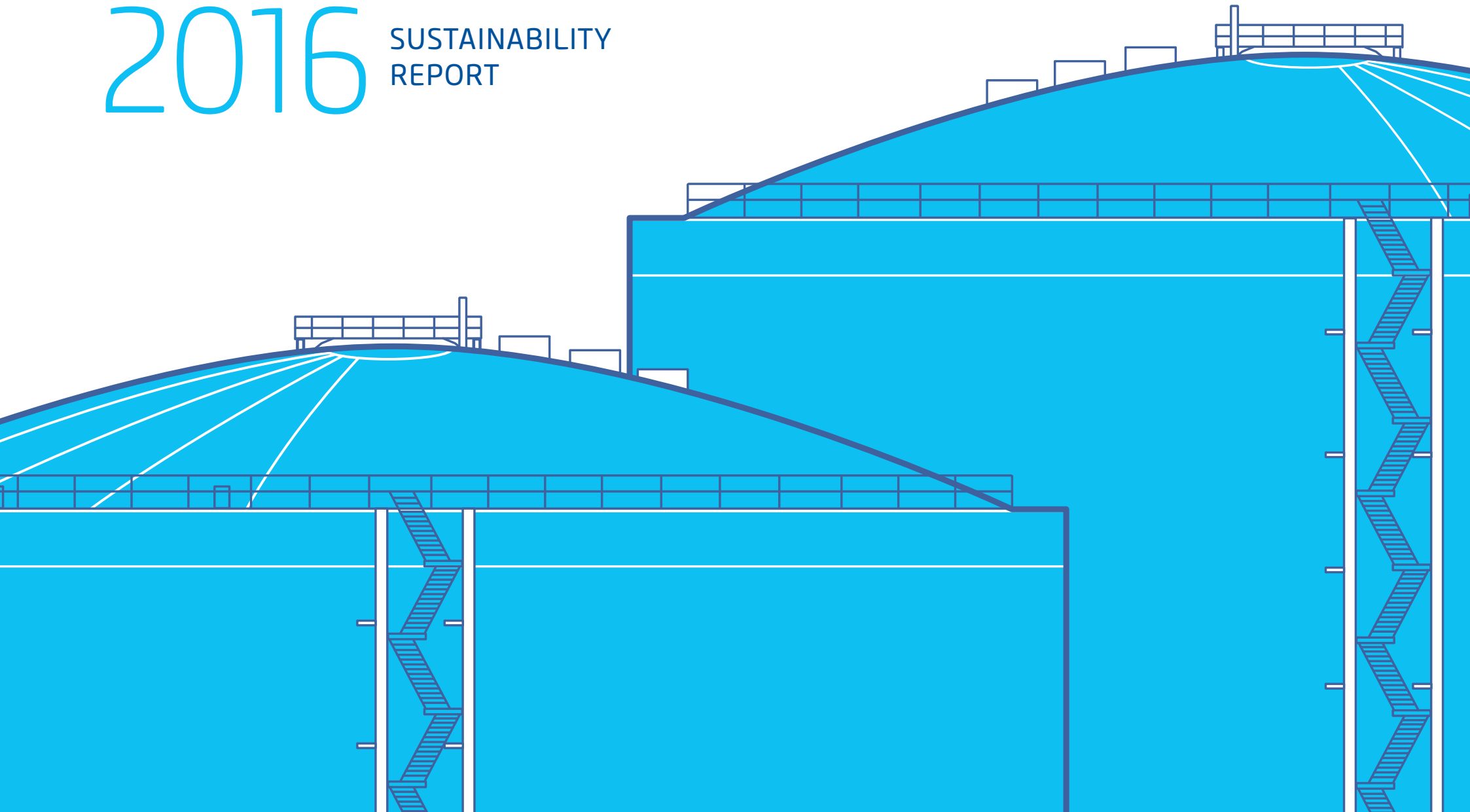




2016 SUSTAINABILITY REPORT



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DEAR STAKEHOLDERS,

I would like to present to you NOVATEK's Tenth Anniversary Sustainability Report. Over the past ten years, we have adopted and refined our business processes in accordance with sustainable business principles, and we strived to retain the best of the accumulated experience in all areas of sustainable development.



Two thousand and sixteen was a difficult year for the global oil and gas industry but NOVATEK's economic indicators in the reporting year showed that we chose the right strategy and can deliver growth and create shareholder value even in the conditions of tough macroeconomic environment, global hydrocarbons price and foreign exchange rates volatility. NOVATEK's revenues from sales grew by 13.1% and amounted to RR 537 billion, and normalized EBITDA (including of the shares in the EBITDA of joint ventures) grew by 13.2% reaching its historic maximum of RR 242 billion.

Total hydrocarbon production grew by 3% in 2016 – aggregating 537 million boe – thanks to the increase in our liquid hydrocarbons production by 37%. Our Yarudayskoye oil field reached its full production capacity in the reporting year resulting in a threefold increase in crude oil production, whereas our total natural gas production decreased by 2.7% due to a natural decline in the output from mature fields.

Our flagship Yamal LNG project remains a priority for NOVATEK. In 2016, we achieved a major milestone for the project by closing the external financing package in April as well as progressed with the construction of the first of three LNG trains. At year-end, we were approximately 88% with the first LNG train and approximately 75% complete on the whole construction project. The first LNG train will be ready for start up in 2017. More than 95% of the plant's output is already contracted on a long-term basis.

We are very optimistic about the future direction of our business. The first stage of NOVATEK's transformation has successfully concluded: we evolved from a pure domestic gas business to production, processing and global marketing of liquid hydrocarbons. The Company's next transformation goal is to become a key player in the global LNG market.

NOVATEK consistently improves its corporate management system and strives for compliance with best international practices. In 2016, we

introduced our Anti-Corruption Policy and the results of the anti-corruption work over the reporting period and the Action Plan to implement the regulations of the NOVATEK Anti-Corruption Policy for 2016-2017 were considered and approved by the Company's Audit Committee.

We also implemented a practice to disclose information on conflict of interests. This practice will regulate the actions of Company employees to avoid risks of conflict of interests and to ensure an unbiased decision-making process.

In 2016, the Board of Directors approved the NOVATEK Internal Audit Policy.

The Company pursues external social policies consistent with best practices and with due regard for the business specifics and the needs of local communities in the regions where NOVATEK operates. Moreover, we pay close attention to supporting the indigenous peoples of the North. During the past year, the Company allocated more than RR 1 billion for delivering various events aimed to improve the living



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.

standards of the peoples of the North. We allocated RR 1.9 billion in total towards implementing our external social policy. The Company is continuously and systematically implementing and supporting educational, sports and cultural programs and charitable projects.

Environmental awareness is an important aspect of our business decision-making process. The focus on responsible business

practices for future generations is based on conscious and continuous environment protection efforts, environmental risk assessment at all project execution stages, including environmental monitoring. In 2016, we spent RR 1.2 billion on environmental protection and sustainable management. I would like to specifically highlight the Company's efforts to protect biodiversity in the region of the Yamal LNG Project

execution, where it is very important to comprehensively monitor biodiversity at early work stages, which task we pursued in the reporting year and will pursue in future.

Following Russia's Presidential Decree, 2017 was declared the "Year of Environment" in Russia. We joined this important event and incorporated this theme throughout the company.

Responsibility in business is impossible without complying with the strictest standards in occupational health and safety. In this area, NOVATEK has been applying a systematic approach with one major goal: to prevent potential incidents, emergencies, fire and other hazards. The Company has strong operational controls in place, with regular checks

and ongoing personnel training. In 2016, NOVATEK spent RR 693 million for these purposes.

The level of high performance over the past years could not be achieved without the dedication and commitment of our professional employees. We are proud of them and allocate resources to develop and incentivize our staff. The Company provides its employees with a variety of opportunities for professional training and development, promotes social programs for the personnel and their families, organizes cultural events, supports trade unions and takes care of industry veterans. In 2016, NOVATEK spent RR 1.3 billion on dedicated social programs for the personnel.

I hope that our Tenth Anniversary 2016 Sustainable Development Report provides all of our stakeholders with the required information to assess the Company's commitment to sustainable development. We pursue full transparency and are always open to dialogue.



Leonid Mikhelson
Chief Executive Officer,
PAO NOVATEK

88%

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



REPORT AND REPORTING PROCESS

EVOLUTION OF PAO NOVATEK'S SUSTAINABILITY REPORTING

NOVATEK annually discloses information on its sustainability performance based on the principles of transparency and openness and seeking to cover the main issues relevant to its stakeholders as fully as practically possible. As one of the acknowledged leaders of the oil and gas industry, the Company is conscious of the importance its long-term sustainable development has for the regions in which it operates.

In the Sustainability Report, NOVATEK traditionally provides information about its direct/indirect economic and environmental impact on the key regions within its geographical footprint, its HR and social policies, occupational health and safety measures, and its stakeholder relations.

NOVATEK'S 2016 SUSTAINABILITY REPORT HIGHLIGHTS

- This Report is our tenth annual non-financial report.
- The Report has been drafted as per the Sustainability Reporting Guidelines of the Global Reporting Initiative (G4) and the GRI Oil and Gas Sector Supplement for oil and gas companies.
- The Report meets the Core Disclosure requirements.

NOVATEK's 2016 Sustainability Report was drafted as per G4 Sustainability Reporting Guidelines of the Global Reporting Initiative. NOVATEK tracks global trends in non-financial reporting and seeks to reflect them; therefore, when preparing this Report, we have considered certain important requirements and approaches set out in the new GRI Standards. In 2018, the Company plans to prepare its 2017 Sustainability Report in full compliance with the GRI Standards.

This is the tenth Sustainability Report prepared by NOVATEK. Our previous report was published in Q3 2016, and our next report will be published in Q3 2018.

PRINCIPLES FOR DEFINING REPORT CONTENT

In order to prepare this Sustainability Report and identify the most material topics for our reporting in 2016, the Company formed a dedicated interdisciplinary task team. Mindful of the principles for defining the report content (as stipulated by the GRI G4 guidelines) and key stakeholder opinions, the task team members and the Company's management identified several material matters and topics with a considerable economic, environmental and social impact on stakeholders' opinions and decisions. In order to map out these material topics and make adjustments as needed, the team analyzed the mass media content over the reporting period and considered the GRI industry recommendations on key oil and gas matters*. When preparing the 2016 Report, in 2017 we surveyed members of the task team and ascertained that the material topics remained unchanged. Therefore, no significant changes were made

PRINCIPLES FOR ENSURING REPORT QUALITY

- Balance
- Comparability
- Accuracy
- Clarity

in this Report to the structure of material topics for reporting.

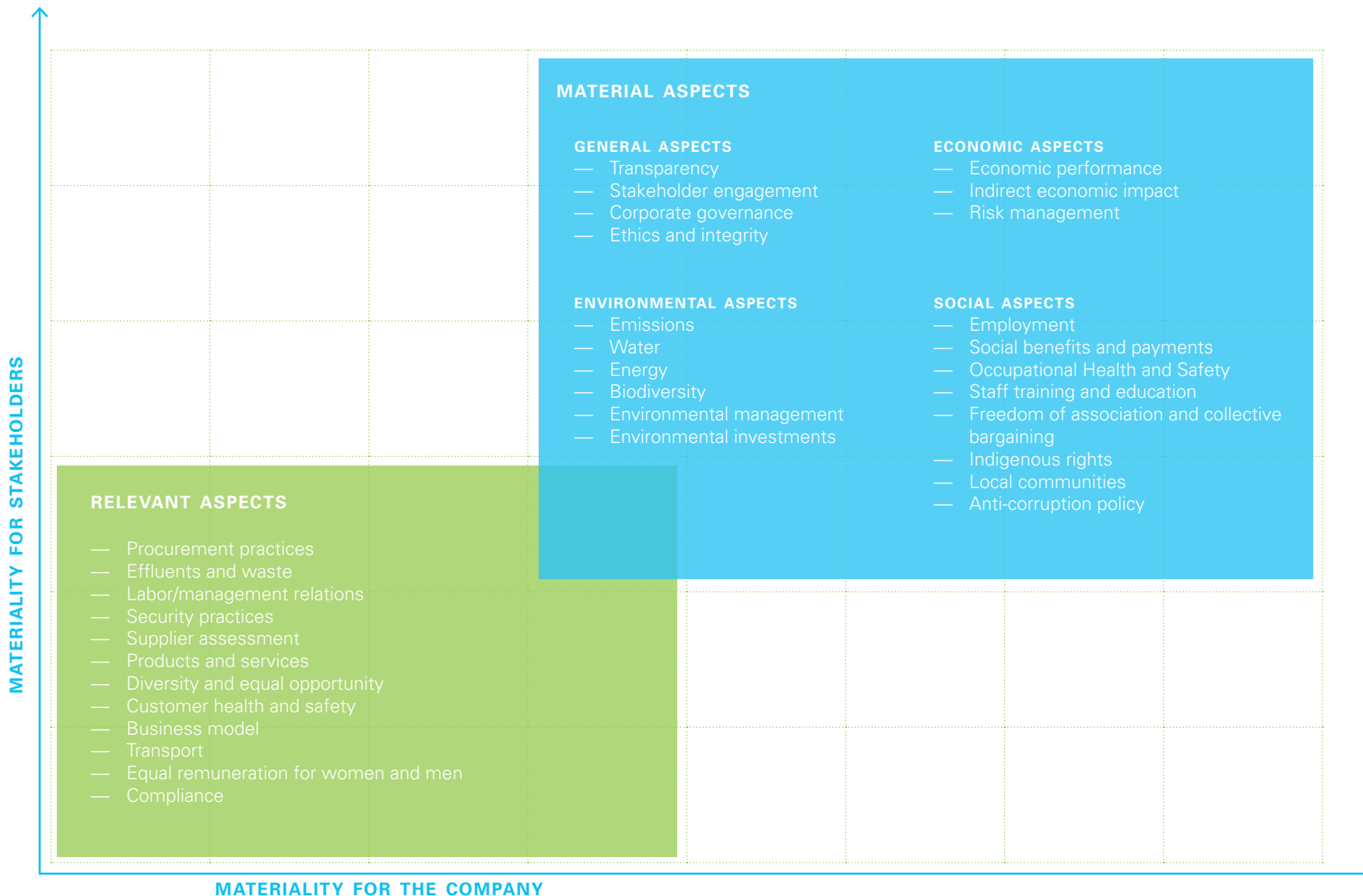
Pursuant to the GRI G4 requirements, the Report provides an extensive coverage of corporate governance, business ethics, procurement and anti-corruption practices.

The Report was prepared with due account for principles and recommendations contained in the following documents:

- Sustainability Reporting Guidelines (GRI G4, main document);
- Oil and Gas Industry Protocol prepared under GRI G4 (main document);
- AA1000 Stakeholder Engagement Standard (AA1000SES);
- National GOST R ISO 26000:2012 Standard.

* Global Reporting Initiative. Research and Development Series, 2013, "Sustainability Topics for Sectors: What do stakeholders want to know?", Amsterdam.

MATERIALITY MATRIX OF SUSTAINABILITY ASPECTS



REPORT BOUNDARY

NOVATEK's 2016 Sustainability Report describes the Company's key economic, social and environmental activities within the sustainable development framework for the period from 1 January to 31 December 2016. The Report covers operations of NOVATEK Group, including those of its subdivisions, subsidiaries and joint ventures active in Russia (the majority), Poland, Cyprus, Switzerland and Singapore.

Mentions in this Report of «PAO NOVATEK», «NOVATEK», the «Company», «NOVATEK Group» refer to PAO NOVATEK.

To highlight the Company's progress, maintain consistency in sustainability reporting and ensure data comparability, the Report provides indicators mostly for the three- and four-year periods. To ensure comprehensive disclosure herein, the Report may also refer to certain events that occurred before or after the reporting period.

Economic performance data in the Report were compiled based on the consolidated IFRS financial statements for the fiscal year ended 31 December 2016.

The Report may also contain forward-looking statements on NOVATEK Group's mid- and long-term business plans. As these plans are contingent upon a number of external factors beyond the Company's reasonable control, the actual performance achieved in the following reporting periods may differ materially from the estimates or targets provided herein.

NOVATEK GROUP'S STRUCTURE CHANGES

Sale of a 9.9% equity stake in Yamal LNG

In December 2015, NOVATEK Group and China's Silk Road Fund signed an agreement for the sale of a 9.9% interest in Yamal LNG to the Fund. In March 2016, the deal was closed upon satisfaction of the conditions precedent. The deal increased NOVATEK's proportional share in Yamal LNG to 50.1%.

Acquisition of Blue Gaz Sp. z o.o.

In December 2016, NOVATEK Group acquired 100% interest in Blue Gaz Sp. z o.o, which owns an LNG re-gasification project in Poland, in a move to secure a platform for further expansion in the Polish market.

31%

INCREASE OF LIQUIDS SALES
VOLUMES IN 2016



COMPANY PROFILE

THE COMPANY'S SCOPE AND KEY LINES OF BUSINESS

NOVATEK is one of the largest independent natural gas producers in Russia. We are principally engaged in the exploration, production, processing, transportation and marketing of natural gas and liquid hydrocarbons.

NOVATEK is ranked 3rd globally among publicly traded companies in terms of proven natural gas reserves under the Security and Exchange Commission (SEC) reserves methodology and ranks among 10 top companies in terms of natural gas production.

COMPANY NAME: NOVATEK
HEADQUARTERS: 2 UDALTSOVA ST.,
MOSCOW, 119415, RUSSIA

NOVATEK plays a major role in Russia's energy sector: in 2016, the Company accounted for 10.5% of Russia's total natural gas production and around 20% of total natural gas supply to the domestic market.

The majority of our natural gas production is geologically classified as wet gas, or natural gas containing gas condensate. The Company operates a vertically integrated production chain that includes transportation, processing, and market-

ing capacities for gas condensate and gas products. The value chain comprises a network of gas condensate pipelines linking the Company's fields with the Purovsky Gas Condensate Processing Plant (the Purovsky Plant), which produces stable gas condensate and light hydrocarbons; the Stable Gas Condensate Fractionation and Transshipment Complex at the port of Ust-Luga, producing naphtha, jet fuel, gasoil, and fuel oil, and enabling the Company to ship its products to global markets by sea.

The Company also produces crude oil. The Yarudeyskoye oil field, launched in the end of 2015, reached its full rated capacity and made the largest contribution to the more than three-fold growth in crude oil production.



GEOGRAPHY OF OPERATIONS

NOVATEK's production facilities are located in the Russian Federation.

The Company's major production and processing assets are concentrated mostly in the Yamal-Nenets Autonomous Area (YNAO), one of the world's largest natural gas producing regions in terms of both reserves and production volumes. Geographically, the YNAO is the Company's core region.

Exploration and production

As at the end of the reporting year, the Company, its subsidiaries and joint ventures held a total of 39 subsoil licenses in the YNAO. Over the reporting year, the Company produced natural gas, gas condensate and crude oil at 13 fields.

Transportation and processing

The gas condensate produced at the fields is subsequently delivered through the Company's condensate pipelines to the Purovsky Plant located in the producing region. The Purovsky Plant produces stable gas condensate and light hydrocarbons. The bulk of stable gas condensate is transported by rail to be further processed at the Stable Gas Condensate Fractionation and

Transshipment Complex located at the Baltic port of Ust-Luga. All of NOVATEK's light hydrocarbons (used as feedstock for marketable LPG) have been transported by pipeline to SIBUR's Tobolsk Petrochemical Complex for further processing.

Sales

The Company sells all the natural gas it produces in the domestic market. During the reporting year, NOVATEK supplied natural gas to 35 regions of the Russian Federation.

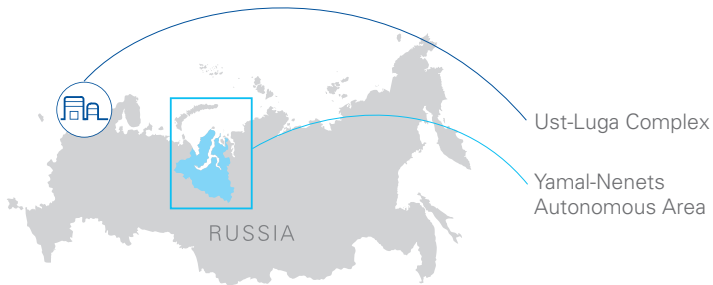
LPG and stable gas condensate are delivered to both domestic and international consumers, whereas substantially all of the petroleum products are exported (naphtha is shipped to Asia Pacific, and jet fuel, gasoil and fuel oil to North Western Europe).

Crude oil is sold both domestically and internationally.

Our production assets are located in Russia's YNAO, one of the world's largest natural gas producing regions in terms of both reserves and production volumes.

The Company has an extensive conventional resource base with a strong concentration of reserves and a huge geological potential.

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



39

Fields and license areas



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-Khancheyskoe field
9. Yaro-Yakhinskiy license area
10. Termokarstovoye field
11. Yarudeyskoe field

PROSPECTIVE FIELDS AND LICENCE AREAS

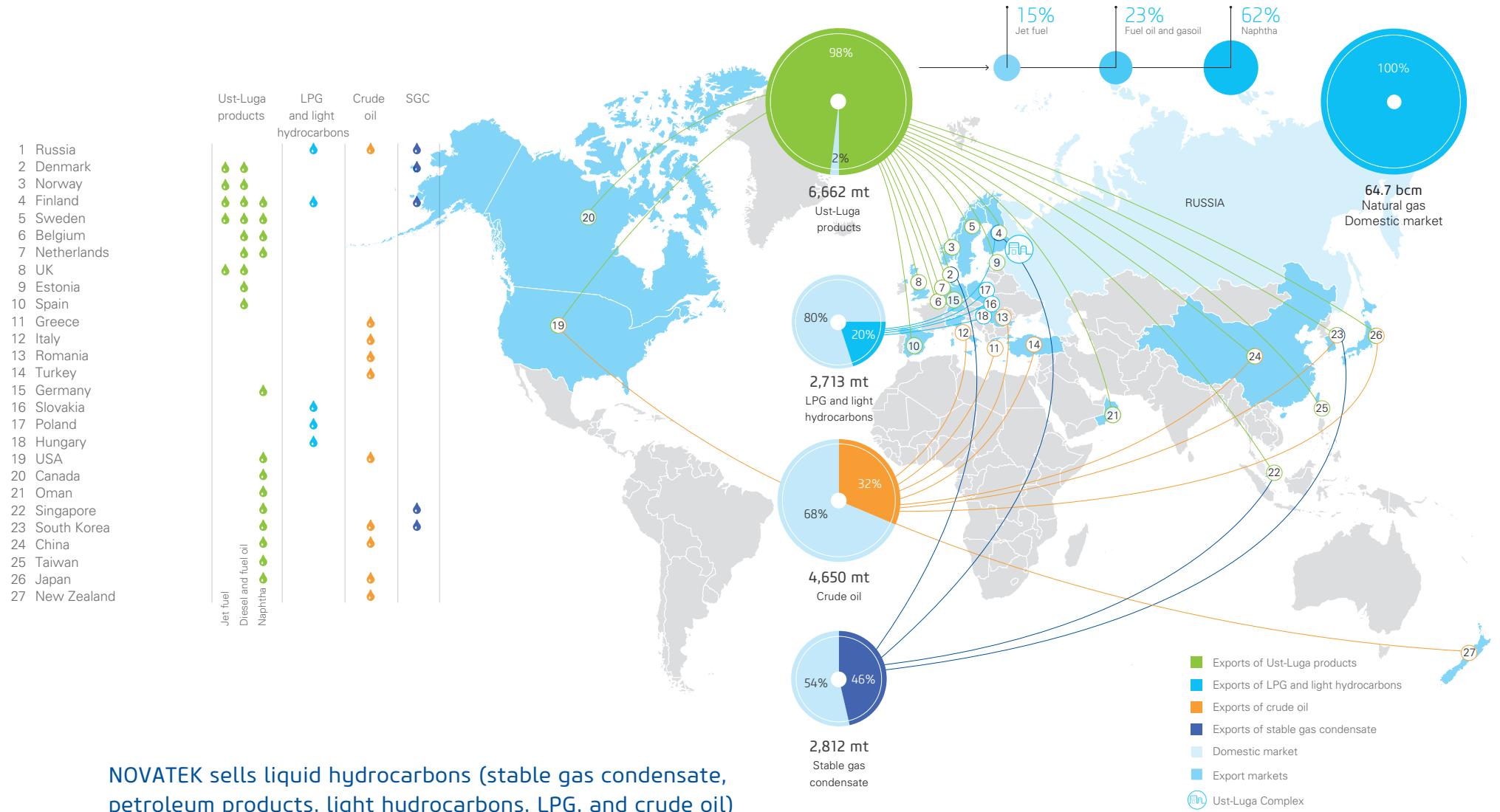
12. South-Tambeyskoye field
13. West-Yurkharovskoe field
14. Raduzhnoye field
15. West-Urengoyanskiy license area
16. North-Yubileynoye field
17. North-Russkiy license area
18. North-Russkoye field
19. Dorogovskoye field
20. Ukrainsko-Yubileynoye field
21. Malo-Yamalskoye field
22. West-Chaselskoye field
23. Yevo-Yakhinskiy license area
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. Trekhbugorniy license area
32. Nyakhartinskiy license area
33. Ladertoyskiy license area
34. Nyavuyakhskiy license area
35. West-Solpatinskiy license area
36. North-Tanamskiy license area
37. Tanamskiy license area
38. Kharbeykoye field
39. Syadorskiy license area



Purovsky Gas Condensate Stabilization Plant, key link in the production chain producing stable gas condensate.

— NOVATEK's gas condensate pipelines.

HYDROCARBON SALES GEOGRAPHY IN 2016



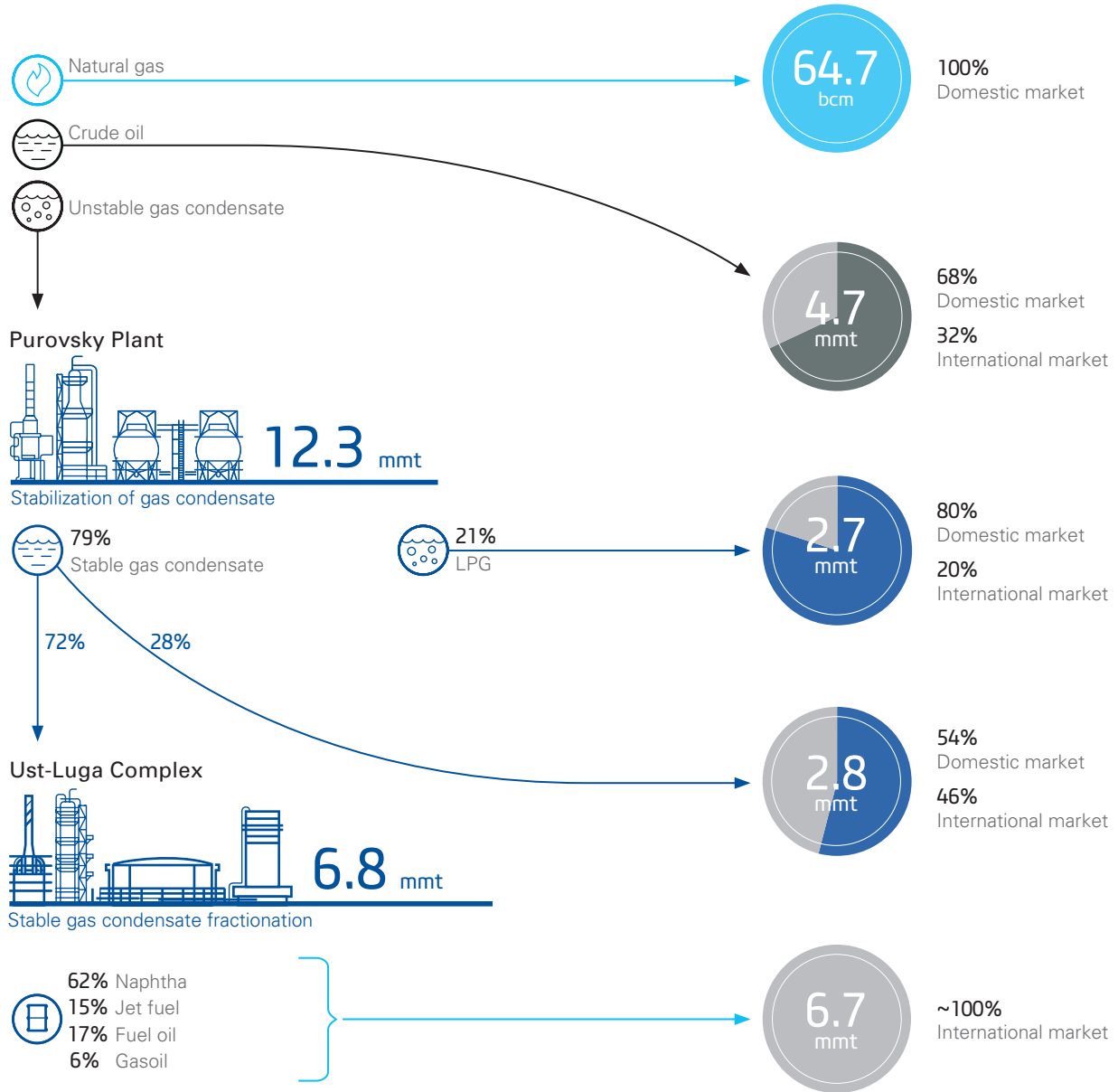
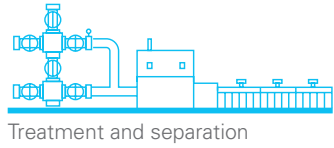
NOVATEK sells liquid hydrocarbons (stable gas condensate, petroleum products, light hydrocarbons, LPG, and crude oil) domestically and internationally.

THE COMPANY'S STRUCTURE AS AT 31 DECEMBER 2016

Hydrocarbon exploration and production	Downstream in Russia	Overseas upstream and downstream	Other
OOO NOVATEK-YURKHAROVNEFTEGAS 100%	OOO NOVATEK–PUROVSKY PLANT 100%	NOVATEK GAS&POWER GmbH 100%	OOO Sherwood Premier 100%
OOO NOVATEK–TARKOSALENEFTEGAS 100%	OOO NOVATEK–Ust-Luga 100%	NOVATEK Polska Sp. z o.o. 100%	OOO NOVATEK Scientific and Technical Center 100%
OAO Arcticgas 53.3%	OOO NOVATEK–Moscow Region 100%	Blue Gaz Sp. z o.o. 100%	NOVATEK EQUITY (CYPRUS) LIMITED 100%
ZAO Nortgas 50%	OOO NOVATEK–Kostroma 100%	NOVATEK Montenegro B.V. 100%	OOO NOVATEK–Transervice 100%
OOO YARGEO 51%	OOO NOVATEK–Chelyabinsk 100%	Novatek Gas&Power Asia Pte. Ltd. 100%	
OAO Yamal LNG 50.1%	OOO NOVATEK Perm 100%		
ZAO Terneftegas 51%	OOO NOVATEK–AZK 100%		
OOO NOVATEK–Yarsaleneftegas 100%			
OOO Arctic LNG 1 100%			
OOO Arctic LNG 2 100%			
OOO Arctic LNG 3 100%			

BUSINESS MODEL

Producing fields



OUR BUSINESS MODEL

Exploration and production

NOVATEK Group holds subsoil and production licenses permitting the Company to operate fields located in the Yamal-Nenets Autonomous Area and containing vast natural resources. We are ranked third globally by proven natural gas reserves. The Company's reserve to production (R/P) ratio is 24 years, providing a solid platform for our production growth.

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).

We have one of the lowest Finding & Development and Lifting costs among publicly traded oil & gas companies.

The Company is running commercial production at 13 fields, working to launch production at a number of new fields and implementing the Yamal LNG project (the first LNG project in the Russian Arctic).

Processing and transportation

NOVATEK Group produces wet gas, or natural gas containing gas condensate. After separation at the field, de-ethanized gas condensate is transported via the Company's gas condensate pipeline to the Purovsky Plant to be stabilized.

The plant's primary products are stable gas condensate and light hydrocarbons.

The bulk of stable gas condensate is transported by rail to the Stable Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga.

The Complex produces naphtha, jet fuel, gasoil, and fuel oil and provides transshipment capacity to ship stable gas condensate to global markets.

NOVATEK's products are supplied to customers by pipeline, rail, and sea.

Marketing and sales

The Company sells all the natural gas it produces in the domestic market, delivering the commodity to 35 Russian regions. NOVATEK accounts for almost a fifth of total domestic shipments via the Unified Gas Supply System.

The Company sells liquid hydrocarbons (stable gas condensate and its products, light hydrocarbons, LPG, and crude oil) both domestically and globally (Asia Pacific, Europe, and North America).

Sustainable development

NOVATEK adheres to the sustainable development principles and considers the welfare of its employees and their families, environmental and industrial safety, creation of a stable and favorable social environment, and contributing to overall economic development as its priorities and responsibilities.

NOVATEK has in place a Health, Safety and Environment (HSE) Policy, and all of the Company's major subsidiaries and joint ventures benefit from an Integrated Management System for Environmental Protection, Occupational Health and Safety (IMS).

NOVATEK provides financial support to indigenous minorities of the North.

NOVATEK's HR management framework is underpinned by fair and equitable treatment (including professional growth), mutual respect, and an ongoing dialogue between management and employees.

Strategic objectives:

- Grow the resource base and ensure effective reserve management
- Grow hydrocarbon production
- Maintain a low-cost structure

Strategic objectives:

- Maintain a low-cost structure
- Ensure high quality of products

Strategic objectives:

- Optimize and expand existing marketing channels; create new marketing channels
- Drive expansion into the international market for liquefied natural gas
- Maintain a low-cost structure

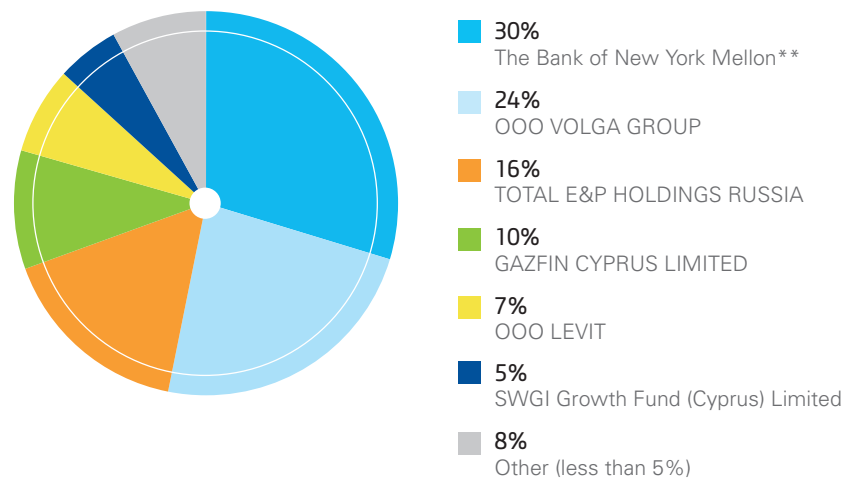
Strategic objectives:

- Maintain high level of social responsibility
- Ensure environmental and industrial safety

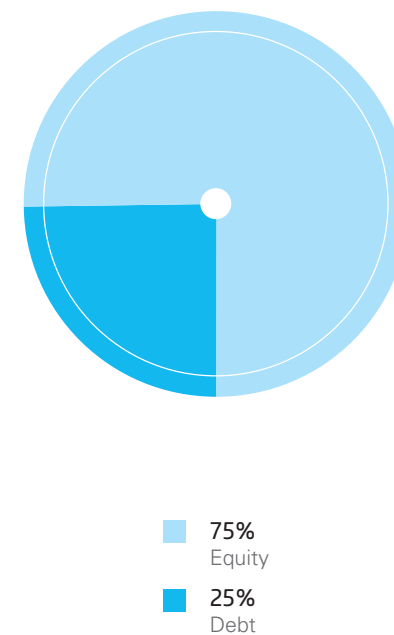
SHARE CAPITAL

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. Our shares are traded in Russian rubles on the Moscow Exchange. On the London Stock Exchange (LSE), NOVATEK's GDRs are traded in US dollars. Each GDR represents 10 ordinary shares. As at 31 December 2016, NOVATEK's GDRs were issued on 910,574,600 ordinary shares comprising 29.99% of the Company's share capital.

Shareholding structure*, %



Breakdown of NOVATEK's market capitalisation as at 31 December 2016



* According to the data contained in the list of persons entitled to participate in the General Meeting of Shareholders and holding at least 5% of ordinary shares. Record date is 6 September 2016.

**Foreign shareholding through GDRs.

At the end of the reporting year, the Company's total market capitalization (total debt plus equity) stood at RR 874,485 mln.

MEMBERSHIP OF TRADE ASSOCIATIONS

- Since 2003, NOVATEK has enjoyed membership of the Russian Gas Society, an NPO seeking to promote development of the gas industry.
- Since 2010, NOVATEK has been a member of the Association of Gas and Oil Complex Builders.
- Since 2016, NOVATEK has been participating in technical working groups of the Best Available Technologies Bureau of the Federal Agency for Technical Regulation and Metrology (Rosstandart), covering Natural Gas Production and Waste Disposal and Neutralization focus areas.

AWARDS

- In 2016, by Russian President's decree, one of NOVATEK Group's employees received the honorary title of the Distinguished Employee of the Russian Oil and Gas Industry, and five employees were awarded the honorary titles of the Distinguished Geologist of the Russian Federation.
- Together with NOVATEK Ust-Luga, the Company 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).
- NOVATEK Ust-Luga was awarded the Trusted Employer Certificate by the State Labor Inspectorate for the Leningrad Region as a company strongly committed to the labor rights of its employees.
- In 2016, NOVATEK won the MediaTEK all-Russia contest organized by the Russian Ministry of Energy, in the Modern Production and Fuel and Energy Sector Development category, and came in third in the Best Corporate Media category among the press services of federal companies active in the fuel and energy sector.

Key Performance Indicators

	Units	2014	2015	2016	Change, %
Total revenues	RR mln	357,643	475,325	537,472	13.1%
Normalized EBITDA (including share in EBITDA of JVs)*	RR mln	159,631	214,189	242,407	13.2%
Dividends paid	RR bln	31.3	41.0	42.2	2.9%
Staff headcount**	persons	9,248	10,408	11,536	10.8%
Proved hydrocarbon reserves (SEC)	mmboe	12,643	12,817	12,775	(0.3%)
Reserve to production ratio (SEC)	years	28	25	24	(4.0%)
Organic reserves replacement ratio	%	152	148	168	20 p.p.
Marketable production of natural gas	bcm	62.1	67.9	66.1	(2.7%)
Marketable production of liquid hydrocarbons	'000 tonnes	6,036	9,094	12,441	36.8%
Lifting costs	USD per boe	0.65	0.49	0.57	16.3%

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

** Employees for whom NOVATEK, its subsidiaries or joint ventures are primary employers.

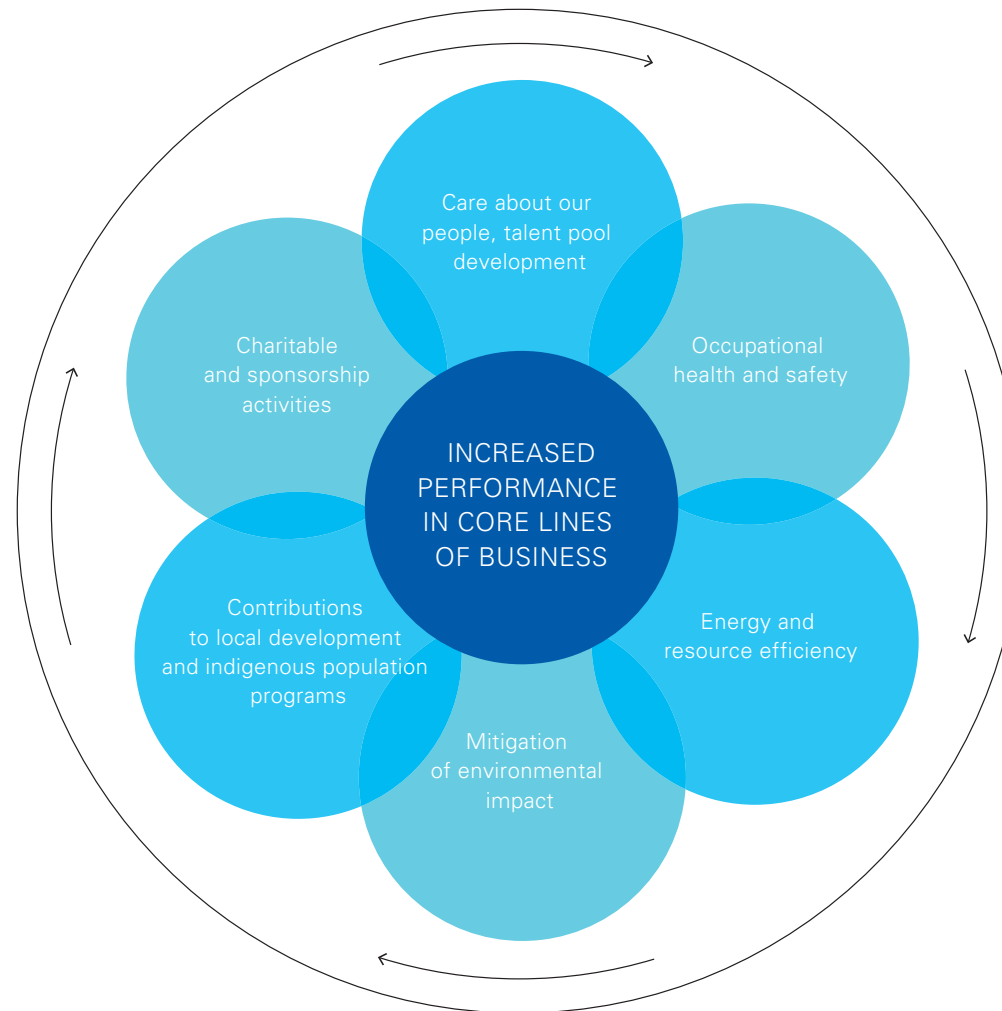
SUSTAINABILITY STRATEGY

As a major industrial company, NOVATEK is fully aware of its social and environmental responsibility related to the potential negative impact from the Company's operations. In line with its sustainable development agenda, NOVATEK acknowledges that its key areas of responsibility include the ecosystem within the Company's footprint (YNAO) and its stakeholder groups that are most affected by the Company's decisions. On top of that, the Company's performance affects international and domestic oil and gas markets and impacts the entire Russian economy.

The Group's management is committed to sustainable development principles and takes into account stakeholder interests. Striking the right balance between the environmental, social and economic performance ensures the Company's sustainable development in the long run.

The Company has adopted a consistent approach to social responsibility seeking to create safer workplaces, provide social support to its employees and their families, sustainably reduce accident rates, workplace injuries, occupational diseases, and create favorable social conditions across its footprint. NOVATEK's environmental efforts are focused on minimiz-

NOVATEK Group's sustainability focus areas



ing its negative impacts and implementing its proactive environmental protection strategy which is based on detailed analysis of environmental risks and continuous environmental monitoring.

NOVATEK has set its sustainable development objectives as follows:

- complying with the applicable Russian laws and adopting international best practices;
- respecting and taking into account stakeholder interests;
- improving corporate governance;
- enforcing ethical business conduct;
- maintaining a good business reputation;
- developing and implementing advanced technologies;
- factoring in the regional context;
- protecting environment;
- ensuring workplace safety;
- respecting human rights;
- ensuring information transparency.

Embedding sustainable development objectives into NOVATEK business activity

Economic performance	Environmental responsibility	Social responsibility
<ul style="list-style-type: none"> — contributing to the development of domestic gas market, national oil and gas industry and the entire Russian economy — contributing to the development of global oil and gas market — striking the balance between economic feasibility and stakeholder expectations 	<ul style="list-style-type: none"> — mitigating the environmental impact — ensuring sustainable subsoil use — ensuring resource efficiency — biodiversity preservation — complying with global environmental standards 	<ul style="list-style-type: none"> — assuming responsibility for workplace safety and health — ensuring staff development — creating social and economic benefits for people within the Company's footprint — supporting local communities — charitable and sponsorship activities

STAKEHOLDER ENGAGEMENT

BASICS OF STAKEHOLDER ENGAGEMENT

Stakeholder engagement is a priority mission within NOVATEK's sustainable development practices. We see efficient stakeholder engagement as an essential tool for our social responsibility performance.

Stakeholder identification

NOVATEK identifies stakeholders based on the extent to which they interact, share interests and communicate. The Company's business is not prone to critical material changes which could affect the number and list of stakeholders or the quality of engagement, and, therefore, stakeholder groups are invariable.

The Company's key stakeholders are:

- shareholders;
- investors and analysts;
- employees;
- trade unions;
- federal and local authorities;
- local communities across the Company's footprint;
- partners;
- suppliers and contractors;
- customers;
- civil society organizations;
- media;
- industrial and academic community.

Stakeholder engagement principles

As provided for by AA1000SES, NOVATEK's stakeholder engagement policy is based on the principles of materiality, inclusivity and responsiveness. We recognize our stakeholders' opinions, interests, expectations and concerns, and use a prompt and weighted response approach to address their queries and requests.

To meet our sustainable development objectives, in engaging with key stakeholder groups we pay close attention to their varying interests. We focus on aligning the Company's activities with stakeholder expectations, comments and feedback, while remaining committed to our strategic priorities.

To mitigate non-financial risks related to our stakeholders, the Company:

- identifies stakeholders;
- identifies and monitors risk situations;
- analyzes its stakeholder engagement;
- works on projects to ensure reasonable stakeholder engagement;
- maintains regular contact with stakeholders.

NOVATEK adheres to transparency principles and ensures timely disclosure of complete and accurate information on its core activities to stakeholders.

Key ways of engagement

The Company's stakeholder engagement is managed through a variety of ways and methods of communication.

To align our interests with those of our stakeholders on particular matters, we hold a direct dialogue and talks. Conventional ways of stakeholder engagement are:

- face-to-face meetings;
- telephone conversations;
- letters and emails;
- industry conferences;
- joint working groups and standing committees;
- meetings, workshops and round-table discussions;
- public hearings arranged or attended;
- surveys and questionnaires;
- non-profit organizations
- press conferences and press tours;
- disclosure: corporate website, annual reports, sustainability reports, press releases, booklets, articles and other information materials.

NOVATEK'S CODE OF BUSINESS CONDUCT AND ETHICS STAKEHOLDER ENGAGEMENT PRINCIPLES

Key stakeholder engagement principles are set out in the Company's Code of Business Conduct and Ethics and include the following:

- The Company facilitates competitive behavior, promotes mutual respect among market players, and avoids unfair competition practices and abuse of market position. The Company strictly complies with the local antitrust laws of the countries in which it operates, and abstains from unethical practices.
- The Company facilitates the development of long-term sustainable relations with its business partners. NOVATEK takes reasonable care to select partners and strives to do business only with reliable market players who operate in a lawful manner and prohibit discrimination, corruption and abasement of human dignity.
- One of the Company's priorities is to maintain consumer confidence, improve product quality, use cutting-edge technologies, and ensure timely delivery.
- NOVATEK strives to maintain an active and open dialogue with its shareholders, prospective investors and other stakeholders. The Company endeavors to mitigate the risks the investors and stakeholders are exposed to through the implementation of a strong corporate governance framework and timely, complete, fair and transparent disclosure of information regarding the Company's financial position and operations.
- NOVATEK avoids unlawful efforts to influence the decisions of governmental and/or local authorities.
- The Company does not, directly or indirectly, participate in political movements, parties or organizations.
- NOVATEK views cooperation with local communities as a key element of its corporate strategy, which relies on mutually beneficial and effective partnerships.
- The Company adheres to the policy of fostering social responsibility to its employees, their family members, local communities in the regions in which the Company operates, and society as a whole.

STAKEHOLDER ENGAGEMENT MATRIX

Stakeholders	Channels	Frequency	Key events in 2016	Focus areas
SHAREHOLDERS	Shareholder meetings	at least once a year	An Annual General Meeting of Shareholders held on 22 April 2016.	Profit distribution, dividend payout, annual report approval.
	Press releases and corporate action notices	all-year-round	Extraordinary General Meetings of Shareholders held on 20 June and 25 September 2016.	Appointment and remuneration of the Board of Directors and Revision Commission.
	Shareholder queries (via phone and mail)	all-year-round	Shareholder queries replied to; public information prepared and disclosed.	Introduction of amendments to the Charter and other internal regulations.
	Financial disclosures	quarterly		Approval of major transactions and related-party transactions.
	Annual and sustainability reports	annually		
	Corporate Secretary	all-year-round		
INVESTORS AND ANALYSTS	Press releases and corporate action notices	all-year-round	Financial results disclosure and conference calls held quarterly.	The Company's operating and financial performance.
	Financial results disclosure and conference calls	quarterly	30 key industry investment conferences attended. Apart from the conferences, over 320 meetings held in financial centers across the globe.	The Company's competitive position.
	Annual and Sustainability reports	all-year-round	61 press releases published.	Company and industry outlook.
	One-on-ones and group meetings, conference calls, group presentations	all-year-round	Investor and analyst queries replied to; public information prepared and disclosed. A site visit for investors and analysts arranged.	Sustainable development.
	Investor requests	ad hoc	Carbon Disclosure Project and Water Disclosure questionnaires completed. St. Petersburg International Economic Forum and Eastern Economic Forum attended. V Eurasian Investment Forum in Verona attended.	

Stakeholders	Channels	Frequency	Key events in 2016	Focus areas
	Participation in the Carbon Disclosure Project (CDP) and CDP Water Disclosure surveys	all-year-round		
	Site visits	ad hoc		
	Information update on the corporate website	all-year-round		
EMPLOYEES (including family members and retired employees)	In-person meetings of the management with employees	all-year-round	Implementation of social programs, pursuant to the approved Fundamental Concept of Social Policy.	Advanced training for staff.
	Corporate social programs	all-year-round	Workplace health and safety training and appraisal of employees.	Social benefits and guarantees.
	Collective bargaining agreements	all-year-round	Corporate newsletter and magazine published.	Workplace health and safety .
	Corporate media	all-year-round	Health resort treatment for employees arranged.	Employee compensation system improvement.
	Educational and advanced training programs	all-year-round	Evolution of Management Skills: from Process Management to Value Management forum held for the NOVATEK Group's managers.	
	Steps in Discovering Talents program for young specialists	annually	The 11th Interregional Research-to-Practice Conference for the Company's young specialists held.	
			Excursions for employees and their families to exhibitions and shows of partner museums, lectures on the history of art of XX–XXI centuries, and visits to theatres and classical music concerts organized.	
			Cultural and sports events for employees and their families held, corporate acrobatic rock'n'roll classes organized. They could also visit football matches played by the Russian national team, games of the Russian Volleyball Men's and Women's Championships, tournaments of the Association of Student Basketball teams, and acrobatic rock'n'roll and boogie-woogie competitions.	

Stakeholders	Channels	Frequency	Key events in 2016	Focus areas
	Developing and improving the Corporate Technical Competency Assessment System for various lines of business	all-year-round		
	Sustainability reports	annually		
	Security Hotline	daily round-the-clock		
	Cultural and sports events	all-year-round		
TRADE UNIONS	Discussion and signing of collective bargaining agreements	once every three years	Four (4) meetings with trade unions held, attended by the Company's management.	Performance under collective bargaining agreements. Workplace health and safety.
	Discussion and signing of addenda to collective bargaining agreements	ad hoc		Protection of employees' rights and interests.
	Participation of the Company's management in trade union committee meetings	all-year-round		
	Attendance of trade union conferences by the Company's management	all-year-round		
	Participation in joint Occupational health and safety committees	all-year-round		

Stakeholders	Channels	Frequency	Key events in 2016	Focus areas
	Joint efforts as regards recreational, sports and cultural events	all-year-round		
	Sustainability reports	annually		
GOVERNMENT AUTHORITIES	Contribution to law-making	all-year-round	Attending a meeting of the Government Commission on the Fuel and Energy Complex, the Reserve Replacement and Improving the Economy's Energy Efficiency.	Fuel and energy sector development in the current and future conditions. Preparation of the draft Energy Strategy of Russia Through 2035.
Federal	Engagement with working groups, meetings, round-table discussions, conferences, forums	all-year-round	<p>Interaction with the State Duma and the Federation Council of the Federal Assembly of Russia, which includes taking part in commission, committee, working group and expert council meetings, and other activities.</p> <p>Engagement with the Maritime Board of the Government of Russia.</p> <p>Attending meetings of the Russian-Asian Pacific and Russian-European intergovernmental commissions on energy, economic, industry and scientific-technical cooperation.</p> <p>Engagement with the State Commission for Arctic Development and the working groups on energy development, transport infrastructure development, regulatory base improvement, and social and economic development; participation in the activities of the interim working group on the Arctic shelf regulatory base improvement.</p> <p>Engagement with the working group on eliminating administrative barriers at the Government Commission on the Use of Natural Resources and Environmental Protection.</p> <p>Engagement with the Interdepartmental Commission on monitoring financial and economic performance of strategic oil and gas companies.</p>	<p>Preparation of proposals for the State Commission for Arctic Development.</p> <p>Developing the Arctic transport system.</p> <p>Energy efficiency and energy development.</p> <p>Eliminating administrative barriers in the subsoil and natural resource use.</p> <p>Implementation of the General Scheme for the Gas Industry Development Through 2030.</p> <p>Emissions reduction.</p> <p>Industrial safety.</p> <p>Replacement of mineral resources.</p>

Stakeholders	Channels	Frequency	Key events in 2016	Focus areas
			Taking part in the activities of the Interdepartmental Commission on Eliminating Administrative Barriers in Subsoil Use.	Draft Concept for Development of the Common Gas Market in the Eurasian Economic Union.
			Engagement with the Interdepartmental working group on reducing the dependence of the Russian fuel and energy sector on imported equipment, spare parts, accessories and software, as well as services of foreign providers, and developing the Russian oil and gas industry.	Protection of Northern indigenous peoples rights. Development and approval of Best Available Techniques (BAT) reference documents.
			Attending meetings of the Interdepartmental working group on drafting amendments to the laws pertaining to land property relations with respect to linear and infrastructure facilities.	Introduction of corporate GHG emissions management system.
			Engagement with working groups implementing the General Scheme of the Gas Industry Development through 2030 and amending the program to set up the unified gas production, transportation and supply system in Eastern Siberia and the Far East factoring in potential exports to China and other Asia Pacific countries.	
			Engagement with the Interdepartmental working group on developing the Program for Development of the Common Gas Market in the Eurasian Economic Union.	
			Engagement with the Expert group to set up a framework for government support to import-substitution product consumers under the Russian Ministry of Industry and Trade.	
			Cooperation with the Russian Gas Society.	
			Participation in the events organized by the Russian Union of Industrialists and Entrepreneurs.	
			Participation in the activities of the Coordinating Council for the Development of the Northern Territories and the Arctic Region of the Russian Union of Industrialists and Entrepreneurs.	

Stakeholders	Channels	Frequency	Key events in 2016	Focus areas
			<p>Participation in the activities of the Coordinating Council for preparation for and holding of the Year of the Environment in Russia in 2017 at the Civic Chamber of the Russian Federation.</p> <p>Participation in ENES 2016, the 5th International Forum on Energy Efficiency and Energy Development; 6th Arctic: Today and the Future International Forum; 4th International Legal Arctic Forum; Arctic Days in Moscow 2016 forum; 6th St. Petersburg International Legal Forum, and engagement with the forums' steering committees.</p> <p>Engagement with technical working groups of the Russian Best Available Techniques Bureau (BAT) at Rosstandart (Federal Agency on Technical Regulation and Metrology) involved in natural gas production and waste disposal and decontamination (other than thermal decontamination (incineration)).</p> <p>Implementation of the quadripartite Cooperation Agreement between NOVATEK, the Russian Ministry of Natural Resources and Environment, the Federal Supervisory Natural Resources Management Service and YNAO Government, in line with the Key Action Plan (the plan of the main events) for the Year of the Environment in Russia in 2017 .</p> <p>Attending Russian and international forums and competitions held by the Russian Ministry of Energy.</p> <p>Attending the St. Petersburg International Economic Forum and the Eastern Economic Forum.</p> <p>Engagement with government delegations at international business events.</p>	
Local	Interaction under cooperation agreements on social and economic development of local communities	all-year-round	Social and financial programs implemented under the agreements with the YNAO Government and Municipal Councils (in the Yamal, Tazovsky, Nadym, Purovsky and Krasnoselkupsky Districts, and Novy Urengoy), and Administrations of the Kostroma, Leningrad, Tyumen, Samara and Chelyabinsk Regions.	Economic development of regions. Living standards improvement, educational programs.

Stakeholders	Channels	Frequency	Key events in 2016	Focus areas
	Attending meetings, round-table discussions, conferences, forums, etc.	all-year-round	Participation in the Yamal Oil and Gas 2016 forum and exhibition. Media press tours and visits to the Company's facilities and interviews with the Company's experts arranged.	Utility and transport infrastructure development. Protection of Northern indigenous peoples rights.
	Disclosure of information on the Company's activities in the local media	all-year-round		Implementation of promising LNG projects. Company's activities, social programs.
LOCAL COMMUNITIES	Cooperation agreements on social and economic development of local communities	all-year-round	Targeted programs and targeted payments to indigenous minorities of the North (under the Agreements with the YNAO Government). Financial support provided to the Russian Association of Indigenous Peoples of the North, Siberia and Far East. Financial support provided to the Yamal for Descendants Association and its district branches.	Employment. Financing the construction and repairs of the utility and transport infrastructure. Preserving the national identity of Northern peoples.
	Interaction with associations of indigenous and minority peoples	all-year-round	Financing purchases of equipment and supplies for the indigenous peoples.	Supporting low-income population.
	Targeted support to welfare beneficiaries	ad hoc	Media press tours and visits to the Company's facilities and interviews with the Company's experts arranged.	Social programs. Interaction of industrial enterprises with indigenous peoples.
	Disclosure of information on the Company's activities in the local media	all-year-round	Participation in the 6th Arctic: Today and the Future International Forum, and Arctic Days in Moscow 2016 forum.	
	Population surveys	ad hoc		
	Sustainability reports	all-year-round		
	Security Hotline	round		
PARTNERS UNDER JOINT INITIATIVES	Cooperation agreements	all-year-round	Effective interaction under joint initiatives and cooperation agreements.	Joint ventures.
	Joint ventures	all-year-round		Partnership prospects.
	Shareholder meetings	all-year-round	Participation in the International Conference & Exhibition on Liquefied Natural Gas, held in Australia.	

Stakeholders	Channels	Frequency	Key events in 2016	Focus areas
	Management meetings	all-year-round	Participation in the LNG Producer-Consumer Conference, held in Tokyo.	
	Working group meetings	all-year-round		
	Security Hotline	daily, round-the-clock		
SUPPLIERS AND CONTRACTORS	Tenders	ad hoc, all-year-round	Meetings with oil and gas equipment producers.	Equipment specifications, pricing, delivery terms, supply chain management.
	Participation in trade shows, forums and other events	all-year-round	Participation in the 7th Integrated Safety and Security Exhibition 2016.	Industrial safety. Import substitution.
	Replies to queries received via the official website (see Sales and Tenders page)	all-year-round as per requests	Participation in the Neftegazsnab 2016 conference. Participation in the Neftegazstroy 2016 conference.	Relations with suppliers and contractors.
	Security Hotline	daily, round-the-clock		Industrial safety. Preventing abusive practices when signing contracts.
CUSTOMERS	Telephone enquiry service	daily	Queries received via the telephone enquiry service processed.	Service quality improvement.
	Customer Account service and Contact Us forms on the website	daily, round-the-clock	Questions on technical support of services and proposals on improving Customer Account replied to. Daily interaction with business customers arranged.	Customer support. Tariff regulation.
	Contact Information	all-year-round		Payment calculations.
	Security Hotline	daily, round-the-clock		Payment discipline.
	Counterparty Account service for business customers	daily, round-the-clock		Connection agreements. Gas supply agreements.
	Meetings on payment discipline	all-year-round		

Stakeholders	Channels	Frequency	Key events in 2016	Focus areas
CIVIL SOCIETY ORGANIZATIONS	Membership and cooperation	all-year-round	Cooperation with V. I. Vernadsky Non-Governmental Environmental Fund.	Preserving biodiversity and biological resources.
	Attending conferences, forums and other events	all-year-round	Cooperation with the World Wildlife Fund.	Environmental protection.
	Sustainability reports	annually	NOVATEK included in WWF-Russia's environmental responsibility rating of Russian oil and gas companies and ranked seventh.	Environmental aspects of the Sabetta seaport construction in the Gulf of Ob.
	Interaction with leading sports and cultural institutions	all-year-round	Cooperation with the Marine Mammal Council on preservation and study of the Atlantic walrus in the south-eastern Barents Sea and adjacent waters (within the Yamal LNG project).	Waste and water resource management in the oil and gas industry.
	Interaction with non-profit organizations	all-year-round	Participation in the Waste and Water Resource Management in the Oil and Gas Industry 4th annual national forum.	Sustainable development. Taxation.
	Philanthropic efforts	all-year-round	Participation in the Global Climate Challenge: Dialogue of the Government, Community and Business international conference.	Support and development of cultural projects.
	Volunteer movements	all-year-round	Participation in UN Agreement on Climate Change: The Role of Business in the Shaping of Climate Policy, a round-table discussion organized by the Russian National Committee of International Chamber of Commerce – the World Business Organization (ICC Russia). Attending working group meetings on biodiversity preservation at the UN House in Moscow. Cooperation with Carbon Disclosure Project (CDP) on carbon emissions and water use. Participation in activity of the Sub-committee on Taxation in oil and gas sector of the Committee on Energy Policy and Efficiency, The Russian Union of Industrialists and Entrepreneurs, and engagement with the Expert Council of The Chamber of Commerce and Industry of the Russian Federation on Tax regulations and law enforcement practice improvement.	Sports promotion. Philanthropy and sponsorship efforts. Provision of support and financing to orphanages and residential care facilities. Assistance in socialization of children deprived of parental care.

Stakeholders	Channels	Frequency	Key events in 2016	Focus areas
			<p>Participation in the Harmonization of Environmental Laws of OECD Member Countries and Russia round-table discussion held by the Russian Union of Industrialists and Entrepreneurs.</p> <p>Attending a meeting of the interdepartmental working group on Environmental Protection and Climate Change held by the Russian Ministry of Economic Development.</p> <p>Participation in the BUREAU VERITAS's Carbon Reporting: Emission Inventory and Carbon Footprint Assessment workshop.</p> <p>Participation in the Environmental Aspects of Continental Shelf Development round-table discussions held by Gubkin Russian State University of Oil and Gas.</p> <p>Attending the Ministry of Energy's meeting on Best Available Techniques (BAT) and classification of Environmentally Hazardous Facilities.</p> <p>Support of Russian museums, theaters and creative teams.</p> <p>Support to sports projects: title sponsorship of the Russian national football team.</p> <p>Blood donation drives organized for the patients of the Russian Children's Clinical Hospital.</p> <p>Support of foster homes with orphaned children, children suffering from various illnesses, and elderly people.</p>	
MEDIA	Press releases	all-year-round	61 press releases published.	<p>Coverage of the Company's activities and implementation of key projects.</p> <p>Company and industry outlook.</p>
	Press tours	all-year-round	Twelve visits arranged to the Company's regional production facilities and areas involved in the Yamal LNG Project.	
	Interviews and comments from top executives	all-year-round	In 2016, Leonid Mikhelson's (Chairman of the Management Board) interview was broadcast on Russia 24 and published in Kommersant and BIP (France).	
	Briefings and press conferences	all-year-round	Ten briefings for Russian and international media held.	
			40 comments on the Company's topical issues prepared.	

Stakeholders	Channels	Frequency	Key events in 2016	Focus areas
	Comments on and replies to media queries	all-year-round as per requests	Over 48,500 publications in Russian and international media appeared in 2016.	
	Articles and information materials for the media	all-year-round		
INDUSTRIAL COMMUNITY, including academic and research community	Attending conferences, forums, round-table discussions, etc.	all-year-round	Sponsorship of the St Petersburg International Economic Forum, International Cooperation in the Arctic: New Challenges and Vectors of Development conference, National Oil and Gas Forum, Trade and Industrial Dialogue Russia-Japan business-mission and exhibition, Eastern Economic Forum, and ENES 2016 (the 5th International Forum on Energy Efficiency and Energy Development).	The Company's promising projects. Development of the fuel and energy sector, along with the oil and gas industry in general.
	Attending joint sessions	as per requests	Attending meetings held by relevant ministries and agencies Participation in government delegations at international negotiations and meetings.	Economic performance.
	Partnerships	as per events calendar	Participation in the 18th International Conference & Exhibition on Liquefied Natural Gas, held in Australia.	Industrial safety.
	Cooperation with leading oil and gas universities	all-year-round	Technology Days–2016 industry forum organized (hosted by NOVATEK Scientific and Technical Center).	Competition development.
	Participation in the Association of Gas and Oil Complex Builders	all-year-round	Supporting studies of gas shows on the Yamal Peninsula, causes and mechanisms of crater formation, and The Arctic Floating University-2016 expedition. NOVATEK-VUZ program implementation. Membership in the Association of Gas and Oil Complex Builders. Participation in the International Conference & Exhibition on Liquefied Natural Gas, held in Australia. Participation in the LNG Producer-Consumer Conference, held in Tokyo.	

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES

To ensure maximum operating efficiency, NOVATEK seeks to adopt best corporate governance practices. The quality of governance does not only impact the economic performance, but also sustainable development, social and environmental policy dimensions, as well as the Company's reputation.

NOVATEK has established an effective and transparent system of corporate governance complying with both Russian and international standards.

The Company's corporate governance draws heavily on the principles and approaches set forth in the following documents:

- Russian laws;
- Corporate Governance Code (as recommended by the Central Bank of Russia);
- UK Corporate Governance Code (former Combined Code on Corporate Governance) issued by the UK Financial Reporting Council;
- NOVATEK's Corporate Governance Code;
- NOVATEK's Code of Business Conduct and Ethics;
- NOVATEK's Charter.

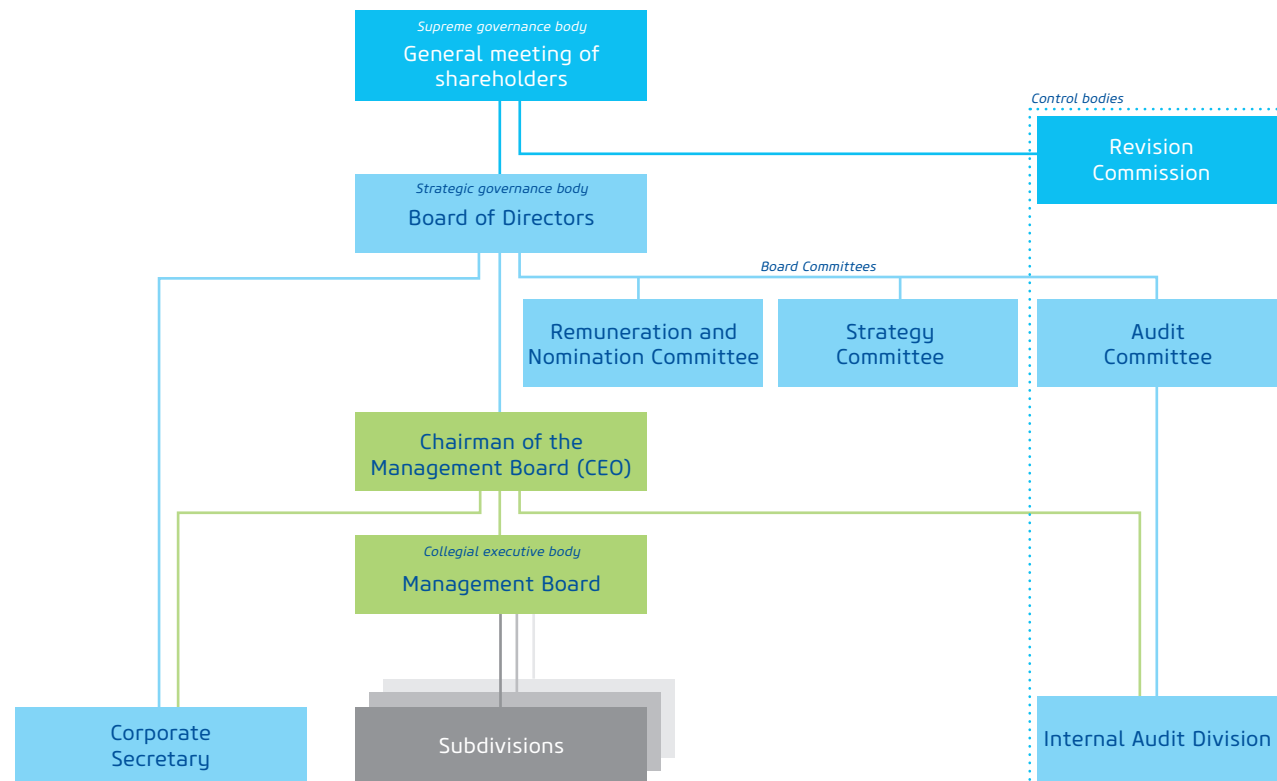
NOVATEK's corporate governance practices make it possible for its executive bodies to effectively manage day-to-day operations in a reasonable manner acting in good faith and solely to the benefit of the Company and its shareholders.

Placed on an equal footing with the other lines of business, sustainable development and corporate social responsibility are viewed as strategic and operational management focus areas.

CORPORATE GOVERNANCE STRUCTURE

NOVATEK's corporate governance system includes the General Meeting of Shareholders, the Board of Directors, the Board Committees and the Management Board, internal control and audit bodies.

NOVATEK's corporate governance structure



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 dated 28 March 2005), as amended.

The General Meeting of Shareholders is responsible for the approval of annual reports, annual accounting (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 and annual accounting (financial) statements prepared under Russian Accounting Standards (RAS);
- approved profit distribution and the amount of dividends for 2015;
- elected the Board of Directors and the Revision Commission;

- determined the remuneration payable to the members of the Board of Directors and the Revision Commission;
- approved an external auditor for 2016;
- approved related party transactions.

On 30 September 2016, the Extraordinary General Meeting of Shareholders:

- approved the amount of interim dividend for 1H 2016;
- approved amendments to the Charter and other internal documents governing the activity of the Company's bodies.

Board of Directors

The activity of the Board of Directors (the Board) 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 dated 17 June 2005), as amended.

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 NOVATEK's strategy and priority lines of business, endorses long-term and annual business plans, reviews financial performance, internal controls, risk management and other matters reserved for the Board, including optimization of corporate and capital structure, approval of major transactions, making decisions on investment projects, preparing recommendations on the size of dividend per shares and its payout procedure, and convening the General Meeting of Shareholders. The members of the Board are elected by the General Meeting of Shareholders.

The current members of the Board were elected at the Annual General Meeting of Shareholders on 22 April 2016. The Board of Directors comprises nine (9) members, of which eight (8) are non-executive directors, including three (3) directors that 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 the 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 the Company's senior management to enable them to acquire a detailed understanding of the Company's business activities, strategy, and key risks. Directors also 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 as set out in the Regulations on the Corporate Secretary (Minutes No. 168 dated 28 April 2014, as amended).

In 2016, there were no changes in the membership of NOVATEK's Board of Directors.

Pursuant to the recommendations of the Corporate Governance Code and the Listing Rules of the Moscow Exchange, three (3) of the nine (9) members elected to the Board were independent directors.

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 relevant Regulations on Committees approved by the Board of Directors and available on the Company's website.

The Committees play a vital role

in ensuring that the high standards of corporate governance are maintained across 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 subdivisions. For the purpose of considering any matters being within their competence, the Committees may engage experts and advisors having necessary professional knowledge and skills.

Strategy Committee

The primary functions of the Strategy Committee are to determine strategic objectives of the operations, control strategy implementation, and prepare recommendations on the dividend policy.

To support the members of the Board in discharging their duties, the Strategy Committee is responsible, inter alia, for:

- evaluation of the long-term effectiveness of the Company's operations;
- preliminarily review and recommendations on the Company's participation in other organizations;
- assessment of voluntary and mandatory offers to acquire the Company's securities;
- consideration of the financial model and business valuation of the Company and its business segments to prepare recommendations to the Board of Directors for making decisions on determining business priorities of the Company;

COMMITTEE MEMBERSHIP:

Chairman:

- [Alexander E. Natalenko](#)

MEMBERS:

- [Andrei I. Akimov](#)
- [Burckhard Bergmann](#)
- [Michael Borrell](#)
- [Gennady N. Timchenko](#)

BoD MEMBERS AS AT 31 DECEMBER 2016

Directors / Position and tenure as a BoD member	Other important positions and titles
<p>Alexander E. Natalenko Board Chairman since 2004</p>	<p>Board member at Rosgeologia. Recipient of the State Prize of the Russian Federation and an Honored Geologist of Russia. Former Deputy Minister of Natural Resources of the Russian Federation.</p>
<p>Andrei I. Akimov Since 2006</p>	<p>Chairman of the Management Board at Gazprombank. Member of Board of Directors / Supervisory Board at Gazprom, Gazprombank, Rosneft Oil Company, ROSNEFTEGAZ, etc.</p>
<p>Burckhard Bergmann Since 2008</p>	<p>Chairman of the Supervisory Board at Accumulatorenwerke HOPPECKE Carl Zoellner & Sohn GmbH, a member of Supervisory Board at Contilia GmbH, a member of Advisory Board at Dana Gas, a member of the Board of Trustees at RAG-Stiftung. Foreign Member of the Russian Academy of Technological Sciences, Honorary Consul of the Russian Federation in the German State of North Rhine-Westphalia. Holds multiple honorary titles and distinctions, including Commander of the Royal Norwegian Order of Merit, Order of Merit of the State of North Rhine-Westphalia, Officer's Cross of the Order of Merit of the Federal Republic of Germany, Russian Order of Friendship for significant contribution to the development of the Russian-German relations.</p>

- preparation of recommendations to the Board of Directors on transactions subject to approval by the Board of Directors; and
- preparation of recommendations to the Board of Directors on the Company's policy for 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 are to develop an efficient and transparent practice for remuneration of members of the Company's management, enhance professional expertise and improve the Board of Directors' effectiveness.

COMMITTEE MEMBERSHIP:

Chairman:

- Victor P. Orlov

MEMBERS:

- Robert Castaigne
- Andrei V. Sharonov

To support the Board of Directors, the Committee is responsible for:

- development and regular review of the Company's policy on remuneration of the members of the Board of Directors, members of the collegial executive body and the sole executive body of the Company, overseeing its implementation and delivery;
- preliminary assessment of the performance of the Company's executive body for the year, in line with the Company's remuneration policy;
- annual detailed and formalized self-assessment or external assessment of the Board of Directors, its members, Committees of the Board of Directors, determination of the priority areas for strengthening the Board of Directors' membership;
- interaction with shareholders, which shall not be limited to major shareholders only, to generate recommendations to the shareholders on voting on the election of nominees to the Company's Board of Directors;
- planning appointments of members of the executive body and the sole executive body, including succession planning; and

Directors / Position and tenure as a BoD member	Other important positions and titles
<p>Michael Borrell Since 2015</p>	<p>Since 1995, held a number of senior managerial positions at Total.</p>
<p>Robert Castaigne Independent director since 2015</p>	<p>Member of Boards of Directors at Sanofi, VINCI, and Societe Generale. Chevalier of the National Order of the Legion of Honor of the French Republic.</p>
<p>Leonid V. Mikhelson Executive director since 2003</p>	<p>Chairman of the Management Board of NOVATEK (CEO) and of the Board of Directors at SIBUR Holding. Holder of the Russian Order of the Badge of Honor, II Degree Order for Merits and Dedicated Service to the Country and honorary title of the Distinguished Gas Specialist.</p>

- supervision over disclosure of information on NOVATEK's shares owned by the members of the Board of Directors and Management Board, and other key managers.

In corporate year 2016, the Remuneration and Nomination Committee met four (4) times.

Audit Committee

The primary function of the Audit Committee is to control financial and operating activities of the Company. To support the Board members in performing their control functions, the role of the Committee includes, inter alia, assessment of accuracy and completeness of the Company's annual financial

COMMITTEE MEMBERSHIP:

Chairman:

- [Andrei V. Sharonov](#)

MEMBERS:

- [Robert Castaigne](#)
- [Victor P. Orlov](#)

statements, the proposed auditor, the auditor's report, and the efficiency of the Company's internal controls and risk management.

The Audit Committee closely collaborates with the Revision Commission, the external auditor and executive bodies of the Company, regularly inviting NOVATEK's managers responsible for the preparation of accounting (financial) statements to attend the Committee's meetings.

In corporate year 2016, the Audit Committee met four (4) times.

Directors / Position and tenure as a BoD member	Other important positions and titles
<p>Victor P. Orlov Independent director since 2014</p>	<p>Professor, Doctor of Economics, PhD in Geological and Mineralogical Sciences, Distinguished Geologist of the Russian Soviet Federative Socialist Republic. Served as Chairman of the Russian Committee on Geology and Mineral Resources, Russian Minister of Natural Resources, First Deputy Chairman and Chairman of the Federation Council's Committee on Natural Resources and Environmental Protection. Recipient of the State Prize of the Russian Federation for Science and Technology. Holds IV Degree Order for Merits and Dedicated Service to the Country and 18 non-governmental awards, including three letters of acknowledgement from the President and a certificate of merit from the Government of the Russian Federation.</p>
<p>Gennady N. Timchenko Since 2009</p>	<p>Member of the Board of Directors at SIBUR Holding, Chairman of the Board of Directors and President of the St. Petersburg SKA Ice Hockey Club, Chairman of the Board of Directors at the Kontinental Hockey League, member of the Board of Trustees at the Russian Geographical Society, Chairman of the Russian delegation to the Russian-Chinese Business Council, Vice-President of the Russian Olympic Committee, Chairman of the Economic Council under the Franco-Russian Chamber of Commerce and Industry (CCIFR).</p>
<p>Andrei V. Sharonov Independent director since 2014</p>	<p>President of the Moscow School of Management SKOLKOVO. Advisor to the Mayor of Moscow. Chairman of the Board of Directors at OOO Management Company NefteTransService. Member of the Board of Directors of PAO Sovcomflot, member of the Supervisory Board of the Bank VTB (PAO). Held various positions (including Deputy Minister) in the Ministry of Economic Development and Trade of the Russian Federation, served as Deputy Mayor of Moscow for Economic Policy.</p>

Management Board

The 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. For more information on the Management Board's competence see 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 reports to the Board of Directors and the General Meeting of Shareholders. The Chairman of the Management Board is responsible for leading the Board, ensuring its effectiveness and organizing its meetings, as well as for implementing decisions of the General Meeting of Shareholders and the Board of Directors. The Management Board acting as of 31 December 2016 was elected by the Board of Directors on 30 August 2012 (Minutes No. 150 dated 30 August 2012), 12 March 2015 (Minutes No. 173 dated 12 March 2015), and 10 March 2016 (Minutes No. 184 dated 10 March 2016). As at 31 December 2016, the Management Board comprised twelve (12) members.

MEMBERSHIP OF THE MANAGEMENT BOARD AS AT 31 DECEMBER 2016:

- Leonid V. Mikhelson**
Chairman of the Management Board
- Alexander M. Fridman**
First Deputy Chairman of the Management Board
- Vladimir A. Baskov**
Deputy Chairman of the Management Board
- Viktor N. Belyakov**
Deputy Chairman of the Management Board for Economics and Finance
- Mark Anthony Gyetvay**
Deputy Chairman of the Management Board
- Oleg V. Karpushin**
Deputy Chairman of the Management Board – Operations Director
- Tatyana S. Kuznetsova**
Deputy Chairman of the Management Board – Director of the 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 of the Management Board – Commercial Director
- Denis G. Khramov**
Deputy Chairman of the Management Board
- Kirill N. Yanovskiy**
Director of Finance

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

The procedure for calculating remuneration and compensations payable to members of NOVATEK's Board of Directors is set out in the Regulations on Remuneration and Compensations Payable to Members of the Board of Directors approved by the Annual General Meeting of Shareholders of NOVATEK (Minutes No. 122 dated 24 April 2015). According to the Regulations, remuneration includes:

- fixed remuneration;
- remuneration for attending meetings of the Board of Directors; and
- remuneration for attending meetings of the Board of Directors' Committees.

Fixed remuneration payable to members of the Board of Directors amounts to RR 10 mln per corporate year. The Chairman of the Board of Directors is paid a fixed remuneration for the performance of his functions in the amount of RR 20 mln per corporate year. Remuneration payable to members of the Board of Directors for the discharge of their functions is limited to RR 3 mln per corporate year. Members of the Board of Directors also receive remuneration for attending meetings of the Board of Directors' Committees, which is limited to RR 2 mln per corporate year. Directors are also compensated for travel and lodging expenses related to the discharge of their functions.

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

Remuneration of members of NOVATEK's Board of Directors and Management Board in 2016, RR mIn

	Board of Directors*	Management Board
Total paid, including	133.38	1,996.5
Salaries	–	682.0
Bonuses	–	1,274.3
Fees	132.4	–
Other property advancements	0.98	40.2

* Some members of NOVATEK's Board of Directors also serve as members of the Management Board. Payments to such members for their serving on the Management Board are included in the total payments to members of the Management Board.

INTERNAL CONTROL AND AUDIT

NOVATEK has in place a system for internal control over financial and business operations, in line with international best practices. The process of internal control is an integral part of the risk management process.

The system of internal control includes 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 NOVATEK, its subsidiaries and joint ventures, including their subdivisions and business processes.

To prevent corruption, mitigate compliance, operational and reputation risks, the Company adopted the Anti-Corruption Policy and the Regulations on Risk Management and Internal Control System approved by the Board of Directors on 1 September 2014 (Minutes No. 170 dated 1 September 2014).

Revision Commission

The Revision Commission comprises four (4) members who are elected by the Annual General Meeting of Shareholders for a period of one year. The authority of the Revision Commission is governed by Russian Federation Law No. 208-FZ On Joint Stock Companies dated 26 December 1995, and matters not provided for by the law are regulated by the Company's Charter and the Regulations on the Revision Commission approved by the General Meeting of Shareholders in 2005 (Minutes No. 95 dated 25 March 2005).

The Revision Commission audits the Company's financial and business performance for the year or for any other period as may be decided by its members or other persons authorized to initiate audits in line with the laws of the Russian Federation 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 in-house audit of the Company's financial and business operations in 2016. Based on the audit work performed, the Commission prepared and submitted to the Annual General Meeting of Shareholders its findings on the reliability of the data

contained in the Company's 2016 accounting (financial) statements prepared under RAS and the Company's 2016 Annual Report.

Internal audit

To ensure a consistent and independent assessment of the reliability and effectiveness of the risk management and internal control system, as well as of corporate governance practices, the Company performs internal audits of its operations. The internal audit function is implemented by the independent Internal Audit Division, which has operated continuously since 2005.

The Internal Audit Division reports to the Board of Directors and is guided by International Standards for the Professional Practice of the Internal Auditing of Institute of Internal Auditors. The Division also adheres to the principles and rules of conduct stated in the Code of Ethics for internal auditing of the Institute of Internal Auditors. In 2016, the Board of Directors approved NOVATEK's Internal Audit Policy (Minutes No. 192 dated 26 August 2016).

The Internal Audit Division operates on the basis of an annual plan of audits approved by the Audit Committee and prepared under combined risk-based and cyclic approaches. According to the results of audits, it develops measures to mitigate identified risks

and optimize financial and business operations. Implementation of these 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 revision commissions of the Company's subsidiaries and joint ventures.

External Auditor

The Annual General Meeting of Shareholders appoints an external auditor to conduct independent review of NOVATEK's accounting (financial) statements. The Audit Committee prepares recommendations to the Company's Board of Directors on a proposed external auditor and the price of its services. Based on the Committee's recommendations, the Board proposes the auditor for consideration and approval by the Annual General Meeting of Shareholders.

PricewaterhouseCoopers Audit (an internationally recognized audit firm) was chosen as the Company's external auditor to conduct the audit of the annual accounting (financial) statements for 2016 pre-

pared under RAS, as well as independent reviews of the Company's quarterly financial statements and audit of the annual financial statements prepared under IFRS.

When selecting the auditor, attention is paid to the level of its expertise, independence, possible risk of any conflict of interest, terms of the contract, and the amount of expected remuneration.

The Audit Committee oversees the external auditor's independence and objectivity, as well as the quality of the audit conducted. The Committee annually submits to the Board of Directors the results of review and assessment of the audit opinion on the Company's accounting (financial) statements. The Audit Committee meets with the auditor's representatives at least twice a year.

NOVATEK's management 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 under IFRS for 2016.

RISK MANAGEMENT

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

NOVATEK has in place and continuously develops a multilevel system of risk management. 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 set out in NOVATEK's Regulations on Risk Management and Internal Control System approved by the Board of Directors on 1 September 2014 (Minutes No. 170 dated 1 September 2014), as amended.

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

The list of major sustainability risks is provided below. For more details on approaches to risk management see NOVATEK's 2016 Annual Report.

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.

OPERATIONAL RISKS

- Risks of emergencies and incidents
- Monopoly risks
- Competitive risks
- Commodity price risks
- Geological risks
- Risk of early termination, suspension or restriction of the right to use subsurface mineral resources
- Environmental risks
- Project risks
- Ethical risks
- Social risks
- Terrorism risks
- Country risk
- Regional risk
- Information technology and information security risks (cyber risks)

Obligatory risk insurance

The Company, 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 vehicles

Optional risk insurance

To mitigate the risk of finan-

cial losses, the Company, its subsidiaries and joint ventures 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 (business risk);
- insurance of risks associated with prospecting, exploration and production (risk of loss of control over a well); and
- management liability insurance.

FINANCIAL RISKS

- Credit risk
- Reinvestment risk
- Interest risks
- Currency risks
- Liquidity risk
- Inflation risk

LEGAL RISKS

- Risk of law changes
- Litigation risks
- Risk of sanctions

Since 2013, the Company has in place an ongoing comprehensive program of property and business risk insurance for key assets of the Company, its subsidiaries and joint ventures. As at the end of 2016, the cumulative insured amount for the risks of property damage and business interruption totaled RR 512 bln. 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 actions (or decisions) made by their management bodies. The overall limit of all insurance coverage is Euro 120 mln.

ETHICS AND INTEGRITY

NOVATEK puts great emphasis on ethics and fair play. The Company has adopted three key documents: Corporate Governance Code (adopted in 2005), Code of Business Conduct and Ethics (adopted in 2011), and Anti-Corruption Policy (adopted in 2014).

Corporate Governance Code

Corporate governance is viewed as a means of enhancing NOVATEK's performance, developing a uniform corporate culture, bolstering reputation and reducing the cost of capital. The Corporate Governance Code is a body of corporate conduct principles.

Code of Business Conduct and Ethics

The Code of Business Conduct and Ethics sets out business ethics guidelines for the Company's employees providing recommendations on prescribed behavior in ethically challenging and non-standard situations.

Anti-Corruption Policy

NOVATEK strictly abides by the anti-corruption laws of Russia and other countries, in which it operates. With NOVATEK's shares traded on the London Stock Exchange, the Company complies with the requirements of the UK Bribery Act 2010. In order to promote the Group's credibility, improve compliance of its practices with applicable anti-corruption laws, and minimize corruption risks, in 2016, the Company continued creating a unified mechanism to prevent corruption and corporate fraud.

In accordance with the Company's Anti-Corruption Policy adopted in 2014 and Anti-Corruption Action Plans for 2014–2016, a set of measures was undertaken in 2016 aimed at preventing potential corrupt practices that involve employees of the Company, its subsidiaries and joint ventures, counterparties, government and municipal authorities, NGOs and other persons.

Anti-corruption policies have been adopted by all subsidiaries and joint ventures, with dedicated employees and subdivisions in charge of their implementation.

All managers and employees of the Company, its subsidiaries and joint ventures were informed about the adoption of the Anti-Corruption Policy by signing it. They also assume (by signing) commitments to refrain from any actions that can be deemed an act of corruption. Anti-corruption requirements and limitations are included in the employment contracts and job descriptions of all employees.

An interactive online course called the Basics of the Company's Anti-Corruption Policy and Anti-Corruption Practices for Employees was developed to train employees of the Company, its subsidiaries and joint ventures.

On a regular basis, employees can obtain advice on how the Anti-Corruption Policy is implemented in practice, including gift giving and receiving, making charitable contributions, engaging in sponsorship programs, and handling confidential information.

An anti-corruption clause is included into all contracts with third parties to inform them about the Company's Anti-Corruption Policy and make sure they undertake to comply with all applicable anti-corruption laws when performing their contractual obligations.

The Company's official website contains the Anti-Corruption Policy in both Russian and English for all stakeholders to access.

The Company has in place a Security Hotline that any stakeholder can use to report known cases of corruption or any other concerns. The Security Hotline is available on the Company's and other websites, information boards in the offices, production areas and living camps of its subsidiaries and joint ventures.

The person in charge of implementing and overseeing the measures aimed at preventing corruption across the Company, its subsidiaries and joint ventures is the Anti-Corruption Advisor.

The anti-corruption efforts taken in the reporting year and the Anti-Corruption Action Plan for 2016–2017 were discussed and approved by the Audit Committee on 25 August 2016.

Prevention of conflicts of interest

NOVATEK's internal policies seek to eliminate any potential conflict of interest. The Company's managers and employees are expected to advocate the supremacy of corporate interests separating their personal interests (interests of their family, friends, etc.) from decision-making.

Should their personal and corporate interests become incompatible, NOVATEK's managers and employees are obliged to report on that straight away. They are also supposed to refrain from all forms of competition with the Company in business and investment projects. The Company's officers are not allowed to pursue any property or financial interests in competitor businesses. They are advised to refrain from conducting related-party transactions. The Company also seeks to avoid conflicts of interest caused by giving/receiving gifts, services or any other benefits.

In 2016, the Company adopted a conflict of interest (absence of conflict of interest) disclosure practice obligating all officers to complete conflict of interest declarations designated by the Company's relevant regulatory document.

MEMBERS OF THE BOARD OF DIRECTORS SHALL:

- promptly give the Chairman of the Board a written notification of personal or commercial interests in all transactions, including those involving the Company's securities;
- duly disclose their jobs with other companies and third-party business interests that might prevent such members from effective discharge of their duties and responsibilities.

MEMBERS OF THE MANAGEMENT BOARD SHALL:

- notify the Management Board of personal interests in transactions to which the Company is or intends to be a party, before such transactions are decided upon;
- set up or manage no business entities competing with NOVATEK, except as allowed by the Board of Directors.

Confidentiality

NOVATEK treats information confidentiality as one of its key stability factors. Disclosures are made in full compliance with the applicable law, the Company's Charter and internal regulations.

The Company maintains confidentiality agreements with all its counterparties.

Insider information

NOVATEK has strict insider information regulations in place enacting effective compliance controls in line with the Russian Federal Law on Preventing Misuse of Insider Information and Market Manipulation and Amending Select Legislative Acts of the Russian Federation.

Protection of property and its appropriate use

Embezzlement, mala fide practices and squander have a direct negative impact on NOVATEK's profitability and reputation. The employees are hence obliged to make an efficient and reasonable use of the Company's property, capacities and financial resources.

37%

INCREASE OF LIQUID HYDROCARBON PRODUCTION TO RECORD LEVEL OF 12.4 MMT WAS THE MAIN DRIVER OF TOTAL HYDROCARBON PRODUCTION GROWTH



ECONOMIC PERFORMANCE AND SUSTAINABILITY

ECONOMIC PERFORMANCE

Economic stability

NOVATEK strives to ensure the highest business integrity and performance and to build its development strategy based on economic feasibility and optimization of production processes.

The main competitive edge of the Company is the high quality of its hydrocarbon resource base. Together with effective reserve management and use of cutting-edge technologies it enables NOVATEK to maintain low development and lifting costs resulting in high profitability of the Company's operations.

NOVATEK's other key competitive advantages include:

- size and structure of its hydrocarbon resource base;
- close proximity of producing fields to existing infrastructure;
- well-developed customer base for natural gas sales;
- own facilities for gas condensate processing and product exports;
- well-developed marketing channels for liquid hydrocarbons;
- increased operational flexibility;
- focus on use of leading-edge technologies in production and management practices.

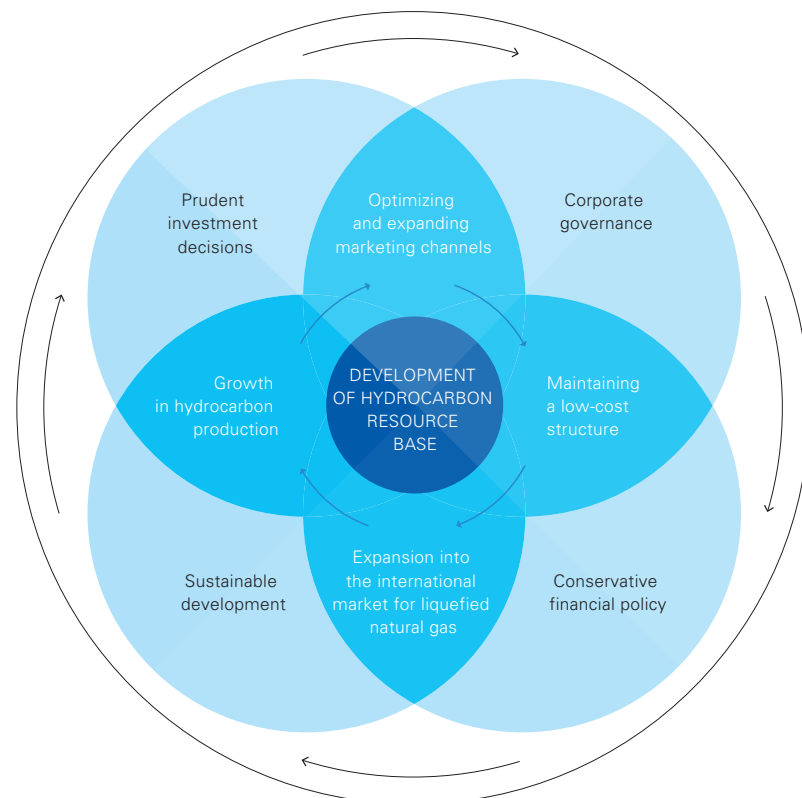
In 2016, the Company continued to grow from strength to strength: total hydrocarbon production increased by 3% to 537 mmmboe. Driving this growth was the record level of liquid hydrocarbon production of 12.4 mmt, an increase of 37%, allowing us to fully load our gas condensate processing facilities at the Purovsky Plant and the Ust-Luga Complex.

In 2016, we successfully completed the first phase of business transformation by evolving from a pure domestic gas business to production, processing and global marketing of liquid hydrocarbons. Now, we enter a new phase of transformation with exciting prospects to grow the Company into a global player in the LNG market.

2016 was a challenging year for the oil and gas industry due to a number of negative factors and a challenging macroeconomic environment, including volatility in global hydrocarbon prices and foreign exchange rates.

NOVATEK was able to mitigate and offset the negative impacts of these factors on its operations thanks to its balanced financial policy, rapid growth in liquid hydrocarbon production and full utiliza-

NOVATEK's strategic priorities



tion of its vertically integrated gas condensate production chain. The Company reported growth in its key financial metrics as total revenues increased by 13.1% to RR 537 bln, and normalized EBITDA (including proportionate share in EBITDA of joint ventures) grew by 13.2%, hitting an all-time high of RR 242 bln.

The Company considers sustainable development as one of the key factors driving its economic efficiency.

Key events and achievements in 2016:

- 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 Memoranda of Understanding with Japan's Mitsubishi Corporation, Marubeni Corporation, and Mitsui, and Thailand's PTT.
- Signing of Memorandum of Understanding for Strategic Partnership with the Japan Bank for International Cooperation (JBIC).
- Closing of the sale of a 9.9% equity stake in the Yamal LNG project to China's Silk Road Fund.
- Obtaining the rights for the Nyakhartinskiy, Ladertoyskiy, Tanamskiy, Syadorskiy, West-Solpatinskiy, North-Tanamskiy, and Nyavuyahskiy license areas, as well as for the Kharbeyskoye field.
- 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.
- Conclusion of a concession contract with the State of Montenegro for the exploration and production of hydrocarbons on four offshore blocks in the Adriatic.

Direct economic value created and distributed, RR mln*

	2014	2015	2016
Created economic value			
Revenues	362,706	487,947	556,204
Distributed economic value			
Operating expenditures	178,224	262,268	284,881
Salaries and other payments and benefits to employees	12,009	15,368	19,885
Payments to suppliers of financial resources	38,278	50,189	57,950
Taxes payable to the budgets of relevant countries	45,587	59,410	79,630
Social investments	727	1,000	1,871
Retained economic value	88,487	99,712	111,987

* Data are based on the following guidelines:

Revenues – total revenues plus interest income. *Operating expenditures* – operating expenses less depreciation, less impairment of assets, less salaries and other payments and benefits to employees, less taxes other than income tax, less social investments. *Payments to suppliers of financial resources* – dividends paid plus interest paid. *Taxes payable to the budgets of relevant countries* – current income tax plus taxes other than income tax. *Social investments* – funds voluntarily directed by the Company to charity, sponsorship, support of local communities and not directly related to the activities of the Company and its employees.

EXPLORATION, DEVELOPMENT AND PRODUCTION

Licenses

Under Russian laws, exploration and production of hydrocarbons in Russia is subject to licensing. As at 31 December 2016, NOVATEK's subsidiaries and joint ventures held 39 subsoil licenses in Russia including five licenses classified as exploration licenses. The duration of licenses for our core fields exceeds 15 years.

Hydrocarbon reserves

As at 31 December 2016, NOVATEK's SEC proved reserves, including the Company's proportionate share in joint ventures, amounted in aggregate to 12,775 mmbœ, including 1,755 bcm of natural gas and 152 mmt of liquid hydrocarbons.

Under the PRMS reserves reporting methodology, the Company's total proved plus probable reserves, including the Company's proportionate share in joint ventures, amounted in aggregate to 22,756 mmbœ, including 3,067 bcm of natural gas and 319 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 mmbœ inclusive of 2016 production. The primary contributors to reserves additions were the Utrenneye, South-Tambeyskoye, Kharbeyskoye, Dorogovskoye and Yarudeyskoye fields.

Change in total proved reserves in 2016 was primarily driven 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, our total proved reserves decreased by 0.3%, representing a reserve replacement ratio of 92%. At year-end 2016, the Company's reserve to production ratio (or R/P ratio, SEC standards) was 24 years.

Total proved and probable hydrocarbon reserves, mmbœ

	2014	2015	2016
Proved (SEC)	12,643	12,817	12,775
Proved and probable (PRMS)	23,069	23,117	22,756

Exploration

NOVATEK uses a systematic and comprehensive approach to exploration and development of its fields and license areas to maximize the ultimate recovery of hydrocarbons in a cost-effective manner.

In 2016, we continued full-scale exploration activities at our license areas located on the Gydan Peninsula and offshore in the Gulf of Ob to fully assess the resource potential of this strategically important region. We carried out three-dimensional (3D) seismic surveys at the North-Obskiy offshore license area and also completed drilling of another exploration well at the Utrenneye field. From 2014 to 2016, the Company drilled a total of five exploration wells at the Utrenneye field, and the well test results allowed us to increase

the appraised reserves volumes and confirm higher well flows at the field.

We successfully discovered one new gas condensate deposit in the Middle Jurassic layer at the Kharbeyskoye gas condensate field, and nine new gas condensate deposits at the Utrenneye, South-Tambeyskoye and Yevo-Yakhinskoye fields. We managed to expand the gas potential of the Achimov layer (very rich in gas condensate) at the Uren-goyskoye field operated by Arctic-gas, and confirmed the crude oil potential at the Yarudeyskoye and East-Tarkosalinskoye fields, as well as validated the natural gas potential at the Malo-Yamalskoye field.

Field development

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

In 2016, production drilling, including joint ventures, reached 235 thousand meters, down 30% year-on-year. The decrease in drilling activities is due to the successful completion of the main drilling program at the fields operated by NOVATEK-Yurkharovneftegas, Arcticgas and Yargeo. The biggest drop in drilling activities was observed at the Yurkharovskoye, Urengoyeskoye, Yaro-Yakhinskoye and Yarudeyskoye fields. Drilling at the South-Tambeyskoye field increased during the year.

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

In January 2016, 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. We constructed water sourcing wells and completed com-

missioning of reservoir pressure maintenance systems.

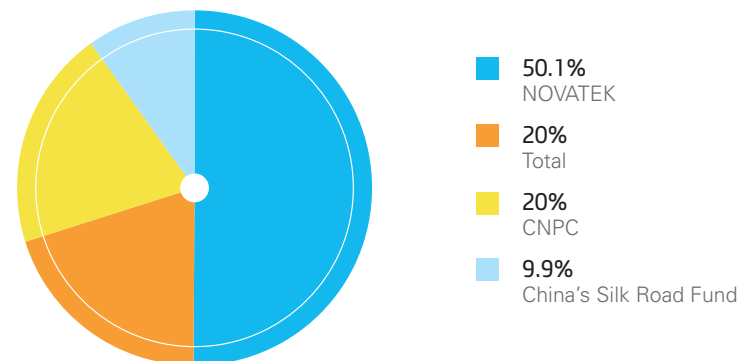
As part of the Yurkharovskoye field development strategy, the Cenomanian production area achieved its design capacity with 18 wells in operation, and a 48 MW Cenomanian gas booster compressor station was completed and launched. The 25 MW fourth phase of gas booster compressor station was commissioned,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

Yamal LNG Project

Yamal LNG is the flagship project in NOVATEK's asset portfolio and a transformational move for the Company into the international market for liquefied natural gas. The project envisages the construction of an LNG liquefaction plant with an annual capacity of 16.5 mmt per annum which will utilize the resource base of the South-Tambeyskoye field in the northeast of the Yamal Peninsula. LNG production start-up is scheduled for 2017.

At year-end 2016, the construction progress on the first train of the LNG project was 88%, with the overall construction progress reaching 75% completion. The project's infrastructure includes a seaport, an international airport, roadways, power lines, gas gathering lines and the living quarters.

Yamal LNG's shareholding structure as at 31 December 2016



As at 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.

The field development plan provides for the drilling of 208 wells on 19 well pads, with annual production potential exceeding 27 bcm of natural gas and 1 million tonnes of stable gas condensate.

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).

The LNG plant will consist of 142 modules weighting between 85 tonnes and 6,400 tonnes. The modules are built at contractors' yards and delivered to the construction site by sea.

As at 31 December 2016, all modules for the first LNG train were installed on the prepared foundations, and hook up was in progress. The main cryogenic heat exchanger for the first LNG train was installed into the liquefaction module. Compressor equipment for

the first train, boil-off gas compressors and the backup heater were installed on the prepared foundations, and over 67,500 tonnes of pre-assembled pipe racks were erected. Over 37,000 foundation piles for the LNG plant were driven, about 3,900 pile caps were installed on the piles, and more than 53,000 cubic meters of concrete were poured for the foundation.

The project requires four LNG tanks, including two LNG tanks for the first train. The pile-supported outer walls of the tanks are made of concrete while the multi-layer internal walls ensure leak integrity and thermal insulation.

All four LNG tanks successfully passed hydro-testing in 2016.

More than 95% of the LNG plant output has been contracted on a long-term basis. To transport the LNG, Arc7 ice-class LNG tankers will be used. 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. At year-end 2016, five other LNG carriers and two Arc7 tankers for transportation of stable gas condensate were under construction.

Hydrocarbon production

In 2016, NOVATEK carried out commercial hydrocarbon production at 13 fields. The Company's marketable production (including the Company's share in production of joint ventures) amounted to 537 mmbcfe, up 3% year-on-year.

Total marketable production of gas, including the Company's share in production of joint ventures, amounted in aggregate to 66.10 bcm, representing 80.5% of our total hydrocarbon output. The share of gas produced from gas condensate bearing layers ("wet gas") in total gas production was 79.1%. Our marketable gas production was down by 1.8 bcm, or 2.7%, year-on-year.

The drop was due to natural declines in reservoir pressure at current producing horizons in mature fields.

Marketable production of liquid hydrocarbons, including the Company's share in production of joint ventures, totaled a record 12,441 thousand tonnes, with gas condensate accounting for 60.5% and crude oil 39.5%. Marketable production of liquids increased by 3,347 thousand tonnes, or 36.8%, year-on-year, driven by crude oil pro-

duction, which more than tripled to 4,915 thousand tonnes, while gas condensate production was broadly flat at 7,526 thousand tonnes. The share of liquid hydrocarbon production in our overall production grew by four (4) p.p. year-on-year to 19%.

Our record growth in liquids production was due to the start-up of the Yarudeyskoye oil field, in December 2015, and the Termokarstovoye and Yaro-Yakhinskoye gas condensate fields, in 1H 2015.

In 2016, NOVATEK continued to benefit from some of the lowest lifting costs in the global oil and gas industry. The Company's lifting costs were RR 38.4 (USD 0.57) per boe in 2016.

HYDROCARBON PROCESSING

Purovsky Gas Condensate Stabilization Plant

The Purovsky Gas Condensate Stabilization Plant (Purovsky Plant) is the central element in our vertically integrated production value chain. The Purovsky Plant produces stable gas condensate and light hydrocarbons.

In 2016, the de-ethanized gas condensate processing volumes at the Purovsky Plant increased by 3.1% to 12,397 thousand tonnes. The plant's processing capacity matches the aggregate gas condensate production capacity of the fields operated by NOVATEK and its joint ventures. In 2016, the plant produced 9,667 thousand tonnes of stable gas condensate, 2,597 thousand tonnes of light hydrocarbons, and 10 thousand tonnes of regenerated methanol.

Ust-Luga Complex

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

In 2016, the Complex processed 6,917 thousand tonnes of stable gas condensate into 6,784 thousand tonnes of marketable products, including 4,195 thousand tonnes of light and heavy naphtha, 998 thousand tonnes of jet fuel and 1,591 thousand tonnes of gasoil and ship fuel component (fuel oil).

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 export markets by sea.

NOVATEK Group's key operating indicators in 2014–2016

	Units	2014	2015	2016	Change: 2016 vs. 2015
Marketable hydrocarbon production (including share in production of joint ventures)					
Total production	mmboe	456.7	521.6	537.0	3.0%
Including:					
Gas	mmcm	62,129	67,905	66,103	(2.7%)
	mmboe	406.3	444.1	432.4	
Liquid hydrocarbons	'000 tonnes	6,036	9,094	12,441	36.8%
	mmboe	50.4	77.5	104.6	
Processing volumes and output of products at the Purovsky Plant					
Processing of de-ethanized condensate	'000 tonnes	6,600	12,021	12,397	3.1%
Output:					
Stable gas condensate	'000 tonnes	5,049	9,664	9,667	0.03%
Light hydrocarbons and LPG	'000 tonnes	1,371	2,228	2,597	16.6%
Regenerated methanol	'000 tonnes	14	11	10	(9.1%)
Processing and output of marketable products at the Ust-Luga Complex					
Stable gas condensate processing	'000 tonnes	4,706	6,727	6,917	2.8%
Output:					
Light naphtha	'000 tonnes	1,425	1,898	2,000	5.4%
Heavy naphtha	'000 tonnes	2,006	2,101	2,195	4.5%
Jet fuel	'000 tonnes	472	949	998	5.2%
Gasoil	'000 tonnes	179	462	443	(4.1%)
Ship fuel component (fuel oil)	'000 tonnes	542	1,183	1,148	(3.0%)

MARKETING AND SALES

Natural gas sales

In 2016, the Company supplied natural gas to 35 Russian regions. Our customers were located primarily in the Chelyabinsk, Lipetsk, Tyumen, Vologda and Kostroma Regions, the Perm and Stavropol Territories, the Khanty-Mansi and Yamal-Nenets Autonomous Areas, the Republic of Tatarstan, and in Moscow and the Moscow Region. The above regions accounted for over 94% of our total gas sales.

In 2016, gas sales volumes totaled 64.7 bcm, up 3.6% year-on-year, as compared to 62.5 bcm in 2015. The increase was driven by restored sales to one of NOVATEK's major customers, who did not take full contracted volumes in 2015 due to technical reasons, as well as extra sales of natural gas to our end-customers and wholesale traders. The share of gas sales to end users was 92.2%, virtually flat compared to 2015.

In 2016, revenues from gas sales totaled RR 229.7 bln, up 3.4% year-on-year. The revenue growth was driven by higher sales.

In order to offset seasonal changes in demand for natural gas, the Company has engaged Gazprom to provide gas storage services. Natural gas inventories are accumulated during warmer periods when demand is lower and then used to meet increased demand during colder periods. At year-end 2016, our inventories of natural gas in underground gas storage facilities amounted to approximately 0.8 bcm.

Liquid hydrocarbon sales

Total sales of liquid hydrocarbons in 2016 amounted in aggregate to 16,850 thousand tonnes, up 30.7% year-on-year. The growth was mainly due to an increase in crude oil production. Export sales grew by 9.6% year-on-year to 9,869 thousand tonnes.

High value-added products processed from stable gas condensate (SGC) by the Ust-Luga Complex accounted for 40% of our overall sales. We sold 6,662 thousand

NOVATEK Group's sales of natural gas and liquid hydrocarbons in 2014–2016

	Units	2014	2015	2016	Change: 2016 vs. 2015
Natural gas sales					
Total gas sales	mmcm	67,231	62,465	64,709	3.6%
Liquid hydrocarbon sales					
Total liquid hydrocarbon sales	'000 tonnes	7,089	12,888	16,850	30.7%
Including:					
Petroleum products (Ust-Luga)	'000 tonnes	4,438	6,693	6,662	(0.5%)
Crude oil	'000 tonnes	903	1,090	4,650	326.6%
Stable gas condensate	'000 tonnes	303	2,786	2,812	0.9%
Light hydrocarbons	'000 tonnes	504	1,026	1,468	43.1%
LPG	'000 tonnes	930	1,280	1,245	(2.7%)
Other	'000 tonnes	11	13	13	0.0%

tonnes of such products, including 4,113 thousand tonnes of naphtha, 985.6 thousand tonnes of jet fuel, and 1,563.7 thousand tonnes of gasoil and ship fuel component (fuel oil). The bulk of processed SGC products (98%) were sold for exports. Sales to the European markets accounted for 53% of total exports, 29% were sold to Asia-Pacific, 14% to North America, and 4% to the Middle East. Naphtha

was mainly supplied to the Asia-Pacific Region, while North-Western Europe was the major consumer of jet fuel, gasoil and fuel oil.

In 2016, revenue from liquids sales increased by 21.7% year-on-year to RR 304.1 billion, mainly driven by higher sales volumes.

DIVIDEND POLICY

The Company's dividend policy is governed by NOVATEK's Regulations on Dividend Policy approved by the Board of Directors on 28 April 2014 (Minutes No. 168 dated 28 April 2014). In accordance with the Regulations, the amount of dividends is calculated based on consolidated net profit under IFRS.

A decision to pay a dividend, as well as its amount, payment date

and form of payment is passed by the Annual General Meeting of Shareholders based on the recommendation of the Board of Directors. Dividends are paid twice a year.

In making a recommendation to the Annual General Meeting of Shareholders on the amount of dividend, the Board of Directors considers the current financial and competitive position of

the Company, as well as its development prospects, including operating cash flow and capital expenditure forecasts, and borrowing needs.

NOVATEK is strongly committed to its dividend policy.

The Annual General Meeting of Shareholders of NOVATEK held on 21 April 2017 resolved to pay a final dividend for 2016FY in the amount of RR 13.9 per ordinary share, or RR

139.0 per one Global Depositary Receipt (GDR) (including an interim dividend for 1H 2016 in the amount of RR 6.9 per ordinary share).

Accrued and paid dividends on NOVATEK's 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	23,956,386,796
2014	10.30	31,273,951,800	31,273,941,251
2015	13.50	40,990,131,000	40,990,056,937
2016	13.90	42,204,653,400	42,204,604,017

1.9

RR BLN NOVATEK INVESTED IN PROJECTS AND ACTIVITIES RELATED TO THE SUPPORT OF INDIGENOUS PEOPLES, CHARITABLE CONTRIBUTIONS, CULTURAL AND EDUCATIONAL PROGRAMS



EXTERNAL SOCIAL POLICY

NOVATEK places considerable emphasis on social investment and charity. In 2016, the Company continued to pay close attention to projects aimed at supporting education and culture, preserving and reviving national values and spiritual legacy of Russia, promoting Russian art and its integration into the international cultural space, and developing amateur and professional sports. NOVATEK signs agreements with local administrations in the regions in which the Company operates, rolls out corporate projects and implements programs across these regions to help improve living standards and preserve the distinctive cultural identity of indigenous peoples of the North.

In 2016, NOVATEK Group donated RR 1.9 bln to charity, cultural and educational projects and initiatives, and provided financial support to indigenous minorities of the North. In the reporting year, most of the funding (60.1%) was spent on supporting indigenous peoples of the North.

COOPERATION WITH RUSSIAN REGIONS

NOVATEK contributes significantly to the social and economic development of Russian regions as a major taxpayer, employer, and a partner in large-scale federal and local projects.

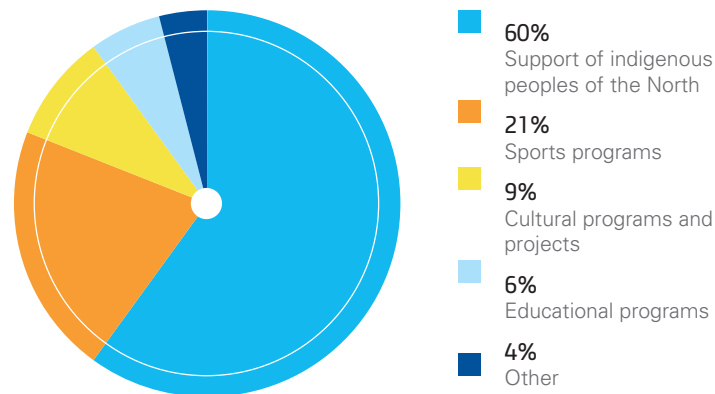
The Company is involved in the development of the regions in which it operates and treats its contribution as a social partnership, the principles of which underpin NOVATEK's activities.

The Company's social investments are aimed at improving living standards and establishing favorable social conditions across its footprint.

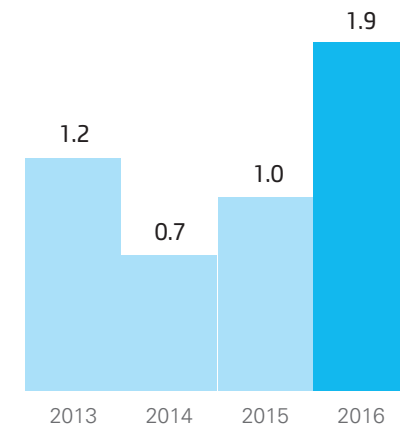
Under the agreements signed with a number of regions, the Company made investments in the Yamal-Nenets Autonomous Area, and the Leningrad, Chelyabinsk,

Tyumen, Samara and Kostroma Regions in 2016. NOVATEK also financed the construction, renovation and upgrades of social infrastructure facilities, allocated funds for support educational, cultural, children and youth programs and projects, and supported low-income families, people with disabilities and the elderly.

Social investment structure in 2016, %



Social investments in 2013–2016, RR bln



SUPPORT OF INDIGENOUS PEOPLES AND MINORITIES OF THE NORTH

Following the policy of cooperation with indigenous peoples and minorities of the North, NOVATEK* is implementing a comprehensive program to improve their living conditions and help them preserve their culture and identity. The Company provides substantial assistance to indigenous communities on an annual basis. This includes:

- financing the development and improvement of settlements, including housing construction;
- construction, renovation and maintenance of educational and community facilities;
- assisting in the development of a local healthcare system;
- supplying fuel and lubricants, and providing aircraft and motor vehicles, including for boarding school children's transportation and emergencies;
- providing social assistance to low-income families;
- delivering food and everyday products to remote areas;
- assisting in the set-up and running of indigenous festivals.

Each year, the Company allocates substantial funds to renovate power supply facilities, housing and utilities infrastructure, roads, medical centers and other facilities in indigenous communities. NOVATEK helped develop the village of Seyakha in the Yamalsky District, including development of infrastructure and construction of houses and community and cultural facilities. The Company is supporting the construction of a school for 800 pupils and a 100-tonne cold storage facility in the village of Gyda of the Tazovsky District. We funded the construction of a fish hatchery in the Kharp village on the Sob River (Priuralsky District, Yamal-Nenets Autonomous Area) and opened trading posts, where reindeer herders, fishermen and hunters can exchange fish and venison for the goods and food products they need.

In 2016, NOVATEK provided financial support to the Yamal for Descendants Association of indigenous peoples and its district branches.

EDUCATIONAL PROGRAMS

For many years, NOVATEK Group has been running a continuing education project to ensure an inflow of properly qualified young talent from the regions in which the Company operates. The project starts at schools, and is followed by specialized higher education, internships, and subsequent employment. Traditionally, this training system is of great importance for the Company.

In 2016, the Company spent RR 43.9 mln on the Gifted Children, Grants, and NOVATEK-VUZ educational programs.

Gifted Children Program

The Gifted Children Program is run at Secondary School No. 8 Educational Center in Novokuybyshevsk, Samara Region, and Secondary School No. 2 in Tarko-Sale, Purovsky District, Yamal-Nenets Autonomous Area, and School No. 81 in Tyumen.

Under the program, specialized classes comprising the most talented students from grades 10 and 11 are organized on a competitive basis. The standard curriculum is extended to include courses in applied physics, mathematical methods of physics, advanced mathematical tasks, history of world culture, and economics.

In 2016, 95 school students were trained under this program.

Grants Programs

The Company runs two Grants Programs.

* Governed by the Regulations on NOVATEK's Contribution to Social and Economic Development of Indigenous Minorities of the North Living within License Areas of NOVATEK and its Land-Using Subsidiaries and Affiliates (adopted on 1 October 2005).

Grants Program for schoolchildren

Under the program launched as early as 10 years ago, students of grades 5 through 11 based in the Purovsky District, Yamal-Nenets Autonomous Area, receive the Company's grants on a competitive basis. The program supports their intellectual and creative development, encouraging responsible attitude to learning and activism.

Over the years of the program's existence, local students have benefited from a total of 1,535 grants, including 36 grants awarded in 2016.

Grants Program for teachers of the Purovsky District, Yamal-Nenets Autonomous Area

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.

Since the Grants Program's launch, teachers have received 72 grants, including five grants in 2016.

NOVATEK-VUZ Program

The program focuses on dedicated high-quality undergraduates' training in subjects linked to the key areas of the Company's operations to support its growth and ensure a pipeline of young talent.

The program covers the following universities:

- Saint Petersburg Mining University;
- Gubkin Russian State University of Oil and Gas (Moscow);
- Industrial University of Tyumen.

The most motivated and talented graduates of the Gifted Children Program, children of employees at NOVATEK's subsidiaries, and other gifted graduates of schools in the Purovsky District are eligible for the NOVATEK-VUZ Program.

As at 31 December 2016, 57 students were trained under this program.

Students demonstrating good academic progress receive additional monthly allowances in addition to their state-sponsored bursaries. Besides, each student receives commuter allowance. During their studies, the students are offered paid internships at the Company. In 2016, 35 students of the NOVATEK-VUZ Program completed an internship at the Company's subsidiaries.

Based on their academic and internship performance, the best NOVATEK-VUZ Program graduates are selected. In the reporting year, 17 graduates were hired by the Company's subsidiaries. As at 31 December 2016, 77 graduates of the NOVATEK-VUZ Program were employed by the NOVATEK Group.

PRESERVING CULTURAL HERITAGE

In 2016, NOVATEK continued its cooperation with Russia's leading cultural and educational institutions, charitable foundations, and creative groups. The Company provides support to the Moscow Kremlin Museums, the State Russian Museum, the Moscow Museum of Modern Art and the Multimedia Art Museum. In 2016, NOVATEK supported the following events.

- The Moscow Kremlin Museums, with assistance from NOVATEK, prepared and hosted the exhibition titled "The Elegance and Splendor of Art Deco. The Kyoto Costume Institute, Jewelry Houses Cartier and Van Cleef & Arpels".
- The Company supported the Wassily Kandinsky and Russia exhibition in the State Russian Museum to mark the 150th anniversary of the artist who co-founded the abstract art movement, and continued supporting the annual Imperial Gardens of Russia International Festival in Saint Petersburg.

- In partnership with NOVATEK, the Moscow Museum of Modern Art presented “Little Golden America: Based on a True Story”, the exhibition devoted to Ilya Ilf’s and Evgeny Petrov’s travels, as well as “Sculptures and Reliefs”, a solo exhibition of Stephan Balkenhol.
- Starting in late 2015, the education division of the Moscow Museum of Modern Art has been delivering a special series of lectures on the history of the 20th century Russian and foreign art, photography, architecture and cinema to the Company’s employees and their families in NOVATEK’s office. To expand this activity, in 2016 the Company for the first time supported the education 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 run by the Multimedia Art Museum. As part of the program, in 2016 the Company helped launch two exhibitions: “Sergey Shiman-sky. Leningrad” and “Alexander Rodchenko. Experiments for the Future”.
- In 2016, NOVATEK traditionally cooperated as the General Partner with the Moscow Soloists Chamber Orchestra and acted as the General Partner of the tour across Russia and Europe of the All-Russian Youth Symphony Orchestra led by Yuri Bashmet.

PROMOTION OF SPORTS

Mass and professional sport programs are of major importance for NOVATEK. The Company, its subsidiaries and joint ventures regularly hold tournaments in the most popular and wide-spread sports, such as soccer, volleyball, swimming, skiing, etc.

The Company supports the children and youth sports in the regions in which it operates. The NOVATEK – Step to Bigger Football Indoor Football Cup among secondary school teams expanded its geographical footprint in 2016. In addition to the competition in the Chelyabinsk Region, which was attended by several thousand boys and girls, the tournament was held in several cities and towns of the Kostroma Region, bringing together more than one hundred teams.

The Company supported Figure Skating and Ice Hockey Federations of the Yamal-Nenets Autonomous Area, and the Student Basketball Association.

NOVATEK collaborated with the Russian Federation of Acrobatic Rock’n’Roll to establish corporate clubs for this sport, and their students will take part in competitions as early as in 2017.

In the reporting year, NOVATEK continued cooperation with the Russian Football Union as the General Partner of the Russian national football team.

The Company supported women’s volleyball club Dinamo and the NOVA Volleyball Club (Novokuybishevsk).

VOLUNTEERING

NOVATEK promotes and highly values employee contributions to support low-income social groups.

The Company continued its cooperation with Chulpan Khamatova's Gift of Life charitable foundation in 2016 and held a blood donor session for children receiving treatment in the Russian Children's Clinical Hospital at the Company's headquarters in Moscow, in collaboration with the foundation.

NOVATEK expanded the scope of activities undertaken by its All Together volunteer movement, which was founded in 2008. Assistance to orphans and children with various illnesses, the elderly, as well as support for the blood donor movement remained the key focus areas for our employee volunteers.

In 2016, volunteers went on regular visits to Foster Home No. 2 in Vyshny Volochok and to a foster home in the village of Mosolovo in the Ryazan Region to socialize with kids and arrange various festivals, tours, outings and sports events. They were also bringing to the orphans clothes, homeware and gifts donated by the Company's employees. In May, our volunteers held the 2016 Graduate campaign to support graduates of foster homes. Foster home graduates

received essential homeware and hygiene products to facilitate their adaptation to living independently. In December 2016, one of the Company's offices hosted the traditional Tree of Wonders event seeking to collect New Year gifts for children: every employee would pick up a letter of wishes and provide a gift for the kid who wrote it. The event also offered an opportunity to raise funds for children's needs.

In December 2016, NOVATEK's volunteers partnered with the Enjoyable Aging charitable foundation on the initiative to collect New Year gifts for lonely elderly people living in nursing homes in various Russian regions. In May 2016, the volunteers also raised funds to help treat children with severe diseases on the occasion of the Blood Donor Day. The Company's volunteers continue to support the Home of ROST Initiative (Ivanovo Region, Petrovsky settlement) seeking to prepare orphaned children for life in adoptive families and provide comprehensive development opportunities for them.

NOVATEK-VETERAN PROGRAM

The NOVATEK-Veteran Social Protection Foundation was established in 2005 to provide social assistance to ex-employees of the oil and gas sector with a considerable employment track record in the Russian Far North. At year-end 2016, the Foundation registered 888 retired employees. The Foundation is the only nongovernmental organization in the Purovsky district, Yamal-Nenets Autonomous Area, assists and supports to retired employees, who devoted their lives to the country's oil and gas sector, focusing on financial assistance and moral support for the industry veterans.

In the reporting year, there was a recognition of war veterans and home front workers on the eve of the Victory Day celebrations.

Employees of the Foundation visited veterans living in Tarko-Sale to give them flowers and gifts. Out-of-town veterans received greeting messages via mail. It has become a tradition for retired employees to participate in the Immortal Regiment procession taking part on the Victory Day.

During the year, the Company organized multiple cultural and festive events to celebrate national and industry-specific holidays and arranged for retired employees to visit a number of concerts and performances.

In 2016, the quarterly financial allocations to retired employees amounted to RR 4,189 per person. The assistance amount was indexed by 7% on 1 January 2016. In the reporting year, the Company spent a total of RR 24.7 mIn to fund the NOVATEK-Veteran Program.

11,536

THE TOTAL STAFF HEADCOUNT OF NOVATEK,
ITS SUBSIDIARIES AND JOINT VENTURES
AT YEAR-END 2016



EMPLOYMENT PRACTICES

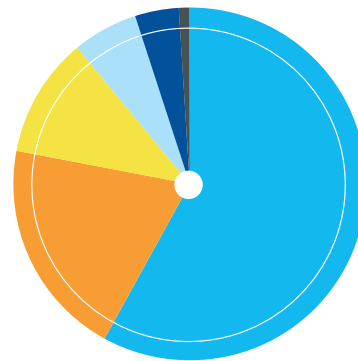
PERSONNEL

NOVATEK emphasizes responsible and equitable treatment of employees as a key element of sustainable development. Our people are our greatest asset ensuring growth and advancement of our competitive position. The Company's staff make an immense contribution to its current and future business through their intellectual, physical and creative effort.

NOVATEK's HR management framework is underpinned by fair and equitable treatment, mutual respect, and an ongoing dialogue between management and employees. We care about professional development of our people, enhancing it through our effective training and development system.

At year-end 2016, the total staff headcount of NOVATEK, its subsidiaries and joint ventures was 11,536*. The majority of our people are employed full-time, with NOVATEK as their primary employer. This Report does not include part-timers, as their share is marginal to the Company (below 0.5%). We source practically no services from freelancers, sole proprietors or practitioners.

Staff profile as at 31 December 2016 (NOVATEK, its subsidiaries and joint ventures), %



■	58%	Exploration and production
■	20%	Transportation and marketing
■	11%	Processing
■	6%	Administrative staff
■	4%	Power supply
■	1%	Auxiliary production

Staff profile by gender and location

Location	Female	Male	Total
YNAO	1,056	6,225	7,281
Moscow	661	1,090	1,751
Moscow Region	4	4	8
St Petersburg	3	2	5
Leningrad Region	123	418	541
Volgograd Region	97	93	190
Astrakhan Region	9	10	19
Kostroma Region	106	82	188
Perm Territory	12	9	21
Tyumen Region	78	136	214
Samara Region	0	2	2
Stavropol Territory	2	6	8
Chelyabinsk Region	607	328	935
Rostov Region	78	115	193
Murmansk Region	28	40	68
Arkhangelsk Region	0	3	3
Cyprus	3	0	3
Singapore	4	4	8
Poland	19	43	62
Switzerland	17	19	36
GROUP'S TOTAL	2,907	8,629	11,536

* Hereinafter (in the text and calculations behind the figures reported), this number accounts for full-time employees, with NOVATEK, its subsidiaries or joint ventures as their primary employer.

Management profile by gender and age as at 31 December 2016

Top managers	Female	Male	Total
Under 30	0	0	0
30 To 50	32	111	143
Above 50	8	42	50
TOTAL:	40	153	193

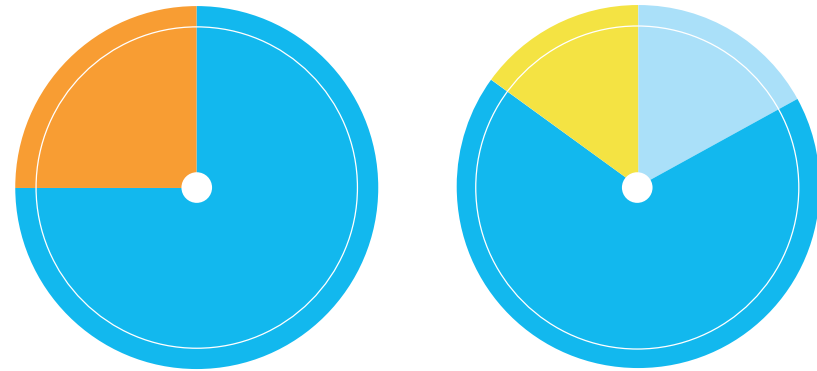
As at the end of the reporting year, over half of the Company's staff (63%) were located in the Yamal-Nenets Autonomous Area (YNAO), with NOVATEK Group's Moscow-based entities (including joint ventures) accounting for about 15% of FTEs. NOVATEK's global subsidiaries employed some 109 people.

The majority of the staff are male (75%) due to the specific nature of our core business. That said, male and female employees enjoy equitable treatment and equal opportunities.

Our team is mainly (68%) in the most active age group (between 30 and 50).

In 2016, we hired 2,196 new people. In the reporting year, 153 employees took their maternity and child care leaves.

Staff profile by gender and age as at 31 December 2016 (NOVATEK, its subsidiaries and joint ventures), %



■ 75%
Male

■ 25%
Female

■ 17%
Under 30

■ 68%
30 to 50

■ 15%
above 50

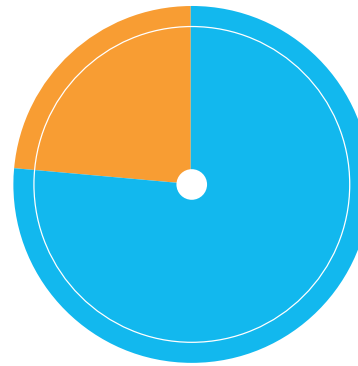
Most of our staff (91%) are hired based on open-term employment contracts.

A small share of our staff (9%, or 1,013 employees) are employed under fixed-term contracts.

In 2016, the minimum compensation of NOVATEK's personnel in the key regions of operation (Moscow and YNAO) was significantly higher than the local official minimum wages.

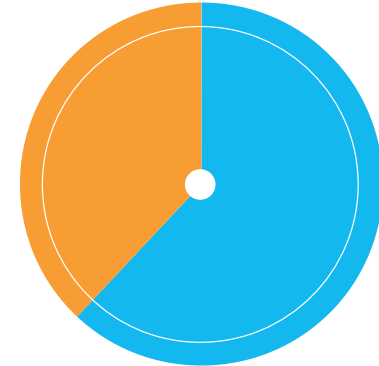
	Moscow	YNAO
Minimum compensation of NOVATEK's personnel in 2016	RR 30,500	RR 23,400
Official minimum wage before 1 October 2016	RR 17,300	RR 12,431
Official minimum wage from 1 October 2016	RR 17,561	RR 12,431

Open-term contract staff profile by gender as at 31 December 2016, %



76% Male
24% Female

Fixed-term contract staff profile by gender as at 31 December 2016, %



62% Male
38% Female

CORPORATE TECHNICAL COMPETENCY ASSESSMENT SYSTEM

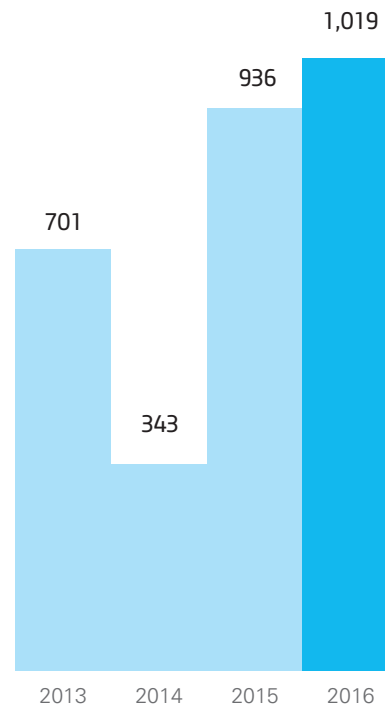
In 2011, NOVATEK and its core subsidiaries introduced the Corporate Technical Competency Assessment System designed for testing professional potential of their engineers and technical specialists. The system helps monitor the progress of employees' technical competencies and assess them when employing people or promoting them to higher positions.

In the reporting year, the assessment system was rolled out to Nortgas, NOVATEK Scientific and Technical Center, and Terneftegas.

In 2016, 1,019 employees were tested, including 33 persons tested at recruitment and 135 persons at promotion.

Company	Qualification lists developed	Number of employees tested
Nortgas	67	129
NOVATEK Scientific and Technical Center	74	138
Terneftegas	62	92

Number of people who underwent professional potential testing in 2013–2016



PERSONNEL TRAINING AND DEVELOPMENT

Our multi-level training and professional development program enables our employees to contribute to improving the Company's performance, particularly amid the rapid pace of technology innovation and management system development.

In 2016, over 5,000 employees of NOVATEK Group were trained under a variety of programs which provided a total of almost 910 thousand hours of training (a major increase over 2015 was due to the training provided to the Yamal LNG plant blue-collar workers).

The gender balance of employees trained is generally on par with the overall gender balance of our team. Training for blue-collar workers took on average six times as much time as that for other job categories.

Employee professional development program

In 2016, NOVATEK continued its efforts to advance professional development of its staff, improve working conditions and train its personnel in safe working practices at its production facilities. A total of 48.3% of white- and blue-collar workers upgraded their skills.

In-house Training program

In order to provide targeted professional development opportunities, an In-house Training program was launched in 2016, with employees at our subsidiaries providing training to their fellow team members in a variety of industry-specific topics.

In 2016, the In-house Training program was put together by managers and experts at NOVATEK Scientific and Technical Center. The program comprised 15 train-

ing courses on the following topics: "Seismic Exploration Basics", "Integrated Engineering of Gas Condensate Fields", "Geological 3D Modelling Basics", "Integrated Interpretation of Seismic and Log Data", "Lithofacies analysis. Sedimentary Environments. Theory and Practice", "Hydrocarbon Fluid Properties for Modelling their Production, Treatment, and Transportation", etc.

A total of 184 employees of NOVATEK Group received training under the program in 2016.

Steps in Discovering Talents program

In 2016, we had our fourth class of graduates under the Steps in Discovering Talents program, with 37 young specialists successfully completing the onboarding and on-the-job professional development program. In autumn 2016, another 42 young specialists joined the program, with 32 mentors assigned to them after completing the Mentoring Culture training course.

In 2016, the Value Creation Mindset and Cross-Functional Interaction training courses were provided for the first time to the young talent benefiting from the program.

Average training time by gender in 2016

	Male	Female
Total employees	8,534	2,758
Total training hours	873,688	35,524
Average training hours per employee	102.38	12.88

Average training time by position in 2016

	Average training hours per trainee
Top managers	40.11
Middle managers	54.04
White-collar workers	63.89
Blue-collar workers	241.58

Interregional Research-to-Practice Conference for young specialists

In September 2016, Moscow hosted the 11th Interregional Research-to-Practice Conference for the Company's young specialists attended by 70 employees. Following the competition held as part of the conference, all winners received bonuses, and 12 of the most successful participants, including the winners in the Best Implemented Project category, were awarded a trip to petroleum training centers in Australia.

Professional Skills Contest

In November 2016, Tarko-Sale hosted the 2nd Interregional Professional Skills Contest among field workers. NOVATEK-TARKO-SALENEFTEGAS provided its facilities for the contest. The number of companies and participants in the contest doubled from 2015 to 67 employees from eight NOVATEK Group companies. In addition to the four jobs covered by the first contest, namely oil and gas production operator, process unit fitter, electrical equipment fitter, and instrument and automation fitter, the 2016 contest included two more job 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.

TRADE UNION RELATIONS

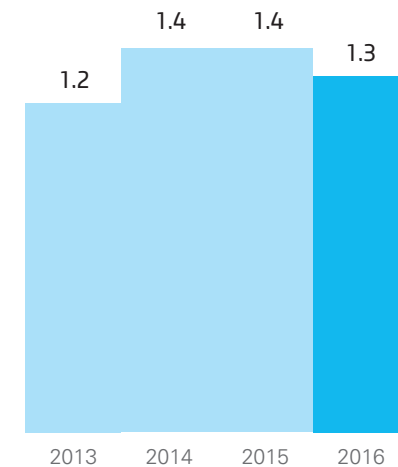
Nearly half of the Company's workforce are trade union members. The constructive dialogue between the Company's management and trade unions helps defuse social tensions related to labor disputes. Regular meetings with trade unions have contributed to the establishment of an effective workforce feedback, which allows the Company to identify potentially challenging issues and respond to them at short notice. Our long-standing commitment to this policy has ensured that the Company has never seen a single case of stoppages or strikes due to labor disputes.

In 2016, the Company spent a total of RR 4.9 mln to support trade union activities.

SOCIAL POLICY

NOVATEK's social policy is being implemented in line with the Concept adopted in 2006, which provides for a comprehensive and coherent approach to addressing social challenges.

NOVATEK Group's total spending on targeted social programs, RR bln



Special-purpose compensation and social support payments

The program provides for targeted financial support for the Company's employees in specific life situations, including childbirth, aid in case of natural disasters or fire, child care allowance (ages 0–3), support for disabled children's care, funeral cost coverage, etc.

RR 573.9 MLN SPENT ON SPECIAL-PURPOSE COMPENSATION AND SOCIAL SUPPORT PAYMENTS.

State guarantees support program

The program covers employees working in the Far North and equal-status localities, providing for compensation of vacation travel expenses (including luggage transportation to/from the vacation destinations) for the employees and unemployed members of their families. In 2016, 3,553 people received compensation under the program.

RR 87.3 MLN SPENT ON STATE GUARANTEES SUPPORT IN 2016.

Voluntary medical insurance for employees

The program includes full outpatient care, dental care, and emergency and scheduled hospitalization.

RR 125.1 MLN SPENT ON EMPLOYEE VOLUNTARY MEDICAL INSURANCE IN 2016.

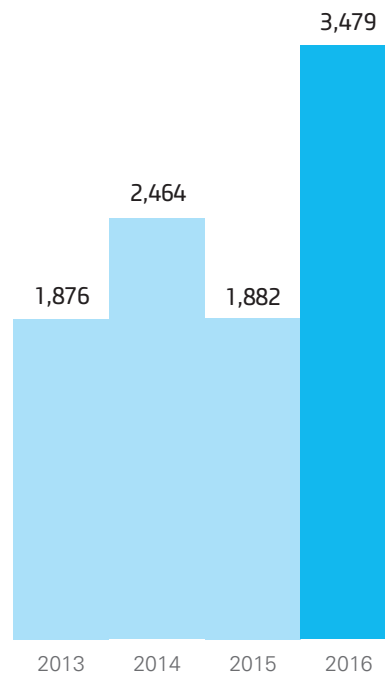
Therapeutic resort treatment and rehabilitation program

The Company's employees and their family members can purchase health resort vouchers at a discount.

In 2016, a total of 3,479 people purchased vouchers under this program to spend their vacations in 45 health resorts located in Russia's most picturesque settings.

RR 132.1 MLN SPENT ON THERAPEUTIC RESORT TREATMENT AND REHABILITATION IN 2016

Number of employees and their family members who purchased health resort vouchers under NOVATEK Group's program



Pension program

Since 2007, NOVATEK has undertaken to pay supplementary benefits to the retired employees in line with the Regulations on Social Benefits for Retired Employees of NOVATEK Group. Employees who spent at least five years with the Company are entitled to monthly benefit payments from the Company when they retire upon reaching full retirement age (payments are terminated if the retiree gets employed). The benefit amount is subject to the employee's average salary, length of tenure with the Company and geographical location of their workplace.

The program is an unsecured pension scheme with fixed benefit amounts calculated based on inflation forecasts, salary growth rate analysis, the Company's remuneration policy, and demographic assumptions. In the Consolidated Statement of Financial Position, the current value of defined benefit pension obligations is recognized as "Other Long-Term Liabilities" and stands at RR 2.2 bln as at 31 December 2016.

The average monthly social benefit amount in 2016 (following a 7% annual increase on 1 January 2016) was as follows:

- RR 7,103 in Moscow, St Petersburg, Far North and equal-status localities;
- RR 2,540 in Perm and other cities.

As at 31 December 2016, a total of 758 people benefited from the program.

RR 50.4 MLN SPENT ON THE PENSION PROGRAM IN 2016.

Repayable financial aid program

The program has two focus areas:

- Special-purpose short-term loans intended for employees in need of financial assistance due to personal circumstances. A total of 168 employees applied for loans under the program in 2016.

- Interest-free special-purpose home loans to employees residing in Tarko-Sale, Novy Urengoy, Moscow, Sosnovy Bor and Tyumen. In 2016, a total of 50 families took out interest-free special-purpose home loans under the program.

RR 226.8 MLN SPENT ON REPAYABLE FINANCIAL AID IN 2016.

Corporate awards

Top-performing employees of NOVATEK Group are recognized with government, industry and corporate awards, as well as awards by the Company's subsidiaries.

The Company's corporate awards include Honored Employee of NOVATEK, NOVATEK Certificate of Merit, and NOVATEK Letter of Gratitude. The Honoured Employee of NOVATEK is the highest corporate distinction which can be conferred on a maximum of five employees in any one given year.

RR 13.3 MLN SPENT ON CORPORATE AWARDS IN 2016.

Number of employees recognized with awards in 2016

Award	Number of recipients
Government awards	6
Distinguished Employee of the Russian Oil and Gas Industry	1
Distinguished Geologist of the Russian Federation	5
Industry awards	44
Certificate of Merit from the Russian Ministry of Energy	32
Letter of Acknowledgement from the Russian Ministry of Energy	12
Corporate awards	311
Honored Employee of NOVATEK	5
NOVATEK Certificate of Merit	138
NOVATEK Letter of Gratitude	168
Subsidiary awards	273
Certificate of Merit	273
TOTAL:	634

Corporate cultural and sporting events program

The program is an essential element of the Company's corporate culture.

RR 81.5 MLN SPENT ON CORPORATE CULTURAL AND SPORTING EVENTS IN 2016.

Sports

NOVATEK has traditionally laid great emphasis on encouraging employees to engage in regular physical exercises. In order to promote wellness and fitness among its staff, the Company rents gyms, swimming pools and playgrounds, and offers its employees partial reimbursement of gym membership fees.

In addition, NOVATEK frequently holds corporate sports competitions, including annual indoor soccer matches, volleyball and swimming competitions.

NOVATEK is committed to traditional values and sees sports and

physical culture as a bonding experience that fosters friendships and understanding among employees and their families.

Corporate cultural events

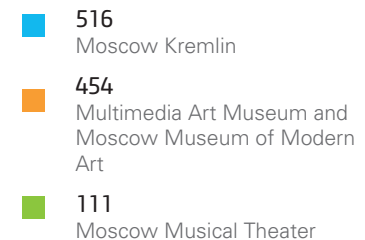
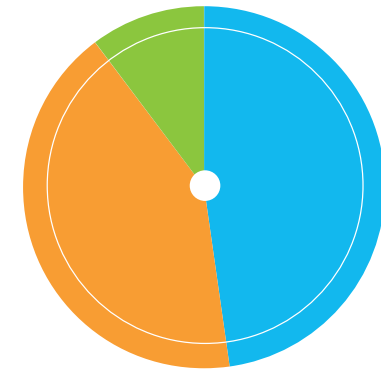
NOVATEK has traditionally put a special focus on corporate culture and corporate leisure activities, as they contribute to a favourable working environment within the Company. NOVATEK's subsidiaries hold festive events to mark the International Women's Day, Defender of the Fatherland Day, Oil and Gas Industry Employee's Day, and New Year.

On 3 September 2016, the Company hosted the Story of a Real NOVATEK event in the Geolog Cultural and Sporting Center in Tarco-Sale for the employees of subsidiaries on the occasion of the Oil and Gas Industry Employee's Day. At a special function, awards were presented to the best employees in the following categories: Implemented Projects, The most sportive team, Mentor by designation. The event ended with a traditional induction ceremony for young employees was held.

In December 2016, the Company arranged a traditional concert by Yuri Bashmet's Moscow Soloists Chamber Orchestra for its partners, employees and their families.

NOVATEK partners with the Moscow Kremlin Museum, Moscow Musical Theater and Multimedia Art Museum to enable hundreds of employees, their families, friends and partners to admire the cultural events and masterpieces of Russian and world art.

In 2016, 1,081 employees along with their families and friends, and partners of the Company visited exhibitions and museums under the corporate program.



PROCUREMENT PRACTICES

KEY APPROACHES

Procurement of materials and equipment in NOVATEK Group is based on the principles of fair competition among suppliers, priority of equipment manufacturers over trading and procurement companies, long-term partnerships with major producers, and strict control over quality and delivery terms.

The Company's procurement is in line with its internal regulations. The main document governing NOVATEK Group's procurement is Regulations on the Organization of Competitive Tendering.

The Company's procurement structure provides for both centralized and decentralized purchasing.

NOVATEK relies on centralized procurement for purchases of strategically important materials and equipment or when aggregation is economically reasonable and feasible, and offers a significant positive effect. All other categories of materials and equipment are purchased by subsidiaries and joint ventures, while NOVATEK controls the procurement process and provides guidelines. This approach increases responsibility of subsidiaries and joint ventures for the outcome while maintaining the leading role of the parent company.

NOVATEK's procurement policy gives absolute priority to public tenders, allowing the Company to diversify its suppliers, keep an up-to-date supplier register, and ensure optimal delivery terms and conditions.

The Company treats all prospective suppliers equally. Any company may take part in a tender, as long as it is eligible and has filed a duly completed application form. Counterparties are selected on the basis of their pricing, delivery terms, quality of their products or services, financial stability and business reputation.

To select suppliers of materials and equipment for the needs of NOVATEK Group, the Company collects information on qualifications, and technical and production capabilities of prospective suppliers. We collect information in an open manner outside the procurement procedures. All interested suppliers are required to register with NOVATEK's procurement system by filling out a questionnaire.

The weighted average cost of ownership is a major consideration in purchasing equipment. Suppliers are required to have adequate technical and production capabilities and necessary equipment, along with engineering and blue-collar staff. A successful track record of operating the supplier's equipment in the Far North is preferred. All things being equal, preference is given to Russian suppliers.

SUPPLY CHAIN MANAGEMENT

If operational quality and reliability of the supplied complex process equipment are affected materially by its components, the supply chain management approach is used.

In most cases, this approach is required when modular equipment is purchased from suppliers of shut-off and control valves, instrumentation and automation equipment. In that case, NOVATEK, its subsidiaries and joint ventures independently select sub-suppliers through a competitive procedure. The principal supplier under the relevant con-

tract is then informed of the results.

The same procedure applies to the procurement of materials and equipment by contractors. In that case, the suppliers of expensive materials, namely pipe products and components, shut-off valves, cables, cable support and cable heating systems, are pre-selected based on the competitive procedure.

IMPORT SUBSTITUTION POLICY

NOVATEK pays great attention to import substitution and local manufacturing of process equipment in Russia.

NOVATEK prioritizes domestic products with the same price-quality ratio as foreign counterparts but with a lower total cost of ownership. NOVATEK's experts are actively involved in oil and gas companies' meetings under the Russian Ministry of Industry and Trade.

The Company collaborates closely with the leading Russian manufacturers of oil and gas equipment, joining forces to identify foreign equipment to be primarily substituted with domestic counterparts.

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RR MLN SPENT ON OCCUPATIONAL
HEALTH AND SAFETY IN 2016



OCCUPATIONAL HEALTH AND SAFETY

OCCUPATIONAL HEALTH AND SAFETY GOALS AND OBJECTIVES

NOVATEK's primary goal as regards occupational health and safety (OHS) is to protect human life and health, and we take every effort to become a responsibility leader in the field through compliance with the highest safety standards, monitoring, use of advanced technologies, and staff training.

Since 2005, NOVATEK has implemented its Health, Safety and Environment (HSE) Policy. Since 2009, the Company has used an Integrated Management System for Environmental Protection, Occupational Health and Safety (IMS) compliant with ISO 14001:2004 and OHSAS 18001:2007. In 2016, NOVATEK successfully passed the second IMS compliance audit with no cases of non-compliance identified.

OHS expenditures in 2016 amounted to RR 693 mln.

OPERATIONAL CONTROL

Pursuant to Federal Law On Industrial Safety of Hazardous Production Facilities and the Rules on Setting up and Implementing Industrial Controls over Compliance with Industrial Safety Requirements at Hazardous Production Facilities, all our subsidiaries have developed regulations on setting up and implementing such industrial controls. We also established industrial control compliance commissions to run regular audits of OHS compliance.

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 comprehensive OHS audits at four subsidiaries and joint ventures. Based on their findings, relevant reports were produced, and remedial measures were developed.

Special assessment of working conditions includes monitoring the impact of hazardous workplace factors. Measures to improve working conditions are developed based on the results of such assessments. In the reporting year, special assessments were carried out for 4,830 workplaces. No workplaces with hazardous working conditions were identified.

FIRE SAFETY, CIVIL DEFENCE AND EMERGENCIES

Since the Company's business directly involves operation of facilities exposed to fire and explosion risks, fire safety is a top priority for NOVATEK. The Company's IMS includes a fire safety system compliant with the Russian law. The purpose of the system is to prevent fires and protect people and property in case of a fire or an emergency.

In 2016, five NOVATEK's subsidiaries held valid licenses to service fire-fighting equipment and four more had licenses to perform fire-fighting, emergency response and rescue operations. We also outsource fire safety services, engaging properly licensed contractors. Subsidiaries operating hazardous industrial facilities that produce, collect, process or manufacture explosives and flammable substances are protected by 17 professional emergency response and rescue teams. In addition, we have decided to build fire stations and establish emergency response and rescue teams within prospective field development and construction projects.

In 2016, the total headcount of fire and emergency brigades serving the facilities on a 24-hour basis stood at 595 people. Twenty-five engineers of the Company directly monitored and supervised the fire safety and emergency response environment at our facilities.

Fire safety, civil defence and emergency response training and drills are an important element of the fire safety and emergency response system. In 2016, the Company organized around 43,000 fire safety briefings that featured guidance materials and visual aids, as well as hands-on presentations. Basic fire safety training was provided to 3,867 people and 594 people evacuation drills were conducted. In the reporting year, the emergency response and rescue teams performed 15,145 safety control procedures as regards high-hazard operations, including those related to fire and gas hazards, at production facilities. As part of the training, they also arranged 668 fire tactical exercises. The emergency response and rescue teams are made up of 519 certified rescue workers.

Inspections are regularly carried out at our subsidiary facilities to assess the emergency response capability of the Company's subdivisions and personnel, and evaluate the resources of in-house and external professional emergency response and rescue teams. In 2016, we made 16.6 thousand patrols and tested 450 external water supply sources used for fire-fighting. The Company's facilities implement a full-scale program to respond to oil, oil product, and other hydrocarbon spills. Materials and equipment available to the emergency response and rescue teams comply with all existing requirements. The Company ensures timely re-equipment of both basic and specialized fire vehicle fleets. In 2016, it purchased nine fire trucks outfitted for operations in the Far North.

NOVATEK fully complies with fire safety regulations, with all of its facilities equipped with automatic fire detection, alarm and extinguishing systems.

In 2016, there were no fires at the Company's facilities.

ACCIDENTS AND INCIDENTS

In 2016, NOVATEK's subsidiaries and joint ventures recorded two incidents related to shutdowns of core and auxiliary equipment. The incidents were due to power outage caused by adverse weather conditions. The equipment shutdowns did not affect feedstock receipt, production or shipment of products, and caused neither injuries nor environmental damage.

The Company's subsidiaries and joint ventures recorded no accidents in the reporting year.

WORKPLACE INJURY RATE

In 2016, the Company's subsidiaries and joint ventures recorded five minor workplace injuries. The main causes of accidents include violation of workplace safety guidelines and staff negligence when moving across production sites or using vehicles or equipment.

CONTRACTOR ENGAGEMENT

Contractor engagement is an important aspect of NOVATEK's operations. The work begins with selecting contractors through tender procedures; so, relevant criteria were added to the assessment sheets. Annexes containing OHS requirements constitute an integral part of contracts. In addition, we instruct our contractors on the Company's standards, conduct joint drilling and other activities.

OHS TRAINING

All of the Company's subsidiaries conduct periodic safety training and briefings, provide personnel training and development programs, including at specialized training centers, and carry out regular knowledge assessments. During 2016, all subsidiaries carried out scheduled and unscheduled OHS training and appraisal of employees; within this period, 6,852 employees completed certified health and safety courses, and 3,018 employees took certified industrial safety courses.

The Company regularly organizes Safety Days, the Best OHS Poster contests and other events aimed at promoting workplace safety among employees.

ENVIRONMENTAL PROTECTION

ENVIRONMENTAL VISION

The Company is aware of its responsibility for environmental protection and sustainable use of natural resources. As with any industrial operations, production and processing of gas and liquid hydrocarbons at NOVATEK have certain environmental impact and make environmental protection one of our top priorities. Environmental considerations are central to any production-related decisions. NOVATEK is committed to the following environmental goals:

- reducing and preventing negative environmental footprint;
- complying with Russian environmental laws and international standards;
- ensuring sustainable use and management of natural resources and energy sources, deployment of modern non-waste and low-waste technologies and technologies for safe accumulation, storage and disposal of production and consumer waste;
- improving and enhancing our environmental performance, including the environmental management system;

- engaging all of the Company's personnel, suppliers and contractors in achieving its environmental policy objectives;
- keeping up personnel's environmental awareness and responsibility.

In 2016, a revised version of NOVATEK's Health, Safety and Environmental (HSE) Policy was approved, which sets forth the Company's commitments consistent with the best Russian and international practices. Our subsidiaries and affiliates are using an Integrated Management System for Environmental Protection, Occupational Health and Safety (IMS) compliant with ISO 14001:2004 and OHSAS 18001:2007. In 2016, NOVATEK successfully passed the second IMS compliance audit with no cases of non-compliance identified.

To achieve the objectives stated in the Health, Safety and Environment Policy, prior to any operations associated with potential environmental impact, the Company conducts environmental impact assessments and informs the public and

other stakeholders of their results via the mass media, public hearings and meetings, community liaison offices and the Company's website.

In addition, the Company monitors the key environmental aspects of its production operations regularly. The monitoring results are documented and analyzed to inform adequately funded dedicated initiatives and environmental action plans aiming to:

- reduce emissions and discharges of pollutants;
- control waste disposal and protection of water resources;
- ensure sustainable use of land and high-quality land reclamation.

NOVATEK follows the reasonable precautionary principle. The Company aims to timely identify sources of danger, assess inherent risks, and duly respond to environmental risks.

NOVATEK upgrades its core process equipment and technologies to meet the latest environmental requirements and industrial safety regulations, and uses the most environmentally friendly materi-

als. The Company is focused on smooth transition to the pit-free, directional and horizontal drilling, injection of industrial and consumer water waste to the intake beds, closed technological cycle of water supply, recycling and other advanced environmentally friendly technologies.

The Company actively engages research and non-governmental environmental organizations such as the World Wide Fund for Nature (WWF), Marine Mammal Council (MMC), and the Vernadsky Non-Governmental Ecological Foundation.

NOVATEK representatives are members of an advisory group for preservation and study of the Atlantic walrus in the south-eastern Barents Sea and adjacent waters, and a task force focusing on environmental aspects of the Sabetta seaport construction in the Gulf of Ob.

The Company regularly reports on greenhouse gas emissions and energy efficiency (submissions to the Carbon Disclosure Project, CDP) and use of water resources (Water Disclosure, CDP).

ENVIRONMENTAL MONITORING AND INDUSTRIAL CONTROL

An annual environmental monitoring program is a key tool for environmental assessment at production sites, identification of challenges and timely adjustment of the environmental policy. The Company runs its annual environmental monitoring program across its production footprint. The monitoring is carried out by independent environmental auditors (hiring qualified experts) as per applicable programs and methodologies.

It involves examining the condition of environment components, taking soil, ground, water and seabed sediment samples, checking the condition of the local flora, animals and microorganisms, and estimating air pollution. The status of fish populations and feeding resources in water areas is studied, as are local hydrological and hydrochemical parameters. Samples are analyzed in certified laboratories. Based on laboratory analysis, the condition of environment components is evaluated as well as its dynamic pattern over the year.

The monitoring also involves visual inspection and photographing of the areas along the cross-country vehicle and walking routes. To run environmental monitoring programs in the tundra zone, we use vehicles with low-pressure tires to prevent damage to the fragile topsoil.

In general, studies in 2016 showed predominantly unharmed condition of environmental components in the areas covered by existing environmental monitoring stations. Measurements at the monitoring stations outside the production footprint show that the condition of environmental components in the covered areas has consistently remained at the baseline levels.

In 2016, NOVATEK Group spent more than RR 90 mln to set up and run environmental monitoring in its license areas.

To reduce the negative impact on the environment, a multi-tier system of Environmental Monitoring and Industrial Control (EMIC) is in place at the Company's enterprises. Every major production entity of NOVATEK has a chemical laboratory fully equipped for prompt operational analysis. The EMIC feeds data to analyze and streamline our core processes.

ENVIRONMENTAL PROTECTION – GOVERNMENT CONTROL

During 2016, the Federal Service for Supervision over Natural Resource Management (Rosprirodnadzor), local branches of the Federal Fisheries Agency, municipal authorities, public prosecutor's offices and other authorities held scheduled and unscheduled field audits at major production entities of NOVATEK to look into key arrangements for environmental protection and sustainable management of natural resources. In

total, 42 audits were conducted at 14 entities of NOVATEK Group. In 2016, the number of audits for environmental protection and sustainable management of natural resources increased by 13.5% while the number of identified irregularities was down by 51% from 2015.

Following the audits, remedial measures were taken to close identified gaps.

EMISSIONS AND WASTE

Atmospheric emissions

Expansion of operations and commissioning of new industrial facilities created new sources of atmospheric emissions. Our emissions increased in 2016 to 121,232 tonnes.

The increase was due to production start-up at the Company's oil assets and their ramp-up to full design capacity (crude oil production and treatment volumes increased from 190 thousand tonnes in 2015 to 3,555 thousand tonnes in 2016).

Greenhouse gas emissions and energy efficiency

Given the overall output increase, greenhouse gas emissions in 2016 increased to 6.6 mmt of CO₂ equivalent (the calculation includes CO₂ and CH₄). The increase was mainly due to production start-up at the Company's oil assets and their ramp-up to full design capacity, wider use of gas as a compressor station fuel and a larger number of well pads and flare facilities.

Atmospheric Emissions by NOVATEK Group, tonnes

	2014	2015	2016
Air pollutant emissions, total	51,479	66,242	121,232
incl. priority pollutants:			
solids	2,353	3,609	2,568
carbon oxide	32,858	44,466	86,022
nitrogen oxide (NO ₂ equivalent)	6,663	8,225	10,448
sulphur dioxide	6.74	82.77	20.14
hydrocarbons (incl. methane)	2,900	4,872	8,993
VOCs	6,685	8,950	10,219

Total greenhouse gas emissions in 2013–2016, '000 tonnes of CO₂*

	2013	2014	2015	2016
Direct emissions (fuel combustion and operation of production entities)	2,576.1	3,980.0	4,402.6	6,571.77
Indirect emissions (purchased energy)	90.4	115.6	184.5	181.94

As per the Guidelines for Calculating GHG Emissions approved by Order No. 300 of the Russian Ministry of Natural Resources and Environment dated 30 June 2015.

NOVATEK is further improving its corporate GHG emissions management system to bring it into compliance with ISO 14064-1:2007, Russian Government Resolution No. 504-R dated 2 April 2014, and Guidelines for Calculating GHG Emissions approved by Order No. 300 of the Russian Ministry of Natural Resources and Environment dated 30 June 2015.

NOVATEK's GHG emissions management system was included into the plan of key activities to support Russia's Year of the Environment in 2017*.

At the Eastern Economic Forum, NOVATEK, the Russian Ministry of Natural Resources and Environment, the Federal Service for Supervision over Natural Resource Management, and the Government of the Yamal-Nenets Autonomous Area signed an agreement on cooperation, including in implementing NOVATEK's GHG emissions management system.

Since 2008, NOVATEK has been taking part in the Carbon Disclosure Project (CDP), a global initiative to promote GHG emissions reporting among large businesses.

Going forward, methane emissions from natural gas production and transportation will be reduced by rational design solutions (as regards the number and choice of valves and flanges used) and implementation of relevant maintenance regulations.

The Yamal LNG project will utilize an innovative technology to capture methane-containing emissions. After liquefaction, LNG products emit methane vapor (boil-off gas). A tank vapor removal system is used to recover boil-off gas. The boil-off gas can then be re-liquefied or used as a fuel gas for internal consumption.

NOVATEK facilities are actively implementing the cogeneration technology, which almost doubles the fuel efficiency, driving a significant reduction of GHG emissions.

The Company equips pipeline valve remote control systems with alternative sources of power such as solar panels and wind turbines. The length of pipelines using alternative sources of power totals 991 km. The total number of pipeline remote control stations is 73. The maximum output power of a solar panel is 1.5 kW; a wind turbine — 1 kW.

The Company generated a total of 292 MWh of renewable energy in 2016.

Associated petroleum gas

Greater utilization of associated petroleum gas (APG) is an important target for the Company. NOVATEK makes consistent efforts to reduce its air pollutant emissions from APG flaring. In 2016, the Program for Rational Use of Associated Petroleum Gas enabled the Company to reach a 96.2% APG utilization rate at the Samburgskoye field and 95% at the East-Tarkosalinskoye field.

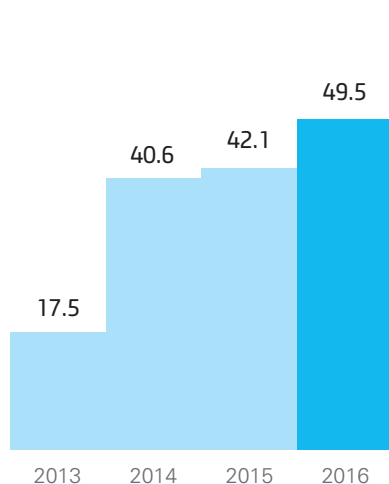
Due to a low depletion rate (less than 5%) and the fact that commissioning activities continued in 2016, APG utilization at the Yarudeyskoye field was not included in the calculations for the NOVATEK Group.

Waste management

In 2016, the total amount of waste generated by NOVATEK facilities was 49,472 tonnes, up 15% year-on-year.

The growth in production and consumption waste generation is mostly attributable to an increase in drilling meterage and volumes of drilling waste at Yamal LNG.

Production and consumption waste generation in 2013–2016, '000 tonnes a year



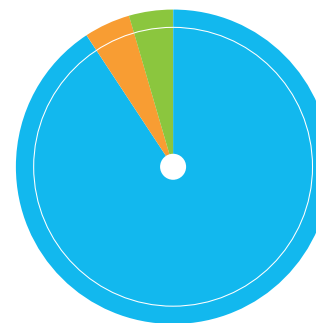
Most of the waste (approximately 95%) is non-hazardous or low-hazardous and generally consists of drill cuttings.

The share of high-hazardous waste materials (classes I and II) is insignificant, cumulatively comprising hundredths of a percent. They are mainly found in mercury lamps and luminescent tubes containing mercury.

Production and consumption waste management is carried out in accordance with the approved guidelines. Environmental monitoring and industrial control is exercised at our waste disposal and temporary waste storage facilities. We employ innovative eco-efficient waste recycling and neutralization technologies.

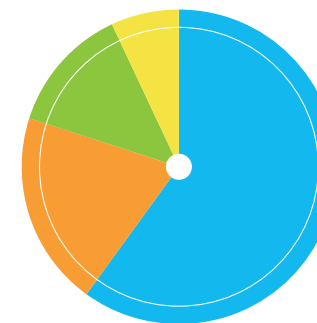
Part of the waste is transferred for disposal to specialist contractors. The remaining waste, including water separated from crude oil during its treatment is used for our own needs and reinjected to maintain reservoir pressure.

Waste Structure by environmental impact in 2016, %



- **91%**
Class IV – low-hazardous waste
- **5%**
Classes I, II, III – extremely/highly/moderately hazardous waste
- **4%**
Class V – virtually non-hazardous waste

Waste management in 2016, %



- **60%**
Placed at in-house storage facilities
- **20%**
Transferred to specialist contractors
- **13%**
Used by the Company*
- **7%**
Neutralized

* For re-injection to maintain reservoir pressure and restoration of artificial cavities.

WATER USE AND DISPOSAL

The Company is committed to sustainable water use and efficient wastewater treatment.

Consumption of water increased in 2016 by 60% year-on-year to 2,748 thousand cubic meters, including 1,590 thousand cubic meters for production needs and 1,149 thousand cubic meters for general and drinking needs (with 9 thousand cubic meters passed to other companies).

The increase in water consumption was due to the formation pressure maintenance program on the oil part of the East-Tarkosalinskoye field and an increase in water production for industrial use from Aptian-Cenomanian wells for the pressure maintenance program.

Both surface and ground water is used.

In 2016, the water consumption rate stood at 3.5 cubic meters per thousand boe of gross production for production entities and 1.4 cubic meters per thousand boe of finished products for processing entities.

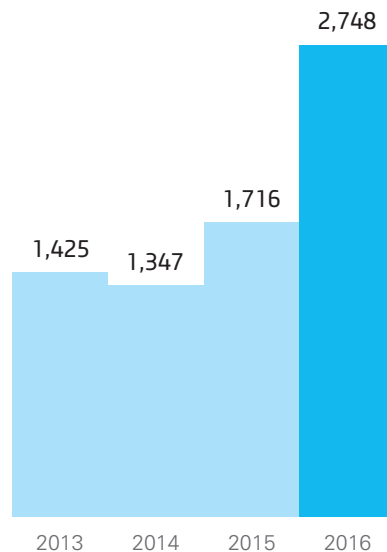
The Company uses multiple wastewater disposal methods, including burning at horizontal gas flaring systems and injection into intake beds after preliminary purifica-

tion at full-service treatment plants. After thorough treatment, wastewater is also channeled to surface water bodies such as the Gulf of Ob in the Kara Sea and the Luga Bay in the Gulf of Finland.

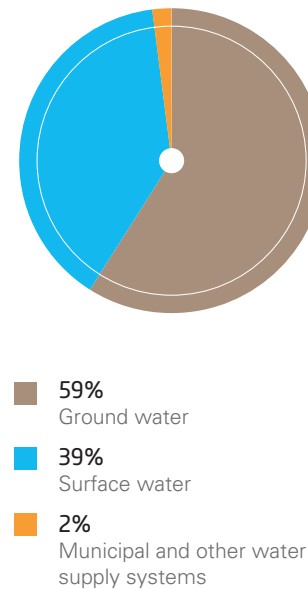
The quality of wastewater so channeled qualifies as treated to standard quality. Analysis of samples shows that hydro-chemical parameters and concentrations of pollutants at monitoring sections are within permissible levels.

The Company's subsidiaries that operate pipelines conducted hydrological, hydro-chemical and organoleptic monitoring of water bodies.

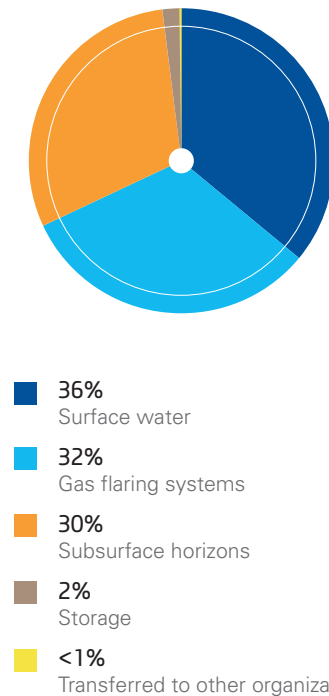
Water consumption in 2013–2016, '000 cubic meters



Water withdrawal by source type in 2016, %



Water disposal structure in 2016, % (2,011 thousand cubic meters in total)



ENERGY CONSUMPTION AND EFFICIENCY IMPROVEMENT

NOVATEK embraces a lean approach to consumption of heat and electricity.

Part of internally generated heat and electricity is produced using hydrocarbons of own production. Also, part of electricity was produced from renewable sources (solar and wind power generation).

NOVATEK operates a total of 54 solar panel and wind generator sets installed on its feed pipelines as part of the automatic control and communication system. The main sources of heat are waste heat boilers and heat exchangers at cogeneration power plants.

The higher energy consumption in 2016 was mainly due to the launch of new facilities and fields by Yargeo.

In the reporting year, the overall reduction of energy consumption enabled by energy-saving and efficiency initiatives totaled 5,784 thousand kW of electricity and 510 toe of fuels.

BIODIVERSITY PRESERVATION

Industrial development in the Far North places a great responsibility for ecosystem preservation on NOVATEK. To minimize damage to unique natural resources and preserve biodiversity, the Company takes particular care in studying and preserving the northern flora and fauna.

In 2016, Yamal LNG conducted a comprehensive biodiversity monitoring of South-Tambeyskoye license area (its onshore ecosystems) as part of its Biodiversity Monitoring Program 2016–2017. A biodiversity preservation framework action plan compliant with IFC's Performance Standard 6* was developed and implemented in 2016 as part of the above Program.

Under the Yamal LNG project, the Gulf of Ob's waters will be actively used for transportation and handling operations. The fairway area is being dredged jointly with federal enterprise Rosmorport to allow passage of deep-draught vessels. Given the business profile of Yamal LNG, its activities may have a negative impact on marine mammals and their key habitats in the Gulf of

Energy consumption by NOVATEK's production subsidiaries and joint ventures in 2016*

Indicator	UoM	2014	2015	2016
Total consumption of heat and electricity	'000 GJ	3,060	3,864	4,200
Consumption from non-renewable sources (natural gas) to generate heat and electricity	'000 GJ	4,332	6,614	7,485
Aggregate electricity consumption	million kWh	449	588	658
Aggregate heat consumption	'000 GJ	1,442	1,746	1,830

* Energy consumption for 2016 includes the following companies: NOVATEK-YURKHAROVNEFTEGAS, NOVATEK-TARKOSALENEFTEGAS, NOVATEK – PUROVSKY GAS CONDENSATE PROCESSING PLANT, NOVATEK – UST-LUGA, NOVATEK-TRANSERVICE, ARCTICGAS, NORTGAS, YARGE0, and TERNEFTEGAS.

* Performance Standard 6 of the International Finance Corporation: Biodiversity Conservation and Sustainable Management of Living Natural Resources.

Ob's waters, as well as along vessel routes. A number of marine mammal species are found in the areas potentially affected by our activities in the Gulf of Ob's waters: ringed seals, bearded seals, white whales, Atlantic walruses and polar bears.

Planning marine mammal preservation activities in the project area is a particular challenge given that virtually no targeted studies of marine mammals had been undertaken in these areas during the past twenty years, or the research was fragmentary. To address this gap, the Company initiated studies in the Yamal Peninsula and the Gulf of Ob to obtain up-to-date data on marine mammals in the areas potentially affected by Yamal LNG operations.

Marine mammal studies conducted in 2016 included stationary observation of animals in the south-western part of the Kara Sea (the mouth of the Gulf of Ob, Shokalsky Island), satellite tagging of white whales and ringed seals (a pioneering initiative in this region), and toxicological analysis of biospecimens taken from ringed seals and white whales. The research findings were used to make recommendations on methods for further monitoring of marine mammals and setting up a system to prevent and minimize human-polar bear conflicts.

On 14–16 November 2016, a workshop on Prevention and Minimization of Human-Polar Bear Conflicts was delivered by the Marine Mammal Council to employees of Yamal LNG and its contractors in the Sabetta port. Experts on polar bear ecology taught employees in the ways to stay safe and deter a bear in case of an encounter with this Arctic predator. A total of 33 employees attended the workshop. A focus group was formed to share these tips amongst the employees of all contractors and subcontractors involved in operations on the Yamal LNG's site.

Ship observations of marine mammals in the south-western Kara Sea were continued in the reporting year. In order to have structured information on the status and locations of marine mammal populations in the areas affected by Yamal LNG's activities, all sightings of single or groups of marine mammals (seals, polar bears, walruses and cetaceans) are recorded. Crews of marine vessels and the Company's employees working at the Sabetta seaport and on the shores of the Gulf of Ob were instructed to fill out reporting forms upon encounters and prevent any impact on animals. Data on encounters with marine mammals are passed to Yamal LNG and then made freely available to the research community to help with knowledge accumulation, study of animal ecology and identification of negative impacts. The results of marine mammal observations obtained in the course of the above activities are used to inform approaches to managing and mitigating the impacts of Yamal LNG's operations as part of the Biodiversity Preservation Program.

Environmental Damage Compensation

To compensate for damages to aquatic bioresources, the Company had approximately 4.1 million young muksuns and 33.9 million young peleds grown and released into the rivers of the Ob-Irtysh basin in 2016.

DISTURBED AREA RECLAMATION

The Company monitors disturbed and contaminated lands to track accumulated (past and present) environmental damage at the South-Tambeyskoye license area, as well as to assess Yamal LNG's environmental remedial actions.

In 2016, NOVATEK remediated 332 hectares of disturbed lands and handed them over to the primary land user.

ENVIRONMENTAL PROTECTION TRAINING

Consistent with the Company's environmental policy, we annually implement employee training and development programs with further assessment of the acquired knowledge in order to increase their HSE skills and promote ownership of HSE issues. In 2016, 201 specialists at NOVATEK underwent training to improve their qualifications and skills, which is 1.3 times more than in 2015.

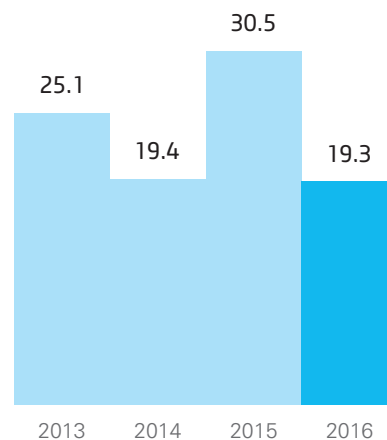
Number of people trained in environmental management

Training programs	2013	2014	2015	2016
Environmental safety for managers and general business management personnel	12	20	8	17
Environment safety and hazardous waste treatment	6	28	50	35
Environment safety for managers and experts of environmental departments and environment control systems	3	10	14	28
Professional training of staff qualified to handle class I-IV hazardous waste	24	36	88	110
Other environmental programs	6	13	0	11
TOTAL:	51	107	160	201

ENVIRONMENTAL SPENDING

In 2016, NOVATEK's environmental expenditures totaled RR 1,199 mln, including RR 710.707 mln for environmental protection and RR 488.294 mln for sustainable management of natural resources.

Charges for negative environmental impact in 2013–2016, RR mln



NOVATEK Group's 2016 environmental expenditures by key item, RR thousand

Protecting the environment from production and consumption waste	276,520
Protecting flora and fauna and their habitat, biodiversity preservation	124,385
Monitoring and environmental impact assessment	90,926
Water protection and sustainable use	77,317
Land protection	49,208
Subsoil protection	36,908
Environmental charges	19,253
Air protection	15,503
Other charges	15,356
Environmental management	5,208
Environmental damage compensation*	123
TOTAL:	710,707**

* Compensation of damage to aquatic bioresources is included in the Protecting Flora and Fauna and their Habitat, Biodiversity Preservation cost item.

** Since April 2017, the calculation of environmental expenditures does not include expenditures for registration and re-registration of land title documents and permits for land (forest) property use (including the cost of lease payments for land and forest land), and expenditures for licenses for common commercial minerals production and subsurface waste storage. These expenditures are included in capital expenditures. Expenditures for forest, land and mineral resources protection are included in environmental expenditures.

TABLE OF GRI G4 GUIDELINES AND INDUSTRY PROTOCOL INDICATORS

Level of disclosure External assurance

● Fully ✕ none
 ◐ Partially
 ○ Not applicable

Indicator Index ↓	Page of the Report ↓	Comments ↓	Level of reporting ↓	External assurance ↓
Reporting elements and characteristics				
1. Strategy and analysis				
G4-1	Letter from the Chief Executive Officer, p.3		●	✕
G4-2	Sustainability Strategy, p.18 Corporate Governance, p.33	Environmental safety for managers and general business management personnel.	●	✕
2. Organizational profile				
G4-3	Company Profile, p.10		●	✕
G4-4	Company Profile, p.10		●	✕
G4-5	Company Profile, p.10	Head office: 2 Udaltsova St., Moscow, 119415, Russia.	●	✕
G4-6	Company Profile, p.11 Report and Reporting Process, p.8		●	✕
G 4-7	Company Profile, p.10		●	✕
G 4-8	Company Profile, p.10-12		●	✕
G 4-9	Company Profile, p.16 Employment Practices, p.59-60 Economic Performance and Sustainability, p.51	Number of divisions (subsidiaries and joint ventures) – 38.	●	✕
G 4-10	Employment Practices, p.60-61	No seasonal headcount fluctuations observed.	●	✕
G 4-11	Employment Practices, p.65		●	✕
G 4-12	Procurement practice, p.69-70		◐	✕
G 4-13	Report and Reporting Process, p.8		●	✕
G 4-14	Environmental Protection, p.74		●	✕
G 4-15	Environmental Protection, p.74		●	✕
G 4-16	Company Profile, p.17		●	✕

Indicator Index ↓	Page of the Report ↓	Comments ↓	Level of reporting ↓	External assurance ↓
3. Material aspects and boundaries Identified				
G 4-17	Report and Reporting Process, <i>p.8</i>		●	×
G 4-18	Report and Reporting Process, <i>p.6</i>		●	×
G 4-19	Report and Reporting Process, <i>p.6</i>		●	×
G 4-20	Report and Reporting Process, <i>p.7</i>		●	×
G 4-21	Report and Reporting Process, <i>p.6</i>	The boundaries of all material aspects identified are considered in the report within the organization.	●	×
G 4-22		There has been no rewording in this report compared to that of 2015.	●	×
G 4-23		In the reporting year, the aspects saw no material change to the scope and boundaries as compared to the report of 2015.	●	×
Stakeholder Engagement				
G 4-24	Stakeholder Engagement, <i>p.20</i>		●	×
G 4-25	Stakeholder Engagement, <i>p.20</i>		●	×
G 4-26	Stakeholder Engagement, <i>p.20-21</i>		●	×
G 4-27	Stakeholder Engagement, <i>p.22-32</i>		●	×
Report profile				
G 4-28	Report and Reporting Process, <i>p.6</i>	Report and Reporting Process Reporting period: January 1, 2016 – December 31, 2016	●	×
G 4-29	Report and Reporting Process, <i>p.6</i>		●	×
G 4-30	Report and Reporting Process, <i>p.6</i>		●	×
G 4-31	Contact Details, <i>p.93</i>	Investor Relations Division ir@novatek.ru	●	×
G 4-32	Report and Reporting Process, <i>p.6</i> Table of GRI 4 Guidelines Indicators, <i>p.84</i>	There was no external assurance.	●	×
G 4-33		Since 2014, the Company has used no external assurance services, the Report undergoes internal audit based on the Company's in-house capabilities and accumulated expertise.	●	×
Corporate Governance				
G 4-34	Corporate Governance, <i>p.33-40</i>		●	×
G 4-36		Deputy Chairman of the Management Board are in charge of resolving economic, environmental and social issues in the Company. The Management Board in its turn reports to the Board of Directors and the General Meeting of Shareholders.	●	×
G 4-38	Corporate Governance, <i>p.34-38</i>	Under the corporate governance structure, the General Meeting of Shareholders is the Company's supreme.	●	×

Indicator Index ↓	Page of the Report ↓	Comments ↓	Level of reporting ↓	External assurance ↓
G 4-39	Corporate Governance, p.34		●	×
G 4-40	Corporate Governance, p.34	Details are provided on the Board of Directors members.	●	×
G 4-41	Corporate Governance, p.43		▶	×
G 4-42	Corporate Governance, p.34		●	×
G 4-48		The report is officially approved by Mark Anthony Gyetvay, Deputy Chairman of the Management Board.	●	×
G 4-51	Corporate Governance, p.38-39		●	×
G 4-52	Corporate Governance, p.38		●	×
Ethics and Integrity				
G 4-56	Corporate Governance, p.42		●	×
G 4-58	Stakeholder engagement, p.20 Corporate Governance, p.47		●	×
Category: Economic				
Aspect: Economic Performance				
G4-EC1	Economic Performance and Sustainability, p.46		●	×
G4-EC2		NOVATEK recognizes risks and implications of climate changes, given that the Company's major production facilities operate in the Far North areas of permafrost. In order to prevent potential negative implications of climate changes and assess the condition of permafrost soil and its temperature status at NOVATEK Group fields, cryological monitoring has been regularly performed, the results of which demonstrate low risk of permafrost thaw at the moment, having no significant impact on the Company's activities.	▶	×
G4-EC3	Employment Practices, p.66		▶	×
Aspect: Market Presence				
G4-EC5	Employment Practices, p.62 Company Profile, p.10-11	There is no gender pay gap in the Company.	●	×
Aspect: Indirect Economic Impacts				
G4-EC7	External Social Policy, p.54-55		●	×
Aspect: Procurement Practices				
G4-EC9	Procurement practice, p.69 Company Profile, p.10-11	In 2016, NOVATEK Group procurement totaled around RR 710 bln. Around 10% of the procurement was from Yamal-Nenets Autonomous District suppliers.	●	×

Indicator Index ↓	Page of the Report ↓	Comments ↓	Level of reporting ↓	External assurance ↓
Category: Environmental				
Aspect: Energy				
G4-EN3	Environmental Protection, p.80	Resolution of the Russian Federal State Statistics Service No. 46 dated June 23, 1999 On Approval of Methodological Guidelines for Calculating Fuel and Energy Balance of the Russian Federation in Accordance with International Practices.	●	✘
G4-EN4		All energy is consumed by NOVATEK entities internally.	●	✘
G4-EN6	Environmental Protection, p.80		●	✘
Aspect: Water				
G4-EN8	Environmental Protection, p.79	Actual measurement of water taken (according to flow meters).	●	✘
Aspect: Biodiversity				
G4-EN11		The Company does not operate within protected natural areas.	●	✘
G4-EN12	Environmental Protection, p.80-81		●	✘
G4-EN13	Environmental Protection, p.81-82		●	✘
G4-EN14		Total number of species – 7 1. critically endangered – 0 2. endangered – 0 3. vulnerable - 3 (polar bear, long-tailed duck, Steller's eider) 4. near threatened – 0 least concerning – 4 (snowy owl, small swan, white-tailed eagle, peregrine falcon).	●	✘
Aspect: Emissions				
G4-EN15	Environmental Protection, p.76-77	a. Total direct emissions of greenhouse gases (scope of coverage 1) - 6.6 mln t of CO ₂ equivalent; b. Gases included in calculation - CO ₂ , CH ₄ ; c. CO ₂ emissions from burning from the total volume of direct greenhouse gas emissions – 1.863 mln t of CO ₂ equivalent; d. Base year will be established in 2017 after a GHG emission management system is implemented across NOVATEK Group. e. Guidelines approved by Order No. 300 of the Russian Ministry of Natural Resources dated 30.06.2015. f. Guidelines approved by Order No. 300 of the Russian Ministry of Natural Resources dated 30.06.2015. g. Operation control method Please see NOVATEK's annual disclosure report on greenhouse gas emissions and energy efficiency as part of the Carbon Disclosure Project at: www.cdproject.net (available for registered users).	●	✘

Indicator Index ↓	Page of the Report ↓	Comments ↓	Level of reporting ↓	External assurance ↓
G4-EN16	Environmental Protection, p.76-77	<p>a. indirect emissions (from electrical power purchased) totaled 181,940 t of CO₂ equivalent</p> <p>b. CO₂</p> <p>c. Base year will be established in 2017 after a GHG emission management system is implemented across NOVATEK Group.</p> <p>d.e 1996 IPCC Guidelines for National Greenhouse Gas Inventories Module 1, Energy Resolution of the Russian Federal State Statistics Service No. 46 dated June 23, 1999 On Approval of Methodological Guidelines for Calculating Fuel and Energy Balance of the Russian Federation in Accordance with International Practices.</p> <p>f. operation control method.</p>	●	✘
G4-EN17	Environmental Protection, p.76-77	<p>Indirect CO₂ emissions from biomass burning or decomposition amount to 863 tons of CO₂ equivalent.</p> <p>Please see NOVATEK's annual disclosure report on greenhouse gas emissions and energy efficiency as part of the Carbon Disclosure Project at www.cdproject.net (available for registered users).</p>	●	✘
G4-EN18		<p>a. 12.27</p> <p>b. barrel of oil equivalent</p> <p>c. direct emissions (Scope of coverage 1 + Scope of coverage 2)</p> <p>d. CO₂, CH₄;</p> <p>Please see NOVATEK's annual disclosure report on greenhouse gas emissions and energy efficiency as part of the Carbon Disclosure Project at www.cdproject.net (available for registered users).</p>	●	✘
G4-EN19		<p>a. not evaluated</p> <p>b. CO₂, CH₄;</p> <p>c. Base year will be established in 2017 after a GHG emission management system is implemented across NOVATEK Group.</p> <p>d. Guidelines approved by Order No. 300 of the Russian Ministry of Natural Resources dated 30.06.2015.</p> <p>e. not evaluated.</p>	●	✘
G4-EN20		No emissions of ozone-depleting substances observed.	●	✘
G4-EN21	Environmental Protection, p.76	<p>a.</p> <ul style="list-style-type: none"> — NOX – 10,448 t; — SOX – 20.14 t; — persistent organic pollutants (POP) – none; — volatile organic compound (VOC) – 10,219 t; — hazardous air pollutants (HAP), carbon oxide – 86,022 t; — solid particles (SP) – 2,568 t; — other standard categories of emissions covered by relevant regulations – 2,962 t. <p>b. Guidelines are stated in Letter of the Russian Ministry of Natural Resources No. 05-12-47/4521 dated March 29, 2012.</p> <p>c. Guidelines for calculating pollutant concentrations in enterprises' emissions (Soviet Union Regulatory Document OND-86).</p>	●	✘

Indicator Index ↓	Page of the Report ↓	Comments ↓	Level of reporting ↓	External assurance ↓
Aspect: Effluents and Waste				
G4-EN22	Environmental Protection, p.79	a. Total volume of water discharge planned and unplanned – 2,011 thous. m ³ . — to surface water bodies through waste treatment facilities – 716 thous. m ³ ; — at gas flares through waste treatment facilities – 647 thous. m ³ ; — into underground horizons through waste treatment facilities – 611 thous. m ³ ; — to intake pits through waste treatment facilities – 36 thous. m ³ ; — transferred to other entities – 1 thous. m ³ . Wastewater quality - treated to standard quality. Treatment techniques - mechanical, membrane, biological and disinfection with UV. b. Actual waste water (according to flow meters).	●	✘
G4-EN23	Environmental Protection, p.78		▶	✘
G4-EN24		The reporting year saw no significant spills.	●	✘
G4-EN25	Environmental Protection, p.78	The Company does not transport hazardous waste.	●	✘
Aspect: Compliance				
Aspect: Transport				
G4-EN30	Environmental Protection, p.75-76		▶	✘
Aspect: Overall				
G4-EN31	Environmental Protection, p.83		●	✘
Employment Practices and Decent Work				
Aspect: Employment				
G4-LA1	Employment Practices, p.61		▶	✘
G4-LA2	Employment Practices, p.60-61 Company Profile, p.10		●	✘
Aspect: Labor/ Management Relations				
G4-LA4		Under the Russian law, the minimum notice period regarding the Company's significant operational changes is eight weeks. Incorporated into the collective bargaining agreement.	●	✘
Aspect: Occupational Health and Safety				
G4-LA5		There are no joint health and safety committees with both managers and staff as members.	●	✘
G4-LA6	Occupational health and safety, p.73		▶	✘
G4-LA7		There are no records of occupational illnesses. There are no employees with high injury rates.	●	✘

Indicator Index ↓	Page of the Report ↓	Comments ↓	Level of reporting ↓	External assurance ↓
G4-LA8	Employment Practices, p.23-24		▶	×
Aspect: Training and Education				
G4-LA9	Employment Practices, p.64		●	×
G4-LA10	Employment Practices, p.63-65		▶	×
G4-LA11	Employment Practices, p.61		●	×
Aspect: Diversity and Equal Opportunity				
G4-LA12	Employment Practices, p.61		▶	×
Aspect: Equal Remuneration for Women and Men				
G4-LA13		Wage rates for women and men are equal at NOVATEK.	●	×
Aspect: Employment Practices Grievance Mechanisms				
G4-LA16		There were no employment practices grievances.	●	×
Aspect: Non-Discrimination				
G4-HR3		No incidents of discrimination observed during the reporting year.	●	×
G4-HR4		There are no records of subdivisions where the right to freedom of association and collective bargaining can be violated or put at significant risk.	●	×
Aspect: Child Labor				
G4-HR5		The company does not use child labor. There are no records of subdivisions where there is a risk of child labor use.	●	×
Aspect: Forced or Compulsory Labor				
G4-HR6		There are no records of subdivisions at risk of using forced or compulsory labor.	●	×
Aspect: Indigenous Rights				
G4-HR8		There are no records of incidents of violations involving rights of indigenous peoples.	●	×
Aspect: Human Rights Grievance Mechanisms				
G4-HR12		There were no grievances regarding human rights violations.	●	×
Company				
Aspect: Local Communities				
G4-SO1	External Social Policy, p.54-55 Stakeholder Engagement, p.28 Environmental Protection, p.74, 80-81		▶	×

Indicator Index ↓	Page of the Report ↓	Comments ↓	Level of reporting ↓	External assurance ↓
Aspect: Anti-Corruption				
G4-SO3		No assessment of corruption-related risks was carried out at the Company's subdivisions.	●	×
G4-SO4	Corporate Governance, p.33-34		▶	×
G4-SO5		There are no records of incidents of corruption.	●	×
Aspect: Public Policy				
G4-SO6		NOVATEK does not provide financial assistance for political activities.	●	×
Oil & Gas sector specific disclosures				
OG1	Economic Performance and Sustainability, p.47		●	×
OG2		The Company did not invest in renewable energy.	●	×
OG3		The total length of the pipelines where renewable energy sources are used is 991 km. Number of line telemetry control stations – 73. Solar panel max capacity is 1.5 kW, wind generator max capacity is 1 kW. Renewable power generation in 2016 amounted to 292 thous. kWh.	▶	×
OG4	Environmental Protection, p.80-81		▶	×
OG5		Associated water production amounted to 337 thous. cubic meters.	●	×
OG6	Environmental Protection, p.76		●	×
OG7	Environmental Protection, p.78		●	×
OG8		The fuel produced does not contain benzene, lead and sulphur.	●	×
OG9	External Social Policy, p.54-55		●	×
OG10		There were no disputes with local communities.	●	×
OG11		No sites are being decommissioned or have been decommissioned.	●	×
OG12		The Company was not engaged in operations where involuntary resettlement took place.	●	×
OG13	Occupational health and safety, p.72-74 Environmental Protection, p.82		●	×
OG14		The specified substances are not found in the marketable fuel produced.	●	×

ABBREVIATIONS

AZK	fuel filling complex
GDR	Global Depositary Receipt
IMS	Integrated Management System for Environmental Protection, Occupational Health and Safety
IFRS	International Financial Reporting Standards
APG	associated petroleum gas
RAS	Russian Accounting Standards
LNG	liquified natural gas
LPG	liquid petroleum gases
FZ	Federal Law
NGO	Non Government Organisation
YNAO	Yamal-Nenets Autonomous Region
CDP	Carbon Disclosure Project
GRI	Global Reporting Initiative
ISO	International Organization for Standardization
OHS	Occupational Health and Safety
OHSAS	Occupational Health and Safety Management Systems
PRMS	Petroleum Resources Management System
SEC	US Securities and Exchange Commission
WWF	World Wildlife Fund

UNITS OF MEASUREMENT

boe	barrels of oil equivalent
mmboe	million boe
bcm	billion cubic meters
mmt	million metric tons
RR	Russian rouble
GJ	gigajoule
Gcal	gigacalorie
kWh	kilowatt hour
mln	million
bln	billion
t	ton(s)
toe	ton of oil equivalent
th.	thousand

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