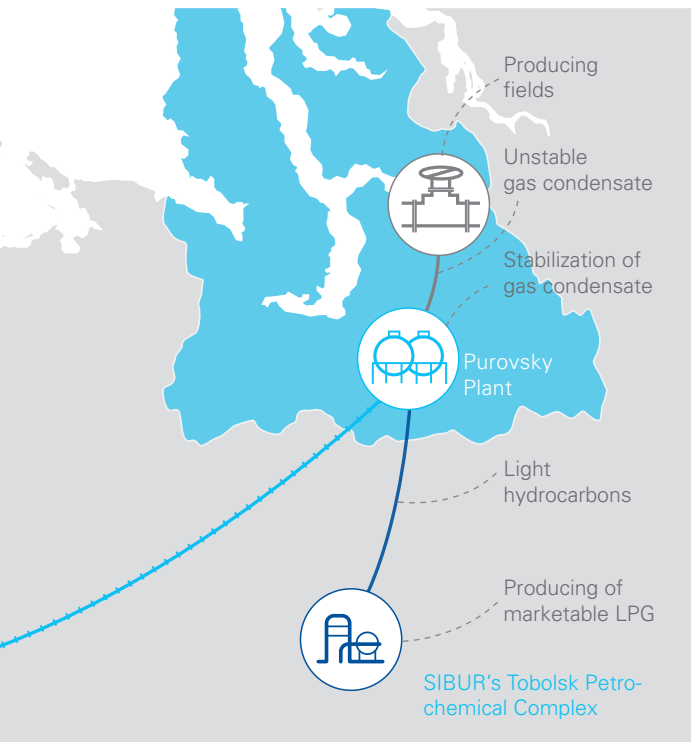
↑ Stable gas condensate processing volumes, thousand tons

**+3%**  
stable gas condensate processing volumes increase in 2016

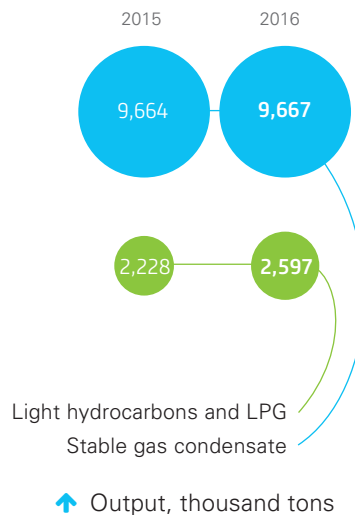


# PUROVSKY PLANT

After being separated and de-ethanized at the field the unstable (de-ethanized) gas condensate is delivered via a system of condensate pipelines owned and operated by the Company for further stabilization at our Purovsky Plant.

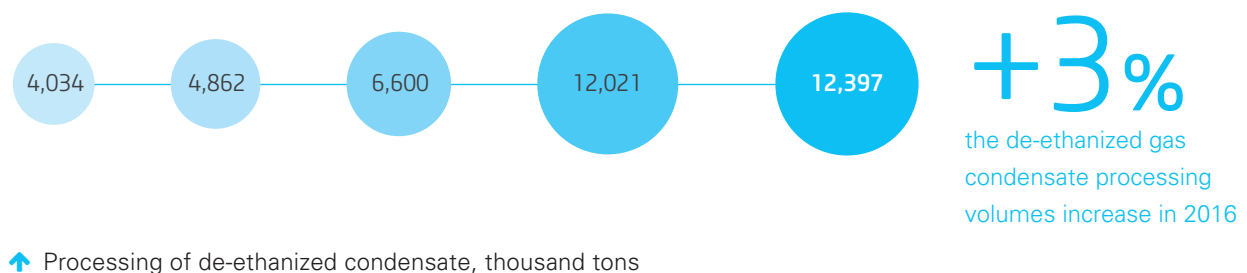


- Railway transportation of stable gas condensate to Ust-Luga
- Sea transportation of petroleum products from Ust-Luga
- Transportation of unstable gas condensate by pipeline
- Light hydrocarbons transportation by pipeline



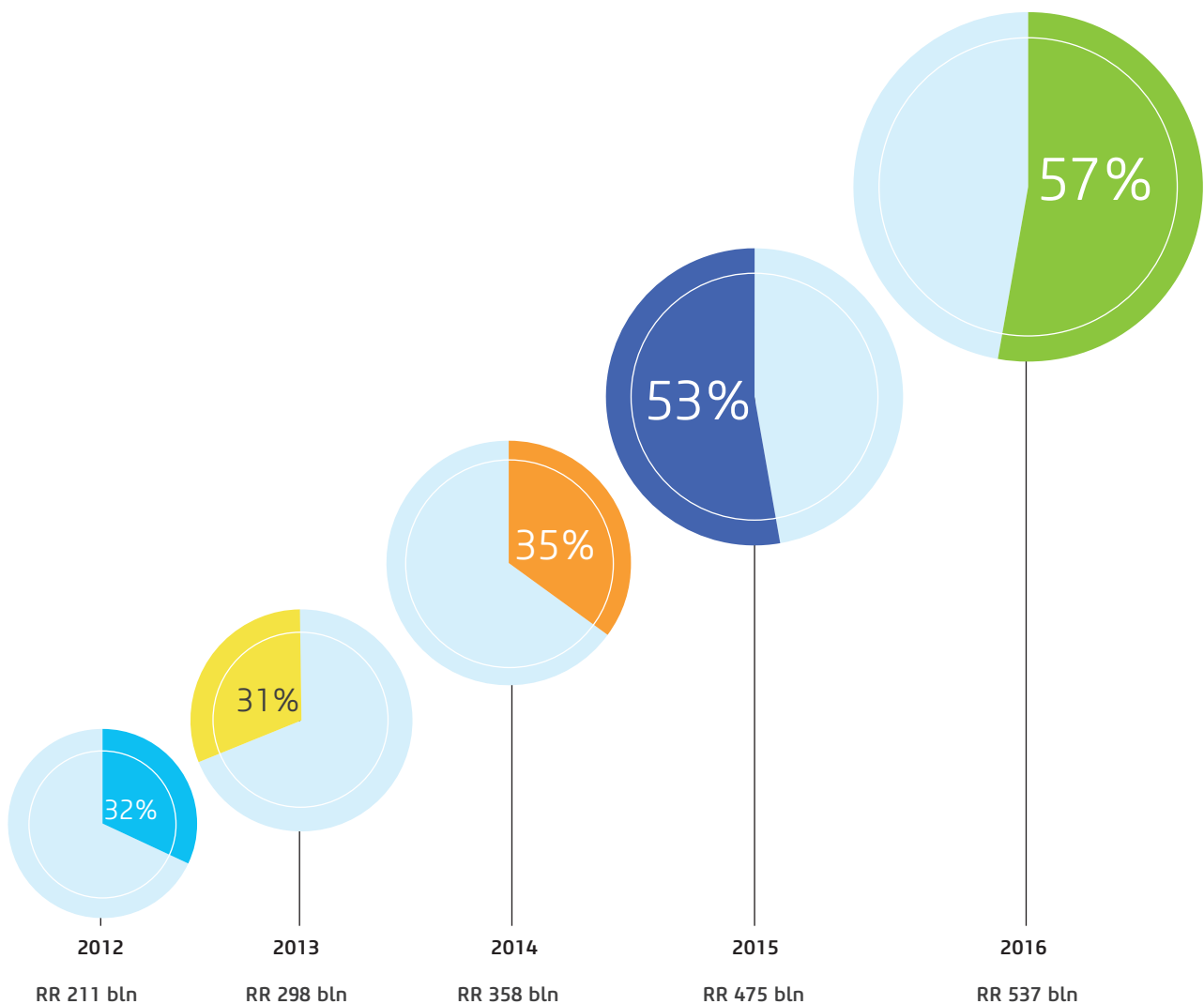
The Purovsky Plant is the integral element in our vertically-integrated production value chain that enables us to process all the volumes of de-ethanized gas condensate produced at our field into stable gas condensate and light hydrocarbons (feedstock for LPG production).

Most of the stable gas condensate volumes are delivered by rail to the Ust-Luga Complex for further processing, light hydrocarbons are delivered by pipeline to SIBUR's Tobolsk Petrochemical Complex for further processing.



# GROWTH OF LIQUID HYDROCARBONS SHARE IN REVENUES

The share of liquid hydrocarbons in total production increased by 4 p.p. to 19%, while their share in total revenues increased to 57%, compared to 53% in 2015.



↑ Total revenues, including liquids share

# 31%

INCREASE OF LIQUIDS  
SALES VOLUMES  
IN 2016



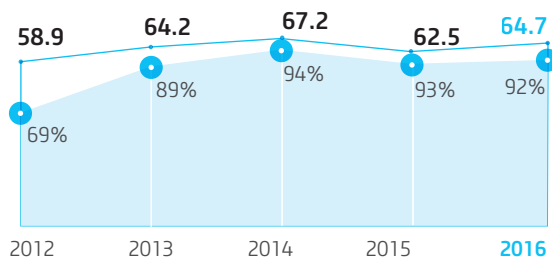
Photo: loading berth  
at the Ust-Luga Complex.

# NATURAL GAS SALES

NOVATEK plays an important role in ensuring supplies of natural gas to the Russian domestic market. During the past year, we supplied natural gas to 35 gas consuming regions of the Russian Federation.

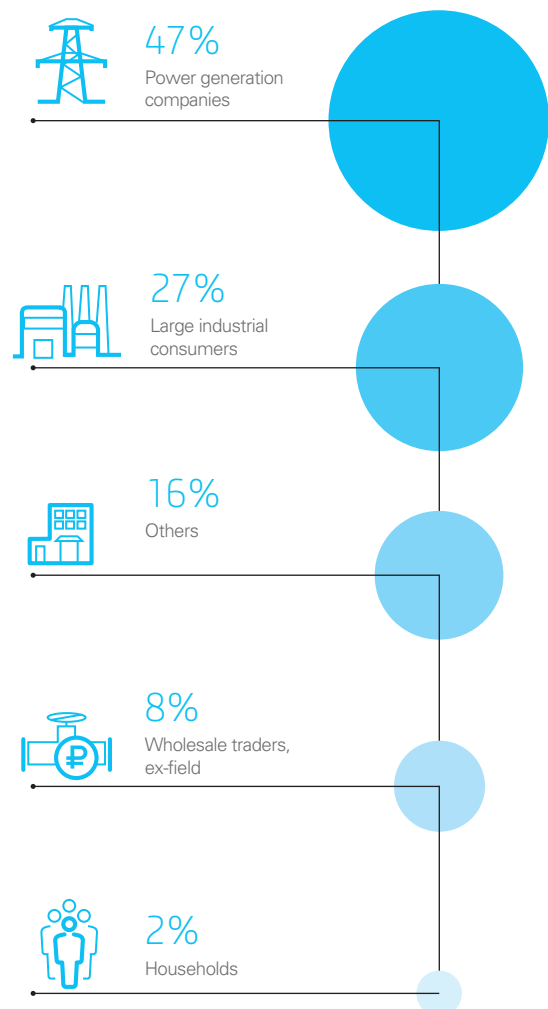
NOVATEK's 2016 natural gas sales volumes totalled 64.7 bcm, representing an increase of 3.6% as compared to 2015 sales volumes of 62.5 bcm. The sales volumes growth was a result of restoring sales to one of our major customers who did not take full contracted volumes in 2015 due to technical reasons, as well as sales of additional natural gas volumes to our end-customers and wholesale traders. The proportional share of natural gas sales to end-customers remained practically unchanged compared to 2015 and amounted to 92.2% of our total natural gas sales mix.

Our revenues from natural gas sales totalled RR 229.7 billion, which is 3.4% higher as compared to 2015. The sales volumes growth was the main driver for the growth in natural gas revenues.



■ Share of end customers

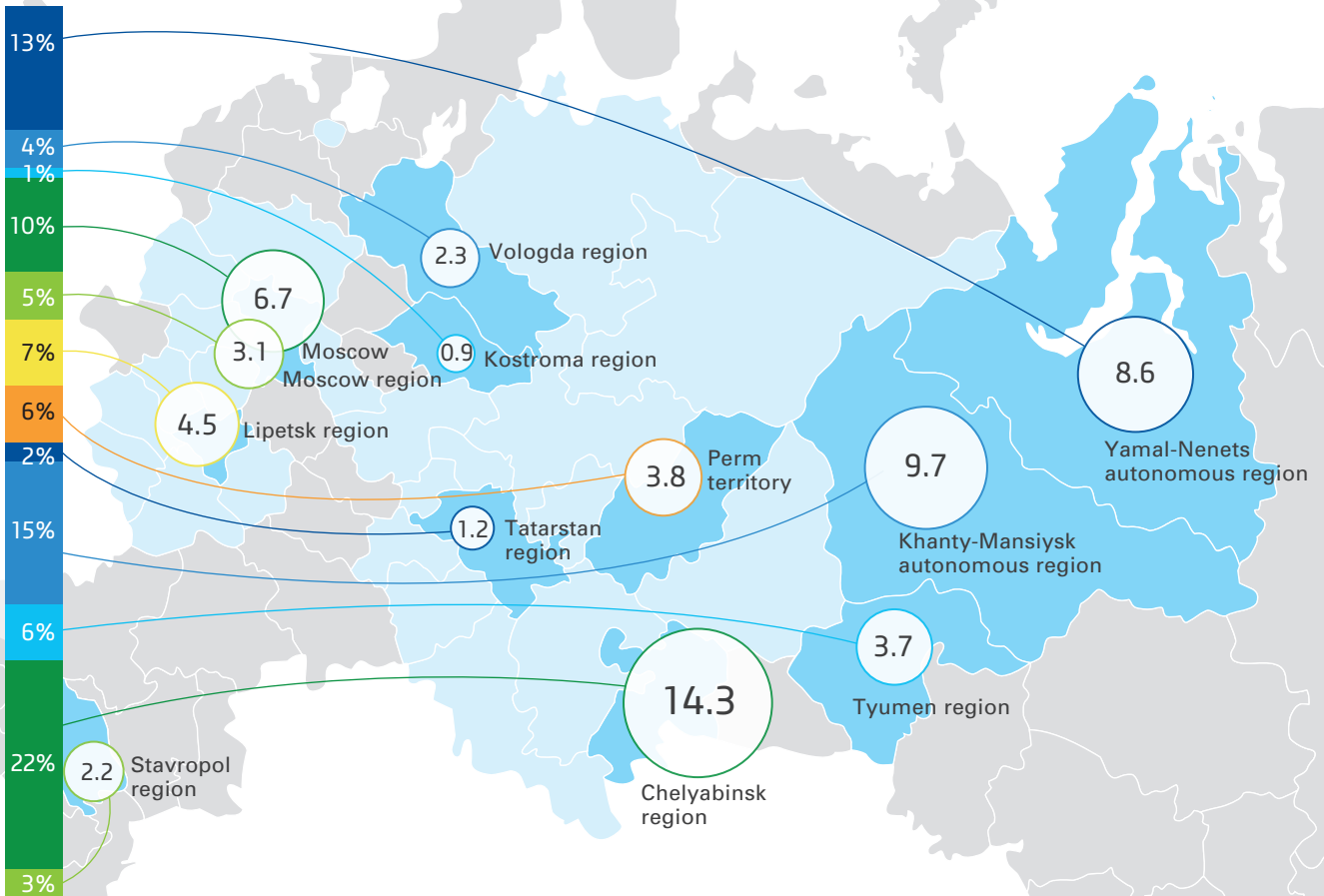
↑ Natural gas sales, bcm



↑ Natural gas sales breakdown by customers in 2016

# 64.7 bcm

natural gas sales volumes in 2016



- Main regions of gas sales
- Other regions of sales (3.9 bcm in 2016)

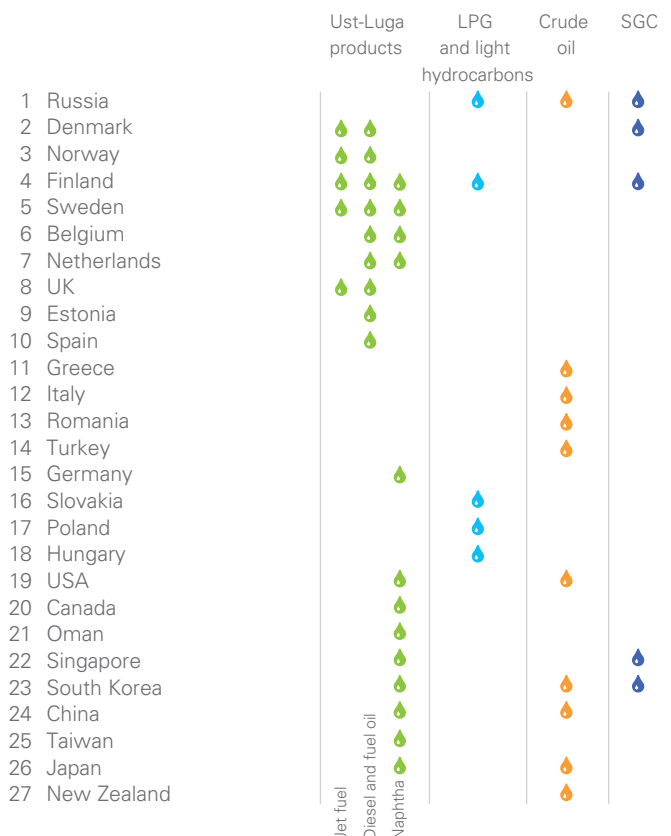
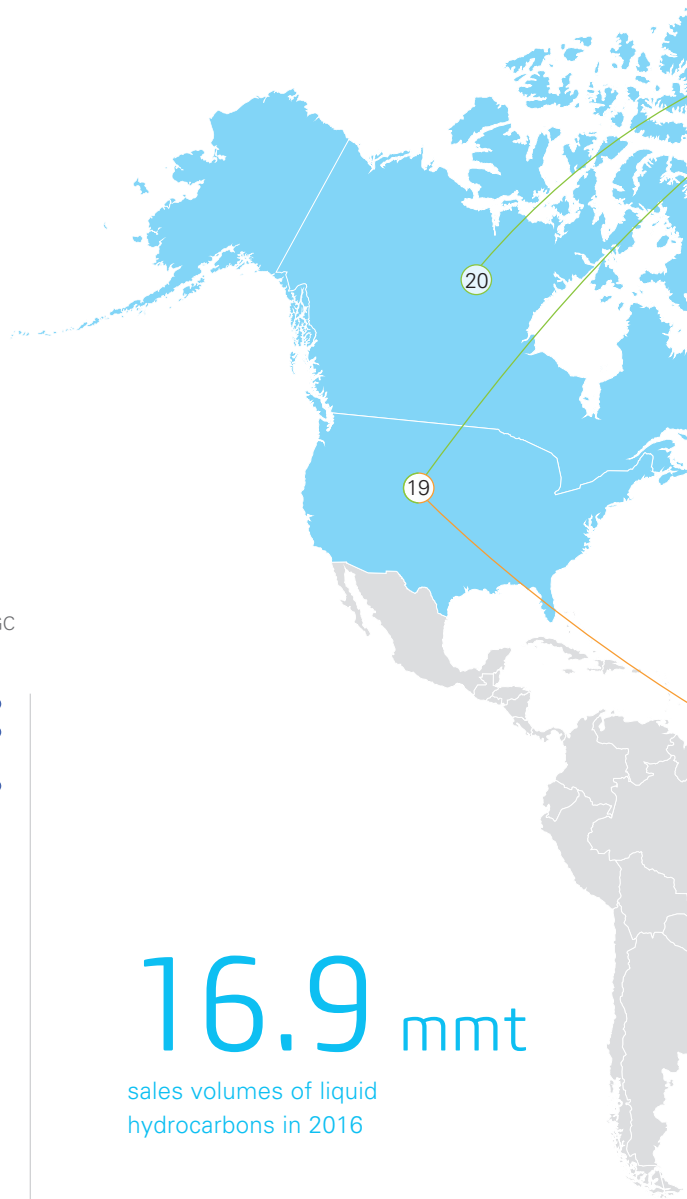
# LIQUIDS SALES

NOVATEK sells liquid hydrocarbons (stable gas condensate, petroleum products, light hydrocarbons, LPG and crude oil) domestically and internationally.

Total sales volumes of liquid hydrocarbons in 2016 aggregated 16,850 thousand tons, representing a 30.7% increase over 2015 volumes. The growth is mainly due to increase in crude oil production. Our export sales of liquids grew by 9.6% year-on-year to 9,869 thousand tons.

High value-added petroleum products from the Ust-Luga Complex accounted for 40% share of our overall liquids sales volumes.

Export sales of stable gas condensate continued in 2016 as we reached full capacity utilization at the Ust-Luga Complex.

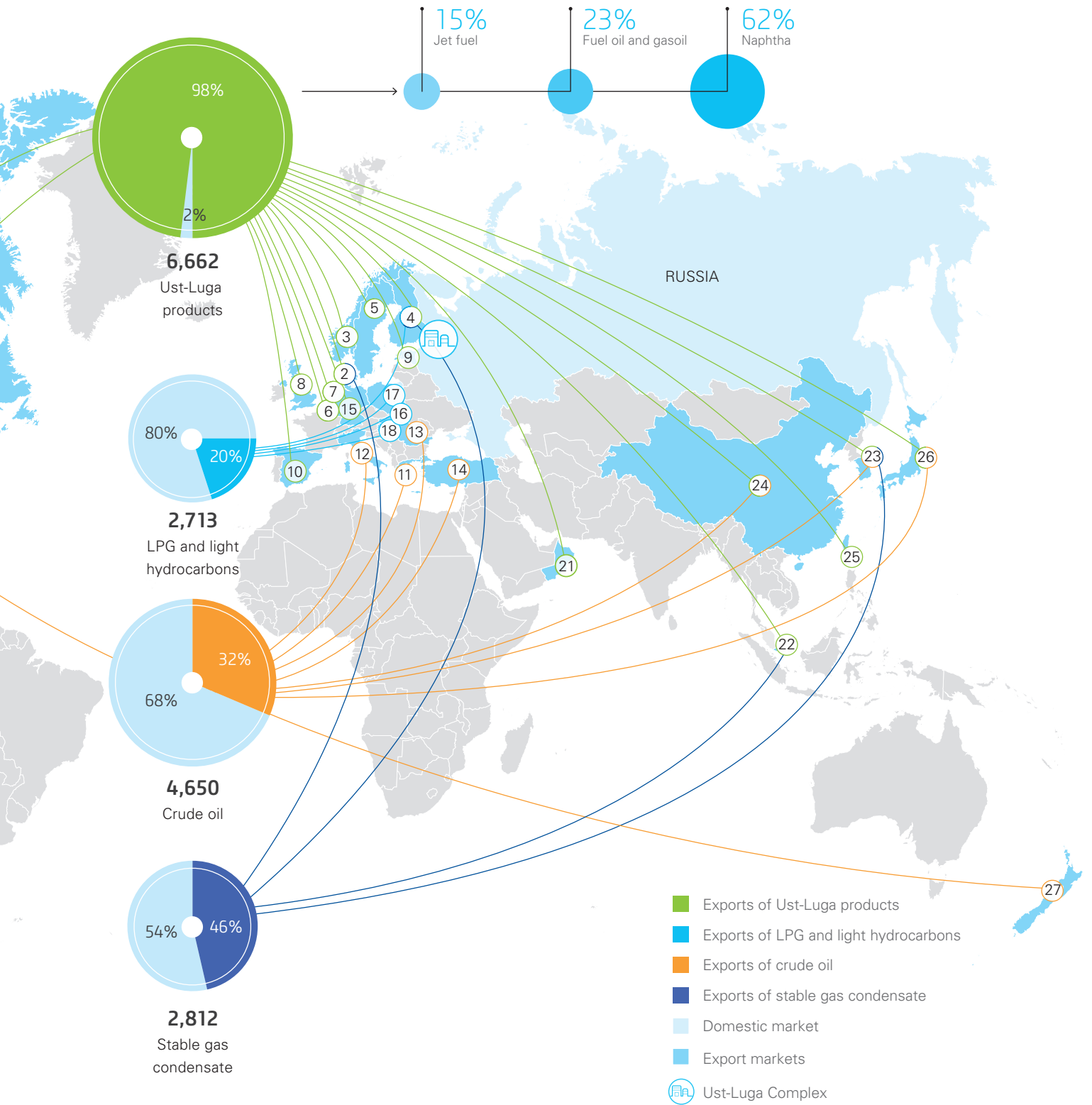


16.9 mmt

sales volumes of liquid hydrocarbons in 2016

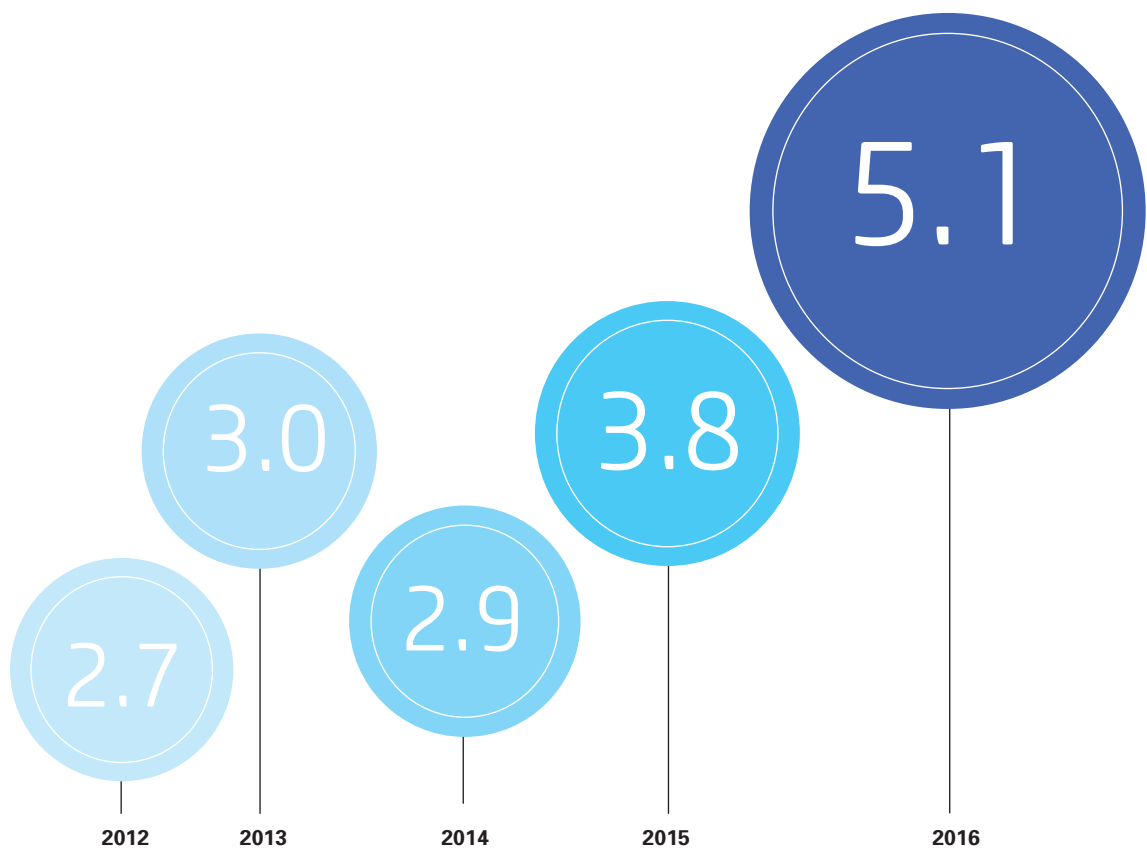
RR 304 bln

liquids sales revenues in 2016



# HIGH LEVEL OF ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

NOVATEK adheres to the highest standards of social responsibility and is committed to environmental integrity and industrial safety as well as supporting the regional development in the Far North of Russia, where Company's core operational assets are located.



↑ Social investments and expenses on HSE, RR bln



# 5.1

RR 5.1 BLN OF SOCIAL  
INVESTMENTS AND  
EXPENSES ON HSE  
IN 2016

Photo: Purovsky Plant inventory tanks  
equipped with state-of-the-art emergency  
protection systems.



# HSE 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's core producing assets are located in the Far North, a harsh Arctic region with vast mineral resources and a fragile and vulnerable environment. The Company is committed to environmental protection in its operations. In 2016, the Company's overall expenses on environmental protection amounted to RUB 1,199 mln.

In 2016, a revised version of NOVATEK's Health, Safety and Environmental (HSE) Policy was approved, which included the Company's commitments consistent with the best Russian and international practices. Our key controlled entities are using an Integrated Management System for Environment Protection, Occupational Health and Safety (IMS) compliant with ISO 14001:2004 and OHSAS 18001:2007. In 2016, NOVATEK successfully passed the second follow-up IMS compliance audit.

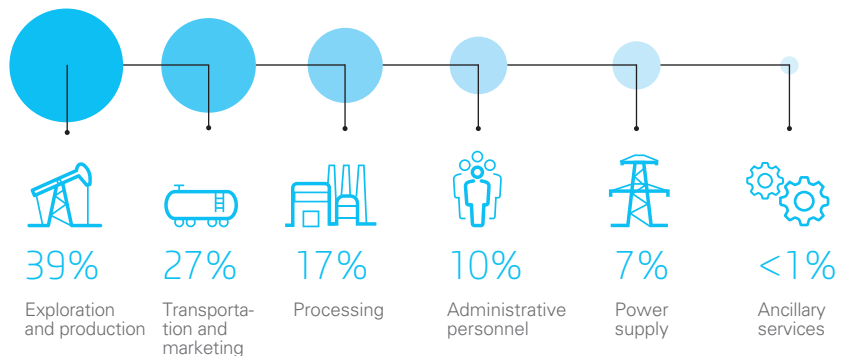
Special attention is paid to preventive measures in the area of environment protection. In particular, the environmental aspects are taken into account in designing new production facilities: modern technology and equipment is used to considerably reduce the adverse environmental impact and risk of environmental accidents.

Workplace certification includes evaluating measures to control the harmful impact of hazardous factors in the workplace. Measures to improve working conditions are developed based on the results of the certification process.

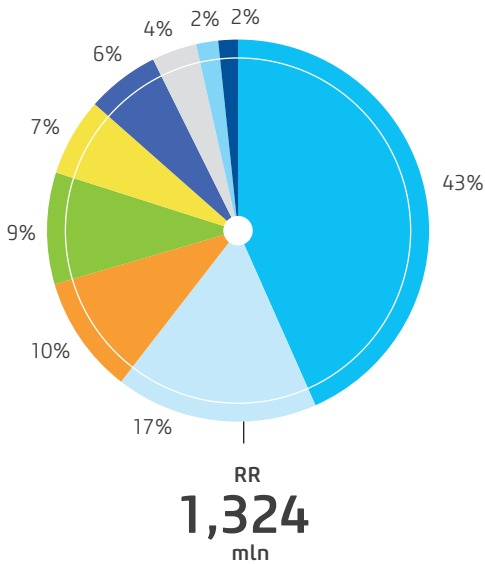
The Company's human resource management system is based on the principles of fairness, respect, equal opportunities for professional development, dialogue between management and employees, as well as continuous, comprehensive training and development opportunities for the Company's employees at all levels.

# 7,515

people – headcount of NOVATEK and its subsidiaries as of 31.12.16



↑ NOVATEK's personnel structure as of 31.12.16

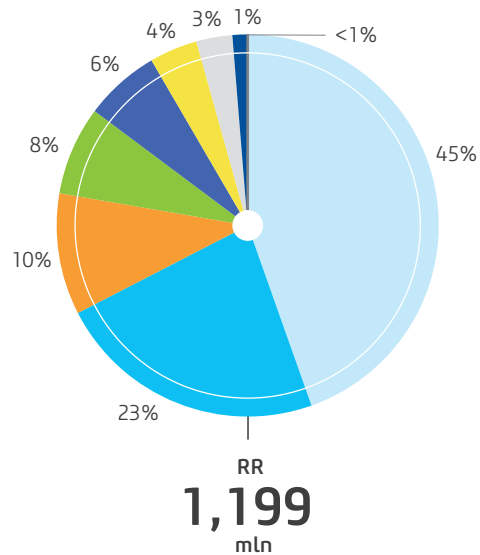


- Targeted Compensation and Socially Important Payments
- Repayable Financial Aid Program
- Health Resort Treatment and Rehabilitation
- Voluntary Medical Insurance
- State Guarantees Support Program
- Culture and sports
- Pension Program
- NOVATEK-Veteran Program
- Others

↑ Social Expenditures on employees in 2016

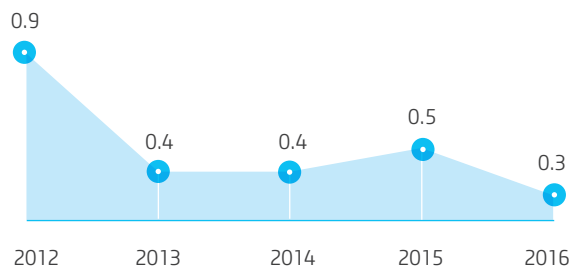
RR 693 mln

expenses on Occupational Health and Safety in 2016



- Rational natural resources management
- Environmental protection against production and consumption waste
- Measures for the protection of flora and fauna and preservation of biodiversity
- Environmental monitoring and evaluation of the background
- Protection and use of water resources
- Soil protection
- Subsurface protection
- Atmospheric air protection
- Other

↑ Environmental Expenditures in 2016



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

# MANAGEMENT AND CORPORATE GOVERNANCE

## THE BOARD OF DIRECTORS MEMBERSHIP AS OF 31 DECEMBER 2016

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 comprises the Board of Directors, the Board Committees, and the Management Board, as well as internal control and audit bodies and the Corporate Secretary.

### 3

#### Independent Board Members<sup>1</sup>



**MR. ROBERT CASTAIGNE**

Born in 1946  
Independent Director  
Member 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 Audit Committee



**MR. ANDREI V. SHARONOV**

Born in 1964  
Independent Director  
Chairman of the Audit Committee  
Member of the Remuneration and Nomination Committee

<sup>1</sup> Independent Director as of 31 December 2016 in accordance with the Corporate Governance Code recommended by the Central Bank of Russia and the UK Corporate Governance Code.



**MR. ALEXANDER E. NATALENKO**

Born in 1946

Chairman of the Board of Directors  
Chairman of the Strategy  
Committee



**MR. LEONID V. MIKHELSON**

Born in 1955

Chairman of the Management  
Board



**MR. ANDREI I. AKIMOV**

Born in 1953

Member of the Strategy  
Committee



**DR. BURCKHARD BERGMANN**

Born in 1943

Member of the Strategy  
Committee



**MR. MICHEAL BORRELL**

Born in 1962

Member of the Strategy  
Committee



**MR. GENNADY N. TIMCHENKO**

Born in 1952

Member of the Strategy  
Committee

# REVIEW OF OPERATING RESULTS

## LICENSES

NOVATEK's core fields and license areas are located in, or in close proximity to, the Yamal-Nenets Autonomous District (YNAO) of the Russian Federation, which is one of the world's largest natural gas producing regions accounting for approximately 80% of Russian and 16% of global natural gas production. The concentration of the Company's fields in this prolific gas-producing region provides favorable opportunities for increasing NOVATEK's shareholder value with a minimum level of risks, low finding cost, and efficient replacement of reserves. With more than 20 years of operational experience in the region, NOVATEK is in a good position to efficiently monetize its resource base.

Exploration and production of hydrocarbons in Russia is subject to federal licensing regulations.

As of December 31, 2016, NOVATEK's subsidiaries and joint ventures held 39 subsoil licenses in Russia, five (5) of them are classified as exploration licenses. The duration of licenses for the Company's core fields exceeds 15 years. In particular, the license for the Yurkharovskoye field is valid until 2034, for the East-Tarkosalinskoye – until 2043, for the South-Tambeyevskoye field – until 2045, and for the Samburgsky license area of Arcticgas – until 2034.

In 2016, NOVATEK significantly expanded its portfolio of licenses.

The Company's subsidiary, NOVATEK – YURKHAROVNEFTEGAS, obtained six (6) new licenses:

Following the results of an auction, NOVATEK – YURKHAROVNEFTEGAS obtained exploration and production licenses for the Nyakhartinsky, the Syadorsky and the Tanamsky license areas. The Nyakhartinsky license area is located in the YNAO in close proximity to the Yurkharovskoye field. Acquisition of licenses for the Syadorsky and the Tanamsky areas will enable the Company to enhance its resource base in the northern part of the Yamal Peninsula and in the Gydan Peninsula.

We obtained seven-year exploration licenses for the West-Solpatinsky, North-Tanamsky and Nyavuyakhsky license areas. The license areas are located in the central part of the Gydan Peninsula.

In 2016, NOVATEK purchased Evrotek-Yuh, a company that holds an exploration and production license valid until 2032 for the Ladertoysky area containing the Ladertoyskoye gas condensate field. The license area is situated within the YNAO in the central part of the Gydan Peninsula in close vicinity to the new license areas.

In December 2016, upon the discovery of a new field, a subsoil exploration and production license valid until 2036 was obtained for the Kharbeyevskoye field. The area is located in close proximity to the East-Tazovskoye, North-Russkoye and Dorogovskoye fields.

In September, 2016, NOVATEK and Eni, the Italian energy company, entered into a concessionary agreement with the State of Montenegro to explore and produce hydrocarbons on four offshore blocks in the Adriatic Sea. Each of the concessionaires holds 50% in the project, and Eni was designated as the concession operator. Participation in the concessionary agreement contributes to expanding the Company's potential to implement joint foreign projects.

NOVATEK strives to strictly observe and comply with all of its license obligations and conducts continuous monitoring of license tenders in order to expand its resource base in strategically important regions.

## 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 2016, NOVATEK's SEC proved reserves, including the Company's proportionate share in joint ventures, aggregated 12,775 million barrels of oil equivalent (boe), including 1,755 billion cubic meters (bcm) of natural gas and 152 million metric tons (mmt) of liquid hydrocarbons.

Excluding the decrease in the Company's proportional share in the Yamal LNG joint venture, total proved reserves increased by 2.8% year-on-year, with an organic reserve replacement rate of 168% due to successful exploration works and drilling, which amounted to reserves addition of 902 million boe, inclusive of 2016 production. The primary contributors to reserves additions were the Utrenneye, the South-Tambeykoye, the Kharbeykoye, the Dorogovskoye and the Yarudeyskoye fields.

Total proved reserves dynamics during the reporting period was primarily affected by the decrease in the Company's proportional share in the Yamal LNG joint venture from 60% as at year-end 2015 to 50.1% as at 31 December 2016, resulting from the sale of a 9.9% equity stake in Yamal LNG to China's Silk Road Fund. Therefore including the decrease in the equity

stake and 2016 production, our total proved reserves decreased by 0.3%, representing a reserve replacement rate of 92% for the year. At year-end 2016, the Company's reserve to production ratio (or R/P ratio) was 24 years.

Under the PRMS reserves reporting methodology, the Company's total proved plus probable reserves, including the Company's proportionate share in joint ventures, aggregated 22,756 million boe, including 3,067 bcm of natural gas and 319 mmt of liquid hydrocarbons.

The high quality of our reserve base enables NOVATEK to maintain its competitive position as one of the lowest cost producers in the global oil and gas industry. Our average 2016 and five-year (2012-2016) reserve replacement costs amounted to RR 120 (USD 1.8) per boe and RR 88 (USD 2.3) per boe, respectively.

**Proved reserves under the SEC standards as of 31 December 2016 (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, mmt
<b>TOTAL RESERVES</b>	-	-	1,754.6	152.5
Yurkharovskoye	100%	2034	258.0	10.9
South-Tambeykoye	50.1%	2045	304.1	8.9
Utrenneye	100%	2031	388.5	15.1
Urengoykoye ("Arcticgas")	53.3%	2034	184.0	43.7
East-Tarkosalinskoye	100%	2043	110.8	18.6
Geofizicheskoye	100%	2034	125.6	0.4
North-Urengoykoye	50%	2038	88.0	8.1
Yaro-Yakhinskoye	53.3%	2034	75.7	8.7
North-Russkoe	100%	2031	52.6	2.5
Samburgskoye	53.3%	2034	28.1	3.8
North-Chaselskoye	53.3%	the lifetime of the field	28.9	1.4
Khancheykoye	100%	2044	22.5	2.5
Olimpiyskiy license area	100%	2059	20.4	2.3
East-Tazovskoye	100%	2033	17.1	2.5
Kharbeykoye	100%	2036	9.0	1.1
Dorogovskoye	100%	2033	7.0	-
Termokarstovoye	51%	2097	14.7	4.0
Yarudeyskoye	51% (100% of reserves)	2029	8.5	17.5
Other	-	-	11.1	0.5

## 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 our 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 2016, we continued full-scale exploration works at our license areas located on the Gydan Peninsula and offshore in the Gulf of Ob to properly assess the resource potential of this strategically important region. We carried out three-dimensional (3D) seismic studies at the North-Obskiy offshore license area and also completed drilling of an exploration well at the Utrenneye field. In total we have drilled five (5)

exploration wells at the Utrenneye field in 2014 to 2016, and the well testing results allowed us to increase the appraised reserves volumes and confirm higher well flows at the field.

We also conducted 3D seismics in the Tazov bay within the Nyakhartinskiy license area in order to spot prospective targets for exploration drilling.

Exploration activities also continued at the fields and license areas in the Nadym-Purtaz region. Seismic studies were done at the Yarudeyskoye field and the North-Russkiy and Dorogovskiy license areas while exploration drilling was performed at the Kharbeyskoye, West-Yurkharovskoye and Yevo-Yakhinskoye fields.

In 2016, we completed 984 square km of 3D seismic works and drilled approximately 10.2 thousand meters of exploration drilling.

We successfully discovered one (1) new gas condensate deposit in the mid Jurassic layer at the Kharbeyskoye gas condensate field, and nine (9) new gas condensate deposits at the Utrenneye, South-Tambeyskoye and Yevo-Yakhinskoye fields. We managed to expand the gas condensate potential of the Achimov layer at Arcticgas's Urengoykoye field and confirmed the crude oil potential at the Yarudeyskoye and East-Tarkosalinskoye fields as well as confirmed the natural gas potential at the Malo-Yamalskoye field.

Based on the results of seismic works we have chosen a number of prospective structures for exploration drilling.

### Exploration works

	Units	2015	2016	Change
<b>3D SEISMIC</b>	square km	1,004	984	(2%)
Subsidiaries	square km	1,004	984	(2%)
Joint ventures	square km	-	-	
<b>EXPLORATION DRILLING</b>	th. m	15.2	10.2	(33%)
Subsidiaries	th. m	9.6	10.2	6%
Joint ventures	th. m	5.6	-	(100%)

## FIELD DEVELOPMENT

In 2016, NOVATEK continued investing capital in developing our producing and prospective fields. In the reporting year, the Company's subsidiaries invested RUB 23.6 billion in the resource base development.

Production drilling in 2016, including joint ventures, reached 235,000 m, which is 30% below the 2015 level. The decrease

in drilling activities is due to a successful completion of the main drilling program at the fields of Yurkharovneftegas, and the Arcticgas, and Yargeo joint ventures. The biggest drop in drilling activities was observed at the Yurkharovskoye, Urengoykoye, Yaro-Yakhinskoye, and Yarudeyskoye fields, whereas the drilling activities at the South-Tambeyskoye field increased during the year.



A total of 76 wells were put on production in 2016, including 41 gas and gas condensate wells and 35 crude oil wells.

### New facilities commissioned at producing fields

In January, a month after it was commissioned, the Yarudeyskoye field, with 21 wells drilled and completed, reached its design production capacity of 3.5 mmt of crude oil per year. The field's infrastructure includes a central oil gathering facility, a gas treatment unit, a 350 km oil pipeline and a 149 km gas pipeline. Completion of water sourcing wells was finalized, as was commissioning of reservoir pressure maintenance systems.

As part of the Yurkharovskoye field development strategy, the Cenomanian production area achieved its design capacity with 18 wells in operation, the 48 MW Cenomanian gas booster compressor station was completed and launched. The 25 MW fourth phase of gas booster compressor station was commissioned bringing the station's aggregate capacity up to 300 MW.

The 10 MW third phase of the booster compressor station was launched at the Khancheyskoye field increasing the total compressor equipment capacity to 40 MW.

Gas treatment plant and de-ethanizer unit reconstruction programs have been implemented at the East-Tarkosalinskoye field to enhance production quality and improve process equipment reliability.

A methanol production unit with a capacity of 50 mt per annum was launched at the Urengoyenskoye field resulting in a significant reduction of methanol purchasing costs.

## HYDROCARBON PRODUCTION

In 2016, NOVATEK carried out commercial hydrocarbon production at 13 fields. Marketable

production from all fields (including the Company's share in production of joint ventures) amounted to 537.0 mmboe, representing an increase of 3.0% over the prior year.

Total marketable production of natural gas including the Company's share in production of joint ventures aggregated 66.10 bcm, representing 80.5% of our total hydrocarbon output. The share of gas produced from the gas condensate bearing layers (or "wet gas") in proportion to total gas production was 79.1%. Our marketable natural gas production decreased by 2.7% or by 1.8 bcm, as compared to 2015 volumes.

Volumes produced by our subsidiaries at mature fields decreased mainly due to natural declines in the reservoir pressure at the current gas producing horizons.

Marketable production of liquid hydrocarbons including the Company's share in production of joint ventures totalled a record 12,441 thousand tons, of which 60.5% was unstable de-ethanized gas condensate and the remaining 39.5% consisted of crude oil. Marketable production of liquids increased by 36.8%, or by 3,347 thousand tons as compared with 2015, with gas condensate production level almost unchanged at 7,526 thousand tons and crude oil production growing by more than three-fold to 4,915 thousand tons. Liquids production share in our overall production increased by four (4) percentage points to 19% as compared with 2015.

Our record growth in liquids production was mainly due to the launch of the Yarudeyskoye crude oil field in December 2015 and the Yaro-Yakhinskoye and the Termokarstovoye gas condensate fields in the first half 2015.

We continued to achieve some of the lowest lifting costs in the industry. The Company's lifting costs were RR 38.4 (USD 0.57) per boe in 2016.

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

	Units	2015	2016	Change
<b>TOTAL PRODUCTION</b>	mmboe	521.6	537.0	3.0%
Gas	mmcm	67,905	66,103	(2.7%)
	mmboe	444.1	432.4	
Liquid hydrocarbons	mt	9,094	12,441	36.8%
	mmboe	77.5	104.6	

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

	Gas, mcm			Liquids, mt		
	2015	2016	Change	2015	2016	Change
<b>TOTAL</b>	67,905	66,103	(2.7)%	9,094	12,441	36.8%
Yurkharovskoye (100%)	35,979	33,766	(6.2%)	2,126	1,813	(14.7%)
Arcticgas fields (53.3%)	12,624	13,682	8.4%	4,016	4,300	7.1%
East-Tarkosalinskoye (100%)	9,075	8,015	(11.7%)	1,365	1,354	(0.8%)
North-Urengoykoye (50%)	5,395	5,023	(6.9%)	622	519	(16.6%)
Khancheykoye (100%)	2,510	2,473	(1.5%)	392	353	(9.9%)
Termokarstovoye (51%)	714	1,163	62.9%	258	428	65.9%
Yarudeyskoye (100%)	-	427	-	184	3,556	n/a
Other	1,608	1,554	(3.4%)	131	118	(9.9%)

**YAMAL LNG PROJECT**

Yamal LNG is the flagship project in NOVATEK asset portfolio and is considered a transformational move for the Company into the international gas market. Yamal LNG envisages the construction of an LNG liquefaction plant with annual capacity of 16.5 million tons per annum, utilizing the prolific feedstock resources of the South-Tambeyskoye field located in the Northeast of the Yamal Peninsula. The launch of the first LNG train is planned for 2017.

Yamal LNG is the operator of the project, the license holder and owner of all the assets. In March 2016 NOVATEK successfully closed the transaction of sale of a 9.9% equity stake in the Yamal LNG project to China's Silk Road Fund. At year-end, the shareholder structure comprised NOVATEK (50.1%), Total (20%), CNPC (20%) and Silk Road Fund (9.9%).

At year-end the construction progress on the first train was 88% and the construction progress of all three trains – 75%. The project's infrastructure includes the sea port, the international airport, automobile roads, power lines, gas gathering lines and the living quarters.

The South-Tambeyskoye field was discovered in 1974 and comprises 42 gas bearing layers with depths ranging from 900 to 3,730 meters and includes three domes. There are 112 Valanginian gas and gas condensate deposits, 10 Jurassic gas and gas condensate deposits, and two (2) Cenomanian dry gas deposits. The productive formations have a wide range of permeability and hydrostatic reservoir pressure. The field is being developed with horizontal wells with lengths up to 5,000 meters and horizontal parts up to 1,500 meters

The license for exploration and production

at the South-Tambeyskoye field owned by Yamal LNG is valid until 2045.

As of 31 December 2016, the field was estimated to contain 607 bcm of proved natural gas reserves and 18 mmt of proved liquid hydrocarbon reserves, under the SEC reserves methodology. In 2016 the production drilling results allowed us to increase the proved natural gas SEC reserves at the South-Tambeyskoye field by 85 bcm compared to year-end 2015. 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 942 billion cubic meters of natural gas and 31 mmt of liquid hydrocarbons.

The South-Tambeyskoye field has already been thoroughly studied with a complex suite of exploration activities, including running 3D seismic and exploration drilling, creation of the fields' geological model and annual reserves appraised by the independent petroleum engineers, D&M. The field development plan provides for the drilling of 208 wells on 19 well drilling pads, with production potential exceeding 27 bcm of natural gas and one (1) million tons of stable gas condensate per annum.

Natural gas produced at the field will be delivered to the international markets as 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.

At year-end 2016, 73 production wells were drilled at the South-Tambeyskoye field, exceeding the well stock required to launch the

first production train of the LNG plant (58 wells).

At year-end, there were more than 3,600 construction vehicles and 22,000 construction workers on site. The Sabetta international airport services regular flights from Novy Urengoy, Moscow and Samara, ensuring high efficiency of shift workers logistics. Regular flights served approximately 365,000 people in 2016.

To minimise on site construction activities due to challenging climate conditions, a modular approach to the LNG plant construction was selected. The LNG plant will consist of 142 large plant modules with weights ranging from 85 tons to 6,400 tons. The modules are built at contractor's yards and delivered to the Sabetta construction site by sea. Approximately 19,000 people were involved in modules fabrication for the Yamal LNG project at different construction yards.

At year-end 2016 all 78 modules of the first LNG train were delivered to the construction site. Ten (10) of the 64 modules necessary for the second and third LNG trains were in transit and three (3) were delivered on site. All three main cryogenic heat exchangers (key element of gas liquefaction technology) for trains #1, #2 and #3 were delivered to the construction site by year-end, as well as the full equipment package for compressor lines of the plant's first and second trains, boil-off gas compressors, a backup heater, packages of steel work pipe racks, power plant turbines and other equipment.

As of 31 December 2016, all the first train LNG modules were installed on the prepared foundations, and hook up was underway. The main cryogenic heat exchanger for LNG train #1 was installed into the liquefaction module. Compressor equipment for the first train and the backup heater were installed on the foundations, as well as over 67,500 tons of

steel work for pipe racks. By the end of 2016, over 37,000 foundation piles for the LNG plant were installed, about 3,900 pile caps were installed on the piles, and more than 53,000 cubic meters of concrete was poured for the foundation.

The project requires four (4) LNG tanks including two (2) LNG tanks for the first train. The outer walls of the tanks are made of concrete while the internal walls are multi-layer made of steel and insulating materials ensuring leak integrity and thermal insulation. All four (4) LNG tanks successfully passed hydro-testing in 2016.

In 2016, dredging was performed in the port harbor, approach and sea channels. Overall volumes of dredged sand totalled about 19 million cubic meters. The year-round use of the Sabetta port received more than six (6) million tons of cargoes (two-fold increase year-on-year), delivered by 259 marine ships and 304 river barges. A two (2) km Southeastern ice barrier was being constructed to protect the port harbor. LNG and stable gas condensate shipment pipe rack with shipping berths was being built at the ice barrier. During the reporting year two (2) new cargo berths for module and equipment unloading were added to the four (4) cargo berths built earlier. There are now six (6) cargo berths in full operations at the sea port area.

More than 95% of the LNG plant output has been contracted on a long-term basis. Specially designed Arc7 ice-class LNG carriers will be used for LNG transportation, and the first tanker was placed from dry-dock into water in early 2016, fully equipped and by year-end the LNG carrier successfully passed sea acceptance tests. As of year-end 2016, five (5) other LNG carriers and the two (2) Arc7 condensate tankers to be chartered by the project were under construction.

## 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 and de-ethanized at the field the unstable (de-ethanized) gas condensate is delivered via a system of condensate pipelines owned and operated by the Company for further stabilization at our Purovsky Plant located in the YNAO in close proximity to the East-Tarkosalinskoye 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 after processing our unstable gas condensate.

During the reporting year, the de-ethanized gas condensate processing volumes at the

Purovsky Plant increased by 3.1% to 12,397 mt. The Purovsky Plant's processing capacity matches the overall gas condensate production capacity of the Company's fields in operation. The structure of 2016 output included 9,667 mt of stable gas condensate, 2,597 mt of light hydrocarbons and LPG and 10 mt of regenerated methanol.

The Purovsky Plant is connected via its own railway line to the Russian rail network at the Limbey rail station. Subsequent to the launch of the Ust-Luga Complex in 2013, most of the stable gas condensate volumes produced at the Purovsky Plant are delivered by rail to Ust-Luga for further processing or transshipment to exports, with most of the remaining small volume of stable gas condensate sold directly from the plant to the domestic market. All of the light hydrocarbon volumes (feedstock for LPG production) produced at the plant are delivered by pipeline to SIBUR's Tobolsk Petrochemical Complex for further processing.

### Processing volumes and output of the Purovsky Plant, thousand tons

	2015	2016	Change
<b>PROCESSING OF DE-ETHANIZED CONDENSATE</b>	12,021	12,397	3.1%
<b>OUTPUT:</b>			
Stable gas condensate	9,664	9,667	0.03%
Light hydrocarbons and LPG	2,228	2,597	16.6%
Methanol	11	10	(9.1%)

### Ust-Luga Stable Gas Condensate Transshipment and Fractionation Complex

The Gas Condensate Fractionation and Transshipment Complex (the "Ust-Luga Complex") launched in 2013 is located at the all-season port of Ust-Luga on the Baltic Sea. The Ust-Luga Complex processes stable gas condensate into light and heavy naphtha, jet fuel, ship fuel component (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 the export markets.

The Ust-Luga Complex processed 6,917 mt of stable gas condensate into 6,784 mt of end products, including 4,195 mt of light and heavy naphtha, 998 mt of jet fuel and 1,591 mt of ship fuel component (fuel oil) and gasoil.

High value-added petroleum products produced at the Ust-Luga Complex have a significant positive impact on the profitability of our liquid hydrocarbon sales and the Company's cash flow generation.

As the Ust-Luga Complex reached full processing capacity we transshipped stable gas condensate to the export markets by sea.

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

	2015	2016	Change
<b>STABLE GAS CONDENSATE PROCESSING</b>	6,727	6,917	2.8%
<b>OUTPUT:</b>			
Heavy naphtha	2,101	2,195	4.5%
Light naphtha	1,898	2,000	5.4%
Ship fuel component (fuel oil)	1,183	1,148	(3.0%)
Jet fuel	949	998	5.2%
Gasoil	462	443	(4.1%)

## NATURAL GAS SALES

NOVATEK plays an important role in ensuring supplies of natural gas to the Russian domestic market. During the past year, we supplied natural gas to 35 key consuming regions of the Russian Federation. Our customers were located primarily in the following: the Chelyabinsk, Lipetsk, Perm, Stavropol, Moscow, Kostroma, Vologda, and Tyumen regions, the Khanty-Mansiysk Autonomous Region, YNAO, the Republic of Tatarstan and the city of Moscow. The above-mentioned regions accounted for more than 94% of our total gas sales.

NOVATEK's 2016 natural gas sales volumes totalled 64.7 bcm, representing an increase of 3.6% as compared to 2015 sales volumes of 62.5 bcm. The sales volumes growth was a result of restoring sales to one of our major customers who did not take full contracted volumes in 2015 due to technical reasons, as well as sales of additional natural gas volumes to our end-customers and

wholesale traders. The proportional share of natural gas sales to end-customers remained practically unchanged compared to 2015 and amounted to 92.2% of our total natural gas sales mix.

Our revenues from natural gas sales totalled RR 229.7 billion, which is 3.4% higher as compared to 2015. The sales volumes growth was the main driver for the growth in natural gas revenues.

In order to maintain production levels during periods of seasonal demand NOVATEK has entered into an agreement with PAO 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. At year-end 2016, our inventories of natural gas in underground gas storage facilities and pipelines amounted to approximately 0.8 bcm.

As part of our international marketing strategy, we supplied our first LNG cargo sourced from the Trinidad & Tobago LNG plant to the port of Quintero, located in Chile.

## Natural gas sales, mmcm

	2015	2016	Change
<b>TOTAL GAS SALES, INCLUDING:</b>	62,465	64,709	3.6%
End customers	58,054	59,646	2.7%
Traders	4,411	5,063	14.8%
Share of end-customers in total gas sales	92.9%	92.2%	(0.7) p.p.

## 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.

The logistical supply chain varies according to location and type of product - stable gas condensate and LPG are transported by rail, finished petroleum products produced at the Ust-Luga Complex are exported by sea, while crude oil produced from our fields is transported through the trunk pipelines owned and operated by PAO Transneft.

Total sales volumes of liquid hydrocarbons in 2016 aggregated 16,850 thousand tons,

representing a 30.7% increase over 2015 volumes. The growth is mainly due to increase in crude oil production. Our export sales of liquids grew by 9.6% year-on-year to 9,869 thousand tons.

Our liquids sales revenues increased to RR 304.1 billion, or by 21.7% as compared to 2015, mainly driven by higher sales volumes.

Petroleum products from the Ust-Luga Complex accounted for 40% share of our overall liquids sales volumes and amounted to 6,662 thousand tons. We sold 4,113 thousand tons of naphtha, 985.6 thousand tons of jet fuel and 1,563.7 thousand tons of fuel oil and gasoil. The main share of stable gas condensate processing products (98%) was sold for exports. Sales to the European markets accounted for 53% of total petroleum product sales volumes, 29% were sold to the Asian-Pacific region, 14% to North America and 4% to the Middle East. Naphtha was mainly exported to the Asian-Pacific countries, while jet fuel, fuel oil and gasoil was shipped to North-Western Europe.

Export sales of stable gas condensate continued in 2016 as we reached full capacity utilization at the Ust-Luga Complex. Total stable gas condensate sales volumes grew by 1% to 2,812 thousand tons compared to 2015.

A portion of light hydrocarbons produced at the Purovsky Plant is processed on tolling terms at SIBUR's Tobolsk Petrochemical Complex to commercial LPG, which is then delivered to

NOVATEK's customer base, while the rest of the light hydrocarbons volumes are sold to SIBUR. We sold 1,468 thousand tons of light hydrocarbons in 2016.

LPG sales volumes totaled 1,245 thousand tons in 2016, representing a 2.7% decrease compared to 2015. LPG export sales volumes amounted to 549 thousand tons or 44% of the total LPG sales volumes. Novatek Polska, our wholly owned LPG trading company in Poland, sold 507 thousand tons of LPG, representing 92% of our total LPG export sales. Other export markets for LPG were Finland, Hungary and Slovakia.

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 2016, large wholesale supplies to the domestic market accounted for 560 thousand tons, representing 80% of commercial LPG domestic sales volumes. We also sold LPG via our network of 65 retail stations and seven (7) small wholesale stations in the Chelyabinsk, Volgograd, Rostov and Astrakhan regions. The total amount of LPG sold through our domestic network of retail and small wholesale stations amounted to 136 thousand tons.

Sales of crude oil in 2016 totaled 4,650 thousand tons, representing an increase by more than four-fold times over 2015 volumes. We sold 68% of our crude oil volumes on the domestic market with the remaining volumes supplied to export markets.

#### Liquid hydrocarbon sales, thousand tons

	2015	2016	Change
<b>TOTAL</b>	12,888	16,850	30.7%
Petroleum products (Ust-Luga)	6,693	6,662	(0.5%)
Crude oil	1,090	4,650	326.6%
Stable gas condensate	2,786	2,812	0.9%
Light hydrocarbons	1,026	1,468	43.1%
LPG	1,280	1,245	(2.7%)
Other	13	13	0.0%

# 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. The Company is committed to environmental protection in its operations. In 2016, the Company's overall expenses on environment protection amounted to RUB 1,199 mln.

In 2016, a revised version of NOVATEK's Health, Safety and Environmental (HSE) Policy was approved, which included the Company's commitments consistent with the best Russian and international practices. Our key controlled entities are using an Integrated Management System for Environment Protection, Occupational Health and Safety (IMS) compliant with ISO 14001:2004 and OHSAS 18001:2007. In 2016, NOVATEK successfully passed the second follow-up IMS compliance audit.

Special attention is paid to preventive measures in the area of environment protection. In particular, the environmental aspects are taken into account in designing new production facilities: modern technology and equipment is used to considerably reduce the adverse environmental impact and risk of environmental accidents. The Company builds and rebuilds its waste disposal sites, equips its facilities with state-of-the-art oil sludge treatment units, new sewage treatment facilities are built and older ones are revamped.

Environmental monitoring was performed throughout the reporting year at all of the license areas and production facilities of the Company. During the monitoring process the

condition of the environment components is studied, soil, ground, snow cover, water and bed deposit samples are taken. 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 tested in certified laboratories. Based on the laboratory analysis the condition of the environment components is evaluated as well as its dynamic pattern over the year. The monitoring revealed that the condition of the environment components in the Company's production facility locations is evaluated as stable.

During 2016, NOVATEK rose by five positions in the oil and gas environmental responsibility rating under the Common Sense Project. Thus, it became an absolute leader in terms of annual dynamics. NOVATEK has eventually ranked seventh among 21 oil and gas companies in Russia. The project was implemented by the World Wildlife Fund (WWF) Russia and CREON Energy with the support of the Russian Ministry of Energy and Ministry of Natural Resources.

In the reporting year, the Company continued its participation in the Carbon Disclosure Project (CDP), whereby information on greenhouse gas emissions and operations energy efficiency is disclosed, as well as in the CDP Water Disclosure Project to disclose data on the use of water resources. 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 printed media, on its website, etc.

In 2016, the Company started developing its corporate Greenhouse Gas Emission Control System. This action became part of the Russian national set of actions delivered in the Year of Environment, and NOVATEK signed a relevant quadripartite agreement with the Russian Ministry of Natural Resources and Environment, YNAO Government, and the Federal Supervisory Natural Resources Management Service.

The Company together with NOVATEK Ust-Luga won the 2016 National Environmental Prize in the Innovative Eco-efficient Technologies for Industrial Application category (introduction of a smokeless flare technology in NOVATEK Ust-Luga). A total of 247 projects

from 50 constituent entities of the Russian Federation have submitted entries for the prize. The prize celebrates projects that offer practical solutions to energy- and resource saving, clean operations, preservation of a favorable environment, and environmental safety.

#### Key environmental indicators of NOVATEK, its subsidiaries and joint ventures

	Unit	2015	2016	Change
Water consumption	th. cubic meters	1,716	2,701 <sup>1</sup>	57%
Atmospheric emissions	th. tons	66.2	121.2 <sup>2</sup>	83%

- 1 The increase in water consumption is due to the formation pressure maintenance program on the oil part of the East-Tarkosalinskoye field and increase in water production for industrial use from Aptian-Cenomanian wells for the pressure maintenance program.
- 2 Increase in atmospheric emissions is due to the Yarudeiskoye oil field achieving its designed capacity (oil production and treatment volume increased from 0.19 mmt in 2015 to 3.56 mmt in 2016) which led to a natural increase in associated gas production and flaring.

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 2016.

#### Energy resource consumption by NOVATEK, its subsidiaries and joint ventures

	Units	Volume	RR mln, net of VAT
Natural gas	mmcm	1,918	2,648.0
Electricity	MW*h	656,149	3,236.1
Heating energy	Gcal	272,663	509.3
Oil	tons	858	5.4
Motor gasoline	tons	882	35.8
Diesel fuel	tons	5,145	188.0
Other	tons	620	5.9



## INDUSTRIAL SAFETY AND OCCUPATIONAL HEALTH

Our strategic goal is to achieve a leading position amongst oil and gas companies on all key indicators concerning 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 the "Rules on the Organization and Implementation of Industrial Control over Compliance with Industrial Safety Requirements at Hazardous Production Facilities", all of our subsidiaries have adopted "Regulations on the Organization and Implementation of Industrial Compliance Control". As part of the monitoring and compliance process, we have established industrial control compliance commissions, who carry out regular audits of departments and production facilities to check adherence to health and safety requirements.

Workplace certification includes evaluating measures to control the harmful impact of hazardous factors in the workplace. Measures

to improve working conditions are developed based on the results of the certification process. In the reporting year, we certified 4,830 workplaces. There were no hazardous conditions found during the inspection.

In 2016, a NOVATEK commission continued comprehensive audits of NOVATEK subsidiaries for occupational health, industrial, fire and environmental safety requirements. In the reporting year, we conducted OHS due diligence checks on four subsidiaries and joint ventures. Based on their findings, relevant reports were produced, and remedial measures were developed.

All of NOVATEK's subsidiaries and joint ventures conduct periodic safety training and briefings; personnel training and development programs are offered, among others, by specialized training centers; knowledge assessment is implemented on a regular basis. During 2016, all entities undertook scheduled and unscheduled Health and Safety knowledge tests; within this period, 6,852 employees underwent occupational health training courses and certification, and 3,018 employees underwent safety training courses. In 2016, the financing of Occupational Health and Safety totaled approximately RR 693 million.

### Key health and safety indicators of NOVATEK, its subsidiaries and joint ventures

	2015	2016	Change
Incident frequency rate (number of incidents per million working hours)	0.53	0.33	(38%)
Accidents at hazardous production facilities	0	0	0%
Incidents at hazardous production facilities	2	2	0%

## 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 2016, NOVATEK and its subsidiaries had 7,515 employees, 38.7% of whom work in exploration and production, 17.0% in processing, 26.9% in transportation and marketing, 6.8% in power supply and less than 1.0% in ancillary services. The remaining 9.7% are administrative personnel. The middle age

group (25 to 44 years old) is the predominate age range in our personnel composition. The average age of the Company's employees is 39 years.

### Personnel Training and Development

Amid the rapid development of technologies and management systems, our multilevel training and professional development program enables our employees to contribute to making the Company more competitive. In 2016, the primary goals of training and professional development included:

- implementing an In-house Training program to improve the competences of the Company's employees;
- implementing the Steps in Discovering Talents program for young specialists targeted at training highly qualified personnel

- whose competence level fully meets business needs;
- developing and improving the Corporate System for the Evaluation of Technical Competencies; and
- engaging young specialists to take part in research-to-practice conferences.

To ensure targeted professional upgrade, an In-house Training program was launched in 2016 hosted by NOVATEK Scientific and Technical Center (NOVATEK STC). Its employees have developed courses and trained their colleagues on such topics as “Seismic Exploration Basics”, “Practical Aspects of Modelling Foundation: Theory and Practice”, “Integrated Engineering of Gas Condensate Fields”, “Geological 3D Modelling Basics”, “Complex Logging Methods to Address Geological Tasks: Basics of Log Interpretation”, “Hydrocarbon Fluid Properties for Modelling their Production, Treatment, and Transportation”, to name a few. A total of 147 employees of NOVATEK and the Company's subsidiaries received training under this program in 2016.

NOVATEK continued its efforts to advance the professional capabilities of its employees, improve working conditions and train its personnel on safe working practices at its production facilities. A total of 44.8 % of white- and blue-collar workers upgraded their skills. In 2016, the Corporate System for the Evaluation of Technical Competencies tested 613 employees across the Group, including 20 persons who were tested at recruitment and 91 persons – at promotion.

We had our fourth class of graduates under the Steps in Discovering Talents Program. Twenty young specialists graduated from the on-the-job adaptation and professional development program. By autumn 2016, another 32 young specialists joined the program.

Young specialists received the Mentoring Culture training courses together with their mentors. In total, 24 mentors attended the training.

To improve financial awareness of young specialists, a new unit on Value Creation Mindset was included in the program in 2016. The graduating young specialists participated in the new training course.

In November 2016, Tarko-Sale hosted the 2nd Interregional Professional Skills Contest among field workers. NOVATEK-TARKOSALENEFTEGAS provided its facilities for the contest. The number of companies and participants in the contest doubled to 67 employees from eight NOVATEK Group companies

as compared to 2015. In addition to the four jobs, which participants competed in during the first contest, namely oil and gas production operator, process unit fitter, electrical equipment fitter, and instrument and automation fitter, this year's contest included two more professional categories: process unit operator and chemical analysis technician. All participants received valuable gifts and the winners in each professional category were awarded bonuses and personal salary allowances in recognition of their professional excellence.

In September 2016, Moscow hosted the 11th Interregional Research-to-Practice Conference for the Company's young specialists attended by 46 employees. Following the competition, all winners received bonuses, while seven of the most successful participants and the Best Implemented Project winner were also awarded a trip to petroleum training centers in Australia.

### 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 2016, our employees and their family members visited exhibitions at Russia's national museums, classical music concerts, and attended sporting events like football (soccer) games and acrobatic rock'n'roll competition with the Company's assistance.

The Company publishes its corporate newsletter “NOVATEK” and corporate magazine “NOVATEK Plus” to inform employees, their family members, and third parties about the Company's activities, production results, cultural, sports, and charitable programs. The main events of NOVATEK are published in the Company's portal.

## SOCIAL POLICY AND CHARITY

Social Policy and Charity make up an important part of NOVATEK's activities. In 2016, the Company continued to pay close attention to projects aimed at supporting the culture, preserving and revitalizing national values and spiritual legacy of Russia, promoting and integrating the Russian art into the international cultural space, and developing amateur and professional sports. NOVATEK entered into agreements with regional governments across the Company's footprint and implements programs to improve living standards and preserve the distinctive cultural identity of the indigenous peoples of the Far North.

In 2016, NOVATEK and its subsidiaries invested about RR 1,9 billion in projects and activities related to the support of indigenous peoples, charitable contributions, cultural and educational programs.

### Cooperation with the regions

Within the framework of agreements signed with various regions, the Company made investments in the Yamal-Nenets Autonomous Area, and the Leningrad, Chelyabinsk, Tyumen, Samara and Kostroma Regions throughout 2016. The Company also financed the construction, repairs and upgrades of social infrastructure facilities as well as earmarked significant funds for implementing educational, cultural, children and youth programs and projects and was supporting low-income families, people with disabilities and the elderly.

### Cooperation with Indigenous Peoples of the Far North

During 2016, NOVATEK provided financial support to the Yamal for Descendants Association of indigenous peoples and its district branches. We assisted indigenous peoples through financing the purchase of equipment and materials required for the work of fishermen and reindeer herders. NOVATEK financed fuel purchases for air delivery of the nomadic population and food to remote areas.

### 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. In 2016, the "Gifted Children" class was opened in Tyumen vocational school №81. 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 the 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 2016, the Company awarded 36 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 2016, five (5) 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 Saint-Petersburg University of Mines, the Gubkin Russian State University of Oil and Gas in Moscow and the Tyumen Industrial 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.

### Preserving Cultural Heritage

In 2016, NOVATEK continued its cooperation with Russia's leading cultural and educational institutions, charity foundations, and creative groups. These include the Moscow Kremlin Museum, the Russian State Museum, the Moscow Museum of Modern Art, and the Multimedia Art Museum of Moscow.

The Moscow Kremlin Museum, with assistance from NOVATEK, prepared and hosted the exhibition titled “Elegance and Splendor of Art Deco. The Kyoto Costume Institute, Jewelry Houses Cartier and Van Cleef & Arpels”.

The Company supported the exhibition “Wassily Kandinsky and Russia” in the Russian State Museum to mark the 150th anniversary of the artist, one of the founders of the abstract art, and continued supporting the annual International Imperial Gardens of Russia Festival in St. Petersburg.

In partnership with NOVATEK, the Moscow Museum of Modern Art presented the exhibition “Little Golden America: based on a true story” devoted to Ilya Ilyf’s and Evgeny Petrov’s travels as well as a solo exhibition of Stephan Balkenhol “Sculptures and Reliefs”.

Starting in late 2015, the education division of the Moscow Museum of Modern Art has been delivering a special course of lectures on the history of the 20th century Russian and foreign art, photography, architecture and cinema to the Company’s employees and their family members. To expand this activity, in 2016 the Company for the first time supported the educational program of the Fifth Moscow Biennale of Contemporary Art.

For several years, NOVATEK has been supporting the History of Russia in Photographs, a major program of the Multimedia Art Museum. In 2016, with the Company’s assistance, exhibitions “Sergey Shimansky. Leningrad” and “Alexander Rodchenko. Experiments for the Future” took place.

In 2016, NOVATEK traditionally cooperated as the General Partner with the Moscow Soloists Chamber Ensemble and acted as the General Partner of the tour across Russia and Europe of the Russian Youth Symphony Orchestra led by Yuri Bashmet.

### **Sports Projects**

NOVATEK attaches great importance to programs for the development of amateur and professional sports. The Company, its subsidiaries

and joint ventures regularly hold tournaments in the most popular and wide-spread sports, such as football, volleyball, swimming, ski, etc.

The company supported the children and youth sports in the regions of its operations. The “NOVATEK – Step to Bigger Football” Indoor Football Cup among secondary school teams expanded its geographical presence in 2016. Besides the competition in the Chelyabinsk Region that were attended by several thousand boys and girls, the tournament was held in several cities and towns of the Kostroma Region and included more than one hundred teams.

The Company supported Figure Skating and Ice Hockey Federations of the Yamal-Nenets Autonomous Region, and Student Basketball Association with more than 800 teams and 10,000 boy and girls participating in competitions. The Russian Acrobatic Rock'n'roll Federation and the Company set up corporate acrobatic rock'n'roll clubs in the regions where the Company operates, and their students will take part in the Federation’s competitions as early as in the first half of 2017. In the reporting year, NOVATEK continued cooperation with the Football Union of Russia as the General Partner of the Russian National Football Team. The company supported woman’s volleyball club Dinamo and the NOVA Volleyball Club (Novokuybishevsk).

### **Charity**

The Company has continued its cooperation with Chulpan Khamatova’s Gift of Life charitable foundation in 2016. The Company held two blood donor sessions for children from the Russian Children’s Clinical Hospital at its Moscow headquarters, in collaboration with the foundation.

The scope of activities undertaken by the All Together volunteer movement, which NOVATEK founded in 2008, expanded. Assistance to orphans and children with various illnesses, seniors, as well as support for the blood donor movement remained the main volunteer activities.

# MANAGEMENT AND CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE SYSTEM

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 comprises the Board of Directors, the Board Committees, and the Management Board, as well as internal control and audit bodies and the Corporate Secretary. The activity of all these bodies is governed by the applicable laws of the Russian Federation, NOVATEK's Charter and internal documents available on our website ([www.novatek.ru](http://www.novatek.ru)).

NOVATEK strives to consider the principles of corporate governance outlined in the Corporate Governance Code recommended by the 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 Corporate Governance Code and the Regulation of the European Parliament and of the Council on market abuse and follows their 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).

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,

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

In order to increase the effectiveness of the Company's corporate governance system and bring it into compliance with the current legislature, the Listing Rules of PAO Moscow Exchange and the requirements of the Corporate Governance Code, the following changes were made in the reporting year:

- the Board of Directors held on 5 February 2016 approved amendments to the Regulations on the Corporate Secretary;
- the Board of Directors held on 26 August 2016 approved NOVATEK's Internal Audit Policy, amendments to the Regulations on NOVATEK's Risk Management and Internal Control System and to the Regulations on NOVATEK's Board of Directors Remunerations and Nominations Committee;
- following the resolution of NOVATEK's General Meeting of Shareholders held on 30 September 2016 amendments were made to NOVATEK's Charter, the Regulations on the General Meeting of Shareholders of NOVATEK, the Regulations on the Board of Directors of NOVATEK, the Regulations on the Management Board of NOVATEK; and
- due to amendments to the Company's Charter, following the resolution of NOVATEK's General Meeting of Shareholders held on 30 September 2016 the company name OAO NOVATEK has changed to PAO NOVATEK.

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 the Board of Directors and the Revision Commission, approval of the Company's Auditor and other corporate and business matters.

On 22 April 2016, the Annual General Meeting of Shareholders approved the annual report, annual financial statements (in accordance with the Russian Accounting Standards), distribution of profit and the size of dividends based on the results of FY2015. 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 2016 and approved interested-party transactions.

On 30 September 2016, the Extraordinary General Meeting of Shareholders approved the amount of interim dividend for the first half of 2016 and amendments to NOVATEK's Charter and internal documents regulating the activities of NOVATEK's bodies.

## 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 and effective performance in order to increase shareholder value in a prudent and responsible manner.

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 General Meeting of Shareholders elects the members of the Board.

The current members of the Board were elected at the Annual General Meeting of Shareholders on 22 April 2016. 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 in accordance with the Corporate Governance Code recommended by the Central Bank of Russia and the UK Corporate Governance Code. 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, operational, 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 impacting the business. In addition to these formal processes, Directors have access to the Company's medium-level managers for both formal and informal discussions to ensure the regular exchange of information needed to participate in the Board meetings and make balanced decisions in a timely manner.

Efficient operation of the Board of Directors is supported by the Corporate Secretary, who 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 (Minutes No. 168 of 28 April 2014 with further alterations and amendments).

### **The Board of Directors membership as of 31 December 2016:**

- Alexander E. Natalenko – Chairman of the Board
- Andrei I. Akimov
- Burckhard Bergmann
- Michael Borrell
- Robert Castaigne
- Leonid V. Mikhelson
- Victor P. Orlov
- Andrei V. Sharonov
- Gennady N. Timchenko

During 2016, there were no changes to the composition of NOVATEK's Board of Directors.

In accordance with the recommendations of the Corporate Governance Code and the Listing Rules of PAO Moscow Exchange, three (3) of the nine (9) elected members of the Board are considered independent directors.

#### Board activities during the 2016 corporate year<sup>1</sup>

To ensure the Company's efficient performance, the Board meetings are convened on a regular basis at least once every two months. During 2016, the Board met 10 times, of which six (6) meetings were held in absentia. The following key issues were discussed and respective decision made:

- reviewed and approved the Company's 2016 full year operating and financial results;
- raised external financing for Yamal LNG;
- recommended an interim dividend for first half 2016, based on interim financial results for the period, and a full year dividend for 2016, based on full year financial results;
- reviewed and approved NOVATEK's business plan for 2017;
- submitted the following issues to the consideration of NOVATEK's Extraordinary General Meeting of Shareholders: amendments to NOVATEK's Charter and internal documents regulating the activities of NOVATEK's bodies; and
- approved NOVATEK's Internal Audit Policy.

#### Board and Committee meetings attendance in the 2016 corporate year

Member	Independence <sup>2</sup>	Board of Directors	Audit Committee	Remuneration and Nomination Committee	Strategy Committee
Alexander E. Natalenko		10/10			4/4
Andrei I. Akimov		10/10			3/4
Burckhard Bergmann		10/10			4/4
Michael Borrell		10/10			4/4
Robert Castaigne	independent	10/10	4/4	4/4	
Leonid V. Mikhelson	executive	10/10			
Victor P. Orlov	independent	10/10	4/4	4/4	
Andrei V. Sharonov	independent	10/10	4/4	4/4	
Gennady N. Timchenko		10/10			4/4

#### BOARD COMMITTEES

The Company has three (3) Board Committees: the Audit Committee, the Strategy Committee and the Remuneration and Nomination Committee. The Committees' activities are governed by the specific Committee Regulations approved by the Board of Directors and are available on our website.

The Committees play a vital role in ensuring that the high standards of 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 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.

<sup>1</sup> From the Annual General Meeting of Shareholders on 22 April 2016 until the Annual General Meeting of Shareholders on 21 April 2017.

<sup>2</sup> Independent Director as of 31 December 2016 in accordance with the Corporate Governance Code recommended by the Central Bank of Russia and the UK Corporate Governance Code.

## Committees membership as of 31 December 2016

	Audit Committee	Strategy Committee	Remuneration and Nomination Committee
Chairman	Andrei V. Sharonov	Alexander E. Natalenko	Victor P. Orlov
Members	Robert Castaigne Victor P. Orlov	Andrei I. Akimov Burckhard Bergmann Michael Borrell Gennady N. Timchenko	Robert Castaigne Andrei V. Sharonov

### 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;
- 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 2016, the Strategy Committee met four (4) times.

### Remuneration and Nomination Committee

The primary functions of the Remuneration and Nomination Committee is the 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;
- annual detailed and formalized performance self-appraisal or external appraisal of the Board of Directors and its members, as well as of BoD Committees, determination of the priority areas for reinforcing the Board of Director's composition;
- interaction with shareholders, which shall not be limited to major shareholders only, with a view to generate recommendations to the shareholders with respect to voting on the election of nominees to the Company's Board of Directors;
- plan appointments of members of the executive body and the sole executive body on the base of continuity principles; and
- supervision over disclosure of information on the Company's shares owned by the members of the Board of Directors and Management Board, and other key management employees.

In corporate year 2016, the Remuneration and Nomination Committee met four (4) 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, and the efficiency of the Company's internal control procedures and risk management system.

The Audit Committee works actively with the Revision Commission, the external auditor and 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 2016, the Audit Committee met four (4) 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 NOVATEK's Charter.

Members of the Management Board are elected by the Board of Directors from among the Company's key employees. The Management Board is subordinated to the Board of Directors and the General Meeting of Shareholders. The Chairman of the Management Board is responsible for leading the Board and ensuring its effectiveness as well as organizing the Management Board meetings and implementing decisions of the General Meeting of Shareholders and the Board of Directors. The Management Board acting as of 31 December 2016 is comprised of twelve (12) members elected by the Board of Directors on 30 August 2012 (Minutes No. 150 of 30 August 2012) and 12 March 2015 (Minutes No. 173 of 12 March 2015) and 10 March 2016 (Minutes No. 184 of 10 March 2016).

### Management Board Members as of 31 December 2016:

- Leonid V. Mikhelson – Chairman
- Alexander M. Fridman – First Deputy Chairman
- Vladimir A. Baskov – Deputy Chairman
- Viktor N. Belyakov – Deputy Chairman of the Management Board for Economics and Finance
- Mark A. Gyetvay – Deputy Chairman
- Oleg V. Karpushin – Deputy Chairman of the Management Board - Operations Director
- Tatyana S. Kuznetsova – Deputy Chairman – Director of Legal Department
- Igor A. Plesovskikh – Deputy Chairman of the Management Board - Director for Geology
- Ilya V. Tafintsev – Director for Strategic Projects
- Lev V. Feodosyev – Deputy Chairman – Commercial Director
- Denis G. Khramov – Deputy Chairman
- Kirill N. Yanovskiy – Director for Finance

## REMUNERATION TO MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT BOARD

The procedure for calculating the remuneration and compensations to members of NOVATEK's Board of Directors is governed by the Regulations on Remuneration and Compensations payable to members of NOVATEK's Board of Directors approved by the Annual General Meeting of Shareholders (Minutes No. 122 of 24 April 2015). According to the Regulations the remuneration consists of the following types:

- fixed part of remuneration;
- remuneration for attending the Board of Directors meetings; and
- remuneration for attending the meetings of the committees of the Board of Directors.

The fixed part of remuneration to a Board member constitutes RR 10 million per corporate year. The Chairman of the Board of Directors is paid a fixed remuneration for the performance of its functions in the amount of RR 20 million per corporate year. Members of the Board of Directors are also paid remuneration for attending the meetings of the Board of Directors in the maximum amount of RR 3 million per corporate year and remuneration for attending the meetings of the committees of the Board of Directors in the maximum amount of RR 2 million per corporate year. The Board members are also compensated for travel and lodging expenses related to implementation of their functions as NOVATEK Board of Directors members.

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 2016, RR mln

	Board of Directors <sup>3</sup>	Management Board
<b>TOTAL PAID, INCLUDING:</b>	133.38	1,996.5
Salaries	-	682.0
Bonuses	-	1,274.3
Fees	132.4	-
Other property advancements	0.98	40.2

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

In order to combat corruption, mitigate compliance, operational and reputation risks, the Company adopted the Anti-Corruption Policy and the Regulation on NOVATEK Risk Management and Internal Audit System approved by the Board of Directors on 1 September, 2014 (Minutes No. 170 of 1 September 2014).

#### Revision Commission

The Revision Commission consisting of four (4) members who are 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 performs audits of the Company's financial and business performance for the year, as well as 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 of these audits are presented in the form of findings by the Revision Commission.

In March 2017, the Revision Commission completed the on-site audit revision of financial and business activity of the Company for the year 2016. As a result, the conclusions about the reliability of the data contained in the Company's 2016 Financial Statements (under the Russian accounting standards) 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 performs internal audits of the Company's operations. 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 also adheres to the principles and rules of conduct stated in internal auditor's Code of Business Conduct of the Institute of Internal Auditors. In 2016, the Board of Directors approved NOVATEK's Internal Audit Policy (Minutes No. 192 of 26 August 2016).

<sup>3</sup> 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.

The Division carries out its activities on the basis of an annual 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. Implementation of the measures is monitored on a regular basis.

The Internal Audit Division regularly interacts with the external auditor by exchanging information on action plans, audit results and other matters of significance to ensure the effective discharge of their responsibilities.

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

### 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.

AO PricewaterhouseCoopers Audit (an internationally recognized audit firm) was chosen as the Company's external auditor to conduct the audit of the annual financial statements for 2016 under RAS, as well as independent reviews of the Company's quarterly financial statements and audit of the annual financial statements under IFRS.

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 twice per year.

NOVATEK's management is aware of and accepts recommendations on the 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 Note 24 to the consolidated financial statements prepared in accordance with IFRS standards for 2016.

### 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 2016, NOVATEK did not have preference shares.

Our shares are traded in Russian roubles on the Moscow Exchange and have a first grade 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 Depositary Receipts (GDR) are listed on the London Stock Exchange (symbol: NVTK), with each GDR representing 10 ordinary shares. As of 31 December 2016, NOVATEK's GDRs were issued on 910,574,600 ordinary shares comprising 29.99% of the Company's share capital.

**Equity stakes in NOVATEK's share capital and the number of shares owned by members of the Board of Directors and Management Board<sup>4</sup>**

	Equity stake as of 31 December 2016, %	Number of shares
<b>Board of Directors</b>		
Alexander E. Natalenko	-	-
Andrei I. Akimov	-	-
Burckhard Bergmann	-	-
Michael Borrell	-	-
Robert Castaigne	-	-
Leonid V. Mikhelson	0.7152	21,717,112
Victor P. Orlov	-	-
Andrei V. Sharonov	-	-
Gennady N. Timchenko	9.1583	278,073,034
<b>Management Board</b>		
Vladimir A. Baskov	0.0288	874,408
Viktor N. Belyakov	-	-
Mark A. Gyetvay	-	-
Oleg V. Karpushin	-	-
Tatyana S. Kuznetsova	0.1944	5,903,035
Igor A. Plesovskikh	-	-
Ilya V. Tafintsev	-	-
Lev V. Feodosyev	-	-
Alexander M. Fridman	0.0817	2,481,049
Denis G. Khramov	-	-
Kirill N. Yanovskiy	0.1051	3,192,530

In 2016, Gennady Timchenko, member of NOVATEK Board of Directors, made the following transactions with NOVATEK shares:

- transfer of 34,167,892 shares under a securities lending agreement (22 January 2016);
- transfer of 400,934,172 shares under a securities lending agreement (29 April 2016);
- receipt of 277,303,034 shares under a securities lending agreement (22 December 2016); and
- acquisition of 770,000 shares under a securities sales and purchase agreement (23 December 2016).

## DIVIDENDS

The Company's Dividend Policy is regulated by the Regulations on Dividend Policy of PAO NOVATEK approved by the Board of Directors on 28 April 2014 (Minutes No. 168 of 28 April 2014). According to the regulations, consolidated net income under IFRS is applied 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 amount of the dividend, the payment deadline and form of the dividend is passed by the Annual General Meeting of Shareholders according to the recommendation

<sup>4</sup> The equity stakes are given based on the records in the register of NOVATEK's shareholders and notification received from members of the Board of Directors and Management Board, in accordance with the Russian Federation laws.

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 14 March 2017, the Board of Directors of PAO NOVATEK recommended to the Annual

General Meeting of Shareholders to pay dividends for FY 2016 in the amount of RR 7.0 per ordinary share or RR 70 per one Global Depository Receipt (GDR), exclusive of RR 6.9 of interim dividends per ordinary share or RR 69 per one GDR paid for the first six months of 2016.

Thus, should the General Meeting of Shareholders approve the recommended dividend, the dividends for 2016 will total RR 13.9 per ordinary share (RR 139 per one GDR), and the total amount of dividends payable for 2016 will be RR 42,204,653,400. This will represent a 3.0% increase in dividend per share compared to 2015.

#### Accrued and paid dividends on NOVATEK shares for the period 2011 to 2016

Dividend accrual period	Amount of dividends, RR per share	Total amount of dividends accrued, RR	Total amount of dividends paid, RR
2011	6.00	18,217,836,000	18,217,661,018
2012	6.86	20,829,059,160	20,829,057,901
2013	7.89	23,956,454,340	23,956,346,951
2014	10.30	31,273,951,800	31,273,849,601
2015	13.50	40,990,131,000	40,989,939,487
First half 2016	6.90	20,950,511,400	20,950,494,606

The amount of paid dividends accrued for the years 2011 to 2015, and for the first six months 2016 is reported as of 31 December 2016. Partial payment of the accrued dividends was made due to provision by shareholders of incorrect postal and/or banking details and insufficient information regarding banking or postal details of shareholders.

#### 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 notifications 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.

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

The Company maintains an ongoing dialogue with shareholders and investors in order to ensure full awareness of investment community about its activities. The main channels of communication with the investment community are through the Chairman of the Management Board, Deputy Chairman 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.

Pursuant to the uniform information policy principles, NOVATEK is actively involved in relations with federal, foreign and regional media. In 2016, the topics covered in mass media related to the Company's activities. As at the end of 2016, the number of publications on the Company's activities increased by 20%, and the number of TV spots on federal channels went up by 40%.

In 2016, the Public Relations Department hosted 10 meetings between the Company management and journalists of foreign and federal periodicals resulting in more than 25,000 publications. Among the topics covered were disposal and raising of LNG project-related investments, the Company's plans of business expansion, entering new markets and cooperation with European and Asian financial institutions.

Twelve tours were arranged for the Russian mass media journalists to visit the Company's regional production facilities and the areas involved in the Yamal LNG Project implementation.

The number of publications in foreign media increased, TV spots on the Yamal LNG Project implementation were issued on the TV channels

of France, Germany, Austria, Italy, Great Britain, China, Japan, and South Korea. More than four thousand publications were issued in foreign media in 2016. In May 2016, a dedicated press-tour was arranged for foreign journalists to visit the Yamal LNG site that was attended by 60 people from approximately 35 publications. Separate visits of camera units from Italy, Austria, Germany, France, United Kingdom and Japan to the company facilities Yamal LNG and NOVATEK-Yurkharovneftegas were arranged during the year.

NOVATEK takes active part in industrial exhibitions and conferences. In 2016, NOVATEK's managers and employees participated in more than 15 exhibitions, conferences and round tables. In 2016, the Company took part in the St. Petersburg International Economic Forum, Eastern Economic Forum, as well as governmental delegations within foreign business events. NOVATEK delegation also took part in the work of major international industry events – International Conference & Exhibition on Liquefied Natural Gas in Australia, V Eurasian Investment Forum in Verona, LNG Producer-Consumer Conference in Tokyo, etc.

# ADDITIONAL INFORMATION

## RISK MANAGEMENT SYSTEM

The Company's activities are subject to risks inherent only to the Company or associated with the Company's core business.

A multilevel system of risk management has been implemented at the Company. Powers, duties and responsibilities for specific risk management procedures are delegated to different governance levels of the Company depending on the assessment of financial impact of risk. The Company's risk management policy is laid out in the Regulations on OAO NOVATEK Risk Management and Internal Control System approved by the Board of Directors on 1 September 2014 (Minutes No. 170 of 1 September 2014) with amendments.

The Board of Directors' Audit Committee is responsible for the supervision over the reliability and efficiency of the risk management framework and review of the risk management policy. In the reporting year, the Audit Committee after careful review and analysis of the information provided, recognized NOVATEK's risk management activities as compliant with the risk management policy of the Company.

Below is the list of risks and approaches to risk management applied by the Company. The risks described herein are not exhaustive and reflect the opinion on the most material risks based on the estimates of the Company's management.

Risk	Risk description	Risk management approaches used by the Company
<b>OPERATIONAL RISKS</b>		
<b>Risks of emergencies and incidents</b>	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. The Central Dispatch Office (CDO) operates in the Company, one of its function is to ensure prompt response to production incidents. Since 2017, the functionality of the CDO was expanded by adding centralized control of well construction and workover on top of the control of production, treatment and transportation processes.
<b>Monopoly risks</b>	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 a Federal body.	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 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).

<b>Competitive risks</b>	<ul style="list-style-type: none"> <li>• The Company operates in an environment of tough competition with Russian and international oil and gas companies in the following areas:</li> <li>• obtaining of subsoil licenses and acquisition of companies holding subsoil licenses</li> <li>• selling natural gas on the Russian market</li> <li>• selling liquid hydrocarbons in the Russian and global markets</li> <li>• acquisition of oil and gas equipment and services</li> <li>• access to transportation infrastructure, which has technological limitations</li> <li>• employment of highly qualified specialists to work for the Company and its subsidiaries and joint ventures.</li> </ul>	<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 &amp; gas equipment, the Company pursues import replacement policies where it is appropriate. 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. The Company implements an active HR policy and applies efficient mechanisms of attracting and retaining highly qualified employees.</p>
<b>Commodity price risks</b>	<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 a Federal body. 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. 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>
<b>Geological risks</b>	<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>Since 2015, the Company has been employing foreign experts in geology and field development. Individual focused training programs have been implemented for the employees with due regard to periodic testing. 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>
<b>Risk of early termination, suspension or restriction of the right to use subsurface mineral resources</b>	<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>



<b>Environmental risks</b>	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.	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. 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.
<b>Project risks</b>	Volatile exchange rates of the national currency and unstable lending conditions, growing funding costs, drop in hydrocarbon prices, precarious financial position of contractors and oil and gas equipment suppliers may affect the Company's Investment Program leading to delays in project execution and/or rising project costs.	The Company implements expert review of projects at the project development stage. Investments are only channeled into the projects that are most likely to help the Company achieve its strategic objectives. The Regulation on Investment Projects Preparation, Coordination, Approval, Monitoring and Updating was approved in the Company in 2016. The project risks are evaluated at every stage. The Company has tightened its selection requirements for contractors and suppliers of oil and gas equipment. There is ongoing monitoring of their performance, including on-site visits to the oil and gas equipment plants involved in production and testing of the equipment for the Company.
<b>Ethical risks</b>	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.	In 2011 in order to minimize ethical risks, the Company introduced a Code of Business Conduct and Ethics. 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. This mitigates ethical risk to stakeholders and investors. 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. In 2014 the Board of Directors approved NOVATEK's Anti-Corruption Policy that established key principles and standards of anti-corruption practices for employees and includes a set of corruption prevention measures. As part of the Anti-Corruption Policy implementation a Security Hotline is in a 24/7 operation. In 2016, the Company established the procedure for notification and managing the conflicts of interest employees may come across in performing their job duties.
<b>Social risks</b>	<ul style="list-style-type: none"> <li>• The Company is subject to the following risks of a social nature:</li> <li>• internal risks associated with a possible incompliance of social programs implemented by the Company with the industry's average level that may lead to a higher labor turnover;</li> <li>• external risks associated with potential impediments in normal production activities caused by the public living in proximity to the production facilities</li> </ul>	<p>The Company strives to ensure compliance of its social programs with the industry's average level and uses the 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>

<b>Terrorism risks</b>	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.
<b>Country risk</b>	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. In 2015, a precipitous decline in crude oil prices and international sanctions caused volatility in foreign currencies, growing inflation rates, an increase in interest rates and an economic growth slowdown. The said factors have a negative impact on the Company's operational and financial performance.	Active marketing and financial policy enable the Company to mitigate the country risk. Moreover, the Company's management continuously analyzes the macro-economic environment and makes prompt decisions to mitigate potential risks.
<b>Regional risk</b>	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 at the facilities design and operation stage.
<b>Risks of information technology and information security (cyber-risks)</b>	The Company is exposed to the risks in the area of information technologies and information security, such as unauthorized access and changing or destroying digital assets.	The Company uses a multilevel system for digital assets protection, namely: all information systems are classified, owners and terms for provision of access rights are defined in relation to each of them, information storage and archiving terms are regulated. The Company makes use of licensed software only. The information technology development strategy of NOVATEK has been developed and approved to ensure the Company's sustainable development.
<b>FINANCIAL RISKS</b>		
<b>Credit risk</b>	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.	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. 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. When selecting banks, the Company is governed by the bank's reliability confirmed by international ratings.
<b>Reinvestment risk</b>	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.

<b>Interest risks</b>	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 are hard to predict. Volatile 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 strives to maintain flexibility in its investment program.
<b>Currency risks</b>	Part of the Company's liabilities is denominated in foreign currencies, which may lead to losses in the event of Russian rouble 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 Russian rouble 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.
<b>Liquidity risk</b>	Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.	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. 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.
<b>Inflation risk</b>	Changes in the consumer price index have an impact on NOVATEK's profitability and, as a consequence, its financial standing. The significant currency depreciation in 2015 caused a surge in inflation rates, which are impossible to accurately predict.	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 rouble, the pricing conditions in liquid hydrocarbon export markets, and government policy in relation to tariffs for natural gas. NOVATEK monitors the consumer price index and accordingly acts to mitigate its costs.

## LEGAL RISKS

<b>Risk of law changes</b>	<ul style="list-style-type: none"> <li>• The Company is subject to a risk of facing consequences of changes in Russian laws in the following areas:</li> <li>• currency laws (in areas concerning export/import and borrowing operations)</li> <li>• tax laws (in areas regulating taxation systems and rates applicable to companies in general, and to companies producing and marketing natural gas and liquid hydrocarbons, specifically)</li> <li>• customs laws (in areas concerning the export of liquid hydrocarbons, including petroleum products); and</li> <li>• licensing requirements for natural resource extraction.</li> </ul>	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.
----------------------------	--	--

<b>Litigation risks</b>	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.
<b>Risk of sanctions</b>	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 2016, 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 (Standard & Poor's, Expert RA, A.M. Best) with partial reinsurance of risks by major international insurance and reinsurance 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; and
- 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;
- Insurance of risks related to prospecting, exploration and production (risk of loss of control over a well); and
- Management liability insurance.

Since 2013, the Company implemented a comprehensive program of property and business risk insurance with respect to its and its subsidiaries' and joint venture's key assets. The cumulative insured amount for the risks of property damage and business interruption as at the

end 2016 was RR 512 billion. The implemented program is viewed by the Company's management as an efficient measure for mitigating the consequences of potential accidents and provides additional guarantees for the attainment of the expected net profit and key indicators of the Company's performance.

In the reporting year, no insured major accidents or incidents occurred.

At the end of 2016, one of NOVATEK's subsidiaries entered into a one-year contract for insurance of receivables of an approved natural gas consumer list with a view to assess how efficiently this instrument is used to manage risks.

For more than 11 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 E. 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 Yagodinskaya, Bagdarinskaya, Berelekhskaya, Anadirskaya and East-Chukotskaya geological expeditions. In 1986, Mr. Natalenko headed the North-East Industrial and Geological Association

and, in 1992, he was elected president of AO "Magadan Gold & Silver Company". He subsequently held various executive positions in Russian and foreign geological organizations. From 1996 to 2001, Mr. Natalenko held the position of Deputy Minister of Natural Resources of the Russian Federation. From 2013 to 2015 he was a member of the Board of Directors of AO 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, the Deputy Chairman of the Board of Directors of Gazprombank (OAO). He is a member of Board of Directors of PAO Gazprom, Gazprombank (AO), PAO Rosneft, AO Rosneftegaz, OOO Gazprom gas motor fuel, Bank GPB International S.A. and other.

#### **DR. BURCKHARD BERGMANN**

- Member of NOVATEK's Board of Directors, and Member of 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.

Till 2013 Dr. Bergmann was a member of the Boards of Directors (Supervisory Boards) of: Allianz Lebensversicherungs-AG, Commerzbank AG, Contilia GmbH. At present, he is a Chairman of the Supervisory Board of Accumulatoren-werke Hoppecke GmbH, a member of the Advisory Boards of Contilia GmbH and Dana Gas and a member of the Board of Trustees of RAG Stiftung.

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. MICHAEL BORRELL**

- Member of NOVATEK's Board of Directors and Member of its Strategy Committee
- Born in 1962

Mr. Borrell graduated from the University of Cambridge with a degree in Chemical and Mechanical Engineering (Master of Science – 1993, Bachelor – 1984). He joined TOTAL in 1985. Mr. Borrell worked with the affiliated companies of the concern; from 1995 he held a number of senior management positions in TOTAL. From 2003, he worked at the position of Vice-President for Corporate Planning and Business Development in Total E&P Indonesia. In July 2006, he was appointed President and CEO of TOTAL E&P Canada in Calgary. From September 2009 to June 2010, he was Vice President of the Caspian Area and Central Asia for TOTAL Exploration and Production. From July 2010, he worked as First Vice President of Continental Europe and Central Asia. Since 1 January 2015, he has been appointed Senior Vice-President of Europe and Central Asia.

#### **MR. ROBERT CASTAIGNE**

- Independent member of NOVATEK's Board of Directors
- Member of the Remuneration and Nomination Committee of NOVATEK's Board of Directors
- Member of the Audit Committee of NOVATEK's Board of Directors
- Born in 1946

Mr Castaigne graduated from the Ecole Centrale de Lille in 1968 and the Ecole nationale supérieure du pétrole et des moteurs, he holds a doctorate in economics. He has spent his whole career at TOTAL SA, first as an engineer, then in various positions. From 1994 to 2008, he was Member of the Executive Committee, Executive Vice-President and Chief Financial Officer of TOTAL SA. He is Member of SANOFI's Board of Directors and Chairman of its Audit Committee, Member of VINCI's Board of Directors and its Audit and Remuneration Committees, Member of Societe Generale's Board of Directors and its Risk, Audit and Internal Control Committees. He is Chevalier of the National Order of the Legion of Honour.

#### **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 and the Chairman of the Board of Directors of AO 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 PAO 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**

- Independent member of NOVATEK's Board of Directors
- Chairman of NOVATEK's Remuneration and Nomination 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. From 1998 to present - President of "Russian Geological Society" public organization. Author and co-author of over 300 scientific publications.

Professor, Doctor of Economics (1991), Candidate of geological-mineralogical sciences (1974), 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 (2001), the Order of Honor (2015), 18 non-governmental awards, including 3 appreciation letters of the President of the Russian Federation, 2 Certificates of Merit of the Government of the Russian Federation.

#### **MR. ANDREI V. SHARONOV**

- Independent 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.

From 2011 to 2015 at various times he was a member of ALROSA's Supervisory Board (PAO); member of the Board of Directors of OAO Bank of Moscow and of "National Research University "Higher School of Economics".

He is currently a member of the Board of Directors of PAO Sovcomflot; 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 PAO Management

Company Eko-sistema; a member of the Board of Directors of AO Rosgeologia, a member of the Supervisory Board of the Bank VTB (PAO).

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.

#### **MR. GENNADY N. TIMCHENKO**

- Member of NOVATEK's Board of Directors
- Member 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 Kirishineftekhimexport, the export and trading arm of the Kirishi refinery. 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, and Airfix Aviation OY. Since 2009, he is a member of the Board of Directors of PAO NOVATEK. He is a member of the Board of Directors of PAO 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).

## 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 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 Minister 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. VIKTOR N. BELYAKOV

- Deputy Chairman of the Management Board for Economics and Finance
- Born in 1973

Mr. Belyakov graduated from Tver State Technical University majoring in Automated Data Processing and Management Systems (1995) and in Information Systems in Economics (1997). In 2000, he completed an MBA degree program with Kingstone University (UK). A holder of CMA (Certified Management Accountant).

From 2004 till 2014 Mr. Belyakov worked for PAO Uralkali, where he successively held

the positions of Head of Division, Deputy Chief Financial Officer, Chief Financial Officer, Vice President for Finance, Deputy General Director, Executive Director. In 2015 he was appointed Vice President for Economics and Finance of PAO Far East Shipping Company (FESCO group). In February 2016, Viktor Belyakov joined PAO NOVATEK in the position of Deputy Chairman of the Management Board for Economics and Finance.

### 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 (inactive status), a member of the American Institute of Certified Public Accountants and an associate member of the Society of Petroleum Engineers. He is a recognized expert in the oil and gas industry, a frequent speaker at various industry and investor conferences, has published numerous articles on various oil and gas industry topics and was a former member of PwC's Petroleum Thought Leadership team. He has been recognized by Investor Relations Magazine as one of the best CFO's in Russia and the CIS,



and more recently by Institutional Investor magazine as one of the Top Five CFO's in Europe's Oil and Gas sector. Finance Monthly magazine recently named Mark Gyetvay the Best CFO in Russia for the years 2015 and 2016.

From 2003 to 2014, Mr. Gyetvay was a member of NOVATEK's Board of Directors and served on the Investment and Strategy Committee. In 2003-2014, he has been Chief Financial Officer and, in August 2007, Mr. Gyetvay was elected to NOVATEK's Management Board. In July 2010, he became Deputy Chairman of NOVATEK's Management Board.

**MR. OLEG V. KARPUSHIN**

- Deputy Chairman of the Management Board - Operations Director
- Born in 1968

In 1993, graduated from Moscow University of Oil and Gas named after I.M. Gubkin with distinction majoring in Oil and Gas Fields Exploration and Development. In 2013, received an MBA degree from the Duke University (USA).

In 1993, he started his career as a Field Engineer with Schlumberger, worked as well cementing technical instructor in the Kellyville Training Centre (USA), HSE Manager and Fracturing Field Service Manager in the Western Siberia, Business Development Manager in Central Asia, GeoMarket Operations Manager for Russia and Belarus for fracturing, cementing and coiled tubing services. In 2004, he joined Shell Corporation and commenced working in its joint venture Sakhalin Energy Investment Company Ltd. where he worked as Astokh field Operations Manager and then as Offshore Asset Manager responsible for offshore oil and gas production. In 2010, he moved to the position of Asset Manager for Shell Petroleum Development Company of Nigeria Ltd responsible for oil and gas production in its western division. In 2013, he became Chief Executive Officer at Salym Petroleum Development N.V.

In September 2015, he joined PAO NOVATEK in the position of Deputy Chairman of the Management Board — Director for Operations.

**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 Purneftegasgeologiya. In 1998, she was appointed Deputy General Director of OAO Nordpipes. Since 2002, she has been Director of the Legal Department for NOVATEK. Since 2005, she has been the Deputy Chairman of NOVATEK's Management Board - Director of NOVATEK's Legal Department and in August 2007, she became a member of NOVATEK's Management Board. Ms. Kuznetsova has the title "Honored employee of PAO NOVATEK", and is awarded the Order of Merit for the Fatherland 2 degree.

**MR. IGOR A. PLESOVSKIKH**

- Deputy Chairman of the Management Board - Director for Geology
- Born in 1970

In 1993, Mr. Plesovskikh graduated from Tyumen Industrial Institute specialising in Oil and Gas Geology.

He has over 20 years of experience in the oil and gas industry. He started his career as Assistant Driller at Noyabrskneftegaz, subsequently holding the positions of General Director at Urengoyneftegazgeologia, General Director at YARGEO, Deputy General Director — Chief Geologist at NOVATEK-TARKOSALENEFTEGAZ, Deputy General Manager of the Federal Agency for Subsoil Use Rosnedra and Deputy General Director — Chief Geologist at ITERA Oil & Gas Company.

In December 2015, he joined PAO NOVATEK in the capacity of Deputy Chairman of the Management Board – Director for Geology.

Igor Plesovskikh has been awarded the Certificate of Merit of the Ministry of Natural Resources and Environment of the Russian Federation.

**MR. ILYA V. TAFINTSEV**

- Member of the Management Board - Director for Strategic Projects
- Born in 1985

In 2006 Mr. Tafintsev obtained a BA in Economics from the Higher School of Economics in Moscow. In 2007 graduated from University of London, where he majored in Investment and Finance. From 2007 to 2011 Mr. Tafintsev held the position of Deputy Head of PAO NOVATEK's Representative Office in London. In 2011-2014, he was a Finance & Investment Advisor with United Bureau of Consultants Limited.

Since 2013 he has served as a Strategic Projects Director of PAO NOVATEK, a member of the Board of Directors at SIBUR Holding. From 2014 to 2016 he was Chairman of the Board of Directors of OAO Yamal LNG. In December 2015, Mr. Tafintsev was appointed Member of the Management Board — Director for Strategic Projects of PAO NOVATEK.

**MR. LEV V. FEODOSYEV**

- Deputy Chairman of NOVATEK's Management Board – Commercial Director
- Born in 1979

In 2002, Mr. Feodosyev graduated from the Bauman Moscow State Technical University with a degree in Machinery and Foundry Engineering Technologies. In 2002, Mr. Feodosyev was appointed lead specialist at the Ministry of Energy of the Russian Federation. From 2003, he has served as lead specialist, senior specialist, adviser, deputy head of section, Deputy Director of Department at the Ministry of Economic Development and Trade of the Russian Federation. From October 2007, Mr. Feodosyev worked in NOVATEK as Director of the Strategic Planning and Development Department. From 2011, he was appointed as Deputy Commercial Director, Director of the Marketing and Gas Sales Department of NOVATEK. Since February 2015, he has been appointed Commercial Director, Deputy Chairman of the Management Board of NOVATEK.

In 2014, Mr. Feodosyev was awarded NOVATEK's Honorary Certificate.

**MR. ALEXANDER M. FRIDMAN**

- First 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 Technical Director, First Deputy General Director of a joint venture established by PAO 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 PAO NOVATEK. In August 2007, he was appointed a member of NOVATEK's Management Board. From February 2015 First Deputy Chairman of the Management Board of PAO NOVATEK. Mr. Fridman is the recipient of the title of honor "Honored man of the oil and gas industry".

**MR. DENIS G. KHRAMOV**

- Deputy Chairman of the Management Board
- Born in 1975

Graduated in 1997 from the Urals State Law Academy with a degree in Law. In 1999 completed a master's course in Private Law with the Russian School of Private Law. In 2004, he obtained his candidate degree in Law.

From 1995 he was an in-house counsel at Transneftgaz CJSC. In 1997, he joined the Legal Center for Northern Territories as a lawyer and was subsequently appointed Chief Specialist and Deputy Head of Department with the Russian Ministry of Fuel and Energy in 1999.

In 2001, he was appointed Deputy Head of Department and Head of Department with the Russian Ministry of Economic Development and Trade.

In 2002, he joined Zarubezhneft JSC as Deputy Head of Division with the responsibility of supervising subsoil use, economic and financial affairs. In 2007 he became Senior Lawyer at LeBoeuf, Lamb, Greene & MacRae LLP.

From 2008 he held a number of positions with the Ministry of Natural Resources and Environment of the Russian Federation, including Chief Officer for State Policy and Regulation in Geology and Subsoil Use and Deputy Minister of Natural Resources and Environment of the Russian Federation, and was appointed First Deputy Minister of Natural Resources and Environment of the Russian Federation in 2014. During his service with the Russian Ministry of Natural Resources and Environment, he was in charge of economic and financial affairs, geology and subsoil use.

His outstanding service was recognized with awards at different levels.

In December 2015, he was appointed Deputy Chairman of the Management Board at PAO NOVATEK.

**MR. KIRILL N. YANOVSKIY**

- Member of NOVATEK's Management Board
- Director for Finance
- 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 Neftekhim 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, since February 2015 he is Director for Finance of PAO NOVATEK.

## REPORT ON MAJOR, AND INTERESTED-PARTY TRANSACTIONS THAT THE COMPANY DID IN THE REPORTING YEAR

### I. Transaction type: a major interested-party transaction.

Type and subject matter of the transaction: Debt Service Undertaking and interrelated transactions – Guarantee Agreement, Subordination Deed and Transfer Restrictions Agreement.

Subject matter of the transaction, including civil rights and obligations, which the transaction was intended to establish, modify or terminate:

#### Debt Service Undertaking (the "Debt Service Undertaking") between:

- (1) OAO NOVATEK, Total S.A., and China National Oil & Gas Exploration and Development Corporation ("CNODC") as sponsors (the "Sponsors");
- (2) OAO Yamal LNG as borrower (hereinafter the "Borrower");
- (3) Lenders' agents, including the Intercreditor Agent ("the Intercreditor Agent"), the Offshore Security Agent, the Joint and Several Creditor, the Credit Agents of CDB and CEXIM (if applicable), in which capacities one of the Lenders may act, and other persons nominated by the Lenders as well as, if applicable, Gazprombank and the Gazprombank and Sberbank Facility Agent and the EXIAR Facility Agent (hereinafter collectively referred to as the "Agents");
- (4) Other persons that may become party to it according to the Debt Service Undertaking, on the following material terms and conditions related to NOVATEK's obligations:
  - (a) If the Borrower fails to pay any amount payable to the Lenders under the Secured Obligations (as defined below), OAO NOVATEK undertakes to pay the Lenders represented by the Intercreditor Agent such a part of the Borrower's debt under the Secured Obligations (as defined below), the

maximum size of which in percentage shall correspond to the aggregate interest of OAO NOVATEK and Yarm Limited (and their subsidiaries) in OAO Yamal LNG share capital as of the Debt Service Undertaking signing date (unless this part has been increased on the initiative of OAO NOVATEK and with the Intercreditor Agent consent) on the terms and conditions stipulated by the Debt Service Undertaking;

- (b) In any OAO NOVATEK default event listed in the Debt Service Undertaking, OAO NOVATEK undertakes to pay the Lenders represented by the Intercreditor Agent such a part of the Borrower's debt under the Secured Obligations the maximum size of which in percentage shall correspond to the aggregate interest of OAO NOVATEK and Yarm Limited (and their subsidiaries) in OAO Yamal LNG share capital as of the Debt Service Undertaking signing date (unless this part has been increased on the initiative of OAO NOVATEK and with the Intercreditor Agent consent), regardless of whether the performance of Secured Obligations by the Borrowers is due or not, on the terms and conditions stipulated by the Debt Service Undertaking
- (c) If taxes need to be withheld from the amounts payable to the Lenders and (or) the Agents and (or) another person in line with the Debt Service Undertaking, the amount of OAO NOVATEK payment shall be increased so that the Lenders receive the full amount due under the Debt Service Undertaking on the terms and conditions stipulated by the Debt Service Undertaking;
- (d) OAO NOVATEK shall compensate the Lenders and (or) the Agents for their expenses connected with making claims to OAO NOVATEK or maintaining the rights related to OAO NOVATEK obligations under the Debt Service Undertaking on the terms and conditions stipulated by the Debt Service Undertaking;
- (e) OAO NOVATEK's obligations to pay the Lenders and (or) Agents and (or) other persons in line with the Debt Service Undertaking any amounts under the Debt Service Undertaking terminate when the conditions provided for by the Debt Service Undertaking occur;
- (f) the Debt Service Undertaking secures the Borrower's obligations under the International Financing (the "Secured Obligations") that arise, among others, under the following documents:

- (l) Common Terms Agreement (the "Common Terms Agreement") entered into on the following material terms and conditions:
- (a) Parties: (1) Borrower as the borrower; (2) Yamal Trade Pte. Ltd. (the "Yamal Trade") and OOO Sabetta International Airport (the "Airport") as Permitted Subsidiaries and Guarantors of the Borrower's obligations, (3) the Lenders; (4) the Agents; (5) other persons specified in the Common Terms Agreement as well as persons that may become party thereto according to the Common Terms Agreement.
- (b) The Common Terms Agreement provides for the key terms and conditions of International Financing, including the provisions that stipulate the parties' key obligations, default events, warranties and representations and others. At the same time, specific financing conditions, including the amount of financing, maximum tenor, repayment of loans extended under the financing arrangements, payment of interest, interest rates, the amount and procedure for payment of fees and other commissions, reimbursable expenses and other amounts payable by the Borrower (and, if applicable, its subsidiaries) shall be determined in accordance with the terms of the agreements and other documents listed in clauses (II) to (IX) below.
- (II) CDB Term Loan Facilities Agreement (the "CDB Facility Agreement") and CEXIM Term Loan Facilities Agreement (the "CEXIM Facility Agreement") executed on 29 April 2016, hereinafter referred to as the "Chinese Banks Facility Agreements" (as these may be amended, modified and restated) on the following material terms and conditions:
- (a) Parties: (1) Borrower as the borrower; (2) Yamal Trade and Airport as the Permitted Subsidiaries and Guarantors of the Borrower's obligations; (3) CDB as the Senior Lender under the CDB Facility Agreement; (4) CEXIM as the Senior Lender under the CEXIM Facility Agreement; and (5) other persons that may become party to the Chinese Banks Facility Agreement, including Agents or any of them.
- (b) Amount of the facilities:
- under the CDB Facility Agreement: not more than Five billion fifty-seven million eight hundred thousand (5,057,800,000) euro and not more than Five billion two hundred eighty-six million (5,286,000,000) RMB;
  - under the CEXIM Facility Agreement: not more than Four billion two hundred seventy-nine million seven hundred thousand (4,279,700,000) euro and not more than Four billion four hundred seventy-two million five hundred thousand (4,472,500,000) RMB.
- (c) Maximum loan term: Until 15 June 2031.
- (d) Facility repayment: (1) euro facility - in semi-annual installments starting on 15 December 2019, (2) RMB facility - in semi-annual installments starting on 15 December 2019. Options of mandatory and voluntary prepayment are provided for.
- (e) Interest payment: In semi-annual installments with the last interest payment to be made on the final repayment date.
- (f) Interest rate:
- (1) Under the euro facilities: Interest rate on each of the euro facilities under the Chinese Banks Facility Agreements is equal to the aggregate of:
- (i) A EURIBOR margin; and
  - (ii) EURIBOR (to be determined in line with the Chinese Banks Facility Agreement).
- The EURIBOR margin equals:
- (i) in relation to any part or any Interest Period before the Debt Service Undertaking Release Date – 3.30% per annum; and
  - (ii) in relation to any part or any Interest Period as of the Debt Service Undertaking Release Date and after such date – 3.55% per annum.
- (2) Under the RMB facilities: Interest rate on each of the RMB facilities under the Chinese Banks Facility Agreements is equal to the aggregate of:
- (i) A SHIBOR margin; and
  - (ii) SHIBOR (to be determined in line with the Chinese Banks Facility Agreement).
- A SHIBOR margin equals:
- (i) in relation to any part or any Interest Period before the Debt Service Undertaking Release Date – 3.30% per annum; and
  - (ii) in relation to any part or any Interest Period as of the Debt Service Undertaking Release Date and after such date – 3.55% per annum.
- (g) Default interest payable by the Borrower under the Chinese Banks Facility Agreements in case of overdue debt and incurred on the overdue amount: not more than 1.5% per annum over the facilities' interest rate;
- (h) Upfront fee (or similar fee): equals 2% of the loans provided in euro and 2% of the loans provided in RMB and is payable according to the CDB Upfront Fee Letter and the CEXIM Upfront Fee Letter.
- (i) The Commitment Fee (or a similar fee) under the Chinese Banks Facility Agreements

- payable semi-annually on 15 June and 15 December after 15 December 2016 during the Funds Availability Period under the Chinese Banks Facility Agreements and on the last day of the Funds Availability Period under the Chinese Banks Facility Agreements (the first accrued payment for utilizing the limit under the Chinese Banks Facility Agreements shall be paid on 15 December 2016); in the amount of 1.5% per annum of the total amount of non-utilized funds in euro under the Chinese Banks Facility Agreements and 1.5% per annum of the total amount of non-utilized facility funds in RMB under the Chinese Banks Facility Agreements.
- (j) Expenses: expenses incurred by the Parties in connection with entering into the Chinese Banks Facility Agreements and/or any other agreement to be entered into in connection with the Chinese Banks Facility Agreements or otherwise in respect thereof shall be reimbursed by the Borrower.
- (k) Other amounts: Other amounts, including the prepayment fee, shall be payable by the Borrowers and other persons in the events and on the terms and conditions provided for by the Chinese Banks Facility Agreements and other financing documents related thereto.
- (III) Facility Agreement executed on 11 April 2016 (as amended by the Amendment dated 29 April 2016) between, among others, Sberbank and Gazprombank as lenders and the Borrower, the material terms and conditions of which were approved by NOVATEK Annual General Meeting of Shareholders dated 22 April 2016 in Minutes No. 124 ("Minutes No. 124"), as further amended and modified and restated as of 24 June 2016 in connection with the International Financing (the "Russian Banks Facility Agreement") on the following material terms and conditions:
- (a) Parties: (1) Borrower; (2) Yamal Trade and Airport as the Permitted Subsidiaries and Guarantors of the Borrower's obligations; (3) Sberbank and Gazprombank as lenders and arrangers; (4) Gazprombank as the facility agent and EXIAR facility agent; (5) the Agents or any one of them; (6) other persons specified in the Russian Banks Facility Agreement as well as other persons that may become party thereto according to the Russian Banks Facility Agreement.
- (b) Loan amount: Not more than Three billion six hundred million (3,600,000,000) euro.
- (c) Maximum loan term: Not more than 16 years from the date when the conditions precedent for the first drawdown are fulfilled.
- (d) Loan repayment: In semi-annual installments starting on December 15, 2019. Options of mandatory and voluntary prepayment are provided for.
- (e) Interest payment: In semi-annual installments with the last interest payment to be made on the final repayment date.
- (f) Interest rate: EURIBOR 6M (indicative interest rate for six-month loans) provided that if EURIBOR rate is negative it shall be deemed to be zero, plus a margin of not more than 4,7 percent per annum.
- (g) Default interest payable by the Borrower in case of overdue debt and incurred on the overdue amount: Not more than 1.5% per annum over the loan interest rate.
- (h) Credit account upfront and maintenance fee (or similar fee): Not more than 1.5% of the total loan amount.
- (i) Commitment fee payable on interest payment dates: Not more than 1% per annum of the total amount of non-utilized facility funds.
- (j) Expenses: Expenses incurred by the financing parties shall be reimbursed by the Borrower.
- (k) Other amounts: Other amounts, including the prepayment fee, shall be payable by the Borrower and other persons in the events and on the terms and conditions provided for by the Russian Banks Facility Agreement and other financing documents related thereto.
- (IV) Commission and fee letter and agreements entered into by the Borrower and the Agents in connection with the International Financing, including (but not limited to) the Intercreditor Agent Fee Letter, the Offshore Security Agent Fee Letter, the Joint and Several Creditor Fee Letter, the CDB and CEXIM Facility Agents Fee Letter, the Gazprombank as Gazprombank and Sberbank Agent Fee Letter, the EXIAR Facility Agent Fee Letter, and other letters and agreements on fees to any other Agent, account bank and (or) other fees payable under the Common Terms Agreement and other documents under the International Financing.
- (V) Accounts Agreement (the "Accounts Agreement") entered into or, if applicable, restated on the following main terms and conditions:

- (a) Borrower as the borrower, Airport and Yamal Trade as the Permitted Subsidiaries and Guarantors of the Borrower's obligations, Lenders as the lenders, account banks, Agents and/or in other capacities provided for by the Accounts Agreement as well as other persons specified in the Accounts Agreement and persons that may become party thereto according to the Accounts Agreement; and
  - (b) The Borrower, the Airport and Yamal Trade shall open and maintain specific bank accounts in the account banks that will be specified in the Accounts Agreement and use them in accordance with the terms and priority of payments set out in the Accounts Agreement.
- (VI) Any facility agreement that is to be entered into in the future within the International Financing (the "Future Facility Agreement") on the following materials terms and conditions:
- (a) Parties (in respect of each party – if applicable in line with each Future Facility Agreement): (1) Borrower; (2) Yamal Trade; (3) Airport; (4) banks and (or) other financial institutions; and (4) other persons that may become party to each Future Facility Agreement, including the Agents or anyone of them – each in the capacity(-ies) provided for by each Future Facility Agreement.
  - (b) Loan amount: to be determined in line with each Future Facility Agreement but not more than an equivalent to Six hundred million (600,000,000) U.S. dollars. At the same time, the total amount of financing available under the CDB Facility Agreement, CEXIM Facility Agreement, Russian Banks Facility Agreement, and Future Facility Agreements will not exceed a 19 billion USD equivalent.
  - (c) The maximum term will be stipulated by each Future Facility Agreement but in any case will not exceed 15 years after the first drawdown date under each of the Future Facility Agreements.
  - (d) The loan repayment and interest payment procedure will be stipulated by each Future Facility Agreement.
  - (e) The interest rate (including, if applicable, the possibility of changing it) will be stipulated by each Future Facility Agreement but in case will exceed EURIBOR 6M (the indicative interest rate for 6 month euro loans) plus not more than 3.55%.
  - (f) Default interest payable by the Borrower in case of overdue debt and incurred on the overdue amount: shall be determined in accordance with terms and conditions of each Future Facility Agreement but in any case it will not exceed 1.5% per annum over the loan interest rate.
  - (g) The amount and procedure for payment of fees and other commissions shall be determined in accordance with the terms of each Future Facility Agreement and/or fee letter (or other similar agreements) to be entered into by virtue of and/or under each Future Facility Agreement.
  - (h) Expenses: expenses incurred by the Parties in connection with entering into each Future Facility Agreement and/or any other agreement to be entered into in relation to each Future Facility Agreement or otherwise in respect thereof, including lenders' expenses for ECAs premium payment, shall be reimbursed by the Borrower and/or by another entity specified in such an agreement.
  - (i) Other amounts: other amounts, including any commissions, the prepayment fee (if applicable), shall be payable by the Borrower and other persons in the events and on the terms and conditions provided for by each Future Facility Agreement and other financing documents related thereto.
- (VII) Any Secured Hedging Agreement entered into between the Borrower and/or Yamal Trade, including for the purposes of interest rate-related risks, currency risks and risks associated with changes in the goods cost, and as it is further detailed in the Common Terms Agreement (the "Secured Hedging Agreement").
- (VIII) Any Additional Term Loan Facility Agreement, Project Bond Documents and other Additional Debt Finance Documents to be entered into by the Borrower or the Project Bonds Issuer in order to raise Additional Debt covered under the Debt Service Undertaking as established by and in accordance with the terms set out in the Common Terms Agreement.
- (IX) Other agreements and documents entered into (signed) based on the contracts (agreements) specified in this item 1 in connection or in accordance therewith.
- Guarantee Agreement between:**
- (1) Bank for Development and Foreign Economic Affairs, a State Corporation (Vnesheconombank) (the "Guarantor") and
  - (2) OAO NOVATEK (the "Principal") (hereinafter referred to as the "Guarantee Agreement") in respect of the Principal's obligations under the

Debt Service Undertaking on the following material terms and conditions:

- in respect of the guarantee:
  - (i) Guarantee amount: a USD 3 billion equivalent;
  - (ii) Term of the Guarantee: Until 15 December 2025 with an automatic renewal in case NOVATEK obligations under the Debt Service Undertaking are renewed; and
  - (iii) Guarantee fee: 0.75 % per annum of the Guarantee amount, but not less than USD 1,000 from the Guarantee effective date. The rate may be increased by 0.5% in the event the Principal fails to perform its obligations to agree the following amendments with the Guarantor:
    - (a) the definition of fundamental event of default and Sponsor's event of default;
    - (b) amendments envisaging the increase of the Principal's share under the Debt Service Undertaking above 59.973% and/or the overall amount of International Financing exceeding the equivalent of 20 billion USD, if such amendments increase the Guarantor's liability and significantly increase the probability of initiating claims under the guarantee;
  - (iv) penalty in the event the Principal fails to perform its payment obligations – in the amount specified by the Guarantee Agreement.
- in relation to recourse under the Guarantee:
  - (i) in the event it is impossible for the Guarantor to have recourse to the Principal, such recourse shall be novated as the Principal's commitment to the Guarantor;
  - (ii) Loan amount: the Guarantor's debt amount resulting from the performance of the Guarantor's obligations under the guarantee calculated under the formula specified by the Guarantee Agreement;
  - (iii) Loan currency: Euro;
  - (iv) Loan interest: cost of Vnesheconombank long-term unsecured financial borrowing in euro determined in line with the Guarantee Agreement increased by 0.75% per annum;
  - (v) Term of the loan: not more than 10 years.
  - (vi) Interest payment: on a quarterly basis, with a possible partial capitalization in line with the Guarantee Agreement;
  - (vii) Loan repayment: The loan is to be repaid with a lump sum on the earlier of the following dates: (1) 10 years after the Guarantor makes a payment under the guarantee, and (2) on the date when the Principal's obligations under the Debt Service Undertaking terminate;

(viii) penalty in the event the Principal fails to perform its payment obligations – in the amount specified by the Guarantee Agreement.

Term for the discharge of obligations under the transaction:

Debt Service Undertaking; approximately 7 years.

Guarantee Agreement: 10 years after the Guarantor makes a payment under the guarantee, should there be such a payment.

The size of the transaction is comprised of the amount of Secured Obligations and exceeds 50% of NOVATEK assets value as of 31 March 2016.

Value of the issuer's assets as of the last day of the last full reporting period preceding the transaction (agreement execution): RUR 568,315,453,000 as of 31 March 2016.

Transaction date (date of the Agreement): 24 June 2016.

Last name, first name, and patronymic (if any) of the individual who is deemed interested in the issuer making the transaction according to the Russian Federation legislation; the reason (reasons) why the individual is deemed interested in the transaction; the interested individual's share in the authorized share (joint-stock) capital (the portion of shares held by the interested individual) of the issuer and the legal entity that is party to the transaction:

The transactions are interested-party transactions as Andrei I. Akimov, member of NOVATEK Board of Directors is also Chairman of the Management Board and member of the Board of Directors of Gazprombank (Joint-Stock Company) that is party to and (or) beneficiary under the Agreements To Be Approved. Andrei I. Akimov holds no shares in the issuer of entities that are party to the transaction.

Information on the transaction approval: NOVATEK Extraordinary General Meeting of Shareholders approved the transaction on 20 June 2016 (Minutes No. 125 dated 20 June 2016).

#### **Subordination Deed (the "Subordination Deed") between:**

- (a) (1) Borrower, (2) Airport and Yamal Trade, (3) Sponsors; (4) OAO NOVATEK, Total E&P Yamal, CNODC and Yaym Limited as shareholders (the "Shareholders"); (5) Polyshine Holding B.V., Total E&P Yamal, Novatek Equity (Cyprus) Limited, and (or) other persons that have extended subordinated loans to OAO Yamal LNG as subordinated lenders (the "Subordinated Lenders"), (6) the Agents; and (7) other persons stipulated in the Subordination Deed, as well as persons that may become party thereto under the Subordination Deed.

- (b) OAO NOVATEK's claims to the Borrower, the Airport, Yamal Trade and other OAO Yamal LNG subsidiaries (the "Project Obligors") shall be subordinated vis-a-vis the claims of the Lenders on the terms and conditions set out in the Subordination Deed.
- (c) The Project Obligors are entitled to make payments in relation to the subordinated loans and other subordinated debt only in the events and in the form and manner set out in the Subordination Agreement; should the Project Obligors be in breach of these obligations, OAO NOVATEK undertakes to pay the Intercreditor Agent, at the latter's demand, the respective amount (which may not exceed the amount of Secured Obligations) it received from the Project Obligors.
- (d) In the event of enforcement by Lenders of shares or equity interest in Project Obligors, such Project Obligors shall be released from a number of obligations in respect of OAO NOVATEK set out in the Subordination Deed.
- (e) OAO NOVATEK shall also assume other obligations in line with the terms and conditions of the Subordination Deed.
- (f) Term: OAO NOVATEK obligations shall remain in force as long as the Secured Obligations remain outstanding and/or there are Lenders' obligations to provide loan moneys to the Borrower.

Transaction date (date of the Deed): 24 June 2016.

Last name, first name, and patronymic (if any) of the individual who is deemed interested in the issuer making the transaction according to the Russian Federation legislation; the reason (reasons) why the individual is deemed interested in the transaction; the interested individual's share in the authorized share (joint-stock) capital (the portion of shares held by the interested individual) of the issuer and the legal entity that is party to the transaction:

These transactions are considered to be interested-party transactions as Andrei I. Akimov, member of NOVATEK Board of Directors is also Chairman of the Management Board and member of the Board of Directors of Gazprombank (Joint-Stock Company) that is party to and (or) beneficiary under the Agreements To Be Approved. Andrei I. Akimov holds no shares in the issuer of entities that are party to the transaction.

Information on the transaction approval: NOVATEK Extraordinary General Meeting of Shareholders approved the transaction on 20 June 2016 (Minutes No. 125 dated 20 June 2016).

**Transfer Restrictions Agreement (the "Transfer Restrictions Agreement") between:**

(1) Borrower; (2) Agents; (3) China National Petroleum Corporation; (4) PetroChina Company Limited; (5) Sponsor; (6) Shareholders (except for Yaym Limited),

on the following material terms and conditions related to OAO NOVATEK's obligations:

- (a) OAO NOVATEK undertakes to directly or indirectly hold at least 50% plus one share of OAO Yamal LNG;
- (b) Restrictions are put in place in respect of the transfer of, and creation of security in relation to, the OAO Yamal LNG shares held by OAO NOVATEK as well as a procedure is established for application of funds received by OAO NOVATEK as compensation from the Russian Federation or a Russian Federation government body in relation to nationalization, confiscation, expropriation or compulsory acquisition of the shares of OAO Yamal LNG (if applicable);
- (c) OAO NOVATEK shall also assume other obligations in accordance with the terms and conditions of the Transfer Restrictions Agreement;
- (d) Term: OAO NOVATEK obligations shall remain in force as long as the Secured Obligations remain outstanding and/or there are Lenders' obligations to provide loan moneys to the Borrower.

Transaction date (date of the Deed): 24 June 2016.

Last name, first name, and patronymic (if any) of the individual who is deemed interested in the issuer making the transaction according to the Russian Federation legislation; the reason (reasons) why the individual is deemed interested in the transaction; the interested individual's share in the authorized share (joint-stock) capital (the portion of shares held by the interested individual) of the issuer and the legal entity that is party to the transaction:

These transactions are considered to be interested-party transactions as Andrei I. Akimov, member of NOVATEK Board of Directors is also Chairman of the Management Board and member of the Board of Directors of Gazprombank (Joint-Stock Company) that is party to and (or) beneficiary under the Agreements To Be Approved. Andrei I. Akimov holds no shares in the issuer of entities that are party to the transaction.

Information on the transaction approval: NOVATEK Extraordinary General Meeting of Shareholders approved the transaction on 20 June 2016 (Minutes No. 125 dated 20 June 2016).



## II. Transaction type: an interested-party transaction.

Type and subject matter of the transaction: suretyship.

Subject matter of the transaction, including civil rights and obligations, which the transaction was intended to establish, modify or terminate:

Suretyship towards the Guarantor for the Principal's obligations arising from bank guarantees provided by the Guarantor on behalf of the Principal.

Fee rates for issuing, increasing and renewing the Guarantees shall not exceed 1.5% per annum from the amount of each Guarantee, but shall not be less than USD 100.

Guarantee limit: Forty billion (40,000,000,000) Russian rubles.

Term of the suretyship: Until 31 August 2021.

Term for the discharge of obligations under the transaction: Until 31 August 2021.

Parties:

Surety: OAO NOVATEK; Guarantor: VTB Bank (PAO); Principal: NOVATEK – Ust-Luga

The size of the transaction is comprised of the amount of the Principal's obligations arising from bank guarantees provided by the Guarantor on behalf of the Principal and exceeds 1% of NOVATEK assets value as of 30 June 2016.

Value of the issuer's assets as of the last day of the last full reporting period preceding the transaction (agreement execution): 573,092,345,000 Russian rubles as of 30 June 2016.

Transaction date (date of the Agreement): 5 August 2016

Last name, first name, and patronymic (if any) of the individual who is deemed interested in the issuer making the transaction according to the Russian Federation legislation; the reason (reasons) why the individual is deemed

interested in the transaction; the interested individual's share in the authorized share (joint-stock) capital (the portion of shares held by the interested individual) of the issuer and the legal entity that is party to the transaction:

These transactions are considered to be interested-party transactions as Andrei V. Sharonov, member of NOVATEK Board of Directors is a member of the Supervisory Board of VTB Bank (PAO), a party to the transaction. Mr. Andrei V. Sharonov owns no equity interests in the authorized share capital or shares in the issuer and persons that are a party to the transaction.

Information on the transaction approval: NOVATEK Annual General Meeting of Shareholders approved the transaction on 22 April 2016 (Minutes No. 124 dated 22 April 2016)

Corporate Governance Code Compliance Report

This Corporate Governance Code Compliance Report was reviewed at the meeting of PAO NOVATEK's Board of Directors on 14 March 2017 (Minutes No. 195).

The Board of Directors certifies that data in this Report contain full and reliable information on compliance by the Company with the principles and recommendations of the Corporate Governance Code for 2016.

When assessing our compliance with corporate governance principles as set out in the Code we were guided by the Guidelines for Reporting on Compliance with the Corporate Governance Code recommended by the Bank of Russia in its Letter No. IN-06-52/8 dated 17 February 2016.

An overview of the most relevant aspects of the corporate governance model and practices in the Company is presented in the Corporate Governance section of this Annual Report.

# CORPORATE GOVERNANCE CODE COMPLIANCE REPORT

This Corporate Governance Code Compliance Report was reviewed at the meeting of PAO NOVATEK's Board of Directors on 14 March 2017 (Minutes No. 195).

The Board of Directors certifies that data in this Report contain full and reliable information on compliance by the Company with the principles and recommendations of the Corporate Governance Code for 2016.

When assessing our compliance with

corporate governance principles as set out in the Code we were guided by the Guidelines for Reporting on Compliance with the Corporate Governance Code recommended by the Bank of Russia in its Letter No. IN-06-52/8 dated 17 February 2016.

An overview of the most relevant aspects of the corporate governance model and practices in the Company is presented in the Corporate Governance section of this Annual Report.

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>1.1.</b>	<b>THE COMPANY ENSURES FAIR AND EQUITABLE TREATMENT OF ALL SHAREHOLDERS IN EXERCISING THEIR CORPORATE GOVERNANCE RIGHT.</b>			
1.1.1	The company ensures the most favorable conditions for its shareholders to participate in the general meeting, develop an informed position on agenda items of the general meeting, coordinate their actions, and voice their opinions on items considered.	<ol style="list-style-type: none"> <li>The company's internal document approved by the general meeting of shareholders and governing the procedures for holding the general meeting is publicly available.</li> <li>The company provides accessible means of communication via hotline, e-mail or an online forum for shareholders to voice their opinions and submit questions on the agenda in preparing for the general meeting. The company performed the above actions in advance of each general meeting held in the reporting period.</li> </ol>	Full	In preparing for the General Meeting of shareholders the Company posts a dedicated e-mail address on its website for shareholders to submit their opinions and questions on the agenda. Historically, when preparing for General Meetings, shareholders have no or few questions on the agenda of a forthcoming General Meeting. Should the Company's shareholders need communication means other than those specified in the Code, the Company is prepared to provide such means as necessary.
1.1.2	The procedure for giving notice of, and providing relevant materials for, the general meeting enables shareholders to properly prepare for attending the general meeting.	<ol style="list-style-type: none"> <li>The notice of an upcoming general meeting of shareholders is posted (published) online at least 30 days prior to the date of the general meeting.</li> <li>The notice of an upcoming meeting specifies the meeting venue and documents required for admission.</li> <li>Shareholders were given access to the information on who proposed the agenda items and who proposed nominees to the company's board of directors and the revision commission.</li> </ol>	Full	–

1.1.3	In preparing for, and holding of, the general meeting, shareholders were able to receive clear and timely information on the meeting and related materials, put questions to the company's executive bodies and the board of directors, and to communicate with each other.	1. In the reporting period, shareholders were able to put questions to members of executive bodies and members of the board of directors before and during the annual general meeting.	Full	–
		2. The position of the board of directors (including dissenting opinions entered into the minutes) on each agenda item of general meetings held in the reporting period was included in the materials to the general meeting of shareholders.	Partial	When convening General Meetings of Shareholders, the Board of Directors reviews all agenda items of the relevant meeting and presents them to the Meeting for consideration or provides necessary advice. Materials to the General Meeting of Shareholders include recommendations of the Board of Directors as required by law. In other cases, the position of the Board of Directors is not included in the Meeting materials to avoid any influence on shareholders' voting.
		3. The company gave duly authorised shareholders access to the list of persons entitled to attend the general meeting, as from the date of its receipt by the company, for all general meetings held in the reporting period.	Full	–
1.1.4	There were no unjustified difficulties preventing shareholders from exercising their right to request that a general meeting be convened, to propose nominees to the company's governing bodies, and to make proposals for the agenda of the general meeting.	1. In the reporting period, shareholders were able to submit, within at least 60 days after the end of the relevant calendar year, proposals for the agenda of the annual general meeting. 2. In the reporting period, the company did not reject any proposals for the agenda or nominees to the company's governing bodies due to misprints or other insignificant flaws in the shareholder's proposal.	Partial	In the reporting period, shareholders were not able to submit, within at least 60 days after the end of the relevant calendar year, proposals for the agenda of the Annual General Meeting, since the Company's Charter valid until 12 October 2016 provided for such items to be submitted within 30 days after the end of the financial year. The Extraordinary General Meeting of the issuer's shareholders that was held on 30 September 2016 approved amendments to the issuer's Charter on extending the deadline for shareholders to submit proposals for the agenda of the Annual General Meeting to 60 days after the end of the relevant calendar year; these amendments were registered on 12 October 2016.
1.1.5	Each shareholder was able to freely exercise their voting right in the simplest and most convenient way.	1. An internal document (internal policy) of the company provides that each participant of the general meeting may request a copy of the ballot filled out by them and certified by the counting commission before the end of the relevant meeting.	Full	–

1.1.6	The procedure for holding a general meeting set by the company provides equal opportunities for all persons attending the meeting to voice their opinions and asks questions.	1. General meetings of shareholders held in the reporting period in the form of a meeting (i.e. joint presence of shareholders) provided for sufficient time for making reports on and for discussing agenda items.	Full	–
		2. Nominees to the Company's governing and control bodies were available to answer questions of shareholders at the meeting at which their nominations were put to vote.	Full	–
		3. When passing resolutions on preparing and holding general meetings of shareholders, the board of directors considered using telecommunication means for remote access of shareholders to general meetings in the reporting period.	None	When passing resolutions on preparing and holding general meetings of shareholders, the Board of Directors did not consider using telecommunication means for remote access of shareholders to general meetings in the reporting period, since the Company had no reasons to believe that many shareholders would be interested in this service. The non-compliance with this provision of the Code is temporary. The Company intends to achieve compliance with this Code provision in 2017. The Extraordinary General Meeting of Shareholders of the issuer held on 30 September 2016 added a provision to the issuer's Charter authorising the Board of Directors to adopt resolutions on using telecommunication means to enable remote access of shareholders to general meetings; these amendments were registered on 12 October 2016.

## 1.2 SHAREHOLDERS ARE GIVEN EQUAL AND FAIR OPPORTUNITIES TO SHARE PROFITS OF THE COMPANY IN THE FORM OF DIVIDENDS.

1.2.1	The company has designed and put in place a transparent and clear mechanism to determine the dividend amount and payout procedure.	1. The company has drafted and disclosed a dividend policy approved by the board of directors. 2. If the company's dividend policy uses reporting figures to determine the dividend amount, then relevant provisions of the dividend policy take into account the consolidated financial statements.	Full	–
1.2.2	The company does not resolve to pay out dividends if such payout, while formally compliant with law, is economically unjustified and may lead to a false representation of the company's performance.	1. The company's dividend policy clearly identifies financial / economic circumstances under which the company shall not pay out dividends.	Full	–

1.2.3	The company does not allow for dividend rights of its existing shareholders to be impaired.	1. In the reporting period, the company did not take any actions that would lead to the impairment of the dividend rights of its existing shareholders.	Full	–
1.2.4	The company makes every effort to prevent its shareholders from using other means to profit (gain) from the company other than dividends and liquidation value.	1. To prevent shareholders from using other means to profit (gain) from the company other than dividends and liquidation value, the company's internal documents provide for controls to timely identify and approve deals with affiliates (associates) of the company's substantial shareholders (persons entitled to use votes attached to voting shares) where the law does not formally recognize such deals as related-party transactions.	None	This principle is not complied with as the Company believes that statutory controls are sufficient for relevant purposes. The Company does not transact with persons under control by substantial shareholders, which prevents substantial shareholders from profiting (gaining) from the Company.
<b>1.3</b>	<b>THE CORPORATE GOVERNANCE FRAMEWORK AND PRACTICES ENSURE EQUAL CONDITIONS FOR ALL SHAREHOLDERS OWNING THE SAME TYPE (CLASS) OF SHARES, INCLUDING MINORITY AND NON-RESIDENT SHAREHOLDERS, AND THEIR EQUAL TREATMENT BY THE COMPANY.</b>			
1.3.1	The company has created conditions for fair treatment of each shareholder by the company's governing and control bodies, including conditions that rule out abuse by major shareholders against minority shareholders.	1. In the reporting period, procedures for management of potential conflicts of interest among substantial shareholders were efficient, while the board of directors paid due attention to conflicts, if any, between shareholders.	Full	–
1.3.2	The company does not take any actions that lead or may lead to artificial redistribution of corporate control.	1. No quasi-treasury shares were issued or used to vote in the reporting period.	Full	–
<b>1.4</b>	<b>SHAREHOLDERS ARE PROVIDED WITH RELIABLE AND EFFICIENT MEANS OF RECORDING THEIR RIGHTS TO SHARES AND ARE ABLE TO FREELY DISPOSE OF THEIR SHARES WITHOUT ANY HINDRANCE.</b>			
1.4	Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.	1. The company's registrar maintains the share register in an efficient and reliable way that meets the needs of the company and its shareholders.	Full	–
<b>2.1</b>	<b>THE BOARD OF DIRECTORS PROVIDES STRATEGIC MANAGEMENT OF THE COMPANY, DETERMINES KEY PRINCIPLES OF, AND APPROACHES TO, SETTING UP A CORPORATE RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK, MONITORS PERFORMANCE BY THE COMPANY'S EXECUTIVE BODIES, AND PERFORMS OTHER KEY FUNCTIONS.</b>			
2.1.1	The board of directors is responsible for appointing and dismissing executive bodies, including for improper performance of their duties. The board of directors also ensures that the company's executive bodies act in accordance with the company's approved development strategy and core lines of business.	1. The board of directors has the authority stipulated in the charter to appoint and remove members of executive bodies and to set out the terms and conditions of their contracts.	Partial	The authority of the Board of Directors under the Company's Charter does not include the right to set out the terms and condition of contracts with members of the Company's Management Board.
		2. The board of directors reviewed the report(s) by the sole executive body or members of the collective executive body on the implementation of the company's strategy.	Full	

2.1.2	The board of directors sets key long-term targets for the company, assesses and approves its key performance indicators and key business goals, as well as the strategy and business plans for the company's core lines of business.	1. At its meetings in the reporting period, the board of directors reviewed strategy implementation and updates, approval of the company's financial and business plan (budget), and criteria and performance (including interim) of the company's strategy and business plans.	Full	
2.1.3	The board of directors defines the company's principles and approaches to risk management and internal controls.	1. The board of directors defined the company's principles and approaches to risk management and internal controls. 2. The board of directors assessed the company's risk management and internal controls in the reporting period.	Full	
2.1.4	The board of directors determines the company's remuneration and reimbursement (compensation) policy for its directors, members of executive bodies and other key executives.	1. The company developed and put in place a remuneration and reimbursement (compensation) policy (policies), approved by the board of directors, for its directors, members of executive bodies and other key executives. 2. At its meetings in the reporting period, the board of directors discussed matters related to such policy (policies).	Partial	The Company did not put in place any remuneration and reimbursement (compensation) policy for the Company's directors, members of executive bodies and other key executives.
2.1.5	The board of directors plays a key role in preventing, identifying and resolving internal conflicts between the company's bodies, shareholders and employees.	1. The board of directors plays a key role in preventing, identifying and resolving internal conflicts. 2. The company set up mechanisms to identify transactions leading to a conflict of interest and to resolve such conflicts.	Full	–
2.1.6	The board of directors plays a key role in ensuring that the company is transparent, timely and fully discloses its information, and provides its shareholders with unhindered access to the company's documents.	1. The board of directors approved the company's information policy regulations. 2. The company identified persons responsible for implementing the information policy.	Full	–
2.1.7	The board of directors controls the company's corporate governance practices and plays a key role in material corporate events of the company.	1. In the reporting period, the board of directors reviewed the company's corporate governance practices.	None	In the reporting period, the Board of Directors did not review the Company's corporate governance practices at its meetings. The non-compliance with this provision of the Code is temporary. The Company intends to achieve compliance with this Code provision in 2017. The Board of Directors intends to discuss this matter in 2017.
<b>2.2 THE BOARD OF DIRECTORS IS ACCOUNTABLE TO THE COMPANY'S SHAREHOLDERS.</b>				
2.2.1	Performance of the board of directors is disclosed and made available to the shareholders.	1. The company's annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings. 2. The annual report discloses key performance assessment results of the board of directors in the reporting period.	Full	

2.2.2	The chairman of the board of directors is available to communicate with the company's shareholders.	1. The company has in place a transparent procedure enabling shareholders to forward questions and express their position on such questions to the chairman of the board of directors.	Full	In preparing for the General Meeting, the Company posts a dedicated e-mail address on its website for shareholders to submit their opinions and questions on the agenda. Besides, at General Meetings of Shareholders held in person, shareholders may personally ask questions of the Chairman of the Board of Directors.
<b>2.3 THE BOARD OF DIRECTORS MANAGES THE COMPANY IN AN EFFICIENT AND PROFESSIONAL MANNER AND IS CAPABLE OF MAKING FAIR AND INDEPENDENT JUDGEMENTS AND ADOPTING RESOLUTIONS IN THE BEST INTERESTS OF THE COMPANY AND ITS SHAREHOLDERS.</b>				
2.3.1	Only persons of impeccable business and personal reputation who have knowledge, expertise and experience required to make decisions within the authority of the board of directors and essential to perform its functions in an efficient way are elected to the board of directors.	1. The procedure for assessing the board of directors' performance established in the company includes, inter alia, assessment of professional qualifications of the board members. 2. In the reporting period, the board of directors (or its nomination committee) assessed nominees to the board of directors for required experience, knowledge, business reputation, absence of conflicts of interest, etc.	Partial	The Company did not assess the performance of the Board of Directors. The Remuneration and Nomination Committee advises the Board of Directors on nominees proposed by shareholders to the Board of Directors based on such criteria as the nominee's independence and professional qualifications, and also appraises such nominees for having required experience, expertise, business reputation and absence of conflicts of interest.
2.3.2	The company's directors are elected via a transparent procedure that enables shareholders to obtain information on nominees sufficient to judge on their personal and professional qualities.	1. Whenever the agenda of the general meeting of shareholders included election of the board of directors, the company provided to shareholders the biographical details of all nominees to the board of directors, the results of their assessment carried out by the board of directors (or its nomination committee), and the information on whether the nominee meets the independence criteria set forth in Recommendations 102–107 of the Code, as well as the nominees' written consent to be elected to the board of directors.	Partial	In preparing and holding General Meetings of Shareholders in the reporting period, the Company did not provide shareholders with nominee assessment results obtained by the Board of Directors (or its Nomination Committee). The Company intends to achieve compliance with this principle in 2017.
2.3.3	The board of directors has a balanced membership, including in terms of directors' qualifications, experience, expertise and business qualities, and enjoys its shareholders' trust.	1. As part of assessment of the board of directors' performance run in the reporting period, the board of directors reviewed its requirements to professional qualifications, experience and business skills.	None	The Company did not run any assessment of the Board of Directors' performance in the reporting period. The Company believes that such assessment is unnecessary as the Company's directors are highly skilled experts with long track records, including in management.

2.3.4	The company has a sufficient number of directors to organize the board of directors' activities in the most efficient way, including ability to set up committees of the board of directors and enable the company's substantial minority shareholders to elect a nominee to the board of directors for whom they vote.	1. As part of assessment of the board of directors' performance run in the reporting period, the board of directors considered whether the number of directors met the company's needs and shareholders' interests.	None	The Company did not run any assessment of the Board of Directors' performance in the reporting period. The Company believes that the current number of Directors (nine) is optimal and enables representing all shareholders, including minority shareholders, in the Board of Directors with the necessary number of Independent Directors.
<b>2.4 THE BOARD OF DIRECTORS INCLUDES A SUFFICIENT NUMBER OF INDEPENDENT DIRECTORS.</b>				
2.4.1	An independent director is a person who is sufficiently professional, experienced and independent to develop their own position, and capable of making unbiased judgements in good faith, free of influence by the company's executive bodies, individual groups of shareholders or other stakeholders. It should be noted that a nominee (elected director) who is related to the company, its substantial shareholder, substantial counterparty or competitor of the company, or related to the government, may not be considered as independent under normal circumstances.	1. In the reporting period, all independent directors met all independence criteria set out in Recommendations 102–107 of the Code or were deemed independent by the board of directors.	Full	-
2.4.2	The company assesses compliance of nominees to the board of directors and reviews compliance of independent directors with independence criteria on a regular basis. In such assessment, substance should prevail over form.	1. In the reporting period, the board of directors (or its nomination committee) made a judgement on independence of each nominee to the board of directors and provided its opinion to shareholders. 2. In the reporting period, the board of directors (or its nomination committee) reviewed, at least once, the independence of incumbent directors listed by the company as independent directors in its annual report. 3. The company has in place procedures defining the actions to be taken by a member of the board of directors if they cease to be independent, including the obligation to timely notify the board of directors thereof.	Full	-
2.4.3	Independent directors make up at least one third of the elected board members.	1. Independent directors make up at least one third of directors.	Full	-
2.4.4	Independent directors play a key role in preventing internal conflicts in the company and in ensuring that the company performs material corporate actions.	1. Independent directors (with no conflicts of interest) run a preliminary assessment of material corporate actions implying a potential conflict of interests and submit the results to the board of directors.	None	The Company intends to achieve compliance with this principle in 2017



---

**2.5 THE CHAIRMAN OF THE BOARD OF DIRECTORS ENSURES THAT THE BOARD OF DIRECTORS DISCHARGES ITS DUTIES IN THE MOST EFFICIENT WAY.**


---

2.5.1	The board of directors is chaired by an independent director, or a senior independent director supervising the activities of other independent directors and interacting with the chairman of the board of directors is chosen from among the elected independent directors.	1. The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors. 2. The role, rights and duties of the chairman of the board of directors (and, if applicable, of the senior independent director) are duly set out in the company's internal documents.	Partial	Formally, the Chairman of the Board of Directors is not an Independent Director. However, the Chairman of the Board of Directors meets all independence criteria, except for his tenure on the Board of Directors. For chairmanship purposes, the directors elected the most experienced director who is not an Independent Director. No senior independent director was elected from among independent directors.
2.5.2	The chairman of the board of directors maintains a constructive environment at meetings, enables free discussion of agenda items, and supervises the execution of resolutions passed by the board of directors.	1. Performance of the chairman of the board of directors was assessed as part of assessment of the board of directors' performance in the reporting period.	None	The Company did not run any assessment of the Board of Directors' performance in the reporting period.
2.5.3	The chairman of the board of directors takes all steps necessary for the timely provision to members of the board of directors of information required to pass resolutions on agenda items.	1. The company's internal documents set out the duty of the chairman of the board of directors to take all steps necessary for the timely provision to members of the board of directors with materials on agenda items of the board meeting.	Full	–

---

**2.6 DIRECTORS ACT REASONABLY AND IN GOOD FAITH IN THE BEST INTERESTS OF THE COMPANY AND ITS SHAREHOLDERS, ON A FULLY INFORMED BASIS AND WITH DUE CARE AND DILIGENCE.**


---

2.6.1	Directors pass resolutions on a fully informed basis, with no conflict of interest, subject to equal treatment of the company's shareholders, and assuming normal business risks.	1. The company's internal documents provide that a director should notify the board of directors of any existing conflict of interest as to any agenda item of the meeting of the board of directors or its committee, prior to discussion of the relevant agenda item. 2. The company's internal documents provide that a director should abstain from voting on any item in connection with which they have a conflict of interest. 3. The company has in place a procedure enabling the board of directors to get professional advice on matters within its remit at the expense of the company.	Full	–
2.6.2	The rights and duties of directors are clearly stated and incorporated in the company's internal documents.	1. The company adopted and published an internal document that clearly defines the rights and duties of directors.	Full	–

---

2.6.3	Directors have sufficient time to perform their duties.	<p>1. Individual attendance at board and committee meetings, as well as time devoted to preparation for attending meetings, was recorded as part of the procedure for assessing the board of directors in the reporting period.</p> <p>2. Under the company's internal documents, directors notify the board of directors of their intentions to be elected to governing bodies in other entities (apart from the entities controlled by, or affiliated to, the company), and of their election to such bodies.</p>	Partial	The Company did not run any assessment of the Board of Directors' performance in the reporting period
2.6.4	All directors shall have equal access to the company's documents and information. Newly elected directors are furnished with sufficient information about the company and performance of the board of directors as soon as possible.	<p>1. Under the company's internal documents, directors are entitled to access documents and make requests on the company and its controlled entities, while executive bodies of the company should furnish all relevant information and documents.</p> <p>2. The Company has in place a formalized onboarding program for newly elected Directors.</p>	None	The Company intends to formalize its onboarding procedure for newly elected Directors in 2017.
<p><b>2.7 MEETINGS OF THE BOARD OF DIRECTORS, PREPARATION FOR SUCH MEETINGS AND PARTICIPATION OF BOARD MEMBERS THEREIN ENSURE EFFICIENT PERFORMANCE BY THE BOARD OF DIRECTORS.</b></p>				
2.7.1	Board meetings are held as needed, taking into account the scale of operations and goals of the company at a particular time.	1. The board of directors held at least six meetings in the reporting year.	Full	–
2.7.2	Internal regulations of the company provide a procedure for the preparation and holding of the board meetings, enabling members of the board of directors to prepare for such meetings in a proper manner.	1. The company has an approved internal document that describes the procedure for arranging and holding meetings of the board of directors and sets out, in particular, that the notice of the meeting shall be given, as a rule, at least five days prior to such meeting.	Full	–
2.7.3	The format of the meeting of the board of directors is determined taking into account the importance of items on the agenda. The most important matters are dealt with at meetings of the board of directors held in person.	1. The company's charter or internal document provides for the most important matters (as per the list set out in Recommendation 168 of the Code) to be passed at in-person meetings of the board of directors.	Partial	The list of matters to be resolved at the Board's in-person meetings does not fully match the list specified in Recommendation 168 of the Code.
2.7.4	Resolutions on most important matters relating to the company's operations are passed at a meeting of the board of directors by a qualified majority or by a majority of all elected board members.	1. The company's charter provides for the most important matters set out in Recommendation 170 of the Code to be passed at a meeting of the board of directors by a qualified majority of at least three quarters or by a majority of all elected board members.	Partial	<p>The Company's Charter does not provide for resolutions of the Board to be passed by qualified majority on the following matters:</p> <ul style="list-style-type: none"> <li>– submission to the General Meeting of matters relating to the Company's liquidation</li> <li>– submission to the General Meeting of matters relating to amendments to the Company's Charter</li> <li>– review of material issues relating to operations of legal entities controlled by the Company</li> </ul>

## 2.8 THE BOARD OF DIRECTORS SETS UP COMMITTEES FOR PRELIMINARY CONSIDERATION OF THE MOST IMPORTANT ISSUES RELATED TO THE BUSINESS OF THE COMPANY.

2.8.1	To preview matters related to controlling the company's financial and business activities, it is recommended to set up an audit committee comprised of independent directors.	<ol style="list-style-type: none"> <li>1. The board of directors has set up an audit committee comprised solely of independent directors.</li> <li>2. The company's internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code.</li> <li>3. At least one member of the audit committee represented by an independent director has experience and knowledge of preparing, analysing, assessing and auditing accounting (financial) statements.</li> <li>4. Meetings of the audit committee were held at least once a quarter during the reporting period.</li> </ol>	Full	–
2.8.2	To preview matters related to adopting an efficient and transparent remuneration scheme, a remuneration committee is set up, comprised of independent directors and headed by an independent director who is not the chairman of the board of directors.	<ol style="list-style-type: none"> <li>1. The board of directors has set up a remuneration committee comprised solely of independent directors.</li> <li>2. The remuneration committee is headed by an independent director who is not the chairman of the board of directors.</li> <li>3. The company's internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.</li> </ol>	Full	–
2.8.3	To preview matters related to talent management (succession planning), professional composition and efficiency of the board of directors, a nomination (HR) committee is set up, predominantly comprised of independent directors.	<ol style="list-style-type: none"> <li>1. The board of directors has set up a nomination committee (its tasks listed in Recommendation 186 of the Code are fulfilled by another committee, the Remuneration and Nomination Committee) predominantly comprised of independent directors.</li> <li>2. The company's internal documents set out the tasks of the nomination committee (or the tasks of the committee with combined functions), including those listed in Recommendation 186 of the Code.</li> </ol>	Full	–
2.8.4	Taking into account the company's scope of business and level of risks, the company's board of directors made sure that the composition of its committees is fully in line with company's business goals. Additional committees were either set up or not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.).	<ol style="list-style-type: none"> <li>1. In the reporting period, the board of directors considered whether the composition of its committees was in line with the board's tasks and the company's business goals. Additional committees were either set up or not deemed necessary.</li> </ol>	None	In 2005, the Board of Directors set up an additional committee, the Strategy Committee. Each newly elected Board of Directors forms this Committee in accordance with the Regulations on the Strategy Committee of the Company's Board of Directors.

2.8.5	Committees are composed so as to enable comprehensive discussions of matters under preview, taking into account the diversity of opinions.	1. Committees of the board of directors are headed by independent directors. 2. The company's internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee and the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee.	Partial	The Strategy Committee is headed by a director who is not an independent director.
2.8.6	Committee chairmen inform the board of directors and its chairman on the work of their committees on a regular basis.	1. During the reporting period, committee chairmen reported to the board of directors on the work of committees on a regular basis.	Full	–
<b>2.9 THE BOARD OF DIRECTORS ENSURES PERFORMANCE ASSESSMENT OF THE BOARD OF DIRECTORS, ITS COMMITTEES AND MEMBERS OF THE BOARD OF DIRECTORS.</b>				
2.9.1	The board of directors' performance assessment is aimed at determining the efficiency of the board of directors, its committees and members, consistency of their work with the company's development requirements, as well as bolstering the work of the board of directors and identifying areas for improvement.	1. Self-assessment or external assessment of the board of directors' performance carried out in the reporting period included performance assessment of committees, individual members of the board of directors and the board of directors in general. 2. Results of self-assessment or external assessment of the board of directors' performance carried out in the reporting period were reviewed at the in-person meeting of the board.	None	The Board's performance was not assessed during the reporting period.
2.9.2	Performance of the board of directors, its committees and directors is assessed on a regular basis at least once a year. An external advisor is engaged at least once in three years to conduct an independent assessment of the board of directors' performance.	1. The company engaged an external advisor to conduct an independent assessment of the board of directors' performance at least once over the last three reporting periods.	None	Over the past three reporting periods the Company has not engaged an external entity (advisor) to conduct an independent assessment of the Board of Director's performance.
<b>3.1 THE COMPANY'S CORPORATE SECRETARY ENSURES EFFICIENT ONGOING INTERACTION WITH SHAREHOLDERS, COORDINATES THE COMPANY'S EFFORTS TO PROTECT SHAREHOLDER RIGHTS AND INTERESTS AND SUPPORTS THE ACTIVITIES OF THE BOARD OF DIRECTORS.</b>				
3.1.1	The corporate secretary has the knowledge, experience and qualifications sufficient to perform his/her duties, as well as an impeccable reputation and the trust of shareholders.	1. The company has adopted and published an internal document – regulations on the corporate secretary. 2. The biographical data of the corporate secretary are published on the corporate website and in the company's annual report with the same level of detail as for members of the board of directors and the company's executives.	Partial	Neither the Company's website nor the annual report contains biographical data of the corporate secretary.
3.1.2.	The corporate secretary is sufficiently independent of the company's executive bodies and has the powers and resources required to perform his/her tasks.	1. The board of directors approves the appointment, removal and additional remuneration of the corporate secretary.	Full	–

---

**4.1 REMUNERATION PAYABLE BY THE COMPANY IS SUFFICIENT TO ATTRACT, MOTIVATE, AND RETAIN PEOPLE WITH COMPETENCIES AND QUALIFICATIONS REQUIRED BY THE COMPANY. REMUNERATION PAYABLE TO THE MEMBERS OF THE BOARD OF DIRECTORS, EXECUTIVE BODIES AND OTHER KEY EXECUTIVE OFFICERS OF THE COMPANY IS IN COMPLIANCE WITH THE APPROVED REMUNERATION POLICY OF THE COMPANY.**

---

4.1.1	The amount of remuneration paid by the company to members of the board of directors, executive bodies and other key executives creates sufficient incentives for them to work efficiently, while enabling the company to engage and retain competent and qualified specialists. At the same time, the company avoids unnecessarily high remuneration, as well as unjustifiably large gaps between remunerations of the above persons and the company's employees.	1. The company has in place an internal document (internal documents) – the policy (policies) on remuneration of members of the board of directors, executive bodies and other key executives, which clearly defines (define) the approaches to remuneration of the above persons.	Partial	The Company does not have in place a policy (policies) on remuneration of executives and other key managers.
4.1.2	The company's remuneration policy is developed by the remuneration committee and approved by the board of directors. The board of directors, assisted by the remuneration committee, ensures control over the introduction and implementation of the company's remuneration policy, revising and amending it as required.	1. During the reporting period, the remuneration committee considered the remuneration policy (policies) and the practical aspects of its (their) introduction and presented relevant recommendation to the board of directors as required.	Full	–
4.1.3	The company's remuneration policy includes transparent mechanisms for determining the amount of remuneration due to members of the board of directors, executive bodies and other key executives of the company, and regulates all types of expenses, benefits and privileges provided to such persons.	1. The company's remuneration policy (policies) includes (include) transparent mechanisms for determining the amount of remuneration due to members of the board of directors, executive bodies and other key executives of the company, and regulates (regulate) all types of expenses, benefits and privileges provided to such persons.	Partial	The Company does not have in place a policy (policies) on remuneration of executives and other key managers.
4.1.4	The company defines a policy on reimbursement (compensation) of costs detailing a list of reimbursable expenses and specifying service levels that members of the board of directors, executive bodies and other key executives of the company can claim. Such policy can make part of the company's remuneration policy.	1. The remuneration policy (policies) defines (define) the rules for reimbursement of costs incurred by members of the board of directors, executive bodies and other key executives of the company.	Full	–

---

---

**4.2 REMUNERATION SYSTEM OF MEMBERS OF THE BOARD OF DIRECTORS ENSURES ALIGNMENT OF FINANCIAL INTERESTS OF THE DIRECTORS WITH LONG-TERM FINANCIAL INTERESTS OF SHAREHOLDERS.**


---

4.2.1	<p>The company pays fixed annual remuneration to members of the board of directors.</p> <p>The company does not pay remuneration for attending particular meetings of the board of directors or its committees.</p> <p>The company does not apply any form of short-term motivation or additional financial incentive for members of the board of directors.</p>	<p>1. Fixed annual remuneration was the only form of monetary remuneration payable to members of the board of directors for their service on the board of directors during the reporting period.</p>	Full	–
4.2.2	<p>Long-term ownership of the company's shares helps align the financial interests of members of the board of directors with long-term interests of shareholders to the utmost. At the same time, the company does not link the right to dispose of shares to performance targets, and members of the board of directors do not participate in stock option plans.</p>	<p>1. If the company's internal document(s) – the remuneration policy (policies) stipulates (stipulate) provision of the company's shares to members of the board of directors, clear rules for share ownership by board members are defined and disclosed, aimed at stimulating long-term ownership of such shares.</p>	<p>Not applicable, since the Regulations on Remuneration and Compensations Payable to Members of PAO NOVATEK Board of Directors does not provide for remuneration of the directors with company shares.</p>	–
4.2.3	<p>The company does not provide for any extra payments or compensations in the event of early termination of office of members of the board of directors resulting from the change of control or any other reasons whatsoever.</p>	<p>1. The company does not provide for any extra payments or compensations in the event of early termination of office of members of the board of directors resulting from the change of control or any other reasons whatsoever.</p>	Full	–

---

**4.3 THE COMPANY CONSIDERS ITS PERFORMANCE AND THE PERSONAL CONTRIBUTION OF EACH EXECUTIVE TO THE ACHIEVEMENT OF SUCH PERFORMANCE, WHEN DETERMINING THE AMOUNT OF REMUNERATION PAYABLE TO MEMBERS OF THE EXECUTIVE BODIES AND OTHER KEY EXECUTIVES OF THE COMPANY.**


---

4.3.1	<p>Remuneration due to members of executive bodies and other key executives of the company is determined in a manner providing for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's performance and the employee's personal contribution.</p>	<p>1. In the reporting period, annual performance results approved by the board of directors were used to determine the amount of the variable part of remuneration due to members of executive bodies and other key executives of the company.</p> <p>2. During the latest assessment of the system of remuneration for members of executive bodies and other key executives of the company, the board of directors (remuneration committee) made sure that the company applies efficient ratio of the fixed and variable parts of remuneration.</p> <p>3. The company has in place a procedure that guarantees return to the company of bonus payments illegally received by members of executive bodies and other key executives of the company.</p>	None	–
-------	---	---	------	---

---

4.3.2	The company put in place a long-term incentive programme for members of executive bodies and other key executives of the company with the use of the company's shares (options and other derivative instruments where the company's shares are the underlying asset).	1. The company has in place a long-term incentive programme for members of executive bodies and other key executives of the company with the use of the company's shares (financial instruments based on the company's shares). 2. The long-term incentive programme for members of executive bodies and other key executives of the company implies that the right to dispose of shares and other financial instruments used in this programme takes effect at least three years after such shares or other financial instruments are granted. The right to dispose of such shares or other financial instruments is linked to the company's performance targets.	None	–
4.3.3	The compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, does not exceed the double amount of the fixed part of their annual remuneration.	1. In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of the powers of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed part of their annual remuneration.	Full	–
<b>5.1 THE COMPANY PUT IN PLACE EFFECTIVE RISK MANAGEMENT AND INTERNAL CONTROLS FRAMEWORK PROVIDING REASONABLE ASSURANCE IN THE ACHIEVEMENT OF THE COMPANY'S GOALS.</b>				
5.1.1	The board of directors has determined the principles of, and approaches to, risk management and internal controls in the company.	1. Functions of different management bodies and divisions of the company in the risk management and internal controls are clearly defined in the company's internal documents /relevant policy approved by the board of directors.	Full	–
5.1.2	The company's executive bodies ensure establishment and continuous operation of efficient risk management and internal controls in the company.	1. The company's executive bodies ensured the distribution of functions and powers related to risk management and internal controls between the heads (managers) of divisions and departments accountable to them.	Full	–
5.1.3	The company's risk management and internal controls ensure an objective, fair and clear view of the current state and future prospects of the company, the integrity and transparency of the company's reporting, as well as reasonable and acceptable risk exposure.	1. The company has in place an approved anti-corruption policy. 2. The company established an accessible method of notifying the board of directors or the board's audit committee of breaches of any violations of the law, the company's internal procedures and code of ethics.	Full	–

5.1.4	The company's board of directors shall take necessary measures to make sure that the company's risk management and internal controls are consistent with the principles of, and approaches to, its setup determined by the board of directors, and that the system is functioning efficiently.	1. In the reporting period, the board of directors or the board's audit committee assessed the efficiency of the company's risk management and internal controls. Key results of this assessment are included in the company's annual report.	Full	–
<b>5.2 THE COMPANY PERFORMS INTERNAL AUDIT FOR REGULAR INDEPENDENT ASSESSMENT OF THE RELIABILITY AND EFFICIENCY OF THE RISK MANAGEMENT AND INTERNAL CONTROLS AND THE CORPORATE GOVERNANCE PRACTICE.</b>				
5.2.1	The company set up a separate business unit or engaged an independent external organization to carry out internal audits. Functional and administrative reporting lines of the internal audit department are delineated. The internal audit unit functionally reports to the board of directors.	1. To perform internal audits, the company set up a separate business unit – internal audit division, functionally reporting to the board of directors or to the audit committee, or engaged an independent external organization with the same line of reporting.	Full	–
5.2.2	The internal audit division assesses the performance of the internal controls, risk management, and corporate governance. The company applies generally accepted standards of internal audit.	1. In the reporting period, the performance of the internal controls and risk management was assessed as part of the internal audit procedure. 2. The company applies generally accepted approaches to internal audit and risk management.	Full	–
<b>6.1 THE COMPANY AND ITS OPERATIONS ARE TRANSPARENT FOR ITS SHAREHOLDERS, INVESTORS AND OTHER STAKEHOLDERS.</b>				
6.1.1	The company has developed and implemented an information policy ensuring an efficient exchange of information by the company, its shareholders, investors, and other stakeholders.	1. The company's board of directors approved an information policy developed in accordance with the Code's recommendations. 2. The board of directors (or its committee) reviewed the company's compliance with its information policy at least once in the reporting period.	Partial	The Board of Directors or its Committees did not review the Company's compliance with its Information Policy in the reporting period.
6.1.2	The company discloses information on its corporate governance and practice, including detailed information on compliance with the principles and recommendations of the Code.	1. The company discloses information on its corporate governance and general principles of corporate governance, including disclosure on its website. 2. The company discloses information on the membership of its executive bodies and board of directors, independence of the directors and their membership in the board's committees (as defined by the Code). 3. If the company has a controlling person, the company publishes a memorandum of the controlling person setting out this person's plans for the company's corporate governance.	Full	–



## 6.2 THE COMPANY MAKES TIMELY DISCLOSURES OF COMPLETE, UPDATED AND RELIABLE INFORMATION TO ALLOW SHAREHOLDERS AND INVESTORS TO MAKE INFORMED DECISIONS.

6.2.1	The company discloses information based on the principles of regularity, consistency and promptness, as well as availability, reliability, completeness and comparability of disclosed data.	<p>1. The company's information policy sets out approaches to, and criteria for, identifying information that can have a material impact on the company's evaluation and the price of its securities, as well as procedures ensuring timely disclosure of such information.</p> <p>2. If the company's securities are traded on foreign organized markets, the company ensured concerted and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting year.</p> <p>3. If foreign shareholders hold a material portion of the company's shares, information was disclosed both in the Russian language and one of the most widely used foreign languages in the reporting period.</p>	Full	–
6.2.2	The company avoids a formalistic approach to information disclosure and discloses material information on its operations, even if disclosure of such information is not required by law.	<p>1. In the reporting period, the company disclosed annual and 6M financial statements prepared under the IFRS. The company's annual report for the reporting period included annual financial statements prepared under the IFRS, along with the auditor's report.</p> <p>2. The company discloses full information on its capital structure in accordance with Recommendation 290 of the Code both in the annual report and on the company's website.</p>	Partial	<p>The Company's annual report for the reporting period did not include annual financial statements prepared under the IFRS or the auditor's report. These statements are disclosed on the Company's official website earlier than the annual report is prepared (in February of the year following the reporting year).</p> <p>The Company discloses its capital structure to the extent required by the applicable laws.</p>
6.2.3	The company's annual report, as one of the most important tools of its information exchange with shareholders and other interested parties, contains information enabling assessment of the company's annual performance results.	<p>1. The company's annual report contains information on the key aspects of its operating and financial performance.</p> <p>2. The company's annual report contains information on the environmental and social aspects of the company's operations.</p>	Full	–

## 6.3 THE COMPANY PROVIDES INFORMATION AND DOCUMENTS REQUESTED BY ITS SHAREHOLDERS IN ACCORDANCE WITH PRINCIPLES OF FAIRNESS AND EASE OF ACCESS.

6.3.1	The company provides information and documents requested by its shareholders in accordance with principles of fairness and ease of access.	1. The company's information policy establishes the procedure for providing shareholders with easy access to information, including information on legal entities controlled by the company, as requested by shareholders.	None	Access to information and copies of documents are provided to the shareholders at their request in the manner set out in the Federal Law on Joint-Stock Companies.
-------	--	--	------	--

6.3.2	When providing information to shareholders, the company shall ensure reasonable balance between the interests of particular shareholders and its own interests consisting in preserving the confidentiality of important commercial information which may materially affect its competitiveness.	1. In the reporting period, the company did not refuse any shareholder requests for information, or such refusals were justified. 2. In cases defined by the information policy, shareholders are warned of the confidential nature of the information and undertake to maintain its confidentiality.	Full	–
<p><b>7.1 ACTIONS THAT MATERIALLY AFFECT OR MAY AFFECT THE COMPANY'S SHARE CAPITAL STRUCTURE AND ITS FINANCIAL POSITION AND ACCORDINGLY THE POSITION OF ITS SHAREHOLDERS ("MATERIAL CORPORATE ACTIONS") ARE TAKEN ON FAIR TERMS ENSURING THAT THE RIGHTS AND INTERESTS OF THE SHAREHOLDERS AND OTHER STAKEHOLDERS ARE OBSERVED.</b></p>				
7.1.1	Material corporate actions include restructuring of the company, acquisition of 30% or more of the company's voting shares (takeover), execution by the company of major transactions, increase or decrease of the company's authorised capital, listing or de-listing of the company's shares, as well as other actions which may lead to material changes in the rights of shareholders or violation of their interests. The company's charter provides a list (criteria) of transactions or other actions classified as material corporate actions within the authority of the company's board of directors.	1. The company's charter includes a list of transactions or other actions deemed to be material corporate actions, and their identification criteria. Resolutions on material corporate actions are referred to the jurisdiction of the board of directors. When execution of such corporate actions is expressly referred by law to the jurisdiction of the general shareholders meeting, the board of directors presents relevant recommendations to shareholders. 2. According to the company's charter, material corporate actions include at least: company reorganization, acquisition of 30% or more of the company's voting shares (in case of takeover), entering in major transactions, increase or decrease of the company's charter capital, listing or de-listing of the company's shares.	Partial	The Company's Charter does not contain a specific list of corporate actions; however, matters classified as material corporate actions fall within the competence of the Board of Directors.
7.1.2	The board of directors plays a key role in passing resolutions or making recommendations on material corporate actions, relying on the opinions of the company's independent directors.	1. The company has in place a procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof.	None	The Company does not have in place a formal procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof, however independent directors take an active part in discussions on material corporate actions and within such discussions express their position on them.

7.1.3	When taking material corporate actions which would affect rights or legitimate interests of shareholders, equal terms and conditions are guaranteed for all shareholders; if the statutory procedure designed to protect shareholders' rights proves insufficient, additional measures are taken to protect their rights and legitimate interests. In doing so, the company is guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements.	<ol style="list-style-type: none"> <li>1. Due to specifics of the company's operations, the company's charter contains less stringent criteria for material corporate actions than required by law.</li> <li>2. All material corporate actions in the reporting period were duly approved before they were taken.</li> </ol>	Partial	Not all material corporate actions in the reporting period were duly approved before they were taken.
<b>7.2 THE COMPANY PERFORMS MATERIAL CORPORATE ACTIONS IN SUCH A WAY AS TO ENSURE THAT SHAREHOLDERS TIMELY RECEIVE COMPLETE INFORMATION ABOUT SUCH ACTIONS, ALLOWING THEM TO INFLUENCE SUCH ACTIONS AND GUARANTEEING ADEQUATE PROTECTION OF THEIR RIGHTS WHEN PERFORMING SUCH ACTIONS.</b>				
7.1.2	Information about material corporate actions is disclosed with explanations of the grounds, circumstances and consequences.	<ol style="list-style-type: none"> <li>1. In the reporting period, the company disclosed information about its material corporate actions in due time and in detail, including the grounds for, and timelines of, such actions.</li> </ol>	Full	–
7.2.2	Rules and procedures related to material corporate actions taken by the company are set out in the company's internal documents.	<ol style="list-style-type: none"> <li>1. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of assets either disposed of or acquired in a major transaction or a related-party transaction.</li> <li>2. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of shares acquired and redeemed by the company.</li> <li>3. The company's internal documents provide for an expanded list of grounds on which the company's directors and other persons as per the applicable law are deemed to be related parties to the company's transactions.</li> </ol>	None	The company's internal documents do not set out a procedure for engaging an independent appraiser to estimate the value of assets either disposed of or acquired in a major transaction or a related-party transaction because the need to engage an independent appraiser is stipulated by the Federal Law on Joint-Stock Companies.

## 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 "PAO NOVATEK", "NOVATEK", "the Company", "we" and "our" refer to PAO 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.

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

## CONVERSION FACTORS

1000 cubic meters of gas = 6.54 boe.

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

# CONTACT INFORMATION

## OFFICE IN TARKO-SALE

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

## OFFICE IN MOSCOW

2, Udaltsova Street, 119415, Moscow, Russia

## CENTRAL INFORMATION SERVICE

Tel: +7 495 730-6000  
Fax: +7 495 721-2253  
E-mail: [novatek@novatek.ru](mailto:novatek@novatek.ru)

## PRESS SERVICE

Tel: +7 495 721-2207  
E-mail: [press@novatek.ru](mailto:press@novatek.ru)

## INVESTOR RELATIONS

Tel: +7 495 730-6013  
Fax: +7 495 730-6000  
E-mail: [ir@novatek.ru](mailto:ir@novatek.ru)

## REGISTRAR

AO "Independent Registrar Company"  
8 Ivana Franko Street, Moscow  
Russia 121108  
Tel: +7 495 926-8160  
Fax: +7 495 926-8178  
E-mail: [info@nrcreg.ru](mailto:info@nrcreg.ru)

## GDR PROGRAM ADMINISTRATOR

The Bank of New York Mellon  
Depositary Receipts  
101 Barclay Street, 22W, New York, NY 10286,  
USA  
New York +1 212 815 4158  
London +44 207 163 7512  
Moscow +7 495 967 3110

## INDEPENDENT AUDITOR

AO PricewaterhouseCoopers Audit  
White Square Office Center, Butyrsky Val 10,  
125047 Moscow, Russia  
Tel: +7 495 967-6000  
Fax: +7 495 967-6001

## INDEPENDENT RESERVES AUDITOR

DeGolyer and MacNaughton  
5001 Spring Valley Road, Suite 800, East Dallas  
Texas 75244, USA  
Tel: +1 214 368-6391  
Fax: +1 214 369-4061  
E-mail: [degolyer@demac.com](mailto:degolyer@demac.com)

## WEBSITE

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