

PRE-APPROVED  
by a resolution  
of the Board of Directors  
of PAO NOVATEK  
on 19 March 2019  
Minutes No.218

APPROVED  
by a resolution of the annual  
General Meeting of Shareholders  
of PAO NOVATEK  
on [●] April 2019  
Minutes No. [●]

DATA ACCURACY CERTIFIED  
by PAO NOVATEK's Revision Commission  
on 6 March 2019

# **PAO NOVATEK**

## **ANNUAL REPORT 2018**

Chairman of the Management Board

\_\_\_\_\_  
**L.V. Mikhelson**

Chief Accountant

\_\_\_\_\_  
**Y.A.Zobova**

# CONTENTS

About the Company .....	2
Key Events and Achievements .....	3
Key Indicators.....	5
Letter to Shareholders .....	6
Review of Operating Results .....	11
Licenses .....	11
Hydrocarbon Reserves .....	12
Geological Exploration .....	14
Field Development .....	15
Hydrocarbon Production.....	16
LNG Projects .....	17
Processing of Gas Condensate .....	20
Natural Gas Sales.....	22
Liquid Hydrocarbons Sales .....	24
Environmental and Social Responsibility .....	26
Environmental Protection .....	26
Industrial Safety and Occupational Health.....	28
Human Resources.....	30
Social Policy and Charity .....	33
Management and Corporate Governance .....	37
Corporate Governance System .....	37
General Meeting of Shareholders.....	38
Board of Directors .....	38
Board Committees .....	42
Management Board .....	45
Remuneration to Members of the Board of Directors and Management Board .....	46
Internal Control and Audit .....	47
Share Capital .....	49
Dividends.....	51
Information Transparency.....	52
Additional Information .....	54
Risk Management System .....	54
Risk Insurance.....	62
Information on Members of NOVATEK's Board of Directors.....	64
Information on Members of NOVATEK's Management Board .....	70
Report on major, and interested-party transactions that the Company did in the reporting year.....	76
Corporate Governance Code Compliance Report.....	76
Forward-looking Statements .....	101
Terms and Abbreviations .....	103
Conversion Factors.....	103
Contact Information .....	104

## About the Company

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

The Company is ranked 3<sup>rd</sup> globally among publicly traded companies in terms of proven natural gas reserves under the Security and Exchange Commission (SEC) reserves methodology and is ranked among the 10 top companies globally in terms of natural gas production. The Company is also considered one of the lowest-cost producers in the global oil and gas industry in key industry metrics regarding “finding and development”, “reserve replacement” costs and “lifting” costs.

NOVATEK plays a significant role in the Russia’s energy sector: in 2018, the Company accounted for 9% of total Russian natural gas production. NOVATEK sells its natural gas on the Russian domestic market through the Unified Gas Supply Sysyem (UGSS) and on international markets mainly in the form of liquefied natural gas (LNG) since December 2017.

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

**NOVATEK’s main strategic priorities are:**

- Ensuring development of the Company’s hydrocarbon resource base, including efficient reserve management;
- Growing its hydrocarbon production;
- Maintaining a low-cost structure;
- Optimizing marketing channels;
- Building a low cost, scalable LNG platform; and
- Sustainable development principles.

On 12 December 2017, the Company held its Corporate Strategy Day that comprehensively outlined our long-term strategy covering the period from 2018 up to 2030.

The Company has a number of key competitive advantages to successfully implement its strategy: the size and structure of its hydrocarbon resource base; the close proximity of existing infrastructure to core producing fields; a well-developed customer base for natural gas sales; natural gas liquefaction capacity and LNG project execution experience; and facilities for gas condensate processing and product exports. The development of a low-cost LNG platform and delivering cost-competitive LNG export sales to key consuming regions are key strategic priorities for the Company. Another core priority is to increase production within the reach of the UGSS through development of new fields and exploration activities, targeting lower producing horizons and complimented by acquisitions meeting certain financial and operational criteria. Our high level of operational flexibility and our consistent and efficient use of leading edge technologies in production and processing practices as well as our adherence to sound and prudent business management support our competitive position.

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

## Key Events and Achievements

- **The Yamal LNG project reached its full capacity** more than a year ahead of the initial schedule. **First LNG cargos** were shipped to Europe, the Asian Pacific region and Latin America. Yamal LNG carried out the first ship-to-ship LNG transshipment.
- We patented the “**Arctic Cascade**” proprietary liquefaction technology for use at Train 4 of Yamal LNG. NOVATEK was recognized by the National Environmental Award named after Vladimir Vernadskiy in the nomination category of “Innovative Eco-efficient Technologies in Industry and Energy” for its Arctic Cascade natural gas liquefaction process.
- NOVATEK and TOTAL agreed in principle on TOTAL’s entry into Arctic LNG 2. The deal was closed in 2019.
- We signed contracts with SAREN on the design and construction of gravity-based structures (GBS) and Nuovo Pignone on supply of turbo machinery equipment for the Arctic LNG 2 project.
- An agreement was signed with the Ministry for the Development of the Russian Far East and with the Government of the Kamchatka Region for the construction of an offshore LNG transshipment terminal.
- We signed **strategic cooperation agreements** on LNG projects signed with Sovcomflot, Rosatom, Siemens, and SACE, the Italian export and credit agency. **Memorandums of Understanding** were signed with Saudi Aramco, KOGAS, the Japan Oil, Gas and Metals National Corporation (JOGMEC) and Japan’s Saibu Gas.
- We discovered the **North Obskoye field** through our successful exploration efforts, which was named the world largest standalone gas field discovery in 2018. A new field called **Nyakhartinskoye** was also discovered. While testing a prospecting well at the Utrenneye field, we discovered new gas condensate deposits and confirmed the commercial productivity of the field’s Middle Jurassic layer.
- We acquired mineral licenses for the Beregovoy, Ust-Yamsoveyskiy, Payutskiy, Palkurtoiskiy, Central-Nadoyakhskiy, South-Leskinskiy and Chernichniy license areas.
- The Company commissioned the oil deposits at the **Yaro-Yakhinskoye** oil, gas and condensate field (Arcticgas).
- NOVATEK incorporated the Maritime Arctic Transport LLC, a wholly owned subsidiary to manage and optimize shipping costs, and to build unique competencies in Arctic navigation.
- We created a joint venture with Fluxys for construction a mid-scale LNG transshipment terminal in the port of Rostock in Germany.

- NOVATEK remained a constituent in FTSE4Good Emerging Index published by FTSE Russell Ratings. For its Sustainability Report, the company received the “Change Management. Visionaries.” Award in the Social Impact Disclosure category.
- A new “**Health Territory**” **charity project** was launched aimed at providing medical aid to children from the regions where we operate.
- A new boarding school for 800 children was built in Gyda village on the Gydan peninsula, in one of the most remote settlements of the Yamal-Nenets Autonomous Region.

# Key Indicators

	Unit	2017	2018	Change
<b>Financial indicators</b>				
Total revenues	RR mln	583,186	831,758	42.6%
Normalized profit from operations <sup>(1)</sup>	RR mln	163,751	225,539	37.7%
Normalized EBITDA (including share in EBITDA of JVs) <sup>(1)</sup>	RR mln	256,464	415,296	61.9%
Normalized profit attributable to shareholders of PAO NOVATEK <sup>(2)</sup>	RR mln	156,166	232,930	49.2%
Normalized earnings per share, basic and diluted <sup>(2)</sup>	RR	51.78	77.29	49.3%
Net cash provided by operating activities	RR mln	180,399	216,349	19.9%
Cash used for capital expenditures <sup>(3)</sup>	RR mln	29,871	94,038	214.8%
Free cash flow	RR mln	150,528	122,311	(18.7%)
<b>Operating indicators</b>				
Proved natural gas reserves (SEC)	bcm	2,098	2,177	3.8%
Proved liquid hydrocarbon reserves (SEC)	mmt	164	181	10.4%
Total hydrocarbon reserves (SEC)	mmboe	15,120	15,789	4.4%
Natural gas production	bcm	63.4	68.8	8.5%
Liquid hydrocarbons production	mt	11,774	11,800	0.2%
Proportionate share in LNG production of JVs <sup>(4)</sup>	mt	162	5,152	n/a
Total production	mmboe	513.3	549.1	7.0%
Daily production	mmboe/day	1.41	1.50	7.0%
<b>Positions in Russia</b>				
Share in natural gas production <sup>(5)</sup>	%	9.1%	9.3%	0.2 p.p.
Share in liquid hydrocarbons production <sup>(5)</sup>	%	2.2%	2.1%	(0.1 p.p.)

<sup>(1)</sup> Excluding the effect from disposal of interests in joint ventures.

<sup>(2)</sup> Excluding the effects from the disposal of interests in joint ventures, as well as foreign exchange gains (losses).

<sup>(3)</sup> Cash used for capital expenditures represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries.

<sup>(4)</sup> Natural gas and LNG production at Yamal LNG are reported at 60%.

<sup>(5)</sup> According to CDU TEK information.

# Letter to Shareholders

Dear Shareholders,

TWO THOUSAND AND EIGHTEEN was an incredible year for NOVATEK culminating with the successful launch of our flagship Yamal LNG project and reaching the facilities full design capacity in record time. It marked a year of exceptional achievements and **EXPANDING OUR GLOBAL LNG FOOTPRINT** with shipments to customers around the globe.

Yamal LNG was launched in record time and on budget with the commissioning of the second and third LNG trains accomplished ahead of schedule by six months and more than a year, respectively. Yamal LNG established a new benchmark in the industry known for numerous budget overruns and delays in project implementation. The successful launch of all three liquefaction trains confirms that Yamal LNG is a unique project in the fastest growing segment of the natural gas industry, enabling us to emerge as one of the major players in the global LNG market.

With a nameplate capacity of 16.5 million tons per annum (mmtpa) with the launch of three LNG trains, Yamal LNG's natural gas feedstock is based on reserves of the South-Tambeyskoye field on the coast of the Ob Bay, located on the hydrocarbon rich Yamal Peninsula. We will build the fourth LNG train with a planned capacity of 0.9 mmtpa based on NOVATEK's patented proprietary liquefaction technology called "Arctic Cascade" using equipment produced and manufactured domestically in Russia. Combined, the project should reach a nameplate capacity of 17.4 mmtpa.

Yamal LNG is an integrated project encompassing natural gas production, liquefaction and marketing, with its key advantages of a prolific conventional reserve base, proven development technologies, very low lifting costs, advantageous geographical location and colder ambient temperatures. These strategic favorable operating conditions further support our future LNG projects on the Yamal and Gydan peninsulas, thus making our overall LNG platform extremely attractive based on lower capital intensity per ton of LNG produced, and optional transport routes to East and West natural gas consuming markets.

Yamal LNG is currently the largest LNG project in Russia with an aggregate share of about 5% of the global LNG market and represents a unique benchmark for the global oil and gas industry. We have something to be proud of, as we have consistently demonstrated our ability to develop our asset base and competitively produce natural gas and LNG in Russia's Arctic zone. We have gained invaluable experience in implementing a large-scale LNG project in the Arctic region where, despite the harsh climatic conditions, the colder ambient temperature provides us with a competitive advantage to lower the cost of liquefaction.

Many industry commentators consider natural gas as a "transition" or "bridge" fuel. We disagree with this characterization. Natural gas is a clean burning fossil fuel and will play a major role in the future energy mix as a key contributor to meet climate change and de-carbonization goals. We are very optimistic about our future LNG projects given forecasted LNG and natural gas demand scenarios, and the transition from coal to natural gas in the primary energy mix to support sustainable development principles.

We officially opened the summer navigation period via the Northern Sea Route when we delivered the first commercial LNG shipments to China from Yamal LNG using the newly designed Arc7

ice-class tankers. These shipments were made possible due to the exceptional characteristics of our brand new, fully dedicated fleet of ice-class LNG carriers to serve our Arctic projects. These unique ice-class LNG carriers enable year-round navigation without icebreaker support along westbound navigation routes and, eastbound during the Arctic zones seasonal navigation period, along the Northern Sea Route.

During 2018, we delivered LNG cargos to Asia, India, South America, the Middle East and Europe, representing 113 cargos, or 8.4 million tons. This demonstrates the commercial viability of delivering competitively priced LNG from the Arctic region of Russia to all major consuming regions of the world.

We also optimized our transport costs by decreasing the travel distance of the Arc7 ice-class tankers to ensure the timely loading and offloading of LNG produced from the Yamal LNG project. In November 2018, Yamal LNG successfully completed the first ship-to-ship LNG transshipment in the area near the port of Honningsvag in northern Norway. The operational experience gained from this process will be used at our future large-scale LNG transshipment projects in Kamchatka and the Murmansk Region, according us the opportunity to build an efficient logistics chain for our LNG projects.

Our LNG strategy also provides for medium-tonnage and low-tonnage projects, enabling us to build effective distribution channels to target niche markets and customer segments. In the reporting year, we completed the construction and began commissioning of Cryogas-Vysotsk, a medium-tonnage LNG plant located on the Baltic Sea. In 2018, we established a joint venture with Fluxys to build a medium-tonnage transshipment LNG terminal in Rostock in Germany, which will receive LNG carriers from the Cryogas-Vysotsk liquefaction facility.

In order to manage our transportation costs and build up the unique competencies of Arctic navigation, in May 2018, we created a wholly owned transport subsidiary called Maritime Arctic Transport. Establishing an efficient Northern Sea Route shipping model is one of our key priorities to realize our long-term strategy and improve the competitiveness of NOVATEK's Arctic projects.

The successful launch of our flagship LNG project demonstrated our ability to contribute in a meaningful way to the next wave of LNG projects delivering cost competitive LNG to the international markets. This year we are ready to move forward with implementing our next LNG project, Arctic LNG 2, and this past May, we agreed in principle with our long-term partner TOTAL to enter the project and in March 2019, the deal was closed. The intention of our respected partner to enter into the Arctic LNG 2 project at an early stage confirms outstanding economic attractiveness and huge perspectives of future LNG projects on the Yamal and Gydan peninsulas.

Arctic LNG 2 is based on the prolific hydrocarbon resources of the Utrenneye field located on the Gydan peninsula. The project provides for the construction of three LNG trains at 6.6 mmtpa each, for a combined total of 19.8 mmtpa. Through innovation and technology, our goal for Arctic LNG 2 is to significantly reduce the liquefaction capital costs by using gravity based structures (GBS) as the project's platform. In late 2018, we completed the front end engineering and design work, or FEED, confirming the commercial viability of the project's concept and estimated capital costs. Correspondingly, Arctic LNG 2 signed contracts on the design and construction of GBS, and the supply of turbo machinery equipment. In parallel, during 2018, we made ongoing construction progress at the LNG construction yard in the Murmansk Region, which will serve as the center for fabrication and construction of GBS platforms.

We can substantially facilitate global LNG trade and decrease the travel distance of the Arc7 ice-class tankers by constructing our transshipment facilities in the Murmansk Region (westbound cargos) and at Kamchatka (eastbound cargos). This provides our commercial trading group with various options to trade LNG cargos to maximize netback margins based on trading spreads between the Pacific and Atlantic LNG trades. Moreover, we signed an agreement during the past year with the Ministry of the Russian Federation for the Development of the Far East and the Government of the Kamchatka Territory on the construction of a marine LNG transshipment complex in the Kamchatka region. It is paramount that we optimize our LNG logistical model to ensure the most effective and efficient year-round transport scheme.

NOVATEK plans to significantly increase production of natural gas and LNG, and we are interested in developing the whole natural gas value chain to enhance the competitive advantages of our scalable low-cost LNG projects. In 2018, we concluded several Memorandums of Understanding in relation to the Company's current and future LNG projects.

Our large, high quality, low-cost resource base in the hydrocarbon rich Yamal and Gydan peninsulas underlies our ambitious growth strategy. In 2018, we successfully expanded our resource base through exploration works as well as obtaining new mineral licenses on the Yamal and Gydan peninsulas. Over the past several years we have managed to acquire through tenders and auctions very enviable license areas to support our future LNG growth ambitions. We will continue to deploy capital to our exploratory activities to prepare these license areas for future LNG projects.

Our first exploration well testing the North-Obskiy license area located in the shallow waters of the Ob Bay yielded a new field discovery called the North Obskoye field. The North-Obskoye field was the single standalone largest gas discovery in the world in 2018 with natural gas reserves attributable to the first exploration well amounting to 322 billion cubic meters (bcm) according to the Russian reserve classification methodology.

In 2018, significant reserve growth was also confirmed at the Utrenneye field with discovery of two new hydrocarbon deposits increasing the field's natural gas reserves up to about 2 trillion cubic meters. The new deposits expand the field's reserve potential and open additional opportunities for implementing the Arctic LNG 2 project.

Our exploration success was not only confined to the Yamal and Gydan peninsulas. We discovered the Nyakhartinskoye field, located in close proximity to the Company's Yurkharovskoye field. This represents a very important reserve discovery to maintain NOVATEK's natural gas production output in the area of the Unified Gas Supply system.

The Company's reserves were also positively impacted by successful exploration works at the Utrenneye, Urengoyskoye (Samburgskiy license area) and Yarudeyskoye fields, as well as production drilling at the South-Tambeyskoye, North-Russkoye and Yaro-Yakhinskoye fields.

We obtained the following new licenses: the South-Leskinskiy, Payutskiy, Palkurtoiskiy, Centralno-Nadoyakhskiy, Beregovoy, Ust-Yamsoveyskiy and Chernichniy license areas.

Our total SEC proved reserves, including the Company's proportionate share in joint ventures, aggregated 15,789 million barrels of oil equivalent (boe), including 2,177 bcm of natural gas and 181 million metric tons (mmt) of liquid hydrocarbons. At year-end 2018, our total proved reserves increased by 4% compared to the year-end 2017, representing a reserve replacement rate of 222% for the year, the addition of 1,218 million boe, inclusive of 2018 production. We retained our core

competitive advantage by being ranked among the lowest cost hydrocarbon producers globally, and our lifting costs remained at a very low level of \$0.6 per boe. We are fully committed to our strategy providing for strict cost control and conservative financial policies.

During the past year, NOVATEK's hydrocarbon production totaled 549.1 million boe, including 68.8 bcm of natural gas and 11,800 thousand tons of liquids (gas condensate and crude oil), representing an increase in total hydrocarbons produced by 35.8 million boe, or by 7.0%, as compared with 2017. The positive factors contributing to our production growth was mainly attributable to the launch of the three trains at Yamal LNG and the acquisition of new assets in the end of 2017 and first quarter 2018.

We had a very successful year marketing natural gas to both the domestic and international markets. Our natural gas sales volumes, including LNG volumes sold, aggregated 72.1 bcm, representing an increase of 11.0% as compared with 2017. Volumes of natural gas sold in the Russian domestic market in 2018 were 66.1 bcm, whereas LNG volumes sold on international markets amounted to 6.1 bcm or 57 cargos of LNG. Sales volumes of LNG in 2017 were 0.1 bcm as Yamal LNG commenced LNG shipments on 8 December 2017.

Our current business generates sufficient operating cash flows to internally fund our operations, service our debt and liabilities, and distribute cash to our shareholders in the form of dividends. Our strong cash flow generated from our core domestic business has allowed us to significantly reduce our long-term debt portfolio and maintain strong credit metrics. In 2018, our revenues increased by 43% to RR 832 bln and our normalized EBITDA increased by 62% to RR 415 bln while our normalized profit increased 49% to RR 233 bln.

Based on the Company's financial results, the Board of Directors recommended to the General Meeting of Shareholders to approve dividends for 2018 at RR 26.06 per share, exceeding the dividend paid out for the previous year by 74.3%.

TWO THOUSAND AND EIGHTEEN began the transformation of NOVATEK into a global gas company. We will play a major role in the global LNG markets and our ambitious strategic goal to be one of the largest single LNG producers in the world is supported by our unique resource potential, professional competences, exceptional experience gained with the launch of Yamal LNG, a balanced investment portfolio, keen focus on cost control and adherence to strict financial policies. These characteristics are the hallmark of a successful company but they alone are not sufficient to attain the status of a truly great company. We must take a responsible approach to our business conduct. NOVATEK seeks to comply with the best sustainability principles taking into consideration the interests of all stakeholders when making decisions. We see sustainable development as one of the cornerstones of our future growth and key to **EXPANDING OUR GLOBAL LNG FOOTPRINT**.

The Yamal Nenets Autonomous Region (YNAO) is the principal home of our major oil and gas operations. Social commitments are often overlooked in the grander scheme of our development activities and lofty LNG ambitions but it is crucial that we give back to society and develop the future generation of Russia. We are very proud to have built a new residential school for 800 schoolchildren in the Gyda settlement located on the Gydan peninsula. This past year began the first academic year for students in a new school. We also launched the "Health Territory" charity project assisting children with medical care in the regions where the Company operates including the YNAO.

We were recognized for our efforts in environmental protection, social responsibility and corporate governance by the global community. In 2018, NOVATEK remained a constituent of the FTSE4Good Emerging Index of FTSE Russell Ratings. We became the winner of the 2018 National Environmental Award named after Vladimir Vernadskiy in the nomination “Innovative Eco-efficient Technologies in Industry and Energy” with our “Arctic Cascade” liquefaction technology; and the winner of the “Change Management. Visionaries.” award with our Sustainability Report in the category “Disclosure of Information on Social Impact”.

We would not be here today if it were not for the thousands of dedicated employees working at NOVATEK and our joint ventures. Human capital is mission critical to develop a world-class company based on innovation and technology to drive our next wave of LNG projects and maintain our commitment to our core domestic business. We thank all of our employees for their commitment and dedication as we continue our journey of transforming NOVATEK into a global gas company.

On behalf of the Board of Directors and Management Board, we are pleased to present to all our valued stakeholders the Company’s 2018 Annual Report. We would like to thank everyone for your continued support, as we remain committed to growing NOVATEK and **EXPANDING OUR GLOBAL LNG FOOTPRINT** while implementing the best international practices and principles of sustainable development.

ALEXANDER NATALENKO  
Chairman of the Board of Directors

LEONID MIKHELSON  
Chairman of the Management Board

MARK GYETVAY  
Deputy Chairman of the Management Board

# **Review of Operating Results**

## **Licenses**

NOVATEK's core fields and license areas are located in the Yamal-Nenets Autonomous Region. In 2018, we expanded the Company's operational footprint and obtained new licenses in Russia's Krasnoyarsk Territory, the Gydan peninsula in close proximity to existing license areas of the Company as well as offshore licenses located in Montenegro and Lebanon.

The Yamal-Nenets Autonomous Region (YNAO) is one of the world's largest natural gas producing regions and accounts for approximately 80% of Russian natural gas production and 15% of global natural gas production. The concentration of the Company's fields in this prolific gas-producing region provides favorable opportunities for increasing NOVATEK's shareholder value with a minimum level of risks, low finding cost, and efficient replacement of reserves. With more than 20 years of operational experience in the region, NOVATEK is in a good position to efficiently monetize its resource base.

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

As of 31 December 2018, NOVATEK subsidiaries and joint ventures held 56 licenses for subsoil use. NOVATEK also entered into agreements on exploration and production of hydrocarbons on four offshore blocks in Montenegro and on two offshore blocks in Lebanon.

The duration of licenses for the Company's core fields exceeds 15 years. In particular, the license for the South-Tambeyskoye field is valid until 2045, for the Utrenneye field – until 2120, for the East-Tarkosalinskoye field – until 2043, for the Yurkharovskoye field – until 2034, and for the Samburgskiy license area of Arcticgas – until 2034.

In the reporting year, NOVATEK significantly expanded its portfolio of licenses.

In February 2018, NOVATEK won the ALROSA public auction, obtaining the subsoil licenses for the Beregovoy and Ust-Yamsoveyskiy license area. As of 31 December 2018, the two license areas had a total of 1,217 mmboe of Russian hydrocarbon reserves or 871 mmboe of PRMS reserves.

Our subsidiary NOVATEK-Yurkharovneftegas won the auctions for hydrocarbon exploration and production licenses for the Payutskiy and South-Leskinskiy license areas. The licenses were issued for a term of 27 years. The Payutskiy and South-Leskinskiy areas are located within the Krasnoyarsk Territory in the vicinity of NOVATEK assets, namely the West-Solpatinskiy, North-Tanamskiy, Nyavuyakhskiy and Tanamskiy areas in the Gydan Peninsula.

The Company's subsidiaries obtained five geological study licenses in 2018, which include prospecting and field appraisal, in particular, for the geological study of the Palkurtoiskiy and Central-Nadoyakhskiy areas and flanks of fields being explored, including the Gydanskiy 1, Ladertoyskiy 1, and Dorogovskiy 1.

The new acquisitions are estimated to hold a total resource potential of 19,872 mmboe.

The Company already holds a vast resource base in the Gydan Peninsula, including the Utrenneye, Geofizicheskoye, and Gydanskoye fields and a set of prospective license areas. With new licenses, NOVATEK is accumulating its vast hydrocarbon resource base in the peninsula and, accordingly

is in a position to consider significant long-term projects to increase its hydrocarbon production output.

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

## Hydrocarbon Reserves

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

DeGolyer and MacNaughton, an independent petroleum engineers firm, estimates the Company's reserves on an annual basis under both the SEC and PRMS reserves reporting standards.

As of 31 December 2018, NOVATEK's SEC proved reserves, including the Company's proportionate share in joint ventures, aggregated 15,789 million barrels of oil equivalent (mmboe), including 2,177 bcm of natural gas and 181 mmt of liquid hydrocarbons. The Company's proved reserves grew by 4%, and the reserve replacement ratio stood at 222%. At year-end 2018, the Company's reserve to production ratio (or R/P ratio) was 29 years.

As of 31 December 2018, the Company's total PRMS proved and probable reserves, including the Company's proportionate share in joint ventures, aggregated 29,619 mmboe, including 4,021 bcm of natural gas and 387 mmt of liquid hydrocarbons, with a total R/P ratio of 54 years.

The Company's reserves trend in 2018 was positively impacted by successful exploration at the Utrenneye, Urengoyskoye (Samburgskiy license area) and Yarudeyskoye fields, production drilling at the South-Tambeyskoye, North-Russkoye and Yaro-Yakhinskoye fields, as well as acquisition of new assets (Beregovoye field and Ust-Yamsoveyiskiy license area). Excluding the effect of obtaining new licenses, the organic reserve replacement rate was 121% due to successful exploration and field development.

The high quality of the reserve base enables NOVATEK to maintain its position as one of the lowest cost producers in the global oil and gas industry. Our average 2018 and five year (2014-2018) proved reserve replacement costs amounted to RR 87 (USD 1.4) per boe and RR 83 (USD 1.5) per boe, respectively.

**SEC proved reserves as of 31 December 2018**  
**(based on the Company's equity ownership interest in joint ventures) and duration of licenses**

Field / license area	Ownership	Duration of license	Natural gas reserves, bcm	Liquids reserves, mmt
<b>Total reserves</b>	-	-	2,177	181
South-Tambeyskoye	50.1% (59.97% of reserves)	2045	424	14
Utrenneye	100%	2120	417	15
Yurkharovskoye	100%	2034	192	7
Urengoyskoye (Arcticgas)	50%	2034	183	45
Verkhnetiuteyskoye + West-Seyakhinskoye	100%	2044	157	2
Geofizicheskoye	100%	2034	129	0.4
East-Tarkosalinskoye	100%	2043	93	22
Yaro-Yakhinskoye	50%	2034	72	13
North-Urengoyskoye	50%	2038	64	5
North-Russkoe	100%	2031	60	3
Urengoyskoye (Ust-Yamsoveyskiy)	100%	2024	52	5
Beregovoy	100%	2070	43	3
Kharbeyskoye	100%	2036	42	6
Gydanskiy	100%	2044	39	-
North-Chaselskoye	50%	lifetime of the field	27	1
Olimpiyskiy license area	100%		26	2
West-Yaroyakhinskoye	100%	2025	24	3
Samburgskoye	50%	2034	22	2
East-Tazovskoye	100%	2033	18	3
Termokarstovoye	51%	2097	16	4
Khancheyskoye	100%	2044	15	1
Yarudeyskoye	51% (100% of reserves)	2029	14	21
Others	-	-	48	4

## **Geological Exploration**

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

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

In 2018, NOVATEK continued exploration on the Yamal and Gydan Peninsulas to expand the resource base of LNG projects.

With a prospecting well drilled in the shallow waters of the Ob Bay we discovered the North-Obskoye field. This discovery represented the world's largest standalone gas condensate field find in 2018<sup>1</sup>. Aggregate reserves of natural gas and condensate approved by the State Reserves Commission according to the Russian reserves classification amounted to 322 bcm and 16 mmt, respectively.

With the testing of a prospecting well at the Utrenneye field, we discovered two new gas condensate deposits and confirmed the commercial productivity of the field's Middle Jurassic layers. Total natural gas reserves in the newly discovered deposits within the Utrenniy license area held by Arctic LNG 2 amounted to 405 bcm of natural gas and 40 mmt of gas condensate. Taking into account these new deposits, the field's total reserves amount to around 2 trillion cubic meters of natural gas and 105 mmt of liquids. The reserves were approved by the State Reserves Commission. By adding new deposits we improve the field's resource potential and open up additional prospects in the execution of Arctic LNG 2.

An exploration well drilled to the Jurassic layers at the South-Tambeyskoye field showed a significant flow with 430 mcm/day of gas and 81 tons/day (743 barrels/day) of stable condensate. The estimated reserves based on the Jurassic layers will be submitted to the State Reserves Commission for a formal expert review in 2019.

A prospecting well in the Nyakhartinskiy license area tested a commercial flow with 160 mcm/day of gas and 109 tons/day (938 barrels/day) of gas condensate. This field is geographically next to the well-developed infrastructure of the Yurkharovskoye field and is an important discovery for NOVATEK to maintain its production levels within the UGSS. The reserves will be submitted for expert review by the State Reserves Commission in 2019.

We have commenced an active exploration program at the Gydanskoye field. An initial prospecting well discovered significant oil and gas potential in the Achimov deposits.

---

<sup>1</sup> Data provided by international energy research firms Wood Mackenzie, Rystad Energy

In 2018, we continued 3D seismic exploration at the Gydanskiy, North-Obskiy, West-Solpatinskiy, Verkhnetuteyskiy, and West-Seyakhinskiy license areas located on the Yamal and Gydan peninsulas.

In order to maintain pipeline gas production level and unstable gas condensate volumes sent to the Purovsky Plant, we continued exploration in the fields and license areas within the Nadym-Pur-Taz district located in the YNAO.

At the Yurkharovskoye field, a well was drilled to further explore lower Jurassic deposits, which confirmed the commercial productivity of the Jurassic gas condensate formations. We are preparing to test the well in 2019.

In the North-Russkoye, Kharbeyskoye and Dorogovskoye license areas (collectively referred as the “North-Russkoye cluster”), three prospecting wells were drilled to confirm oil and gas potential and to define commercial productivity, a prerequisite required to prepare the fields for development.

In the Samburgskiy license area, the successful exploratory drilling confirmed productivity of the Achimov layers, where a commercial flow of gas condensate at testing of wells was received. Seismic data and drilling results indicated the prospects for new discoveries in the drilled layers as well as deeper horizons.

The well testing for the Jurassic layers at the Yarudeyskoye field showed a commercial flow with 206 mcm/day of gas and 19 tons/day (162 barrels/day) of gas condensate.

In the reporting year, we shot 2,926 linear km of 2D seismic and 4,759 square km of 3D seismic works, as well as drilled a total of 36,100 meters of prospecting and exploration wells.

The successful exploration works contributed 989 bcm of gas and 61 mmt of liquids to NOVATEK’s reserves under the Russian reserves classification, as well as 164 bcm of gas and 34 mmt of liquids to our PRMS reserves.

### Geological Exploration

	<b>Units</b>	<b>2017</b>	<b>2018</b>	<b>Change</b>
<b>2D seismic</b>	<b>linear km</b>	-	<b>2,926</b>	<b>n/a</b>
Subsidiaries	linear km	-	2,926	<b>n/a</b>
Joint ventures	linear km	-	-	
<b>3D seismic</b>	<b>square km</b>	<b>1,465</b>	<b>4,759</b>	<b>225%</b>
Subsidiaries	square km	<b>1,215</b>	4,412	263%
Joint ventures	square km	<b>250</b>	<b>347</b>	39%
<b>Exploration drilling</b>	<b>'000 m</b>	<b>24.5</b>	<b>36.1</b>	<b>47%</b>
Subsidiaries	'000 m	16.2	24.3	50%
Joint ventures	'000 m	8.3	11.8	42%

## Field Development

In 2018, NOVATEK continued development activities at our producing and prospective fields. In the reporting year, the Company's subsidiaries invested RR 47.6 bln in resource base development.

Production drilling in 2018, including production drilling at our joint ventures, reached 446,000 meters, representing a 70% increase over 2017. Our drilling activities was mainly driven by the development of the Yaro-Yakhinskoye, North-Obskoye, East-Tarkosalinskoye, North-Urengoyskoye, East-Tazovskoye and Samburgskoye fields.

A total of 67 production wells, including 40 natural gas and gas condensate and 27 oil wells, were completed and commissioned during the year.

### **New facilities commissioned at producing fields**

In 2018, at the North-Russkoye field, we continued the construction of a gas and condensate pipeline links with diameters of 820 mm and 273 mm, and started the construction of the pipeline crossing under the Taz river. Construction activities were ongoing on the gas treatment facility, booster compressor station, auxiliary buildings and living camp.

On the crude oil part of the Yaro-Yakhinskoye field, an oil treatment facility with a capacity of 1.4 mmtpa with a oil delivery point, an external crude oil pipeline 57 km long, well pads and oil and gas gathering systems were built and commissioned into operation.

Ten new well pads have been put into operation at the Yarudeyskoye field. Construction has been completed and a 40 km road from the Nadym-Salekhard Federal road to the Yarudeyskoye field has been put into operation.

## **Hydrocarbon Production**

In 2018, NOVATEK produced commercial hydrocarbons at 18 fields. The Company's production (including attributable share in the production of JV's) amounted to 549.1 mmboe, up 7.0% compared with 2017. The production increase was due to LNG production growth at the Yamal LNG, as well as the acquisition of new production fields at the end of 2017 and in the first quarter of 2018 (Beregovoy, West-Yaroyakhinskiy and Syskonsynyinskiy license areas). The production volumes at mature fields of our subsidiaries and joint ventures decreased mainly due to natural declines in the reservoir pressure at the current gas producing horizons.

Total natural gas production including the Company's share in production of joint ventures aggregated 68.81 bcm, representing approximately 82.0% of our total hydrocarbon output. The share of gas produced from the gas condensate bearing layers (or "wet gas") in proportion to total gas production was 77.6%. Production of natural gas increased by 8.5% as compared to 2017 volumes.

Production of liquid hydrocarbons including the Company's share in production of joint ventures totaled 11,800 thousand tons, of which 59.3% was gas condensate and the remaining 40.7% consisted of crude oil. Production of liquid hydrocarbons increased by 0.2% as compared to 2017, with gas condensate production amounting to 7,001 thousand tons and crude oil production coming to 4,799 thousand tons.

In 2018, we continued to achieve some of the lowest lifting costs in the industry. The Company's lifting costs were RR 38.5 (USD 0.61) per boe in 2018.

### Hydrocarbon production (including share in production by joint ventures)

	Units	2017	2018	Change
<b>Total</b>	<b>mmboe</b>	<b>513.3</b>	<b>549.1</b>	<b>7.0%</b>
Gas	mmcm	63,399	68,806	8.5%
	<i>mmboe</i>	<i>414.6</i>	<i>450.0</i>	
Liquid hydrocarbons	th. tons	11,774	11,800	0.2%
	<i>mmboe</i>	<i>98.7</i>	<i>99.1</i>	

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

	Gas, mmcm		Change	Liquids, mt		Change
	2017	2018		2017	2018	
<b>Total</b>	<b>63,399</b>	<b>68,806</b>	<b>8.5%</b>	<b>11,774</b>	<b>11,800</b>	<b>0.2%</b>
NOVATEK-Yurkharovneftegas' fields (100%)	30,540	27,745	(9.2%)	1,489	1,264	(15.1%)
NOVATEK-Tarkosaleneftegas' fields (100%)	11,082	10,069	(9.1%)	1,665	1,661	(0.2%)
Arcticgas' fields (50%, before 21.03.2018 - 53.3%)	13,964	13,698	(1.9%)	4,190	3,999	(4.6%)
South-Tambeyskoye (59.97%)	776	8,213	n/a	25	542	n/a
North-Urengoyskoye (50%)	4,291	3,789	(11.7%)	379	310	(18.2%)
Termokarstovoye (51%)	1,255	1,246	(0.7%)	421	403	(4.3%)
Yarudeyskoye (100%)	1,362	1,500	10.1%	3,596	3,439	(4.4%)
Others	129	2,546	n/a	9	182	n/a

## LNG Projects

### Yamal LNG Project

Yamal LNG is an integrated project for the extraction, liquefaction and sales of natural gas. OAO Yamal LNG is the operator and the owner of all the assets. As of the end of 2018, the shareholder structure of Yamal LNG was as follows: NOVATEK – 50.1%, TOTAL – 20%, CNPC – 20%, and the Silk Road Fund – 9.9%.

Yamal LNG was constructed and commissioned ahead of schedule and on budget, an unprecedented accomplishment in the global oil and gas industry. The commissioning of the second and third LNG trains were executed ahead of the initial schedule by 6 months and by more than a year, respectively. The first liquefaction train started production in 4Q 2017, whereas LNG

trains 2 and 3 became operational in July and November 2018, respectively, and the Yamal LNG project reached its full operational capacity as early as December 2018.

The aggregate design capacity of the three LNG trains aggregate 16.5 mmtpa of LNG, or 5.5 mmtpa per train. We plan to construct a fourth LNG train with the design capacity of 0.9 mmtpa, utilizing the Arctic Cascade liquefaction technology patented by NOVATEK.

In 2018, Yamal LNG shipped 113 LNG cargos (8.4 mmt) and 30 cargos of stable gas condensate (717 mt).

The South-Tambeyskoye field located in the North-East of the Yamal Peninsula is the resource base of the Project. The field is being developed with horizontal wells with total drilled lengths up to 5,000 meters and horizontal sections of up to 1,500 meters.

The license for exploration and production of hydrocarbons at the South-Tambeyskoye field held by Yamal LNG is valid until 2045.

As of 31 December 2018, the field's SEC proved reserves amounted to 707 bcm of natural gas and 24 mmt of liquid hydrocarbons. In terms of proved reserves, the South-Tambeyskoye field is the largest field in NOVATEK's portfolio. In 2018, the production drilling results increased the proved reserves at the field by 38 bcm of natural gas and 4 mmt of liquid hydrocarbons under the SEC reserves methodology, including production. According to the PRMS standards, the proved and probable reserves of the South-Tambeyskoye field as of the end of 2018 amounted to 1,002 bcm of natural gas and 37 mmt of liquid hydrocarbons.

The field's production capacity exceeds 27 bcm of natural gas and 1 mmt of stable gas condensate per annum.

A new fleet of LNG tankers designated as Arc7 ice class LNG carriers were specifically designed for the Yamal LNG project capable of navigating the Northern Sea Route (NSR) without icebreaker support all year round (westbound) and throughout the summer-autumn navigation period (eastbound). As of the end of 2018, eight of the fifteen Arc7 ice-class carriers were in operation.

In November 2018, we started ship-to-ship LNG transshipment operations in the vicinity of the port of Honningsvag in northern Norway in order to optimize transportation costs, shorten the travel distance for the Arc7 ice-class carriers and ensure timely loading and offtake of LNG production. The LNG is transshipped from the Arc7 ice class carriers to conventional LNG carriers delivering the cargos to the customers.

Yamal LNG inaugurated the 2018 summer navigation period along the NSR by delivering the first LNG cargos destined to China. These voyages represented the first shipment of Russian LNG along the NSR without ice breaker support. Moreover, they marked the start of regular LNG shipments via the NSR, which were only made possible by the unique ice-breaking characteristics of Arc7 carriers. The inaugural voyage from the port of Sabetta through the NSR to the destination port was completed in 19 days as compared to 35 days for the conventional route via the Suez Canal.

## **Arctic LNG 2 Project**

Arctic LNG 2 is the second LNG project of NOVATEK. The project includes the construction of three LNG trains, with a design capacity of 6.6 mmtpa of LNG each, or a total of 19.8 mmtpa, and at least 1.6 mmtpa of stable gas condensate. The project employs an innovative construction concept using gravity-based structures (GBS). OOO Arctic LNG 2 is the operator and owner of all the assets.

The Utrenneye field is the resource base for Arctic LNG 2. The field is located on the Gydan Peninsula in YNAO approximately 70 km across the Ob Bay from Yamal LNG. In 2018, the boundaries of the license area were expanded, and gas condensate deposits of the field's southern flank were included in the area. The license term was extended until 2120.

In 2018, the Utrenneye field exploration drilling discovered two new deposits and confirmed the commercial productivity of the Middle Jurassic layers. The discovered deposits hold a total reserves of 405 bcm of natural gas and 40 mmt of gas condensate under the Russian reserve classification. As of 31 December 2018, the Utrenneye field's reserves under the Russian reserves classification totaled 1,978 bcm of natural gas and 105 mmt of liquids. OOO Arctic LNG 2 holds the LNG export license.

In 2018, we completed the front end engineering design (FEED) and started site preparation, construction of early phase power supply facilities, production wells drilling and berth construction.

The GBS design concept as well as extensive localization of equipment and materials manufacturing in Russia will considerably decrease the capital cost per ton of LNG produced, ensuring the project's low cost structure and increasing its competitive advantages.

NOVATEK will build the LNG Construction Center in Belokamenka near Murmansk to provide fabrication of the GBS, assembly and installation of topside modules. The LNG Construction Center will comprise two dry docks to build GBS and facilities to manufacture topside modules. This new facility will establish a state-of-the-art LNG platform in Russia, create new jobs in engineering and production, and also contribute to regional economic development as well as manufacturing and equipment orders throughout Russia.

In December 2018, Arctic LNG 2 signed an agreement on the design and construction of three GBS platforms, with the Russian company SAREN, a joint venture of Renaissance Heavy Industries Russia (RHI Russia B.V.) and SAIPEM S.p.A of Italy.

In December, a contract was also signed with Nuovo Pignone (Italy) for the supply of gas turbine compressors and gas turbine power generators for three liquefaction trains.

In May 2018, NOVATEK and TOTAL agreed in principle on the entry into the Arctic LNG 2 providing for a purchase by TOTAL of a 10% participating interest in the project. The deal was closed in March 2019.

## **Cryogas-Vysotsk Project**

One of our LNG strategic initiatives is to develop small- to medium-scale LNG projects. This approach allows us to build effective marketing channels to sell our products on different markets. We see vast prospects in using LNG as marine fuel and motor fuel to substitute for diesel and fuel oil, that will contribute to decreasing emissions and improving the environment.

In July 2017, NOVATEK acquired a 51% participation interest in Cryogas-Vysotsk project including construction of an LNG production facility and a transshipment terminal.

Cryogas-Vysotsk, located in the port of Vysotsk, the Leningrad Region, is our first medium-scale LNG project with an initial design capacity of 660 mtpa. As of year-end 2018, most of the plant construction works were completed and equipment commissioning was in progress.

The project infrastructure includes two LNG trains with a capacity of 330 mtpa each, a 42 mcm LNG storage tank and an offloading terminal designed to handle LNG carriers with a capacity of up to 30 mcm.

In 2018, NOVATEK and Fluxys established a joint venture to design, build, finance, own and operate a medium-scale LNG transshipment terminal with a capacity of about 300 mtpa in the port of Rostock, Germany. The transshipment terminal will receive LNG carriers from the Cryogas-Vysotsk liquefaction facility and further LNG deliveries to the consumer market will be made via trucks. It will also have an option of bunkering and loading of bunkering vessels.

## **Processing of Gas Condensate**

### **Purovsky Plant**

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

The Purovsky Plant is the central element in our vertically integrated value chain that provides us complete operational control over our processing needs and access to higher yielding marketing channels for our stable gas condensate. The Purovsky Plant processes unstable gas condensate into stable gas condensate and natural gas liquids (NGL).

In the reporting period, the Purovsky Plant processed 11,017 mt of de-ethanized gas condensate, representing a 3.7% decrease compared to 2017. The processing capacity of the Purovsky Plant is in line with the total production capacity of NOVATEK and its joint ventures fields. The 2018 output mix included 8,501 mt of stable gas condensate, 2,452 mt of NGL and LPG and 15.0 mt of regenerated methanol.

The Purovsky Plant is connected via its own railway line to the Russian rail network at the Limbey rail station. Subsequent to the launch of the Ust-Luga Complex in 2013, most of the stable gas condensate volumes produced at the Purovsky Plant are delivered by rail to Ust-Luga for further processing or transshipment to exports, with the remaining volume of stable gas condensate sold directly from the plant to the domestic market.

All of the NGL volumes (feedstock for LPG production) produced at the plant are delivered by pipeline to SIBUR's Tobolsk Petrochemical Complex for further processing.

### **Processing volumes and output of the Purovsky Plant, mt**

	<b>2017</b>	<b>2018</b>	<b>Change</b>
<b>Processing of de-ethanized condensate</b>	<b>11,445</b>	<b>11,017</b>	<b>(3.7%)</b>
<b>Output:</b>			
Stable gas condensate	8,853	8,501	(4.0%)
NGL and LPG	2,493	2,452	(1.6%)
Regenerated methanol	16.5	15.0	(9.1%)

### **Ust-Luga Complex**

The Gas Condensate Fractionation and Transshipment Complex (the “Ust-Luga Complex”) is located at the all-season port of Ust-Luga on the Baltic Sea. The Ust-Luga Complex processes stable gas condensate into light and heavy naphtha, jet fuel, ship fuel component (fuel oil) and gasoil, and enables us to ship the value-added petroleum products to international markets. The Ust-Luga Complex also allows for transshipment of stable gas condensate to the export markets. After launching in 2013, the complex also allowed us to improve logistics and reduce transportation costs due to a more favorable geographical location of Ust-Luga compared to the port of Vitino, through which we had previously exported our stable gas condensate.

In the reporting year, the Ust-Luga Complex processed 6,949 mt of stable gas condensate into 6,807 mt of end products, including 4,244 mt of light and heavy naphtha, 1,087 mt of jet fuel and 1,476 mt of ship fuel component (fuel oil) and gasoil. The Ust-Luga Complex will commence constructing a hydrocracker unit in 2019 that will eventually reduce the fuel oil and gasoil component into higher grade petroleum products. We expect this new upgrading unit will be commissioned in 2020.

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

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

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

	<b>2017</b>	<b>2018</b>	<b>Change</b>
<b>Stable gas condensate processing</b>	<b>6,961</b>	<b>6,949</b>	<b>(0.2%)</b>
<b>Output:</b>			
Heavy naphtha	2,261	2,247	(0.6%)
Light naphtha	1,962	1,997	1.8%
Jet fuel	1,072	1,087	1.4%
Ship fuel component (fuel oil)	967	843	(12.8%)
Gasoil	564	633	12.2%

## **Natural Gas Sales**

NOVATEK sells natural gas within the Russian Federation as well as exports natural gas in the form of LNG. The Company started exporting LNG in December 2017 when the first train at the Yamal LNG project started production. In addition, on the European market we sell regasified liquefied natural gas arising during the transshipment of LNG (boil-off gas), as well as during the regasification of purchased LNG at our own regasification stations in Poland.

In 2018, natural gas sales volumes, including volumes of LNG sold, aggregated 72.13 bcm, representing an increase of 11% as compared with 2017. Revenues from natural gas sales amounted to RR 375.2 billion, representing a 51.5% increase compared to 2017. The revenue increase was mainly driven by start of LNG deliveries from the Yamal LNG project and an increase in sales prices and volumes in the Russian domestic market.

### **Sales in the Russian Federation**

In 2018, the total volume of natural gas sales in the Russian Federation amounted to 66.07 bcm, increasing by 1.8% compared to the previous year.

NOVATEK plays an important role in ensuring supplies of natural gas to the domestic market. During 2018, the Company supplied natural gas to 40 regions of the Russian Federation. Our end customers and traders were located primarily in the following regions: the Chelyabinsk, the Khanty-Mansiysk Autonomous Region, Moscow and Moscow region, YNAO, Lipetsk, Tyumen, Vologda, Stavropol, Nizhny Novgorod, Smolensk, Tula and Kostroma regions and Perm territory. The above regions accounted for more than 92% of our total gas sales in the Russian Federation.

In order to manage seasonal gas demand, NOVATEK has entered into an agreement with Gazprom for underground storage services. Natural gas inventories are accumulated during warmer periods when demand is lower and then used to meet increased demand during periods of colder weather. At year-end 2018, our inventories of natural gas, including LNG, amounted to approximately 2.2 bcm.

NOVATEK, through its subsidiary NOVATEK – AZK, is implementing a pilot project for the sale of LNG as a motor fuel.

Together with industrial and commercial enterprises of the Chelyabinsk region, we have converted a number of pilot automotive vehicles (haul trucks and highway trucks) to the dual-fuel mode (LNG + diesel). In 2018, the preliminary testing results of these vehicle types were positive. Together with Chelyabinsk transport companies, we started trial operation of buses using LNG as a motor fuel. Two mobile refueling units were launched to refuel haul trucks, highway trucks and public transport in the Chelyabinsk region.

#### Natural gas sales, mmcm

	2017	2018	Change
<b>Total gas sales</b>	<b>65,004</b>	<b>72,134</b>	<b>11.0%</b>
International sales	106	6,061	n/a
Sales within the Russian Federation, including:	64,898	66,073	1.8%
End customers	61,560	61,901	0.6%
Traders	3,338	4,172	25.0%
Share of end customers in domestic gas sales	94.9%	93.7%	(1.2 p.p.)

#### Sales on international markets

The successful start of LNG sales on international markets confirms NOVATEK's transformation into a global gas company. Yamal LNG is currently the largest LNG project in Russia with an aggregate share of about five percent of the global LNG market.

In 2018, we sold 6.06 bcm of LNG (4.0 mmt) or 57 cargos. In 2017, LNG sales amounted to 0.1 bcm due to the start of LNG shipments from the Yamal LNG project on 8 December 2017.

One of our core commercial marketing priorities is to expand our supply geography and grow our presence in the key consuming markets. In the reporting year, we shipped LNG cargos to Europe, the Asian Pacific region and Latin America, thus demonstrating the commercial viability of delivering cost-competitive LNG around the globe.

In June 2018, Yamal LNG shipped the first cargo of LNG under a long-term offtake agreement with Gas Natural Fenosa, a Spanish company. This represented the first Russian gas delivered under a long-term contract to Spain, where Russian pipeline gas is not supplied.

In July, we shipped our first cargos to China via the NSR in just 19 days (one way) compared to 35 days of delivery via the traditional eastern route via the Suez Canal. NOVATEK began using the NSR in 2010, by successfully supplying large-capacity tankers with liquid hydrocarbons to the Asia-Pacific region. The Company has now become a pioneer in supplying Russian LNG along this important navigational route. This first LNG shipment opened a new era in the supply of Russian LNG to the growing energy consuming markets of the Asia-Pacific region. The NSR ensures shorter transportation time and lower costs, playing a key role in developing our hydrocarbon fields on the Yamal and Gydan peninsulas.

## Liquid Hydrocarbons Sales

NOVATEK sells liquid hydrocarbons (stable gas condensate, petroleum products, light hydrocarbons, LPG and crude oil) domestically and internationally. The Company strives to respond quickly to changing market conditions by optimizing the customer base and supply geography, as well as developing and maintaining logistics infrastructure.

In 2018, the liquids sales volume reached 15,822 mt, or 0.7% less than in 2017. In 2018, export sales decreased by 0.3% as compared to 2017 and amounted to 8,997 mt.

In 2018, our liquids sales revenues increased to RR 450.6 billion, or by 35.6% as compared to 2017, mainly driven by higher global benchmark prices.

High-value added petroleum products from the Ust-Luga Complex accounted for a 42% share of our overall liquids sales volumes. We sold a total of 6,683 mt of stable gas condensate products, including 4,185 mt of naphtha, 1,082 mt of jet fuel and 1,416 mt of fuel oil and gasoil. The majority of petroleum products (98%) were exported. Export volumes were distributed as follows: Europe – 55.1%, Asia-Pacific – 32.2%, North America – 10.4% and Middle East - 2.3%. Most of our heavy naphtha was exported to Asia Pacific, light naphtha – to Northwest Europe and North America, jet fuel, gasoil and fuel oil – in Northwest Europe.

Export and domestic sales of stable gas condensate continued in 2018. Condensate was sold to international markets, including purchased volumes from Yamal LNG. Total stable gas condensate sales volumes amounted to 1,908 mt, representing a 0.5% decrease compared to 2017.

A portion of light hydrocarbons produced at the Purovsky Plant is processed on tolling terms at SIBUR's Tobolsk Petrochemical Complex into marketable LPG, which is then delivered to NOVATEK's customer base, while the rest of the light hydrocarbons volumes are sold to SIBUR. We sold 1,248 mt of light hydrocarbons in 2018.

Marketable LPG sales volumes totaled 1,428 mt in 2018, representing a 5% increase compared to 2017. LPG export sales volumes amounted to 593 mt or 42% of the total LPG sales volumes. Novatek Polska, our wholly owned LPG trading company in Poland, sold all of our LPG export volumes.

In the domestic market, our LPG is sold through large wholesale channels as well as through our retail network and small wholesale stations. In 2018, large wholesale supplies to the domestic market stood at 688 mt, representing 82% of domestic LPG sales. We also sold LPG via our retail network of 68 stations and seven small wholesale stations in the Chelyabinsk, Volgograd, Rostov and Astrakhan regions. The combined sales from our retail and wholesale stations totaled 146 mt.

Sales of crude oil in 2018 totaled 4,542 mt, which is 1.6% lower compared with 2017. We sold 66% of our crude oil volumes in the domestic market, with the remaining volumes exported to international markets.

**Liquid hydrocarbons sales, mt**

	<b>2017</b>	<b>2018</b>	<b>Change</b>
<b>Total</b>	<b>15,939</b>	<b>15,822</b>	<b>(0.7%)</b>
Petroleum products (Ust-Luga)	6,743	6,683	(0.9%)
Crude oil	4,616	4,542	(1.6%)
Stable gas condensate	1,918	1,908	(0.5%)
Light hydrocarbons	1,288	1,248	(3.1%)
LPG	1,360	1,428	5.0%
Other	14	13	(7.1%)

# **Environmental and Social Responsibility**

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

## **Environmental Protection**

NOVATEK's core producing assets are located in the Far North, a harsh Arctic region with vast mineral resources and a fragile and vulnerable environment. The Company is committed to environmental protection in its operations. In 2018, the Company's overall expenses on environment protection and sustainable nature management amounted to RR 2.4 bln.

We would like to highlight the most significant actions in environmental protection and sustainable management in 2018.

The Company built a sewage and water-methanol mixture thermal disinfection unit at the Purovsky Condensate Processing Plant. In terms of pollutants content in effluents, this unit uses state-of-the-art technologies and meets the stringent Russian requirements for air protection.

The Yamal LNG plant completed and commissioned the treatment facilities for storm water and residential sewage. The waste water is treated to meet regulatory statutory norms and then once treated is discharged into the Ob Bay basin. The treatment process employs mechanical, biological, physical and chemical methods. Treated wastewater is disinfected with ultraviolet irradiation. Chemically and oil contaminated industrial effluents are treated in the treatment plant that brings it in line with quality standards thus enabling injecting them into absorbing formations. Before being injected, the wastewater undergoes separation, two-stage flotation and post-treatment in a pressure sand filter.

NOVATEK is an active contributor to the national objective of converting vehicles to using natural gas as fuel. The Company is developing the market segment for natural gas as a motor fuel by expanding the network of its natural gas retail stations in various Russian regions. We launched a new business area, namely the construction of LNG retail stations and the subsequent use of LNG as an environmentally friendly motor fuel. Converting a vehicle to LNG enables a significant reduction of soot and carbon monoxide emissions compared to conventional fuels (gasoline and diesel).

We drilled our first offshore prospecting well in shallow waters strictly adhering to the stringent environmental standards for activities within the Russian Federation inland seas. We developed an Accidental Spill Response Plan and an environmental monitoring program for the North-Obskiy license area. Regular water monitoring in the Ob Bay of the Kara Sea demonstrated that its hydrochemical and organoleptic properties are in line with the statutory standards. Environmental safety was ensured by multi-purpose emergency response and rescue vessels. Drill cuttings were transported to the port of Sabetta to be further disposed of in an eco-friendly manner.

In Yamal LNG, we carried out a study of marine mammals migration routes and an assessment of LNG shipping impact on their population in the northern part of the Ob Bay and in the southern part of the Kara Sea, including aerial monitoring of their headcount and analysis of seal distribution

on ice in the northern part of the Ob Bay (estimated headcount ranges between 3,639 and 5,433 individuals). Baseline data were collected prior to the start of active ice navigation in order to assess and supervise its impact on ringed seals during the ice period, and to develop mitigation measures. One of the tasks that the crews of chartered vessels sailing through the Ob Bay and the Kara Sea should address is to monitor encounters with marine mammals, record the coordinates and distances as well as the numbers and species of animals encountered. In case of dangerous proximity, a vessel must take measures to avoid troubling animals (slow down or divert).

To encourage NOVATEK employees and residents of Purovsky district of the YNAO to preserve the Far North environment and foster environmental awareness, an environment-related photo contest “See and Preserve!” was held. A total of 32 participants from among residents of the Purovsky District, YNAO, and NOVATEK employees submitted 198 works for the contest. A jury consisting of district administration representatives and professional photographers defined the best pictures. In each of the five categories, three winners were announced who received valuable gifts.

In 2018, more than 1,500 employees from the regions where the Company operates took part in “Green Spring 2018”, a Russian national environmental campaign.

Following a re-certification audit by Bureau Veritas Certification Rus, the NOVATEK HSE Management System was confirmed to be in compliance with OHSAS 18001 and a new version of the international standard ISO 14001 Environmental Management System.

The Company’s Arctic Cascade liquefaction technology was recognized by the Vernadsky National Environmental Award in the Innovative Eco-Effective Industrial and Energy Technologies category. This event is an annual competition aiming to discover and promote projects in the area of environment protection and safety. Arctic Cascade, a prospective natural gas liquefaction technology developed and patented by NOVATEK, ensures enhanced performance with lower power consumption and reduced equipment costs. The technology is designed to use equipment from Russian manufacturers.

Environmental monitoring was performed throughout the reporting year at all of the Company’s license areas and production facilities. During the monitoring process the condition of the environment components is studied, soil, ground, snow cover, water and bed samples are taken. Air contamination level is inspected. The status of fish stock and fodder resources in water areas is studied as are hydrologic and hydrochemical parameters. The samples taken are tested in certified laboratories. Based on the laboratory analysis the condition of the environment components is evaluated as well as its dynamic pattern over the year. The monitoring revealed that the condition of the environment components in the Company's production facility locations is evaluated as stable.

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

### Key Environmental Indicators of NOVATEK (including joint ventures)

	Unit	2017	2018	Change
Water consumption	mcm	2,779	2,993	7.7%*
Atmospheric emissions	mt	108.9	84.3	(22.6%)

\* The increase in water consumption is associated with water intake during the operation of a marine self-lifting drilling rig to ensure the cooling of technological equipment.

One of the Company's priorities is the rational usage of resources, including energy resources. The table below sets out the physical volumes and the Russian rouble equivalent of energy resources consumed by the Company in 2018.

### Energy Resource Consumption by NOVATEK in 2018 (including joint ventures)

	Units	Volume	RR mln, net of VAT
Natural gas	mmcmm	2,185	2,667.0
Electricity	MW*h	1,907,769	8,106.0
Heating energy	Gcal	899,752	661.5
Oil	tons	1,478	11.2
Motor gasoline	tons	1,246	58.9
Diesel fuel	tons	5,499	264.6
Butane	tons	97,786	n/a
Other	tons	1,177	6.6

## Industrial Safety and Occupational Health

NOVATEK is fully committed to putting the life and health of its employees above operational results, and is aware of its responsibility for ensuring accident-free operations and safe labor conditions for its employees, as well as protecting the health of the population in the areas in which it operates.

NOVATEK has in place an occupational health and safety management system which is part of a wider management system and ensures risk management based on the key principle of prioritizing prevention over incident containment and response.

The Company is engaged in exploration, production, processing and sales of natural gas and liquid hydrocarbons, which implies setting up complex technological processes for operating fire and explosion hazardous facilities. Operation of fire and explosion hazardous facilities requires that work and services at hazardous production facilities be performed in strict compliance with industrial safety laws.

To prevent accidents and incidents, and ensure accident containment and response at Class 1 and 2 hazardous production facilities, a unified industrial safety management system and industrial safety declaration were developed providing estimates and specifying activities for:

- identification, assessment and forecasting of accident risks;

- planning and implementation of accident risk mitigation measures;
- coordination of activities to prevent accidents and incidents;
- industrial control procedure; and
- employees' participation in the development and implementation of accident risk mitigation measures.

To compensate for the damage inflicted to third parties and the environment as a result of an accident at a hazardous industrial facility, all hazardous industrial facilities are insured in accordance with Federal Law No. 225-FZ On Mandatory Insurance of Civil Liability of Owners of Hazardous Facilities for Damages Inflicted by Emergencies at Hazardous Facilities.

Executives and specialists of subsidiaries and joint ventures supervised by Rostekhnadzor have been qualified for compliance with industrial security and safety rules in territorial bodies of Rostekhnadzor. From among these employees, the Company set up industrial safety assessment commissions to evaluate staff that operates technical devices at hazardous production facilities.

Occupational health training is mandatory for all categories of employees and is offered in all controlled entities. Structural unit leaders, including top managers, take courses in training centers, while specialists are offered in-house training opportunities. For that, training programs were developed, and occupational health knowledge testing commissions were set up. In-house occupational health training and knowledge testing not only enable significant cost optimization but also save man-hours as such training and tests take place on the job.

In 2018, 11,119 employees completed occupational health training and safety certification in line with the approved training plan.

In 2018, 365 industrial safety and occupational safety compliance checks were carried out by commissions of subsidiaries and joint ventures with results documented in industrial control reports. Employees in charge submit monthly reports to their respective health and safety units specifying remedial actions. All violations are remedied within defined timeframes.

In 2018, NOVATEK ran programs of integrated and targeted audits of controlled entities for compliance with occupational health, industrial, fire and environmental safety requirements by NOVATEK's committee. In the reporting year, the Company conducted integrated audits of four (4) Company entities, and targeted audits of eight (8) entities. Based on their findings, relevant reports were produced, and remedial measures were developed.

At the Company level, data are collected and analyzed regarding remediation of all findings of both scheduled and unscheduled audits carried out by the state supervisory authorities and integrated and targeted audits of the Company's committee.

To prevent accidents and incidents, each year the Company develops and consistently implements technical inspection, certification and test schedules for various types of technical equipment (external and internal inspection, hydrostatic and pneumatic tests, and industrial safety audits). In 2018, the Company performed industrial safety audits of 534 equipment items and extended their safe operating life.

To protect the rights of employees to occupational health-compliant workplace, special assessments of working conditions were performed to cover all workplaces. When workplaces with harmful working conditions are identified, a range of measures is first implemented to eliminate adverse factors. If these prove impossible to eliminate, the time of exposure to harmful conditions gets then restricted while the affected employee is granted all guarantees and compensations for operating in harmful working conditions. In the reporting year, 7,050 workplaces were certified. A special workplace certification process found 5,950 (86.4%) workplaces to have permissible conditions. No workplaces with hazardous working conditions were identified.

The Company also arranged for preliminary health screening and regular medical examinations for timely detection of contraindications and signs of occupational diseases. No occupational diseases were identified for the reporting period.

Workers engaged in certain high-hazard operations and exposed to high-hazard production environments (operation and maintenance of hazardous industrial facilities) undergo mandatory mental health evaluation.

The Company actively exercises its right to receive a 20% refund of mandatory social insurance payment that are duly transferred to the Social Insurance Fund of the Russian Federation to cover occupational accidents and diseases. These funds are mainly used to finance procurement of protective clothing and workplace certifications.

### **Key Health and Safety Indicators of NOVATEK (including joint ventures)**

	<b>2017</b>	<b>2018</b>	<b>Change</b>
Accidents at hazardous production facilities	0	0	-
Incidents at hazardous production facilities	2	1	(50%)
Injury frequency rate	1.27	0.79	(38%)

## **Human Resources**

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

As of the end of 2018, NOVATEK and its subsidiaries had 13,694 employees, 57.9% of whom work in exploration and production, 11.3% in processing, 17.8% in transportation and marketing, 5.4% in power supply, 6.4% are administrative personnel and 1.2% engaged in ancillary services. The predominant age of the personnel is between 30 and 50. The average age of the Company's employees is 40 years.

## **Personnel Training and Development**

Amid the rapid development of technologies and management systems, our multilevel training and professional development program enable our employees to contribute to raising the Company's competitiveness. In 2018, the primary activities of training and professional development included:

- implementing an In-house Training program to improve the competences of the Company's employees;
- implementing the "Steps in Discovering Talents" program for young specialists targeted at training highly qualified personnel whose competence level fully meets business needs;
- developing and improving the Corporate System for the Evaluation of Technical Competencies; and
- engaging young specialists to take part in research and practice conferences;

NOVATEK Scientific and Technical Center (NOVATEK STC) has hosted an In-House Training Program since 2016. In 2018, NOVATEK STC experts developed and delivered training courses on the following subjects: "Lithofacies Analyses. Depositional Environment. Theory and Practice"; "Dynamic Simulation of Multiphase Streams in Pipelines and Wells using OLGA Software: Principal Tasks and Examples of their Solution"; "Complexing Logging Methods to Address Geological Tasks. Basics of Log Interpretation and Practical Application (in NOVATEK Group projects)"; "Basics of Geological 3D Modelling"; "Basics of Intra- and Inter-Field Hydrocarbons Transportation Engineering and Operation"; and Application of Petroleum System Studies (Basin Analysis) during Exploration. A total of 34 of the Company's employees received training under this program in 2018.

In 2018, NOVATEK continued its efforts to advance the professional capabilities of its employees, improve working conditions and train its personnel on safe working practices at its production facilities. A total of 40.5 % of white- and blue-collar workers upgraded their skills. In 2018, the Corporate System for the Evaluation of Technical Competencies tested 274 employees across the Group, including 49 persons who were tested at recruitment and 156 persons – at promotion.

In 2018, 112 young specialists participated in the Steps in Discovering Talents Program. We had our sixth class and 28 specialists graduated from the on-the-job adaptation and professional development program while 30 young specialists guided by 22 mentors completed the first step of the program. In autumn 2018, another 54 young specialists and 48 mentors assigned to them joined the program. Young specialists received the Mentoring Culture training courses together with their mentors. In total, 34 mentors attended the training. In 2018, the number of companies participating in the program increased to ten.

In September 2018, Moscow hosted the 13th Interregional Research-to-Practice Conference for the Company's young specialists attended by 93 employees. Based on the results of the competition, all the winners received cash prizes, while fifteen (15) of the first place winners were also awarded a trip to petroleum training centers in Japan.

In October 2018, the 4th Professional Skills Contest among field workers of the NOVATEK Group took place. A total of 77 participants from 9 entities took part in the event. The Contest was hosted by NOVATEK-Purovsky Plant and included two stages, a theoretical and a practical part with results of both defining the winners.

In 2017, the Innovator Corporate Idea Management System, an automated framework to collect and process employees' proposals on improving and developing business including labor-saving proposals, was launched in NOVATEK and its 14 subsidiaries. More than 230 ideas on improving business operations, reduction of production costs and implementation of new work methods were submitted by the employees in 2018. More than 500 ideas have been submitted over the two years, of which 40 were approved for implementation and 24 ideas were implemented. They generated an economic effect of RUB 104.7 bln.

## **Social Programs**

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

### ***Voluntary medical insurance for employees***

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

### ***Therapeutic resort treatment***

Employees and their families can purchase health resort vouchers at a discount. Under this program the NOVATEK employees may spend their vacations in 44 health resorts located in Russia's most picturesque settings.

### ***Repayable Financial Aid Program***

The special-purpose loans program has two focus areas:

- short-term special-purpose loans intended for employees who experience economic hardship;
- special-purpose interest-free home loans to employees residing in Tarko-Sale, Novy Urengoy, Moscow, Nadym, Sosnovy Bor and Tyumen.

### ***Targeted compensation and social support payments***

This program provides targeted free support to the Company's employees in specific life circumstances, including childbirth, the event of natural disasters or fire, compensation for care of a child up to 3 years of age, financial aid for care of disabled children, financial aid for burial, compensation for sports and recreation classes for employees, as well as on the occasion of the jubilee.

### ***Pension Program***

Since 2007, NOVATEK has offered its retired employees supplementary benefits in line with the Regulations on Social Benefits for Retired NOVATEK Group Employees. Employees with an employment track record of at least five years with the Company who resign at the full retirement age are entitled to monthly benefit payments from the Company (suspendable in case the retiree

gets a job). The benefit amount is subject to the employee's average salary, employment track record and geographical location.

Along with providing an optimum social benefits package, the Company is also committed to creating opportunities for employees to play sports and get involved in sports and cultural events. In 2017, our employees and their family members visited exhibitions at Russia's national museums, classical music concerts, and attended sporting events like football (soccer) games and acrobatic rock and roll competitions with the Company's assistance.

## **Social Policy and Charity**

Social Policy and Charity make up an important part of NOVATEK's activities. In 2018, the Company continued to pay close attention to projects aimed at supporting the culture, preserving and revitalizing national values and spiritual legacy of Russia, promoting and integrating the Russian art into the international cultural space, and developing mass and high-performance sports. NOVATEK enters into agreements with regional governments across the Company's geographical footprint and implements programs to improve living standards and preserve the distinctive cultural identity of the indigenous peoples of the Far North.

In 2018, NOVATEK and its subsidiaries invested RR 2.0 billion in projects and activities related to the support of indigenous peoples, charitable contributions, cultural and educational programs.

### **Cooperation with the regions**

Within the framework of agreements signed with various regions, the Company was investing in YNAO and KhMAO, the Leningrad, Murmansk, Chelyabinsk, Tyumen, and Kostroma Regions throughout 2018. The Company also financed the construction, repairs and upgrades of social infrastructure facilities, earmarked significant funds to implementing educational, cultural, children and youth programs and projects, and was supporting low-income families, people with disabilities, the elderly and veterans.

NOVATEK is annually providing assistance to various regions by helping with settlement development, construction and renovation of accommodation, educational facilities and advancing local healthcare.

The Company is directly involved in funding the construction of important social infrastructure facilities across the YNAO.

In September 2018, NOVATEK together with the YNAO Government opened an 800-student boarding school in the village of Gyda in the YNAO. The project was fully funded by NOVATEK.

The new school will become an important educational and cultural centre of the Gydan Peninsula. It is equipped with the modern equipment to ensure proper educational process and carry out cultural and sports-related activities. The school facilities include a canteen, a medical facility, workshops, a language laboratory, a reading room, a conference hall, a museum and a projection room, where students could develop their creativity and get involved in the arts.

Construction of a new modern boarding school in one of the most remote settlement of the YNAO is a project aimed to improve the living standards of the Far North indigenous and minority groups.

Education is a base for development of young people's vast capacities and human resources in the region in particular and in the country in general. Our contribution to the social and economic development creates better understanding and ensures preserving of the cultural heritage in the Company's core regions.

### **Cooperation with Indigenous Peoples of the Far North**

During the reporting year, NOVATEK provided financial support to the Yamal for Descendants Association of indigenous peoples and its district branches. We assisted indigenous peoples through financing the purchase of equipment and materials required for the work of fishermen and reindeer herders. Portacabins were purchased for the needs of the tundra population. NOVATEK financed fuel purchases for air delivery of the nomadic population and food to remote areas. Assistance was provided to people in financial distress. One particular area of support is taking part in organizing and staging ethnic festivals of indigenous peoples as well as provision of funding for environmental programs.

### **Educational Programs**

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

Recruitment and career guidance for promising employees start with the "Gifted Children" program implemented at School No. 8 in Novokuybyshevsk, school No. 2 in Tarko-Sale, school No. 81 in Tyumen and in 2018, school No. 2 in Salekhard joined the program. Special classes are formed on a competitive basis from the most talented grade 10 and 11 students with above-average test scores. The Company has also implemented two Grants programs for schoolchildren and teachers living in Purovsky District of the YNAO.

The Grants program for schoolchildren is aimed at academic and creative development and encouraging a responsible attitude towards studies. Under the program, students in grades five (5) through eleven (11) are awarded grants from the Company. In 2018, the Company awarded 39 grants to students under this program. The Grants program for teachers is intended to raise the prestige of the teaching profession and create favorable conditions for developing new and talented teachers. In 2018, four teachers from the Purovsky District received grants under this program.

In an effort to create conditions for more effective use of university and college resources in preparing students for future professional activities, the Company has developed and successfully implemented the NOVATEK-University program. The program is an action plan for focused, high-quality training for specialists with higher education in key areas of expertise in order to grow the Company's business and meet its needs for young specialists. The program is based at the Saint-Petersburg University of Mines, the Gubkin Russian State University of Oil and Gas in Moscow and the Tyumen Industrial University.

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

## **Preserving Cultural Heritage**

In 2018, NOVATEK continued its cooperation with Russia's leading museums including the State Tretyakov Gallery, the Russian State Museum, and the Moscow Museum of Modern Art, and supported the most important art and music projects.

In 2018, NOVATEK was involved in implementation of the "Ilya and Emilia Kabakov. Not Everyone Will Be Taken Into the Future" international project. A large-scale retrospective exhibition of Ilya and Emilia Kabakov's works was publicly available in the Tate Modern museum (United Kingdom, London), the State Hermitage (Russia, Saint Petersburg), and in the State Tretyakov Gallery (Russia, Moscow).

The Company supported exhibitions "Nikolai Kulbin" and "Lazar Khidekel" in the Russian State Museum. In 2018, the main theme of the exhibitions was avant-garde art. NOVATEK also supported the annual Imperial Gardens of Russia international festival of garden and park art titled "Flower Assembly". In the year of the 315th anniversary of founding of Saint Petersburg and the 120th anniversary of the opening of the State Russian Museum, the Imperial Gardens of Russia festival was for the first time held in the Summer Garden.

"Russian Museum. Common Stories", a book by Vladimir Gusev, the State Russian Museum director, was published with the support by the Company.

In partnership with NOVATEK, the Moscow Museum of Modern Art (MMOMA) presented the exhibition of the local nonconformist "Vladimir Yankilevsky. Mystery of Being" coinciding with the artist's 80th birthday anniversary. In 2018, NOVATEK continued supporting the MMOMA Education Center. Besides, MMOMA delivered a course of lectures on the history of Russian and foreign fine arts, fashion, design and architecture at the office of NOVATEK to the Company's employees and their families.

The Sixth Moscow International Biennale of Contemporary Art was held with the support of the Company.

NOVATEK is a permanent partner of the international festival-school of contemporary art TERRITORIYA. In 2018, the festival presented Russian and foreign plays and dance programs and organized an educational program.

The Company continued supporting the activities of the Gogol-center.

In 2018, NOVATEK remained a General Partner of the Moscow Soloists Chamber Ensemble under the direction of Yuri Bashmet. The Company acted as General Partner of the first Asian tour of the Russian Youth Symphony Orchestra led by Yuri Bashmet. The tour included concerts in Moscow, Vladivostok, Singapore, Shanghai, Beijing and Seoul.

## **Sports Projects**

NOVATEK attaches great importance to programs for the development of mass and high-performance sports. The Company, its subsidiaries and joint ventures regularly hold tournaments in the most popular and wide-spread sports: football, volleyball, swimming, ski, to name a few.

The Company supported the children and youth sports in the regions of its operations. In 2018, the "NOVATEK – Step to Bigger Football" Indoor Football Cups among secondary school teams were held in the Chelyabinsk and Kostroma Regions. More than eleven thousand boys and girls

took part in the competitions. As part of the World Football Championship 2018 youth events a match of the winning teams of the Chelyabinsk and Kostroma championships was held on Moscow's Red Square.

The Company supported Figure Skating and Ice Hockey Federations of the Yamal-Nenets Autonomous Region, and Student Basketball Association with more than 800 teams and 10,000 boys and girls participating in competitions. The Russian Federation of Dance Sports and Acrobatic Rock'n'Roll and the Company support corporate dance sport and acrobatic rock'n'roll clubs in the regions where the Company operates. In April 2018, members of the corporate acrobatic rock'n'roll clubs participated in the III Russia-wide acrobatic rock'n'roll competition Rock'n'Roll & Co.

In the reporting year, NOVATEK continued cooperation with the Football Union of Russia as the General Partner of the Russian National Football Teams. The Company supported women's volleyball club Dinamo and the NOVA Volleyball Club (Novokuybishevsk).

## **Charity**

In 2017, NOVATEK adopted its Charity Policy, which provides for supporting children in desperate need of medical care residing in the regions where we operate.

In 2018 the Company kicked off execution of the new charity project titled "Health Territory". As part of this project, lead specialists of the Russian Children's Clinical Hospital visited children of the YNAO, Murmansk and Kostroma.

In the reporting year, the Company procured equipment for regional healthcare facilities and financed treatment and rehabilitation programs for prematurely-born and partially sighted children. The Company provided targeted assistance to children with severe conditions. In addition to charity policy the Company implemented cultural programs for handicapped children and children from low-income and large families.

In 2018 the "All Together" volunteer movement attained the age of 10 since commencing operations. Over the past ten years the charity's geography has expanded significantly, while it has remained focused on supporting orphans, children with various diseases, seniors and the World War II veterans as its primary activity. In the reporting year the first charity campaign aimed to provide help for animals was organized.

# **Management and Corporate Governance**

## **Corporate Governance System**

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

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

NOVATEK strives to consider the principles of corporate governance outlined in the Corporate Governance Code recommended by the Central Bank of Russia (Information Letter № 06-52/2463 dated 10 April 2014). The Company follows the recommendations of the Code, as well as offering to our shareholders and investors other solutions that are intended to protect their rights and legitimate interests.

Since the Company's shares are listed on the London Stock Exchange in the form of depositary receipts, NOVATEK places great emphasis on the UK Corporate Governance Code and the Regulation of the European Parliament and of the Council on Market Abuse and follows their recommendations as far as practicable.

The Company adheres to the internal Corporate Governance Code approved by the Board of Directors in 2005 (Minutes No. 60 of 15 December 2005).

The Company also adheres to the internal Code of Business Ethics approved by the Board of Directors in 2011 (Minutes No. 133 of 24 March 2011). The Code establishes general norms and principles governing the conduct of members of the Board of Directors, the Management Board and the Revision Commission, as well as NOVATEK's management and employees, which were drafted on the basis of moral and ethical values and professional standards. The Code also determines the rules governing mutual relationships inside the Company and NOVATEK's relationships with its subsidiaries and joint ventures, shareholders, investors, the government and public, consumers, suppliers, and other stakeholders.

The Company monitors changes of the current legislature and the Listing Rules of PAO Moscow Exchange and harmonizes its internal documents according to the changes. NOVATEK's Regulations on the Corporate Secretary, the Internal Audit Policy, Regulations on Risk Management and Internal Control System and other regulations on the Company's corporate bodies are current and don't require any amendments, corrections and/or changes.

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

## **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 Articles of association, and the Regulations on the General Meetings approved by NOVATEK's General Meeting of Shareholders in 2005 (Minutes No. 95 of 28 March 2005) with further alterations and amendments.

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

On 20 April 2018, the Annual General Meeting of Shareholders approved the annual report, annual financial statements (in accordance with the Russian Accounting Standards), distribution of profit and the size of dividends based on the results of FY2017. The meeting also elected the Board of Directors and the Revision Commission, as well as approved remuneration to members of the Board of Directors, Revision Commission and the Company's external auditor for 2018.

On 28 September 2018, the Extraordinary General Meeting of Shareholders approved the amount of interim dividend for the first half of 2018.

Due to a request by one our shareholders to convene the meeting of shareholders with a view to re-elect the Board of Directors, on 18 January 2019, the Extraordinary General Meeting of Shareholders was held where a new composition of NOVATEK's Board of Directors was elected.

## **Board of Directors**

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

The Board carries out the overall strategic management of the Company's activity on behalf of and in the interests of all its stakeholders, and ensures the Company's efficient and effective performance with the aim to increase shareholder value in a prudent and responsible manner.

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

The current members of the Board of Directors were elected at the Annual General Meeting of Shareholders on 20 April 2018 and with further amendments made on 18 January 2019 at the Extraordinary General Meeting of Shareholders. The Board of Directors is comprised of nine (9) members, of which eight (8) are non-executive directors, including three (3) directors who are considered to be independent. The Board Chairman is Alexander Natalenko. The Chairman is responsible for leading the Board and ensuring its effectiveness.

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

Efficient operation of the Board of Directors is supported by the Corporate Secretary, who has sufficient independence (appointed and dismissed by the Board of Directors) and endowed with the necessary powers and resources to carry out its tasks in accordance with the Regulations on the Corporate Secretary (Minutes No. 168 of 28 April 2014 with further alterations and amendments).

**The Board of Directors membership (elected at the Annual General Meeting of Shareholders on 20 April 2018):**

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

**The Board of Directors membership (elected at the Extraordinary General Meeting of Shareholders on 18 January 2019):**

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

## **Board activities during the 2018 corporate year<sup>1</sup>**

To ensure the Company's efficient performance, the Board meetings are convened on a regular basis at least once every two months. During corporate year 2018, the Board of Directors (BoD) met 15 times, of which five meetings were held in the form of joint attendance. The following key issues were discussed and respective decisions made:

- reviewed and approved the Company's 2018 full year operating and financial results;
- recommended an interim dividend payment for first half 2018, based on interim financial results for the period, and a full year dividend payment for 2018, based on full year financial results;
- made decisions to convene an Extraordinary and Annual General Meetings of shareholders. During the meetings in 2018 telecommunications facilities were used to provide shareholders with remote access to participate and to fill out an electronic form of ballots;
- reviewed and approved NOVATEK's business plan for 2019;
- passed a number of decisions on changing and increasing the number of members in NOVATEK Management Board up to thirteen persons;
- passed a resolution for NOVATEK to acquire 100% interest in OOO Maritime Arctic Transport;
- NOVATEK and Fluxys signed an agreement on joint development, design, construction, financing, ownership and operation of a mid-scale LNG transshipment terminal in the port of Rostock. In this connection, the BoD passed a resolution for NOVATEK to acquire a 49% stake in the authorized capital of ROSTOCK LNG GmbH;
- Based on the estimation by the Remuneration and Nomination Committee of NOVATEK's Board of Directors for the compliance with Independence Criteria established by the Moscow Exchange Listing Rules, the BoD acknowledged Burckhard Bergmann as an independent BoD member despite the fact that his membership in the Board of Directors is more than 7 years (but less than 12 years);
- The Company carried out a preliminary internal assessment of the internal audit activities resulting in submitting of the revised version of the Internal Audit Policy for the Board of Directors consideration. The Policy was aligned with the International Standards for the Professional Practice of Internal Auditing and the amended Law On Joint Stock Companies.

In order to improve efficiency of corporate governance the Company carried out an external assessment of the BoD and the BoD Committees activities.

During corporate year 2018, an external assessment of the BoD activities was performed in accordance with the recommendations of the Russian Corporate Governance Code. Following the review process headed by the Chairman of the BoD and the Remuneration and Nomination Committee, the Independent Directors Association was chosen as the external appraiser, which is a recognized Russian institution in the area of corporate governance and board of directors assessment, representing Russia in the Global Network of Director Institutes.

---

<sup>1</sup> From the Annual General Meeting of Shareholders on 20 April 2018 until the Annual General Meeting of Shareholders on 23 April 2019.

Assessment of the BoD activity had several stages, including a questionnaire, individual interviews with directors, as well as analysis of internal documents regulating the corporate governance issues.

During the appraisal process the key areas of the BoD and the Committees activities were analyzed, including the formation of strategy, supervisory and control functions, effectiveness of interaction with the top management, risk management, remuneration, succession and development of key managers.

Based on the external evaluation we determined directions for increasing the Board of Directors performance efficiency. The Board Committees conduct annual updates of NOVATEK Group's Risk Map and determine the acceptable risk level in the Company, annual reviews of the Company's Information Policy compliance report, the report on compliance with Anti-corruption Policy, the Sustainable Development Report, the HSE performance report, the report on the Company's social activity in the regions where the Company operates.

## Board and Committee Meetings Attendance in the 2018 Corporate Year

<b>Member</b>	<b>Independence</b>	<b>Board of Directors</b>	<b>Audit Committee</b>	<b>Remuneration and Nomination Committee</b>	<b>Strategy Committee</b>
Alexander E. Natalenko		15/15			5/5
Andrei I. Akimov		15/15			5/5
Burckhard Bergmann <sup>1</sup>	independent	15/15	1/1	1/1	5/5
Michael Borrell		15/15			5/5
Robert Castaigne	independent	15/15	5/5	6/6	
Arnaud Le Foll (from 18.01.2019)		6/6			1/1
Leonid V. Mikhelson	executive	15/15			
Victor P. Orlov	independent	15/15	5/5	6/6	
Andrei V. Sharonov (up to 18.01.2019)	independent	9/9	4/4	5/5	
Gennady N. Timchenko		15/15			5/5

## Board Committees

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

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

In order to carry out their duties, the Committees may request information or documents from members of the Company's executive bodies or heads of the Company's relevant departments. For the purpose of considering any issues being within their competence, the Committees may engage experts and advisers having necessary professional knowledge and skills.

---

<sup>1</sup> Elected as a member of the Audit Committee and Remuneration and Nomination Committee on 18 January 2019

**Committees membership from 20 April 2018 to 18 January 2019:**

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

**Committees membership from 18 January 2019:**

	<b>Audit Committee</b>	<b>Strategy Committee</b>	<b>Remuneration and Nomination Committee</b>
<b>Chairman</b>	Robert Castaigne	Burckhard Bergmann	Victor P. Orlov
<b>Members</b>	Burckhard Bergmann Victor P. Orlov	Andrei I. Akimov Arnaud Le Foll Michael Borrell Alexander E. Natalenko Gennady N. Timchenko	Burckhard Bergmann Robert Castaigne

### **Audit Committee**

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

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

In corporate year 2018, the Audit Committee met five (5) times, including three meetings in presentia.

## **Remuneration and Nomination Committee**

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

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

- develop and regularly review the Company's policy on remuneration of the members of the Board of Directors, members of the collective executive body and the sole executive body of the Company, oversee its implementation and realization;
- preliminarily assess the work of the executive body of the Company for the year in accordance with the Company's remuneration policy;
- annual detailed and formalized performance self-appraisal or external appraisal of the Board of Directors and its members, as well as of BoD Committees, determination of the priority areas for reinforcing the Board of Director's composition;
- interaction with shareholders, which shall not be limited to major shareholders only, with a view to generate recommendations to the shareholders with respect to voting on the election of nominees to the Company's Board of Directors;
- plan appointments of members of the executive body and the sole executive body on the base of continuity principles; and
- supervision over disclosure of information on the Company's shares owned by the members of the Board of Directors and Management Board, and other key management employees.

In corporate year 2018, the Remuneration and Nomination Committee met six (6) times, including three meetings in presentia.

## **Strategy Committee**

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

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

- evaluating the effectiveness of the Company's operations in the long-term;
- preliminarily reviewing and making recommendations on the Company's participation in other organizations;
- assessing voluntary and mandatory offers to acquire the Company's securities;
- considering the financial model and business valuation of the Company and its business segments in order to make recommendations to the Board of Directors in making decisions on the definition of business priorities of the Company;
- providing recommendations to the Board of Directors on transactions subject to approval by the Board of Directors; and

- providing recommendations to the Board of Directors with respect to the Company's policy on the use of its non-core assets.

In corporate year 2018, the Strategy Committee met five (5) times, including four meetings in presentia.

## **Management Board**

NOVATEK's Management Board is a collegial executive body responsible for the day-to-day management of the Company's operations. The Management Board is governed by the laws of the Russian Federation, NOVATEK's Articles of Association, resolutions of the General Meetings of Shareholders and the Board of Directors and by other internal documents. More information regarding the Management Board's competence is provided in NOVATEK's Articles of Association.

Members of the Management Board are elected by the Board of Directors from among the Company's key employees. The Management Board is subordinated to the Board of Directors and the General Meeting of Shareholders. The Chairman of the Management Board is responsible for leading the Board and ensuring its effectiveness as well as organizing the Management Board meetings and implementing decisions of the General Meeting of Shareholders and the Board of Directors. The Management Board was elected by the Board of Directors on 25 August 2017 (Minutes No. 198 of 25 August 2017) with further amendments by resolution of the Board of Directors on 12 July 2018, 21 September 2018, 14 November 2018, 14 December 2018, including with regard to the quantitative composition (increased up to thirteen members).

### **Management Board Members from 1<sup>st</sup> January 2018 to 31 December 2018:**

- Leonid V. Mikhelson – Chairman
- Alexander M. Fridman – First Deputy Chairman
- Lev V. Feodosyev – First Deputy Chairman
- Vladimir A. Baskov – Deputy Chairman
- Viktor N. Belyakov – Deputy Chairman of the Management Board for Economics and Finance
- Eduard S. Gudkov – Deputy Chairman of the Management Board (elected on 21 September 2018)
- Mark A. Gyetvay – Deputy Chairman
- Evgeny A. Kot – Deputy Chairman of the Management Board - LNG Director (elected on 14 December 2018 and started acting from 14 January 2019)
- Tatyana S. Kuznetsova – Deputy Chairman - Director of Legal Department
- Denis B. Solovyev – Deputy Chairman of the Management Board - Director of Communications Development Department (elected on 21 September 2018)
- Ilya V. Tafintsev – Deputy Chairman of the Management Board
- Sergey V. Vasyunin – Deputy Chairman of the Management Board - Operations Director
- Denis G. Khramov – Deputy Chairman (the authorities were terminated on 12 July 2018)
- Igor A. Plesovskikh – Deputy Chairman of the Management Board - Director for Geology (the authorities were terminated on 14 November 2018)

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

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

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

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

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

### **Information on remuneration of members of NOVATEK's Board of Directors and Management Board in 2018, RR mln**

	<b>Board of Directors<sup>1</sup></b>	<b>Management Board</b>
<b>Total paid, including:</b>	<b>129.7</b>	<b>3,208.7</b>
Salaries	-	805.5
Bonuses	-	2,346.0
Fees	<b>127.8</b>	-
Other property advancements	1.9	57.2

<sup>1</sup> Some members of NOVATEK's Board of Directors are simultaneously members of the Management Board. Payments to such members in relation to their activities as members of the Management Board are included in the total payments to members of the Management Board.

## **Internal Control and Audit**

NOVATEK has a system of internal controls over financial and business operations organized taking into account the applicable requirements of the Russian Federation legislation and best international practices. The internal control system is an integral part of the risk management system and is in line with the relevant risks and strategic objectives of NOVATEK.

The primary objectives of internal control system are ensuring the implementation of the NOVATEK strategy, protecting the interests of the shareholders, safeguarding the assets, ensuring the efficiency of the financial and business operations, and compliance with the applicable requirements of the law and the Group internal regulations.

The internal control system is implemented on a constant basis and covers all areas of activities of the Company and business processes at all management levels.

Defining the principles and approaches to organizing the internal control system is vested in the Board of Directors. Chairman of the Management Board ensures the efficient functioning of the internal control system. The Internal Audit Division evaluates the risk management, internal control and corporate governance system efficiency.

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

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

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

### **Revision Commission**

The Revision Commission consisting of four members is elected at the Annual General Meeting of Shareholders for a period of one year. The competence of the Revision Commission is governed by the Russian Federation Law On Joint Stock Companies No. 208-FZ dated 26 December 1995 as well as the PAO NOVATEK Articles of Association and the Regulations on the Revision Commission Procedures approved by the General Meeting of Shareholders in 2005 (Minutes No. 95 of 25 March 2005) for the matters which are not set out in the aforementioned law.

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

In March 2019, the Revision Commission completed the on-site audit revision of financial and business activities of the Company for the year 2018. As a result, the conclusions about the reliability of the data contained in the Company's 2018 Financial Statements (under the Russian accounting standards), 2018 Annual Report and Report on interested-party transactions were prepared and submitted to the Annual General Meeting of Shareholders.

### **Internal Audit Division**

In order to conduct a systematic, independent evaluation of the reliability and effectiveness of the risk management and internal control system as well as corporate governance practices the Company and its subsidiaries and affiliates perform internal audits of their operations.

Performing audits in subsidiaries and affiliates is centralized and performed by the NOVATEK Internal Audit Division. The Internal Audit Division is functionally subordinated to the Board of Directors and administratively subordinated to the Chairman of the Management Board.

In its activity the Internal Audit Division is guided by International Standards for the Professional Practice of Internal Auditing. The NOVATEK Internal Audit Policy is approved by the Board of Directors (Minutes No.192 dated August 26, 2016) as amended and supplemented, approved by the Board of Directors (Minutes No. 212 dated December 14, 2018).

The Division carries out its activities on the basis of an annual plan of inspections prepared with the use of a risk-oriented approach mainly. According to the results of audit inspections it develops measures to eliminate identified risks and optimize financial and business activities. Implementation of the measures is monitored on a regular basis.

The Quality Assurance and Improvement Program is developed and implemented in the Internal Audit Division. In accordance with this program, the Internal Audit Division Self-Assessment is carried out annually and the results are reported to the Audit Committee. In 2018, the Division initiated the external assessment recommended by the International Institute of Internal Auditors to be carried out every five years. To render external appraisal services, the Audit Committee selected Ernst and Young – Appraisal and Consulting Services Ltd. The assessment identified the compliance of the NOVATEK Internal Audit Division activities with International Standards for the Professional Practice of Internal Auditing.

The Internal Audit Division interacts with an external auditor: in sharing information related to working plans, inspection results and other matters of relevance to the parties.

To improve the efficiency and optimize the costs, the Internal Audit Division employees serve on the revision commissions of the Company affiliates.

### **External Auditor**

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

AO PricewaterhouseCoopers Audit (an internationally recognized audit firm) was chosen as the Company's external auditor to conduct the audit of the annual financial statements for 2018 under RAS, as well as independent reviews of the Company's quarterly financial statements and audit of the annual financial statements under IFRS.

In selecting the auditor's candidature, attention is paid to the level of their professional qualifications, independence, possible risk of any conflict of interest, terms of the contract, and the amount of remuneration requested by the candidates.

The Audit Committee oversees the external auditor's independence and objectivity as well as the quality of the audit conducted. The Committee annually provides to the Board of Directors the results of review and evaluation of the audit opinion regarding the Company's financial statements. The Audit Committee meets with the auditor's representatives at least twice per year.

NOVATEK's management is aware of and accepts recommendations on the independence of the external auditor by restricting such auditor's involvement in providing non-audit services. Remuneration paid to the principle auditors for auditing and other services is specified in Note 24 to the consolidated financial statements prepared in accordance with IFRS standards for 2018.

In accordance with auditing standards, in order to maintain independence, the Company's External Auditor regularly rotates its key audit partner, at least once every seven years. Last time the Auditor's partner was rotated in 2018.

#### **Auditor's fees in 2018, RR mln**

Audits of PAO NOVATEK (audit of the Group's consolidated financial statements and audit of statutory financial statements of PAO NOVATEK)	34
Other services	8
<b>Total auditor's fees and services</b>	<b>42</b>

## **Share Capital**

Our share capital is RR 303,630,600 and consists of 3,036,306,000 ordinary shares, each with a nominal value of RR 0.1. As of 31 December 2018, NOVATEK did not have preference shares.

Our shares are traded in Russian roubles on the Moscow Exchange and have a first grade listing (symbol: NVTK).

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

Our Global Depository Receipts (GDR) are listed on the London Stock Exchange (symbol: NVTK), with each GDR representing 10 ordinary shares. As of 31 December 2018, NOVATEK's GDRs were issued on 599,549,590 ordinary shares comprising 19.75% of the Company's share capital.

**Equity stakes in NOVATEK's share capital and the number of shares owned by members of the Board of Directors and Management Board<sup>1</sup>**

	<b>As of</b>	<b>Equity stake</b>	<b>Number of ordinary shares, including GDRs certifying rights of ordinary shares</b>
<b>Board of Directors</b>			
Alexander E.Natalenko	31.12.2018	-	-
Andrei I. Akimov	31.12.2018	-	-
Burckhard Bergmann	31.12.2018	-	-
Michael Borrell	31.12.2018	-	-
Robert Castaigne	31.12.2018	-	-
Leonid V. Mikhelson	31.12.2018	0.7288	22,127,032
Victor P. Orlov	31.12.2018	-	-
Gennady N. Timchenko	31.12.2018	-	-
Andrei V. Sharonov	31.12.2018	-	-
Arnaud Le Foll	18.01.2019	-	-
<b>Management Board</b>			
Vladimir A. Baskov	31.12.2018	0.0288	874,408
Viktor N. Belyakov	31.12.2018	-	-
Lev V. Feodosyev	31.12.2018	-	-
Alexander M. Fridman	31.12.2018	0.0817	2,481,049
Mark A. Gyetvay	31.12.2018	-	-
Eduard S. Gudkov	31.12.2018	-	-
Evgeny A. Kot	14.01.2018	-	-
Denis G. Khramov	12.07.2018	-	-
Tatyana S. Kuznetsova	31.12.2018	0.1944	5,903,035
Igor A. Plesovskikh	14.11.2018	-	-
Denis B. Solovyov	31.12.2018	-	-
Ilya V. Tafintsev	31.12.2018	-	-
Sergey V. Vasyunin	31.12.2018	0.0003	9,320

In 2018, Leonid V. Mikhelson, member of NOVATEK's Board of Directors, made transactions with NOVATEK's shares:

- acquisition of 16,000 GDRs under a securities sales and purchase agreement (10 April 2018);
- acquisition of 4,010 GDRs under a securities sales and purchase agreement (11 April 2018);
- acquisition of 12,360 GDRs under a securities sales and purchase agreement (12 April 2018).

---

<sup>1</sup> The equity stakes are given based on the records in the register of NOVATEK's shareholders and notification received from members of the Board of Directors and Management Board, in accordance with the Russian Federation laws.

## **Dividends**

The Company's Dividend Policy is regulated by the Regulations on Dividend Policy of PAO NOVATEK approved by the Board of Directors on 28 April 2014 (Minutes No. 168 of 28 April 2014). According to the regulations, consolidated net income under IFRS is applied for calculation of the dividend size.

NOVATEK's dividend policy is based on keeping the balance between the Company's business goals and shareholder's interests. A decision to pay dividends as well as the amount of the dividend, the payment deadline and form of the dividend is passed by the Annual General Meeting of Shareholders according to the recommendation of the Board of Directors. Dividends are paid twice a year. In determining the recommended amount of dividend payments to be distributed the Board of Directors consider the current competitive and financial position of the Company, as well as its development prospects, including operating cash flow and capital expenditure forecasts, financing requirements, debt servicing and other such factors as it may deem relevant to maintaining financial stability and flexible capital structure of the Company. NOVATEK is strongly committed to its dividend policy.

On 19 March 2019, the Board of Directors of PAO NOVATEK recommended to the Annual General Meeting of Shareholders to pay dividends for FY 2018 in the amount of RR 16.81 per ordinary share or RR 168.1 per one Global Depository Receipt (GDR), exclusive of RR 9.25 of interim dividends per ordinary share or RR 92.50 per one GDR paid for the first six months of 2018.

Thus, should the General Meeting of Shareholders approve the recommended dividend, the dividends for 2018 will total RR 26.06 per ordinary share (RR 260.6 per one GDR), and the total amount of dividends payable for 2018 will be RR 79,126,134,360. This will represent a 74.3% increase in dividend per share compared to 2017.

### **Accrued and paid dividends on NOVATEK shares for the period 2013 to 2018**

Dividend Accrual Period	Amount of dividends,	Total amount of dividends accrued,	Total amount of dividends paid,
	RR per share	RR	RR
2013	7.89	23,956,454,340	23,956,386,795
2014	10.30	31,273,951,800	31,273,942,156
2015	13.50	40,990,131,000	40,990,062,712
2016	13.90	42,204,653,400	42,204,605,985
2017	14.95	45,392,774,700	45,392,718,222
First half 2018	9.25	28,085,830,500	28,085,776,082

The amount of paid dividends accrued for the years 2013 to 2017, and for the first six months 2018 is reported as of 31 December 2018. Partial payment of the accrued dividends was made due to provision by shareholders of incorrect postal and/or banking details and insufficient information regarding banking or postal details of shareholders.

## **Information Transparency**

NOVATEK complies with the best practices for information disclosure while adhering to a maximum level of information transparency. The Regulations on Information Policy approved by the Board of Directors as amended and restated in 2017 (Minutes No. 198 of 25 August, 2017), define main principles for disclosing information and increasing information transparency.

Material information about the Company is disclosed in a timely manner in the form of press releases and material facts notifications through authorized disclosure services in accordance with the Russian and foreign applicable laws. The Company discloses quarterly financial statements in accordance with the Russian (“RAS”) and International Financial Reporting Standards (“IFRS”), Management’s Discussion and Analysis of Financial Condition and Results of Operations as well as presentations for investors.

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

The Company maintains an ongoing dialog with shareholders and investors in order to ensure full awareness of investment community about its activities. The main channels of communication with the investment community are through the Chairman of the Management Board, Deputy Chairman and the Investor Relations department. The Company’s representatives meet on a regular base with key financial audiences to discuss issues of interest to them.

Pursuant to the uniform information policy principles, NOVATEK is actively involved in relations with federal, foreign and regional media. In 2018 the Public Relations Department hosted 24 meetings between the Company management and journalists of foreign and federal periodicals and organized 18 trips to visit the Company's regional production facilities involved in the implementation of the NOVATEK projects.

In 2018, the number of publications on the Company's activities increased by 34% compared to the previous year, the growth of TV stories on Federal channels and references on radio broadcasting stations amounted to 37%. At the end of the reporting year, there were more than 89 thousand publications about the Company. Among the topics covered were successful and ahead-of-schedule launch of Train II and Train III of the Yamal LNG Project, the plant ramp-up, LNG production and delivery ramp-up, entering new sales markets, the Company's prospective projects, local manufacturing content and supporting Russian manufacturers of LNG plant equipment, active involvement of the Company in development of the Arctic and implementation of the May Russian President decree on increasing the goods traffic via NSR to 80 mln t until 2024, and the Company's position on the global LNG market as one of its major players.

The number of publications in 2018 in foreign media exceeded 10 thousand, thus it increased by 55% compared with the year 2017. The main topics for foreign media were the Yamal LNG Project implementation, prospective projects of the Company, relations with foreign partners, increase in supply volumes and new sales markets.

Regular press tours were organized for Russian and foreign journalists to Sabetta. In addition, major federal and regional media covered two meetings in Chelyabinsk and Nizhny Novgorod on

the subject of engaging Russian industry in the Company's LNG projects involving representatives of Russian enterprises.

NOVATEK takes active part in industrial exhibitions and conferences. In 2018, NOVATEK's managers and employees participated in more than 20 industry exhibitions, conferences and round tables. In 2018, the Company took part in the St. Petersburg International Economic Forum, Eastern Economic Forum, Russian Energy Week. NOVATEK delegation also took part in the work of major international business and industry events: World Economic Forum in Davos, Conference on Natural Gas, LNG and associated gas, Gastech-2018 in Barcelona.

The following corporate periodicals are published to inform the Company employees, their family members, and third parties of the Company activities: the NOVATEK newspaper and the NOVATEK PLUS magazine, containing materials on production plans and results as well as on cultural, sports and charity programs and projects.

The main events of NOVATEK are published on the Company's official website and intranet portal. For interaction with public NOVATEK makes use of up-to-date channels of information dissemination through social media. The Company keeps its accounts in English and Russian on Facebook, VKontakte, Twitter, Instagram, and Youtube, where the channel subscribers stay updated on the Company's activities. There were 120 publications in the Company's social media in 2018. The number of subscribers increased by the factor of 2.5 as compared to 2017 and amounted to more than 7,000 people.

# Additional Information

## Risk Management System

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

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

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

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

Risk	Risk description	Risk management approaches used by the Company
<b>OPERATIONAL RISKS</b>		
<b>Risks of emergencies and incidents</b>	The Company's subsidiaries and joint ventures are subject to the risks of emergencies and incidents at hazardous production facilities that may entail business interruption, hazardous emissions or spills, which in turn may have a negative effect on the Company's business reputation and financial performance.	The Company performs continuous monitoring of industrial safety compliance, develops and implements organizational and technical measures aimed at mitigating the risks of emergencies and incidents and reducing potential losses as part of its existing integrated industrial safety management system that is certified under the OHSAS 18001:2007 standard. The Company holds property and business interruption insurance policies.

		<p>production, treatment and transportation processes.</p> <p>A Digital Field Production Management System was commissioned in three entities to ensure production management and prompt response to process incidents. It enables promptly calculating the optimum process mode in a semi-automatic way, identifying deviations and planning field operations.</p>
<b>Monopoly risks</b>	<p>The Company depends on monopoly suppliers of transport services (such as Gazprom, RZD, and Transneft). The Company has no influence on the capacity of transport facilities of the above monopolies and rates established by a Federal body.</p>	<p>The Company enters into long-term agreements and in a timely manner arranges for interaction with monopolies regarding hydrocarbon transportation by pipeline and railway transport.</p> <p>To reduce its dependency, the Company concludes agreements enabling it to use alternative methods of product transportation (an agreement with SIBUR for the supply of light hydrocarbons to Tobolsk Petrochemical Complex).</p>
<b>Competitive risks</b>	<p>The Company operates in an environment of tough competition with Russian and international oil and gas companies in the following areas:</p> <ul style="list-style-type: none"> <li>– obtaining of subsoil licenses and acquisition of companies holding subsoil licenses</li> <li>– selling gas in the Russian and global markets</li> <li>– selling liquid hydrocarbons in the Russian and global markets</li> <li>– selling liquefied natural gas in the Russian and global markets</li> <li>– access to transportation infrastructure, which has technological limitations</li> <li>– employment of highly qualified specialists to work for the Company, its subsidiaries and joint ventures.</li> </ul>	<p>The Company monitors commercially available assets with regard to the objectives of its long-term development strategy, enabling the Company to make an objective assessment of its competitive positions and to take the maximum benefit of its competitive advantages that include extensive regional work experience and synergy with the existing producing, transport, processing and distribution infrastructure.</p> <p>The Company pursues an active marketing policy and takes efforts to monitor, expand and balance its customer base, and strives to enter into long-term agreements with buyers.</p> <p>The Company pursues an active marketing policy and takes efforts to expand its customer base, and to enter into long-term agreements with buyers. To diversify its natural gas marketing portfolio, throughout the reporting period the Company was engaged in trading in the Natural Gas Section of the St. Petersburg International Mercantile Exchange.</p> <p>The Company expands its footprint in the global LNG market, increases its customer base and makes spot, mid-term and long-term sale and purchase agreements, which enables mitigating risks associated with a specific market or counterparty.</p> <p>The Company implements an active HR policy and applies efficient mechanisms of attracting and retaining highly qualified employees.</p>

<b>Risks in Procurement of Materials, Works and Services</b>	<p>Failure to perform their obligations by the counterparties (quality and timeline of procurement, works and services).</p> <p>Procurement of materials, works and services at prices higher than the market</p> <p>Reputational risks deriving from competition restriction and malpractice by employees</p>	<p>The Company has put in place internal regulations and introduced a procedure to qualify counterparties and control performance of obligations. The Company has continuously encouraged its counterparties to improve their production capabilities, while making long-term agreements with the strategic counterparties.</p> <p>In 2018, the Company introduced a set of measures to optimize procurement activities, aiming to enhance control over the efficiency of spending on investment and operations, as well as to shorten counterparty selection procedures, and to ensure completeness and quality of procurement documentation, enabling prompt and efficient decisions.</p> <p>Counterparties are as far as possible selected on a competitive basis. Strategic approaches ensuring maximum procurement efficiency are defined for the most critical and expensive procurement items and timely satisfaction of needs.</p>
<b>Commodity price risks</b>	<p>As an independent natural gas producer, NOVATEK is not subject to state regulation of natural gas prices. Nevertheless, the Company's prices are strongly influenced by the prices established by a Federal body.</p> <p>Moreover, the Company is exposed to the current pricing environment on the Russian and international liquid hydrocarbon and LNG markets as it has no power over the contracts' base prices. Reduction of prices for liquid hydrocarbons and LNG may have a negative effect on the Company's financial performance.</p>	<p>Procedures are developed within the Company that provide for an objective, timely and transparent process of counterparty qualification and selection. There is no discrimination and unwarranted restriction of competition in the Company when developing qualification and technical requirements to counterparties and to the subject of procurement as part of design and qualification as well as at the stage of counterparty selection. The internal regulations in place provide for a maximum transparency procedure of counterparty selection with an adequate system of control over the actions of employees. Open ways to select counterparties are mostly used.</p> <p>Given the volatility in international relations with the countries providing sophisticated oil &amp; gas equipment, the Company pursues import replacement policies where it is appropriate.</p> <p>State regulation of gas prices significantly reduces the risk of price volatility on the Russian gas market.</p> <p>The Company monitors changes in the global gas and LNG price environments and negotiates with LNG buyers striving to make efficient sale and purchase agreements.</p> <p>In view of the vertically integrated production chain for liquid hydrocarbons and LNG, the Company does not use commodity derivative</p>

		financial instruments to reduce the risk of price changes for such type of products.
<b>Geological risks</b>	Exploration drilling is associated with multiple risks, including the risk of non-discovery of commercial reserves. Information on the Company's reserves depends on a number of factors and assumptions. Actual production volumes at the fields, along with the cost-effectiveness of reserve development may deviate from estimates.	To minimize geological risks, the Company relies on the geological modeling and engages major contractors that apply state-of-the-art exploration technologies and methods.
		Since 2015, the Company has been employing foreign experts in geology and field development. Individual focused training programs have been implemented for the employees with due regard to periodic testing.
		The Company makes annual assessment and evaluation of its reserves based on the results of exploration and production drilling and other research information. An independent international adviser evaluates the Company's reserves according to international standards on annual basis.
<b>Risk of early termination, suspension or restriction of the right to use subsurface mineral resources</b>	Exploration and production of hydrocarbons in Russia is subject to licensing.  The Company is thus exposed to the risk of early termination, suspension or restriction of its right to use subsurface mineral resources.	The Company strives to comply, and maintains a continuous monitoring of its compliance with the license agreements and the subsoil use laws, and submits timely requests for adjusting the terms of its license agreements.
<b>Environmental risks</b>	The Company is subject to the probability of events having adverse consequences for the environment and caused by a negative impact of its industrial and other activities, as well as natural and technology-related emergencies.	The Company has an environmental management system according to ISO 14001 standard to ensure rational use of resources and to minimize the adverse effect the Company's operation may have on the environment.  The Company adheres to the principle of responsible investment in operations, which implies that new design solutions, technologies and equipment installed help minimize environmental impact.
<b>Project risks</b>	Volatile exchange rates of the national currency and unstable lending conditions, growing funding costs, drop in hydrocarbon prices, precarious financial position of contractors and oil and gas equipment suppliers may affect the Company's Investment Program leading to delays in project execution and/or rising project costs.	The Company implements expert review of projects at the project development stage. Investments are only channeled into the projects that are most likely to help the Company achieve its strategic objectives.  The Regulation on Investment Projects Preparation, Coordination, Approval, Monitoring and Updating was approved in the Company in 2016. The project risks are evaluated at every stage.  The Company has tightened its selection requirements for contractors and suppliers of oil and gas equipment. There is ongoing monitoring of their performance, including on-site visits to the oil and gas equipment plants involved in production and testing of the equipment for the Company.

<b>Strategic risks</b>	<p>There is a risk that the Company will fail to meet its strategic goals and objectives due to significant changes in external environment, realization of individual, or a group of, operational, financial and legal risks.</p>	<p>The Company strives to prudently accomplish strategic goals and objectives and applies the approaches described in this section to manage each of the risks. In order to efficiently manage its project portfolio and to ensure sustainable development, the Company regularly monitors market trends as well as takes into account risks and opportunities of the current and anticipated external environment. The decision-making process in strategic management includes, inter alia, an assessment of project execution risks and evaluation of resources required for their successful execution, including an analysis if financial, material and human resources employed are sufficient and/or if use of additional resources is justified.</p>
<b>Ethical risks</b>	<p>The Company is exposed to the risks of disturbed relationships within the Company and with its subsidiaries and joint ventures, shareholders, investors, the government, the public, consumers or suppliers or other corporate entities or individuals, including the risk of fraud, corruption, and conflict of interest.</p>	<p>In 2011 in order to minimize ethical risks, the Company introduced a Code of Business Conduct and Ethics.</p> <p>The Company is governed by the provisions of the internal Code of Business Conduct and Ethics and Code of Corporate Conduct, as well as the applicable Russian and English law in terms of public company regulation. This mitigates ethical risk to stakeholders and investors.</p> <p>To exclude ethical risks in its relations with third parties, the Company carries out tender procedures to select counterparties and has a well-established internal control and audit system.</p> <p>In 2014 the Board of Directors approved NOVATEK's Anti-Corruption Policy that established key principles and standards of anti-corruption practices for employees and includes a set of corruption prevention measures.</p> <p>As part of the Anti-Corruption Policy implementation a Security Hotline is in a 24/7 operation.</p> <p>In 2016, the Company established the procedure for notification and managing the conflicts of interest employees may come across in performing their job duties.</p>
<b>Social risks</b>	<p>The Company is subject to the following risks of a social nature:</p> <ul style="list-style-type: none"> <li>- internal risks associated with a possible incompliance of social programs implemented by the Company with the industry's average level that may lead to a higher labor turnover;</li> <li>- external risks associated with potential impediments in normal production activities caused by the public living in proximity to the production facilities</li> </ul>	<p>The Company strives to ensure compliance of its social programs with the industry's average level and uses the up-to-date mechanisms for attracting and retaining highly professional employees.</p> <p>The Company's production facilities are located outside densely populated territories, and the Company monitors compliance with the rules and regulations while operating its facilities. The risks related to possible military conflicts, announcement of a state of emergency, or strikes, are insignificant, as the Company operates in economically and socially stable regions.</p>

<b>Terrorism risks</b>	<p>The Company is subject to risks of unlawful interference acts and terrorist threat concerning operation of fuel and energy facilities, transport and other facilities (areas).</p>	<p>The Company implements all necessary measures to fully comply with legislative requirements in the area of security and counter-terrorism measures at fuel and energy facilities, transport and other facilities (areas).</p> <p>A complex of organizational and practical measures is constantly in place to ensure security of facilities, including linear ones.</p>
<b>Country risk</b>	<p>NOVATEK is a Russian company operating in a number of Russian regions. Country risk is defined by the fact that Russia is still an emerging economy, the economic environment of which is not sufficiently stable.</p> <p>In 2015, a precipitous decline in crude oil prices and international sanctions caused volatility in foreign currencies, growing inflation rates, an increase in interest rates and an economic growth slowdown.</p> <p>These factors have a negative impact on the Company's operational and financial performance.</p> <p>The Company is involved in foreign projects related to LNG transportation and sales, and in projects aimed at enlarging its geographic footprint in hydrocarbon exploration, production and transportation. Legislative and political changes in the countries where the Company operates may affect financial performance and the cost of such projects.</p>	<p>Active marketing and financial policy enable the Company to mitigate the country risk.</p> <p>Moreover, the Company's management continuously analyzes the macro-economic environment and makes prompt decisions to mitigate potential risks.</p>
<b>Regional risk</b>	<p>The Company produces and processes hydrocarbons within Western Siberia, a region with a challenging climate.</p> <p>In 2018, the Company started geological exploration works in the Ob Bay. Due to severe climatic conditions, there are risks of natural and man-induced emergencies when drilling offshore exploration wells.</p>	<p>The Company continuously monitors legislative changes in the countries where it operates, analyzes political situation, takes part in negotiations and builds up long-term partner relations with state authorities and various stakeholders.</p> <p>The Company's vulnerability to region-specific impacts is insignificant and is taken into account by the Company's management at the onshore production and processing facilities design and operation stage.</p> <p>The Company implements a range of measures to prevent natural climatic conditions and man-caused factors from impacting offshore wells construction, such as:</p> <ul style="list-style-type: none"> <li>- construction is ongoing only during guaranteed ice-free season</li> <li>- continuous meteorological and ice monitoring is in place</li> <li>- all the required manpower and craft are continuously in place to implement an emergency response plan in the offshore and onshore operations area</li> <li>- comprehensive emergency drills are carried out in the course of construction involving rescue vessels with necessary</li> </ul>

		equipment and specialized trained personnel on board.
	The Company uses the Northern Sea Route (NSR) for LNG and gas condensate shipping. Severe weather and ice conditions in vessel voyage areas, ports, and cargo transshipment points may lead to longer vessel return voyages, a disruption of marketable products offtake, and tank tops, as well as may result in default on timely delivery obligations to buyers.	To mitigate such risks, the Company implements the following measures: <ul style="list-style-type: none"> <li>- coordinates day-to-day tanker management with structural units in charge of fleet planning and positioning, operations and sales, and adjusts production and supply schedules where necessary;</li> <li>- cooperates with Atomflot, Rosmorport, Northern Sea Route Administration and government authorities to ensure necessary icebreaker support along the NSR;</li> <li>- incorporates requirements in all time charter parties that the vessel's officers have necessary experience in ice navigation and that the crews take special training courses and programs with regards to ice navigation;</li> <li>- engages ice pilots and representatives of special institutions and companies when passing difficult ice areas.</li> </ul>
<b>Risks of information technology and information security (cyber-risks)</b>	The Company is exposed to the risks in the area of information technology and information security, such as <ul style="list-style-type: none"> <li>- the risk of confidential information leaks;</li> <li>- the risk of business interruption and the risk of an emergency situation as a result of computer-generated incidents.</li> </ul>	All information processed within the Company's corporate information system is classified, and owners of information resources are defined as are terms for granting access thereto.  Pursuant to Federal Law No. 187-FZ dated July 26, 2017, the Critical Infrastructure Categorization Plan is approved in the Company.  The information technology development strategy of the NOVATEK Group was developed and approved to ensure the Group's sustainable development.
<b>FINANCIAL RISKS</b>		
<b>Credit risk</b>	The Company is exposed to a risk of losses related to a failure by counterparties to perform their contractual financial obligations when due, and in particular depends on the reliability of banks in which the Company deposits its available cash.	When selling natural gas on the domestic market, the Company continuously monitors the financial soundness of its consumers and takes actions in case there are overdue payments.  Most of NOVATEK's international liquid sales are made to major customers with independent ratings. Almost all domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis.  When selecting banks, the Company is governed by the bank's reliability confirmed by international ratings.
<b>Reinvestment risk</b>	The Company's business requires substantial investments into field exploration and development, followed by the production, transportation, and	The Company's capital investment plans are defined in its long-term development strategy, are revised on an annual basis and are generally in line with the Company's ability to generate

	processing of natural gas, oil, gas condensate and petroleum products. Insufficient funding for these and other expenditures may affect the Company's financial standing and performance.	cash flow from operations taking into account the need to pay dividend and service its debt.
<b>Interest risks</b>	As a major borrower, the Company is subject to risks associated with an increase in interest rates. Interest rates on some of the Company's loans may be linked to floating international and Russian base rates which dynamics are hard to predict. Volatile interest rates may restrict the use of borrowed capital as a financing source for the Company's investment activity and may increase interest rate expenses.	The Company pursues a balanced debt policy and strives to maximize the share of long-term liabilities with fixed rates in its debt portfolio. The Company strives to maintain flexibility in its investment program.
<b>Currency risks</b>	Part of the Company's liabilities is denominated in foreign currencies, which may lead to losses in the event of Russian rouble depreciation. On the other hand, part of the Company's proceeds is also denominated in foreign currencies, which may lead to losses in the event of Russian rouble appreciation.	The liabilities expressed in foreign currency on the one hand, and export proceeds on the other generally offset each other and serve as a natural mechanism to hedge currency risks.
<b>Liquidity risk</b>	Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.	<p>The Company's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. In managing its liquidity risk, NOVATEK maintains an adequate ratio between cash reserves and debt, monitors forecast and actual cash flows and matches the financial assets and liabilities maturity profiles.</p> <p>The Company uses various short-term borrowings. The Company may use credit facilities and bank overdrafts to satisfy its short-term finance needs. To satisfy its needs for cash on a more permanent basis, the Company will normally raise long-term loans in the available markets.</p>
<b>Inflation risk</b>	Changes in the consumer price index have an impact on NOVATEK's profitability and, as a consequence, its financial standing. The significant currency depreciation can cause a surge in inflation rates, which are impossible to accurately predict.	<p>NOVATEK may not be able to predict the inflation level, since, apart from the consumer price level, it is necessary to take into account the change in the real purchasing power of the Russian rouble, the pricing conditions in liquid hydrocarbon and LNG export markets, and government policy in relation to tariffs for natural gas.</p> <p>NOVATEK monitors the consumer price index and accordingly acts to mitigate its costs.</p>

## LEGAL RISKS

<b>Risk of law changes</b>	The Company is subject to a risk of facing consequences of changes in Russian laws in the following areas:	The Company is constantly monitoring draft laws, elaborates its proposals and takes part in the drafting of laws and incorporation of provisions that are in line with the Company interests, all enabling it to evaluate the
----------------------------	--	---

	<ul style="list-style-type: none"> <li>- currency laws (in areas concerning export/import and borrowing operations)</li> <li>- tax laws (in areas regulating taxation systems and rates applicable to companies in general, and to companies producing and marketing natural gas and liquid hydrocarbons, specifically)</li> <li>- customs laws (in areas concerning the export of liquid hydrocarbons, including petroleum products); and</li> <li>- licensing requirements for natural resource extraction.</li> <li>- competition laws (in areas regulating natural gas sales market).</li> </ul>	consequences of such changes and to take them into account in its plans.
<b>Litigation risks</b>	The Company may be involved as a defendant or plaintiff in a number of proceedings arising in the normal course of its business.	When conducting its business, the Company adheres to the principle of prudence. Due to this fact, as of the approval date of the Annual Report, the Company was not involved in any material litigation and the associated risks are insignificant.
<b>Risk of sanctions</b>	<p>In 2014, the Company was included into the US sectoral sanctions list whereby the US persons are prohibited to participate in providing financing to the Company for more than 60 days. The sanctions imposed restrict the Company's ability to refinance its debt.</p> <p>Furthermore, there is a risk of tougher US sanctions and risk of including the Company into other countries' sanctions lists, which may undermine the Company performance.</p>	<p>The Company follows a balanced financial policy enabling it to minimize its fundraising needs. Moreover, the Company still has a full access to the Russian capital market and a limited access to the international market.</p> <p>In case the US sanctions are toughened and the Company is included in other countries' sanctions lists, the Company management will make every possible effort to minimize the negative impact on the Company's business operations and financial standing.</p>

## Risk Insurance

Risk insurance is an integral part of NOVATEK's risk management system. In 2018, 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 the leading rating agencies (Standard & Poor's, Fitch Ratings, Expert RA, A.M. Best,) with partial reinsurance of risks by major international insurance and reinsurance companies.

### Obligatory Risk Insurance

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

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

### **Optional Risk Insurance**

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

- Insurance of the risk of property damage/loss, including the risk of mechanical failures;
- Insurance of the risk of damage from business interruption;
- Construction risk insurance;
- Insurance of risks related to prospecting, exploration and production (risk of loss of control over a well); and
- Management liability insurance.

Since 2013, the Company implemented a comprehensive program of property and business risk insurance with respect to its and its subsidiaries' and joint venture's key assets. The cumulative insured amount for the risks of property damage and business interruption as at the end 2017 was RR 772 billion. The implemented program is viewed by the Company's management as an efficient measure for mitigating the consequences of potential accidents and provides additional guarantees for the attainment of the expected net profit and key indicators of the Company's performance.

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

For more than 13 years the Company has maintained a management liability insurance for the top management of the Company and its subsidiaries against possible third-party claims for any losses incurred through any wrong action (or decision) made by its management bodies. The overall limit of all insurance coverage is Euro 120 mln.

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

## **MR. ALEXANDER E. NATALENKO**

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

**Member of NOVATEK's Strategy Committee**

**Born in 1946**

Mr. Natalenko completed his studies at the Irkutsk State University in 1969 with a primary focus in Geological Engineering. Subsequently, he worked with the Yagodinskaya, Bagdarinskaya, Berelekhskaya, Anadirskaia and East-Chukotskaya geological expeditions. In 1986, Mr. Natalenko headed the North-East Industrial and Geological Association and, in 1992, he was elected president of ZAO "Magadan Gold & Silver Company". He subsequently held various executive positions in Russian and foreign geological organizations. From 1996 to 2001, Mr. Natalenko held the position of Deputy Minister of Natural Resources of the Russian Federation. From 2013 to 2015 he was a member of the Board of Directors of AO Rosgeologia. From 2004 to present he is the Chairman of NOVATEK's Board of Directors.

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

## **MR. ANDREI I. AKIMOV**

**Member of NOVATEK's Board of Directors**

**Member of NOVATEK's Strategy Committee**

**Born in 1953**

Mr. Akimov graduated from the Moscow Financial Institute in 1975 where he specialized in international economics. Between 1974 and 1987, Mr. Akimov held various executive positions in the Bank for Foreign Trade of the USSR. From 1985 to 1987 he served as Deputy Chief General Manager of the Bank for Foreign Trade branch in Zurich (Switzerland) and between 1987 and 1990, Mr. Akimov was the Chairman of the Management Board of Donau Bank in Vienna (Austria). From 1991 to 2002 he was Managing Director of financial company, IMAG Investment Management & Advisory Group AG (Austria). Since 2003, Mr. Akimov has been the Chairman of the Management Board, the Deputy Chairman of the Board of Directors of Gazprombank (OAO). He is a member of Board of Directors of PAO Gazprom, Gazprombank (AO), AO Rosneftegaz, OOO Gazprom gas motor fuel and other.

## **DR. BURCKHARD BERGMANN**

**Independent member of NOVATEK's Board of Directors**

**Chairman of NOVATEK's Strategy Committee**

**Member of NOVATEK's Audit Committee**

**Member of NOVATEK's Remuneration and Nomination Committee**

## **Born in 1943**

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

Mr. Bergmann is a Chairman of the Supervisory Board of Accumulatoren-Werke Hoppecke GmbH and a member of the Advisory Boards for Dana Gas, Dubai. Since October 2012, he is a member of the board of trustees of RAG Stiftung. Between 1998 and 2000, Mr. Bergmann held the position of President of Eurogas (the European Union of the Natural Gas Industry) and between 2000 and 2010 he was Vice-Chairman of the Board of the German East-West Trade Committee. Mr. Bergmann was a member of the Board of OAO Gazprom from 2000 to 2011.

Mr. Bergmann holds the following distinctions: Commander of the Royal Norwegian Order of Merit (1997), Foreign Member of the Academy of Technological Sciences of the Russian Federation (2003), Order of Merit of the State of North Rhine-Westphalia (2004), Director of the Year, Moscow (2007), Officer's Cross of the Order of Merit of the Federal Republic of Germany (2008) and the Russian Order of Friendship (2011).

## **MR. MICHAEL BORRELL**

**Member of NOVATEK's Board of Directors**

**Member of NOVATEK's Strategy Committee**

## **Born in 1962**

Mr. Borrell graduated from the University of Cambridge with a degree in Chemical and Mechanical Engineering (Master of Science – 1993, Bachelor – 1984). He joined TOTAL in 1985. Mr. Borrell worked with the affiliated companies of the concern; from 1995 he held a number of senior management positions in TOTAL. From 2003, he worked at the position of Vice-President for Corporate Planning and Business Development in Total E&P Indonesia. In July 2006, he was appointed President and CEO of TOTAL E&P Canada in Calgary. From September 2009 to June 2010, he was Vice President of the Caspian Area and Central Asia for TOTAL Exploration and Production. From July 2010, he served as First Vice President of Continental Europe and Central Asia. From January 2015 to September 2017, he worked as Senior Vice-President of Europe and Central Asia. From September 2017, he has been appointed Senior Vice President North Sea and Russia, which comprises the United Kingdom, Norway, Denmark, the Netherlands and Russia.

**MR. ROBERT CASTAIGNE****Independent member of NOVATEK's Board of Directors****Chairman of NOVATEK's Audit Committee****Member of NOVATEK's Remuneration and Nomination Committee****Born in 1946**

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

**MR. ARNAUD LE FOLL****(since 18.01.2019)****Member of NOVATEK's Board of Directors****Member of NOVATEK's Strategy Committee****Born in 1978**

Graduate of ‘École polytechnique’ and ‘École des mines de Paris’ (France) Arnaud Le Foll began his professional career in French ministries and administrations. Between 2003 and 2006 he was Head of Regional Industrial Environment Inspectorate, Rhône-Alpes (Lyons, France), then he moved to a position of Auditor at General Inspectorate of Finance, Ministry of Finance, where he served from 2006 to 2007. In 2007 he became an Advisor on matters related to environment, energy and industry in the offices of C. Lagarde, Minister of Economy, and L. Chatel, Secretary of State in charge of Industry.

Arnaud Le Foll joined Total in 2010 as Analyst Strategy, Total Holding. In 2010 he was promoted to a position of Vice-president strategy and business development Asia-Pacific, Total Marketing & Services (Singapore). From 2013 to 2016 he headed Total Maroc affiliate as Managing Director.

In 2016 Arnaud Le Foll moved from Marketing & Services branch of Total to Exploration & Production, and was appointed Strategy and Portfolio Management Director, Total E&P Angola.

On January 1, 2018 Arnaud Le Fall became Total Country Chair Russia and General Director, Total E&P Russie.

**MR. LEONID V. MIKHELSON****Member of NOVATEK's Board of Directors****Chairman of NOVATEK's Management Board****Born in 1955**

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

Since 2003, Mr. Mikhelson has served as a member of the Board of Directors and Chairman of the Management Board of NOVATEK. From March 2008 to December 2010, he has been a member of the Board of Directors and the Chairman of the Board of Directors of AO Stroytransgas. From 2009 to 2010 he was the Chairman of the Board of Directors of OAO Yamal LNG and from 2008 to 2011 he was a member of the Board of Directors of OOO Art Finance. From 2011 he is the Chairman of the Board of Directors of PAO SIBUR Holding and from 2011 to 2013 he was a member of the Supervisory Board of the OAO Russian Regional Development Bank. Mr. Mikhelson is the recipient of the Russian Federation's Order of the Badge of Honor, the 2 Degree Order of Merit for the Fatherland and the title of honor "Honored man of the gas industry".

## **MR. VICTOR P. ORLOV**

**Independent member of NOVATEK's Board of Directors**

**Chairman of NOVATEK's Remuneration and Nomination Committee**

**Member of NOVATEK's Audit Committee**

## **Born in 1940**

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

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

Protection. From 1998 to present - President of "Russian Geological Society" public organization. Author and co-author of over 300 scientific publications.

Professor, Doctor of Economics (1991), Candidate of geological-mineralogical sciences (1974), an Honored Geologist of Russia. Laureate of the State Prize of the Russian Federation in the field of science and technology. He was awarded the Order of Merit for the Fatherland 4 degree (2001), the Order of Honor (2015), 18 non-governmental awards, including 3 appreciation letters of the President of the Russian Federation, 2 Certificates of Merit of the Government of the Russian Federation.

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

**(up to 18.01.2019)**

**Independent member of NOVATEK's Board of Directors**

**Chairman of NOVATEK's Audit Committee**

**Member of NOVATEK's Remuneration and Nomination Committee**

**Born in 1964**

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

1989-1991 - Member of the USSR Parliament, until 1996 he headed the Committee for Matters Concerning Young Persons of the Russian Federation. From 1996 to 2007 - Head of Department, Deputy Minister, State Secretary in the Ministry of Economic Development and Trade of the Russian Federation. From 2007 to 2010 - Managing Director and Chairman of the Board of Directors of ZAO Investment Company Troika Dialog, head of the investment banking sector. From 2010 to 2013 - Deputy Mayor of Moscow for economic policy, was responsible for budgeting, procurement, industrial policy and business support, regulated market of trade and services. Served as a Chairman of the Regional Energy Commission. Mr. Sharonov is a deputy Head of the Executive Committee of the Moscow Urban Forum. From 2013 to 2016 - Dean of SKOLKOVO Business School and in September 2016 he was elected President of the Business School.

He is currently Chairman of the Board of Directors, an Independent member of the Board of Directors of OOO Management Company NefteTransService; a member of the Boards of Directors of PAO Sovcomflot and PAO PhosAgro, a member of the Supervisory Board of the Bank VTB (PAO).

Candidate of sociological sciences, an Honored Economist of the Russian Federation. He is the recipient of the "Aristos" Award in the "Independent Director" category in 2009, the National Award "Director of the Year – 2009" in the "Independent Director" category and the International Award "Person of the Year – 2012" in the "Business reputation" category, special award for personal contribution to the development of corporate management in 2016 from the Independent Directors Association and the Russian Union of Industrialists and Entrepreneurs. He was awarded the Order of Honor of the Russian Federation.

**MR. GENNADY N. TIMCHENKO****Member of NOVATEK's Board of Directors****Member of NOVATEK's Strategy Committee****Born in 1952**

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

In 1988, Mr. Timchenko became a Vice President of Kirishineftekhimexport, the export and trading arm of the Kirishi refinery. In 1991, he worked for Urals Finland which specialized in oil and petrochemical trading. Between 1994 and 2001, Mr. Timchenko was Managing Director of IPP OY Finland and IPP AB Sweden. Between 1997 and 2014, he co-founded Gunvor, a leading independent oil-trading company. Mr. Timchenko was a member of the Board of Directors of OOO Transoil and OOO BalttransService, and Airfix Aviation OY. Since 2009, he is a member of the Board of Directors of PAO NOVATEK. He is a member of the Board of Directors of PAO SIBUR Holding, the Chairman of the Board of Directors, President of the Ice Hockey Club SKA St-Petersburg, as well as the Chairman of the Board of Directors of OOO Kontinental Hockey League, a member of the Board of Trustees of the All-Russian public organization Russian Geographical Society, the Chairman of the Russian Council of the NPO Russian Chinese Business Council, the Chairman of the Board to promote OCD, Vice-President of the Olympic Committee of the Russian Federation, the Chairman of the Economic Council of the Franco-Russian Chamber of Commerce (CCIFR).

**ZULMIRA A. RAZAKOVA****NOVATEK's Corporate Secretary**

Ms. Razakova holds a higher legal education degree and began working for NOVATEK in 2004. Between 2007 and 2012, Ms. Razakova held the position of lead specialist of the Management Board and Board of Directors staff. In April 2012, Ms. Razakova was elected as Secretary of the Board of Directors. Since 2014, Ms. Razakova has been NOVATEK's Corporate Secretary.

# **Information on Members of NOVATEK's Management Board**

## **MR. LEONID V. MIKHELSON**

**Chairman of NOVATEK's Management Board**

**Member of NOVATEK's Board of Directors**

**Born in 1955**

Details on Mr. Leonid V. Mikhelson are available in the “Information on Members of NOVATEK’s Board of Directors” section.

## **MR. VLADIMIR A. BASKOV**

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

**Born in 1960**

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

In 2003, he was appointed Director of the Business Support Department for NOVATEK. In 2005, Mr. Baskov was appointed Deputy Chairman of NOVATEK's Management Board and in 2007, he became a member of NOVATEK's Management Board.

Mr. Baskov is Ph.D. in Law. He was awarded the Order For Personal Courage, the Russian Federation's Order of the Badge of Honor and other state and departmental awards: Honorary Diplomas of the President of the Russian Federation, the Minister of Internal Affairs, the Governor of the Moscow Region. Mr. Baskov also has the awards of the Russian Orthodox Church (Order of Holy Prince Daniel of Moscow, Order of Saint Seraphim of Sarov and a medal of St. Sergius).

## **MR. VIKTOR N. BELYAKOV**

**Deputy Chairman of NOVATEK's Management Board for Economics and Finance**

**Born in 1973**

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

From 2004 till 2014 Mr. Belyakov worked for PAO Uralkali, where he successively held the positions of Head of Division, Deputy Chief Financial Officer, Chief Financial Officer, Vice President for Finance, Deputy General Director, Executive Director. In 2015 he was appointed Vice President for Economics and Finance of PAO Far East Shipping Company (FESCO group).

In February 2016, Viktor Belyakov joined PAO NOVATEK in the position of Deputy Chairman of the Management Board for Economics and Finance.

### **MR. MARK A. GYETVAY**

#### **Deputy Chairman of NOVATEK's Management Board**

#### **Born in 1957**

Mr. Gyetvay studied at Arizona State University (Bachelor of Science, Accounting, 1981) and later at Pace University, New York (Graduate Studies in Strategic Management, 1995). After graduation, Mr. Gyetvay worked in various capacities at a number of U.S. independent oil and gas companies where he specialized in financial and economic analysis for both upstream and downstream segments of the petroleum industry.

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

Mr. Gyetvay is a Certified Public Accountant (inactive status), a member of the American Institute of Certified Public Accountants and an associate member of the Society of Petroleum Engineers. He is a recognized expert in the oil and gas industry, a frequent speaker at various industry and investor conferences, has published numerous articles on various oil and gas industry topics and was a former member of PwC's Petroleum Thought Leadership team. He has been recognized by Investor Relations Magazine as one of the best CFO's in Russia and the CIS, and by Institutional Investor magazine as one of the Top Five CFO's in Europe's Oil and Gas sector. Institutional Investor voted him as the Best CFO in the EMEA Oil and Gas category for 2017. Finance Monthly magazine named Mark Gyetvay the Best CFO in Russia for the consecutive years of 2015 to 2018, and he received the Game Changer 2017 and 2018 Award for Russia.

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

### **MR. SERGEY V. VASYUNIN**

#### **Deputy Chairman of NOVATEK's Management Board - Operations Director**

#### **Born in 1967**

In 1993, Sergey Vasyunin graduated from the Ufa Oil Institute, specializing in the Development and Operation of Oil and Gas Fields. Between 1993 and 1997, Mr. Vasyunin was employed with Condor as deputy director, Stroykomplekt as head of sales department, and with OAO

Spetsnefteenergomontazhavtomatika - as marketing engineer. From 1998, he worked in the Urengoygazprom industrial association of OAO Gazprom where he served in the capacity of an oil, gas and condensate production foreman. Between 2002 and 2017, Mr. Vasyunin was employed in the positions of Gas Condensate Production Shop Manager, Deputy General Director for operations, and First Deputy General Director - Chief Engineer of OOO NOVATEK-YURKHAROVNEFTEGAS. In April 2017, he was appointed Deputy Chairman of the Management Board - Director for Operations of NOVATEK.

In 2005, the Russian Ministry of Industry and Energy issued a commendation to Sergey Vasyunin. He holds the Honored Employee of NOVATEK title.

## **EDUARD S. GUDKOV**

### **Deputy Chairman of NOVATEK's Management Board**

#### **Born in: 1980**

In 2002, Mr. Gudkov graduated from the Penza State University where he specialized in law. In 2006, he received PhD in Law.

Between 1999 and 2003, Mr. Gudkov worked in the Russian Ministry for Antitrust Policy and Support of Entrepreneurship. In 2003, he joined the Russian Supreme Arbitrash Court where he held the position of Assistant to the First Deputy Chairman. From 2012, Mr. Gudkov worked at the Executive Office of the Russian Federation Government. In 2013, he was appointed Assistant to Deputy Prime Minister of the Russian Federation – Head of the Executive Office of the Russian Federation Government.

Since September 2018, Mr. Gudkov has been Deputy Chairman of NOVATEK's Management Board. In 2018, Mr. Gudkov was awarded the Medal of the II Degree Order for Merits and Dedicated Service to the Country.

## **EVGENY A. KOT**

### **Deputy Chairman of NOVATEK's Management Board – Director for LNG**

#### **Born in: 1974**

Mr. Kot graduated from the Tyumen State Academy of Architecture and Civil Engineering where he specialized in Economics and Company Management. He received PhD in Economics from the Saint Petersburg State University of Engineering and Economics.

Between 1997 and 2001, Mr. Kot worked in the Tyumen branch of Gazprombank. From 2001 to 2002, he was employed by OAO SNP NOVA and OAO Oil and Gas Company ITERA.

In 2002, Mr. Kot joined NOVATEK. Between 2009 and 2011, he held the position of Deputy Chairman of the Management Board – Director of LNG Business Development of NOVATEK. Between 2010 and 2014, he was Chairman of the Board of Directors of Yamal LNG. From 2014 to 2018, Mr. Kot was General Director of Yamal LNG.

In December 2018, he was appointed Deputy Chairman of the Management Board – Director for LNG of NOVATEK.

**MS. TATYANA S. KUZNETSOVA****Deputy Chairman of NOVATEK's Management Board****Director of NOVATEK's Legal Department****Born in 1960**

Ms. Kuznetsova graduated from the Far East State University with a degree in Law. From 1986, she was Senior Legal Advisor for a legal bureau. In 1993, Ms. Kuznetsova became Deputy General Director for Legal Issues and from 1996, Marketing Director for OAO Purneftegasgeologiya. In 1998, she was appointed Deputy General Director of OAO Nordpipes. Since 2002, she has been Director of the Legal Department at NOVATEK. Since 2005, she has been the Deputy Chairman of NOVATEK's Management Board - Director of NOVATEK's Legal Department and in August 2007, she became a member of NOVATEK's Management Board. Ms. Kuznetsova has the title "Honored employee of PAO NOVATEK", and is awarded the 2 Degree Order of Merit for the Fatherland.

**DENIS B. SOLOVYEV****Deputy Chairman of NOVATEK's Management Board – Director of Corporate Communications Department****Born in: 1977**

In 2000, Mr. Solovyev graduated from the Lomonosov Moscow State University with a degree in Political Science. In 2003, he completed postgraduate studies at the Lomonosov Moscow State University with a degree in History. In 2000, he was appointed Deputy General Director of Senat PR LLC. In 2004, Denis Solovyev assumed the role of an adviser to the Krasnoyarsk Territory Deputy Governor and Assistant First Deputy Governor at the Krasnoyarsk Territory Board of Administration. Between 2006 and 2008, he headed an election projects group of the United Russia Central Electoral Commission Directorate.

Mr. Solovyev has been working for NOVATEK since 2008: in the capacity of Public Relations Director (until 2014), and Communications Director – Director of Public Relations Department (from January 2014.).

Since September 2018, Mr. Solovyev was appointed Deputy Chairman of NOVATEK's Management Board and Director of Corporate Communications Department.

Mr. Solovyev has received several letters of recognition, honorable mentions from the Russian Ministry of Natural Resources and the Environment as well as from the Parliament of the Khanty-Mansy Autonomous Region. In 2018, he received an award from the Russian Ministry of Energy and an honorable mention from the Governor of the Yamal Nenets Autonomous Region.

**MR. ILYA V. TAFINTSEV****Deputy Chairman of the NOVATEK's Management Board****Born in 1985**

In 2006, Mr. Tafintsev obtained a BA in Economics from the Higher School of Economics in Moscow. In 2007, he graduated from the University of London (UK), where he majored in investment and finance.

From 2007 to 2011, Mr. Tafintsev held the position of Deputy Director of NOVATEK's Representative Office in London. Between 2011 and 2014, he was a Finance and Investment Advisor with United Bureau of Consultants Limited.

From 2013 to 2015, he served as Strategic Projects Director of NOVATEK. From 2013 to 2018, Mr. Tafintsev was Member of the Board of Directors of SIBUR Holding. Between 2014 and 2016, he held the position of Chairman of the Board of Directors of Yamal LNG. In December 2015, Mr. Tafintsev was appointed Member of the Management Board – Director for Strategic Projects of NOVATEK.

Since September 2018, he has been Deputy Chairman of NOVATEK's Management Board.

### **MR. LEV V. FEODOSYEV**

#### **First Deputy Chairman of NOVATEK's Management Board**

##### **Born in 1979**

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

From February 2018, he was appointed First Deputy Chairman of NOVATEK's Management Board. In 2014, Mr. Feodosyev was awarded NOVATEK's Honorary Certificate.

### **MR. ALEXANDER M. FRIDMAN**

#### **First Deputy Chairman of NOVATEK's Management Board**

##### **Born in 1951**

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

Board of NOVATEK. In August 2007, he was elected a member of NOVATEK's Management Board. From February 2015, he has been First Deputy Chairman of the Management Board of NOVATEK. Mr. Fridman is the recipient of the title of honor "Honored Man of the Oil and Gas Industry".

## **Report on major, and interested-party transactions that the Company did in the reporting year**

Information in this section of the Annual report 2018 is not provided pursuant to the Order of the Government of the Russian Federation No. 10 dated 15 January 2018.

## **Corporate Governance Code Compliance Report**

This Corporate Governance Code Compliance Report (hereinafter "the Report") was reviewed at the meeting of PAO NOVATEK's Board of Directors on 19 March 2019 (Minutes No. 218).

The Board of Directors certifies that data in this Report contain full and reliable information on compliance by the Company with the principles and recommendations of the Corporate Governance Code for 2018.

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

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

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1	The Company should ensure equitable and fair treatment of every shareholder exercising their right to take part in managing the Company.			
1.1.1	The Company ensures the most favorable conditions for its shareholders to participate in the general meeting, develop an informed position on agenda items of the general meeting, coordinate	1. The Company's internal document approved by the general meeting of shareholders and governing the procedures for holding the general meeting is publicly available. 2. The Company provides accessible means of communication via hotline, e-mail or an online forum for	This principle is complied with.	-

	their actions, and voice their opinions on items considered.	shareholders to voice their opinions and submit questions on the agenda in preparing for the general meeting. The Company performed the above actions in advance of each general meeting held in the reporting period.		
1.1.2	The procedure for giving notice of, and providing relevant materials for, the general meeting enables shareholders to properly prepare for attending the general meeting.	1. The notice of an upcoming general meeting of shareholders is posted (published) online at least 30 days prior to the date of the general meeting. 2. The notice of an upcoming meeting specifies the meeting venue and documents required for admission. 3. Shareholders were given access to the information on who proposed the agenda items and who proposed nominees to the company's board of directors and the revision commission.	This principle is complied with.	-
1.1.3	In preparing for, and holding of, the general meeting, shareholders were able to receive clear and timely information on the meeting and related materials, put questions to the company's executive bodies and the board of directors, and to communicate with each other.	1. In the reporting period, shareholders were able to put questions to members of executive bodies and members of the board of directors before and during the annual general meeting.  2. The position of the board of directors (including dissenting opinions entered into the minutes) on each agenda item of general meetings held in the reporting period was included in the materials to the general meeting of shareholders.	<p>This principle is complied with.</p> <p>This principle is not fully complied with.</p>	<p>-</p> <p>When convening General Meetings of Shareholders, the board of directors reviews all agenda items of the relevant meeting and presents them to the Meeting for consideration or provides necessary advice.</p> <p>Materials to the General Meeting of Shareholders include recommendations of the board of directors as required by law.</p> <p>In accordance with paragraph 1 of Art. 54 of the Russian Federal Law "On Joint Stock Companies", the list of information (materials) provided to shareholders in preparation for the General Meeting of Shareholders is determined by the Board of</p>

				Directors. Accordingly, the Board of Directors, if it deems it necessary, to include its position on the issues on the agenda of the general meeting of shareholders, if it deems it necessary. The Company considers the established procedure to be balanced, not bearing any risks for the Company and its shareholders, and does not plan to change the existing approach.
	3. The Company gave duly authorized shareholders access to the list of persons entitled to attend the General Meeting, as from the date of its receipt by the Company, for all general meetings held in the reporting period.	This principle is complied with.	-	
1.1.4	There were no unjustified difficulties preventing shareholders from exercising their right to request that a General Meeting be convened, to propose nominees to the Company's governing bodies, and to make proposals for the agenda of the General Meeting.	1. In the reporting period, shareholders were able to submit, within at least 60 days after the end of the relevant calendar year, proposals for the agenda of the Annual General Meeting. 2. In the reporting period, the Company did not reject any proposals for the agenda or nominees to the company's governing bodies due to misprints or other insignificant flaws in the shareholder's proposal.	This principle is complied with.	-
1.1.5	Each shareholder was able to freely exercise their voting right in the simplest and most convenient way.	1. An internal document (internal policy) of the Company provides that each participant of the General Meeting may request a copy of the ballot filled out by them and certified by the counting commission before the end of the relevant meeting.	This principle is complied with.	-
1.1.6	The procedure for holding a General Meeting set by the Company provides equal opportunities for all persons attending the Meeting to voice their opinions and ask questions.	1. General Meetings of Shareholders held in the reporting period in the form of a meeting (i.e. joint presence of shareholders) provided for sufficient time for making reports on and for discussing agenda items.	This principle is complied with.	-

		<p>2. Nominees to the Company's governing and control bodies were available to answer questions of shareholders at the Meeting at which their nominations were put to vote.</p> <p>3. When passing resolutions on preparing and holding General Meetings of Shareholders, the board of directors considered using telecommunication means for remote access of shareholders to General Meetings in the reporting period.</p>	<p>This principle is complied with.</p> <p>This principle is complied with.</p>	-
1.2	Shareholders are given equal and fair opportunities to share profits of the Company in the form of dividends.			
1.2.1	The Company has designed and put in place a transparent and clear mechanism to determine the dividend amount and payout procedure.	<p>1. The Company has drafted and disclosed a dividend policy approved by the board of directors.</p> <p>2. If the Company's dividend policy uses reporting figures to determine the dividend amount, then relevant provisions of the dividend policy take into account the consolidated financial statements.</p>	<p>This principle is complied with.</p>	-
1.2.2	The Company does not resolve to pay out dividends if such payout, while formally compliant with law, is economically unjustified and may lead to a false representation of the Company's performance.	<p>1. The Company's dividend policy clearly identifies financial / economic circumstances under which the Company shall not pay out dividends.</p>	<p>This principle is complied with.</p>	-
1.2.3	The Company does not allow for dividend rights of its existing shareholders to be impaired.	<p>1. In the reporting period, the Company did not take any actions that would lead to the impairment of the dividend rights of its existing shareholders.</p>	<p>This principle is complied with.</p>	-
1.2.4	The Company makes every effort to prevent its shareholders from using other means to profit (gain) from the Company other than dividends and liquidation value.	<p>1. To prevent shareholders from using other means to profit (gain) from the Company other than dividends and liquidation value, the Company's internal documents provide for controls to timely identify and approve deals with affiliates (associates) of the Company's substantial shareholders (persons entitled to use votes attached to voting shares) where the law does not formally recognize such deals as related-party transactions.</p>	<p>This principle is not complied with.</p>	<p>This principle is not complied with as the Company believes that statutory controls are sufficient for relevant purposes. The Company does not transact with persons under control by substantial shareholders, which prevents substantial</p>

				shareholders from profiting (gaining) from the Company. The Company does not see any risks in the established practice, as the system of procurement procedures introduced in the Company ensures the conclusion of contracts on market terms.
1.3	Corporate governance framework and practices should ensure equality for the shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equitable treatment by the Company.			
1.3.1	The Company has created conditions for fair treatment of each shareholder by the Company's governing and control bodies, including conditions that rule out abuse by major shareholders against minority shareholders.	1. In the reporting period, procedures for management of potential conflicts of interest among substantial shareholders were efficient, while the board of directors paid due attention to conflicts, if any, between shareholders.	This principle is complied with.	-
1.3.2	The Company does not take any actions that lead or may lead to artificial redistribution of corporate control.	1. No quasi-treasury shares were issued or used to vote in the reporting period.	This principle is complied with.	-
1.4	Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.			
1.4.1	Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.	1. The Company's registrar maintains the share register in an efficient and reliable way that meets the needs of the Company and its shareholders.	This principle is complied with.	-
2.1	The board of directors provides strategic management of the Company, determines key principles of, and approaches to, setting up a corporate risk management and internal control framework, monitors performance by the Company's executive bodies, and performs other key functions.			
2.1.1	The board of directors is responsible for appointing and dismissing executive bodies, including for improper performance of their duties. The board of	1. The board of directors has the authority stipulated in the Articles of Association to appoint and remove members of executive bodies and to set out the terms and conditions of their contracts.	This principle is not fully complied with.	The issue of determining the amount of remuneration paid to the Chairman of the Management Board based on the results of the work for

	<p>directors also ensures that the Company's executive bodies act in accordance with the Company's approved development strategy and core lines of business.</p>			<p>the year, falls within the authority of the Board of Directors.</p> <p>In accordance with the Company's Articles of Association, the members of the Management Board are elected by the Board of Directors from among the Company's employees, solely on the recommendation of the Chairman of the Management Board. The amounts of official salaries and other terms of employment contracts with the Company's employees, including members of the Management Board, are determined by the Chairman of the Management Board taking into account the parameters of the Company's business plan approved by the Board of Directors.</p> <p>The Company considers the established procedure to be effective, balanced, not bearing any risks for the Company and its shareholders, and does not plan to change the existing approach.</p>
2.1.2	<p>2. The board of directors reviewed the report(s) by the sole executive body or members of the collective executive body on the implementation of the company's strategy.</p>		<p>This principle is complied with.</p>	-
2.1.2	<p>The board of directors sets key long-term targets for the company, assesses and approves its key performance indicators and key business goals, as well as the strategy and business plans for the company's core lines of business.</p>	<p>At its meetings in the reporting period, the board of directors reviewed strategy implementation and updates, approval of the company's financial and business plan (budget), and criteria and performance (including interim) of the company's strategy and business plans.</p>	<p>This principle is complied with.</p>	-

2.1.3	The Board of Directors defines the Company's risk management and internal control principles and approaches.	1. The Board of Directors defined the Company's risk management and internal control principles and approaches. 2. The Board of Directors assessed the company's risk management and internal control system in the reporting period.	This principle is complied with.	-
2.1.4	The board of directors determines the company's remuneration and reimbursement (compensation) policy for its directors, members of executive bodies and other key executives.	1. The company developed and put in place a remuneration and reimbursement (compensation) policy (policies), approved by the board of directors, for its directors, members of executive bodies and other key executives. 2. At its meetings in the reporting period, the Board of Directors discussed matters related to such policy (policies).	This principle is not fully complied with.	The costs of the Management Board members and other key executives of the Company shall be reimbursed (compensated) under the applicable legislation. Remuneration of members of the Management Board and other key employees of the Company shall be effected upon the decision of the Chairman of the Management Board within the amount determined with consideration of the parameters of the Company's business plan approved by the Board of Directors. The Board of Directors also determines the remuneration of the Chairman of the Management Board based on the performance of the Company in the reporting year. The Company considers the established procedure to be balanced, not bearing any risks for the Company and its shareholders, and does not plan to change the existing approach.
2.1.5	The board of directors plays a key role in preventing, identifying and resolving internal conflicts between the company's bodies, shareholders and employees.	1. The board of directors plays a key role in preventing, identifying and resolving internal conflicts. 2. The company set up mechanisms to identify transactions leading to a conflict of interest and to resolve such conflicts.	This principle is complied with.	-

2.1.6	The board of directors plays a key role in ensuring that the company is transparent, timely and fully discloses its information, and provides its shareholders with unhindered access to the company's documents.	1. The board of directors approved the company's information policy regulations. 2. The company identified persons responsible for implementing the information policy.	This principle is complied with.	-
2.1.7	The board of directors controls the company's corporate governance practices and plays a key role in material corporate events of the company.	1. In the reporting period, the board of directors reviewed the company's corporate governance practices.	This principle is complied with.	-
2.2	The board of directors is accountable to the company's shareholders.			
2.2.1	Performance of the board of directors is disclosed and made available to the shareholders.	1. The company's annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings. 2. The annual report discloses key performance assessment results of the board of directors in the reporting period.	This principle is complied with.	-
2.2.2	The chairman of the board of directors is available to communicate with the company's shareholders.	1. The company has in place a transparent procedure enabling shareholders to forward questions and express their position on such questions to the chairman of the board of directors.	This principle is complied with.	-
2.3	The board of directors manages the company in an efficient and competent manner and make fair and independent judgments and decisions in line with the best interests of the company and its shareholders.			
2.3.1	Only persons of impeccable business and personal reputation who have knowledge, expertise and experience required to make decisions within the authority of the board of directors and essential to perform its functions in an efficient way are elected to the board of directors.	1. The procedure for assessing the board of directors' performance established in the company includes, inter alia, assessment of professional qualifications of the board members. 2. In the reporting period, the board of directors (or its nomination committee) assessed nominees to the board of directors for required experience, knowledge, business reputation, absence of conflicts of interest, etc.	This principle is complied with.	-

2.3.2	The company's directors are elected via a transparent procedure that enables shareholders to obtain information on nominees sufficient to judge on their personal and professional qualities.	1. Whenever the agenda of the general meeting of shareholders included election of the board of directors, the company provided to shareholders the biographical details of all nominees to the board of directors, the results of their assessment carried out by the board of directors (or its nomination committee), and the information on whether the nominee meets the independence criteria set forth in Recommendations 102–107 of the Code, as well as the nominees' written consent to be elected to the board of directors.	This principle is complied with.	-
2.3.3	The board of directors has a balanced membership, including in terms of directors' qualifications, experience, expertise and business qualities, and enjoys its shareholders' trust.	1. As part of assessment of the board of directors' performance run in the reporting period, the board of directors reviewed its requirements to professional qualifications, experience and business skills.	This principle is complied with.	-
2.3.4	The company has a sufficient number of directors to organize the board of directors' activities in the most efficient way, including ability to set up committees of the board of directors and enable the company's substantial minority shareholders to elect a nominee to the board of directors for whom they vote.	1. As part of assessment of the board of directors' performance run in the reporting period, the board of directors considered whether the number of directors met the company's needs and shareholders' interests.	This principle is complied with.	-
2.4	The board of directors includes a sufficient number of independent directors.			
2.4.1	An independent director is a person who is sufficiently professional, experienced and independent to develop their own position, and capable of making unbiased judgements in good faith, free of influence by the company's executive bodies, individual groups of shareholders or other stakeholders. It should be noted that a nominee (elected director) who is	1. In the reporting period, all independent directors met all independence criteria set out in Recommendations 102–107 of the Code or were deemed independent by the board of directors.	This principle is complied with.	-

	related to the company, its substantial shareholder, substantial counterparty or competitor of the company, or related to the government, may not be considered as independent under normal circumstances.			
2.4.2	The company assesses compliance of nominees to the board of directors and reviews compliance of independent directors with independence criteria on a regular basis. In such assessment, substance should prevail over form.	<p>1. In the reporting period, the board of directors (or its nomination committee) made a judgement on independence of each nominee to the board of directors and provided its opinion to shareholders.</p> <p>2. In the reporting period, the board of directors (or its nomination committee) reviewed, at least once, the independence of incumbent directors listed by the company as independent directors in its annual report.</p> <p>3. The company has in place procedures defining the actions to be taken by a member of the board of directors if they cease to be independent, including the obligation to timely notify the board of directors thereof.</p>	This principle is complied with.	-
2.4.3	Independent directors make up at least one third of the elected board members.	1. Independent directors make up at least one third of the board members.	This principle is complied with.	-
2.4.4	Independent directors play a key role in preventing internal conflicts in the company and in ensuring that the company performs material corporate actions.	1. Independent directors (with no conflicts of interest) run a preliminary assessment of material corporate actions implying a potential conflict of interests and submit the results to the board of directors.	This principle is not fully complied with.	In accordance with the Company's Articles of Association, the Regulations on the Board of Directors and the Regulations on the Committees of the Board of Directors, a large block of issues related to significant corporate actions is preliminarily considered by the Audit Committee and the Remuneration Committee consisting of independent directors. In addition, most of such decisions shall be approved by the Board of Directors, if 8 out of 9 directors voted for the corresponding decision. Thus, any two independent directors may block

				the adoption of an undesirable decision in their opinion. The Company believes that independent directors have sufficient capacity to assess significant corporate actions.
2.5	The chairperson of the board ensures that the board of directors discharges its duties in the most effective and efficient way.			
2.5.1	The board of directors is chaired by an independent director, or a senior independent director supervising the activities of other independent directors and interacting with the chairman of the board of directors is chosen from among the elected independent directors.	1.The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors. 2. The role, rights and duties of the chairman of the board of directors (and, if applicable, of the senior independent director) are duly set out in the company's internal documents.	This principle is not fully complied with.	The role of independent directors on the Company's Board of Directors is very important, since the Audit Committee and the Remuneration and Nomination Committee of the Board of Directors are comprised of independent directors only. Formally, the Chairman of the Board of Directors is not an Independent Director. However, the Chairman of the Board of Directors meets all independence criteria, except for his tenure on the Board of Directors. For chairmanship purposes, the directors elected the most experienced of the Board members who is not an independent director.  The Company considers the established procedure to be balanced and does not plan to change the existing approach.
2.5.2	The chairman of the board of directors maintains a constructive environment at meetings, enables free discussion of agenda items, and supervises the execution of resolutions passed by the board of directors.	1. Performance of the chairman of the board of directors was assessed as part of assessment of the board of directors' performance in the reporting period.	This principle is complied with.	-
2.5.3	The chairman of the board of directors takes all steps necessary for the timely	1. The company's internal documents set out the duty of the chairman of the board of directors to take all steps	This principle is complied with.	-

	provision to members of the board of directors of information required to pass resolutions on agenda items.	necessary for the timely provision to members of the board of directors with materials on agenda items of the board meeting.		
2.6	Directors act reasonably and in good faith in the best interests of the company and its shareholders, on a fully informed basis and with due care and diligence.			
2.6.1	Directors pass resolutions on a fully informed basis, with no conflict of interest, subject to equal treatment of the company's shareholders, and assuming normal business risks.	<p>1. The company's internal documents provide that a director should notify the board of directors of any existing conflict of interest as to any agenda item of the meeting of the board of directors or its committee, prior to discussion of the relevant agenda item.</p> <p>2. The company's internal documents provide that a director should abstain from voting on any item in connection with which they have a conflict of interest.</p> <p>3. The company has in place a procedure enabling the board of directors to get professional advice on matters within its remit at the expense of the company.</p>	This principle is complied with.	-
2.6.2	The rights and duties of directors are clearly stated and incorporated in the company's internal documents.	1. The company adopted and published an internal document that clearly defines the rights and duties of directors.	This principle is complied with.	-
2.6.3	Directors have sufficient time to perform their duties.	<p>1. Individual attendance at board and committee meetings, as well as time devoted to preparation for attending meetings, was recorded as part of the procedure for assessing the board of directors in the reporting period.</p> <p>2. Under the company's internal documents, directors notify the board of directors of their intentions to be elected to governing bodies in other entities (apart from the entities controlled by, or affiliated to, the company), and of their election to such bodies.</p>	This principle is complied with.	-
2.6.4	All directors shall have equal access to the company's documents and information. Newly elected directors are furnished with sufficient information about the company and performance of the board of directors as soon as possible.	1. Under the company's internal documents, directors are entitled to access documents and make requests on the company and its controlled entities, while executive bodies of the company should furnish all relevant information and documents.	This principle is complied with.	-

		2. The Company has in place a formalized onboarding program for newly elected Directors.		
2.7	Meetings of the board of directors, preparation for such meetings and participation of board members therein ensure efficient performance by the board of directors.			
2.7.1	Board meetings are held as needed, taking into account the scale of operations and goals of the company at a particular time.	1. The board of directors held at least six meetings in the reporting year.	This principle is complied with.	-
2.7.2	The company's internal regulations stipulate the procedure to prepare for and hold the board's meetings, enabling the directors to make proper preparations for them:	1. The company has an approved internal document that describes the procedure for arranging and holding meetings of the board of directors and sets out, in particular, that the notice of the meeting shall be given, as a rule, at least five days prior to such meeting.	This principle is complied with.	-
2.7.3	The format of the meeting of the board of directors is determined taking into account the importance of items on the agenda. The most important matters are dealt with at meetings of the board of directors held in person.	1. The company's charter or internal document provides for the most important matters (as per the list set out in Recommendation 168 of the Code) to be passed at in-person meetings of the board of directors.	This principle is complied with.	-
2.7.4	Resolutions on most important matters relating to the company's operations are passed at a meeting of the board of directors by a qualified majority or by a majority of all elected board members.	1. The company's charter provides for the most important matters set out in Recommendation 170 of the Code to be passed at a meeting of the board of directors by a qualified majority of at least three quarters or by a majority of all elected board members.	This principle is not fully complied with.	<p>The Company's Articles of association do not provide for resolutions of the Board to be passed by qualified majority on the following matters:</p> <ul style="list-style-type: none"> <li>– submission to the General Meeting of matters relating to the Company's liquidation</li> <li>– submission to the General Meeting of matters relating to amendments to the Company's Articles of association</li> </ul>

				<p>– review of material issues relating to operations of legal entities controlled by the Company.</p> <p>The Company deems sufficient the existing norm stipulated in the legislation and the Articles of Association according to which decisions on amendments and additions in the Company's Articles of Association, including approval of the latter in a new wording, as well as on Company's liquidation, appointment of a winding up commission and approval of the interim and final liquidation balance shall be made by the general shareholders meeting by the three-fourths majority of the votes of shareholders holding the voting shares and taking part in the general shareholders meeting.</p> <p>The Company considers the established procedure to be balanced, not bearing any risks, and does not plan to change the existing approach.</p>
2.8	The board of directors sets up committees for preliminary consideration of the most important issues related to the business of the company.			
2.8.1	To preview matters related to controlling the company's financial and business activities, it is recommended to set up an audit committee comprised of independent directors.	<ol style="list-style-type: none"> <li>1. The board of directors has set up an audit committee comprised solely of independent directors.</li> <li>2. The company's internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code.</li> <li>3. At least one member of the audit committee represented by an independent director has experience and knowledge of preparing, analyzing, assessing and auditing accounting (financial) statements.</li> </ol>	<p>This principle is complied with.</p>	-

		4. Meetings of the audit committee were held at least once a quarter during the reporting period.		
2.8.2	To preview matters related to adopting an efficient and transparent remuneration scheme, a remuneration committee is set up, comprised of independent directors and headed by an independent director who is not the chairman of the board of directors.	1. The board of directors has set up a remuneration committee comprised solely of independent directors. 2. The remuneration committee is headed by an independent director who is not the chairman of the board of directors. 3. The company's internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.	This principle is complied with.	-
2.8.3	To preview matters related to talent management (succession planning), professional composition and efficiency of the board of directors, a nomination (HR) committee is set up, predominantly comprised of independent directors.	1. The board of directors has set up a nomination committee (its tasks listed in Recommendation 186 of the Code are fulfilled by another committee, the Remuneration and Nomination Committee) predominantly comprised of independent directors. 2. The company's internal documents set out the tasks of the nomination committee (or the tasks of the committee with combined functions), including those listed in Recommendation 186 of the Code.	This principle is complied with.	-
2.8.4	Taking into account the company's scope of business and level of risks, the company's board of directors made sure that the composition of its committees is fully in line with company's business goals. Additional committees were either set up or not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.).	1. In the reporting period, the board of directors considered whether the composition of its committees was in line with the board's tasks and the company's business goals. Additional committees were either set up or not deemed necessary.	This principle is complied with.	-
2.8.5	Committees are composed so as to enable comprehensive discussions of matters	1. Committees of the board of directors are headed by independent directors.	This principle is not fully complied with.	The Board of directors' audit committee and remuneration and nomination committee are not only

	under preview, taking into account the diversity of opinions.	2. The company's internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee and the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee.		headed by but also fully consist of independent directors. Formally, the director heading an additional committee, the Strategy Committee, is not an independent director. However, he meets all independence criteria, except for his tenure on the Board of Directors. The Company does not see any risks in this.
2.8.6	Committee chairmen inform the board of directors and its chairman on the work of their committees on a regular basis.	1. During the reporting period, committee chairmen reported to the board of directors on the work of committees on a regular basis.	This principle is complied with. -	-
2.9	The board of directors ensures performance assessment of the board of directors, its committees and members of the board of directors.			
2.9.1	The board of directors' performance assessment is aimed at determining the efficiency of the board of directors, its committees and members, consistency of their work with the company's development requirements, as well as bolstering the work of the board of directors and identifying areas for improvement.	1. Self-assessment or external assessment of the board of directors' performance carried out in the reporting period included performance assessment of the committees, individual members of the board of directors and the board of directors in general. 2. Results of self-assessment or external assessment of the board of directors' performance carried out in the reporting period were reviewed at the in-person meeting of the board.	This principle is complied with.	-
2.9.2	Performance of the board of directors, its committees and directors is assessed on a regular basis at least once a year. An external organization (advisor) is engaged at least once in three years to conduct an independent assessment of the board of directors' performance.	1. The company engaged an external advisor to conduct an independent assessment of the board of directors' performance at least once over the last three reporting periods.	This principle is complied with.	-

3.1	The company's corporate secretary ensures efficient ongoing interaction with shareholders, coordinates the company's efforts to protect shareholder rights and interests and supports the activities of the board of directors.			
3.1.1	The corporate secretary has the knowledge, experience and qualifications sufficient to perform his/her duties, as well as an impeccable reputation and the trust of shareholders.	1. The company has adopted and published an internal document – regulations on the corporate secretary. 2. The biographical data of the corporate secretary are published on the corporate website and in the company's annual report with the same level of detail as for members of the board of directors and the company's executives.	This principle is complied with.	-
3.1.2	The corporate secretary is sufficiently independent of the company's executive bodies and has the powers and resources required to perform his/her tasks.	The board of directors approves the appointment, removal and additional remuneration of the corporate secretary.	This principle is complied with.	-
4.1	Remuneration paid by the company is sufficient to attract, motivate and retain persons who have competencies and qualifications required by the company. Directors, executive body members and other key managers are remunerated as per the company's remuneration policy.			
4.1.1	The amount of remuneration paid by the company to members of the board of directors, executive bodies and other key executives creates sufficient incentives for them to work efficiently, while enabling the company to engage and retain competent and qualified specialists. At the same time, the company avoids unnecessarily high remuneration, as well as unjustifiably large gaps between remunerations of the above persons and the company's employees.	1. The company has in place an internal document (internal documents) – the policy (policies) on remuneration of members of the board of directors, executive bodies and other key executives, which clearly defines (define) the approaches to remuneration of the above persons.	This principle is not fully complied with.	Relevant comments are provided in items 2.1.1. and 2.1.4 hereof.
4.1.2	The company's remuneration policy is developed by the remuneration committee and approved by the board of directors. The board of directors, assisted	1. During the reporting period, the remuneration committee considered the remuneration policy (policies) and the practical aspects of its (their) introduction and	This principle is complied with.	-

	by the remuneration committee, ensures control over the introduction and implementation of the company's remuneration policy, revising and amending it as required.	presented relevant recommendation to the board of directors as required.		
4.1.3	The company's remuneration policy includes transparent mechanisms for determining the amount of remuneration due to members of the board of directors, executive bodies and other key executives of the company, and regulates all types of expenses, benefits and privileges provided to such persons.	1. The company's remuneration policy (policies) includes (include) transparent mechanisms for determining the amount of remuneration due to members of the board of directors, executive bodies and other key executives of the company, and regulates (regulate) all types of expenses, benefits and privileges provided to such persons.	This principle is not fully complied with.	Relevant comments are provided in items 2.1.1. and 2.1.4 hereof.
4.1.4	The company defines a policy on reimbursement (compensation) of costs detailing a list of reimbursable expenses and specifying service levels that members of the board of directors, executive bodies and other key executives of the company can claim. Such policy can make part of the company's remuneration policy.	1. The remuneration policy (policies) defines (define) the rules for reimbursement of costs incurred by members of the board of directors, executive bodies and other key executives of the company.	This principle is complied with.	-
4.2	Directors' remuneration ensureS that their financial interests are aligned with long-term financial interests of shareholders.			
4.2.1	The company pays fixed annual remuneration to members of the board of directors. The company does not pay remuneration for attending particular meetings of the board of directors or its committees. The company does not apply any form of short-term motivation or additional financial incentive for members of the board of directors.	1. Fixed annual remuneration was the only form of monetary remuneration payable to members of the board of directors for their service on the board of directors during the reporting period.	This principle is complied with.	-

4.2.2	Long-term ownership of the company's shares helps align the financial interests of members of the board of directors with long-term interests of shareholders to the utmost. At the same time, the company does not link the right to dispose of shares to performance targets, and members of the board of directors do not participate in stock option plans.	1. If the company's internal document(s) – the remuneration policy (policies) stipulates (stipulate) provision of the company's shares to members of the board of directors, clear rules for share ownership by board members are defined and disclosed, aimed at stimulating long-term ownership of such shares.	Not applicable, since the Regulations on Remuneration and Compensations Payable to Members of PAO NOVATEK board of directors does not provide for remuneration of the directors with company shares.	-
4.2.3	The company does not provide for any extra payments or compensations in the event of early termination of office of members of the board of directors resulting from the change of control or any other reasons whatsoever.	1. The company does not provide for any extra payments or compensations in the event of early termination of office of members of the board of directors resulting from the change of control or any other reasons whatsoever.	This principle is complied with.	-
4.3	Remuneration of executive body members and other key managers is linked to the company's results and their personal contribution thereto.			
4.3.1	Remuneration due to members of executive bodies and other key executives of the company is determined in a manner providing for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's performance and the employee's personal contribution.	1. In the reporting period, annual performance results approved by the board of directors were used to determine the amount of the variable part of remuneration due to members of executive bodies and other key executives of the company. 2. During the latest assessment of the system of remuneration for members of executive bodies and other key executives of the company, the board of directors (remuneration committee) made sure that the company applies efficient ratio of the fixed and variable parts of remuneration. 3. The company has in place a procedure that guarantees return to the company of bonus payments illegally received by members of executive bodies and other key executives of the company.	This principle is not fully complied with.	The procedure for defining and payment of bonuses to members of the Management Board and other key executives existing in the Company does not allow illegal receipt of bonus payments by the persons named. The Company believes the executive bodies' members' civil liability norms set out in the applicable law to be sufficient.
4.3.2	The company put in place a long-term incentive programme for members of executive bodies and other key	1. The company has in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the	This principle is not complied with.	Currently, The Company does not consider necessary implementing a long-term incentive program for

	executives of the company with the use of the company's shares (options and other derivative instruments where the company's shares are the underlying asset).	company's shares (financial instruments based on the company's shares). 2. The long-term incentive program for members of executive bodies and other key executives of the company implies that the right to dispose of shares and other financial instruments used in this program takes effect at least three years after such shares or other financial instruments are granted. The right to dispose of such shares or other financial instruments is linked to the company's performance targets.		members of executive bodies and other key executives of the company with the use of the Company's shares (financial instruments based on the Company's shares).
4.3.3	The compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, does not exceed the double amount of the fixed part of their annual remuneration.	1. In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of the powers of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed part of their annual remuneration.	This principle is complied with.	-
5.1	The company put in place an effective risk management and internal control system to guarantee, in a reasonable manner, fulfillment of the company's goals.			
5.1.1	The board of directors of the Company has defined the Company's risk management and internal control principles and approaches.	1. Functions of different management bodies and divisions of the company in the risk management and internal controls are clearly defined in the company's internal documents /relevant policy approved by the board of directors.	This principle is complied with.	-
5.1.2	The company's executive bodies ensure establishment and continuous operation of efficient risk management and internal controls in the company.	1. The company's executive bodies ensured the distribution of functions and powers related to risk management and internal controls between the heads (managers) of divisions and departments accountable to them.	This principle is complied with.	-
5.1.3	The company's risk management and internal controls ensure an objective, fair and clear view of the current state and	1. The company has in place an approved anti-corruption policy.	This principle is complied with.	-

	future prospects of the company, the integrity and transparency of the company's reporting, as well as reasonable and acceptable risk exposure.	2. The company established an accessible method of notifying the board of directors or the board's audit committee of breaches of any violations of the law, the company's internal procedures and code of ethics.		
5.1.4	The company's board of directors shall take necessary measures to make sure that the company's risk management and internal controls are consistent with the principles of, and approaches to, its setup determined by the board of directors, and that the system is functioning efficiently.	1. In the reporting period, the board of directors or the Board's audit committee assessed the efficiency of the company's risk management and internal controls. Key results of this assessment are included in the company's annual report.	This principle is complied with.	-
5.2	The company arranges for an internal audit, to assess reliability and performance of the risk management and internal control system on a regular and independent basis.			
5.2.1	The company set up a separate business unit or engaged an independent external organization to carry out internal audits. Functional and administrative reporting lines of the internal audit department are delineated. The internal audit unit functionally reports to the board of directors.	1. To perform internal audits, the company set up a separate business unit – internal audit division, functionally reporting to the board of directors or to the audit committee, or engaged an independent external organization with the same line of reporting.	This principle is complied with.	-
5.2.2	The internal audit division assesses the performance of the internal controls, risk management, and corporate governance. The company applies generally accepted standards of internal audit.	1. In the reporting period, the performance of the internal controls and risk management was assessed as part of the internal audit procedure. 2. The company applies generally accepted approaches to internal audit and risk management.	This principle is complied with.	-
6.1	The company and its operations are transparent for its shareholders, investors and other stakeholders.			
6.1.1	The company has developed and implemented an information policy ensuring an efficient exchange of information by the company, its	1. The company's board of directors approved an information policy developed in accordance with the Code's recommendations.	This principle is complied with.	-

	shareholders, investors, and other stakeholders.	2. The board of directors (or its committee) reviewed the company's compliance with its information policy at least once in the reporting period.		
6.1.2	The company discloses information on its corporate governance and practice, including detailed information on compliance with the principles and recommendations of the Code.	1. The company discloses information on its corporate governance and general principles of corporate governance, including disclosure on its website. 2. The company discloses information on the membership of its executive bodies and board of directors, independence of the directors and their membership in the board's committees (as defined by the Code). 3. If the company has a controlling person, the company publishes a memorandum of the controlling person setting out this person's plans for the company's corporate governance.	This principle is complied with.	-
6.2	The company discloses up-to-date, complete and reliable information on its operations in due time, to enable its shareholders and investors to make informed decisions.			
6.2.1	The company discloses information based on the principles of regularity, consistency and promptness, as well as availability, reliability, completeness and comparability of disclosed data.	1. The company's information policy sets out approaches to, and criteria for, identifying information that can have a material impact on the company's evaluation and the price of its securities, as well as procedures ensuring timely disclosure of such information. 2. If the company's securities are traded on foreign organized markets, the company ensured concerted and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting year. 3. If foreign shareholders hold a material portion of the company's shares, information was disclosed both in the Russian language and one of the most widely used foreign languages in the reporting period.	This principle is complied with.	-
6.2.2	The company avoids a formalistic approach to information disclosure and discloses material information on its operations, even if disclosure of such information is not required by law.	1. In the reporting period, the company disclosed annual and 6M financial statements prepared under the IFRS. The company's annual report for the reporting period included annual financial statements prepared under the IFRS, along with the auditor's report.	This principle is not fully complied with.	The Company discloses its capital structure to the extent required by the applicable laws.

		2. The company discloses full information on its capital structure in accordance with Recommendation 290 of the Code both in the annual report and on the company's website.		
6.2.3	The company's annual report, as one of the most important tools of its information exchange with shareholders and other interested parties, contains information enabling assessment of the company's annual performance results.	1. The company's annual report contains information on the key aspects of its operating and financial performance. 2. The company's annual report contains information on the environmental and social aspects of the company's operations.	This principle is complied with.	-
6.3	The company provides information and documents requested by its shareholders in accordance with principles of fairness and ease of access.			
6.3.1	The company provides information and documents requested by its shareholders in accordance with principles of fairness and ease of access.	1. The company's information policy establishes the procedure for providing shareholders with easy access to information, including information on legal entities controlled by the company, as requested by shareholders.	This principle is not fully complied with.	The Company's Information Policy determines an easy procedure for providing shareholders with access to information, with the exception of information on legal entities controlled by the Company, the provision of which is not prescribed for by law.
6.3.2	When providing information to shareholders, the company shall ensure reasonable balance between the interests of particular shareholders and its own interests consisting in preserving the confidentiality of important commercial information which may materially affect its competitiveness.	1. In the reporting period, the company did not refuse any shareholder requests for information, or such refusals were justified. 2. In cases defined by the information policy, shareholders are warned of the confidential nature of the information and undertake to maintain its confidentiality.	This principle is complied with.	-
7.1	Actions which will or may materially affect the company's share capital structure and its financial position and accordingly the position of its shareholders ("material corporate actions") are taken on fair terms ensuring that the rights and interests of the shareholders and other stakeholders are observed.			
7.1.1	Material corporate actions include restructuring of the company, acquisition of 30% or more of the company's voting shares (takeover), execution by the company of major transactions, increase	1. The company's charter includes a list of transactions or other actions deemed to be material corporate actions, and their identification criteria. Resolutions on material corporate actions are referred to the jurisdiction of the board of directors. When execution of such corporate	This principle is not fully complied with.	The Company's Articles of Association does not contain a separate section with a list of significant corporate actions. At the same time, decision-making on

	or decrease of the company's authorised capital, listing or de-listing of the company's shares, as well as other actions which may lead to material changes in the rights of shareholders or violation of their interests. The company's charter provides a list (criteria) of transactions or other actions classified as material corporate actions within the authority of the company's board of directors.	actions is expressly referred by law to the jurisdiction of the general shareholders meeting, the board of directors presents relevant recommendations to shareholders. 2. According to the company's charter, material corporate actions include at least: company reorganization, acquisition of 30% or more of the company's voting shares (in case of takeover), entering in major transactions, increase or decrease of the company's charter capital, listing or de-listing of the company's shares.		issues related to significant corporate actions falls within the authority of the Board of Directors. The Company does not see any risks in this.
7.1.2	The board of directors plays a key role in passing resolutions or making recommendations on material corporate actions, relying on the opinions of the company's independent directors.	1. The company has in place a procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof.	This principle is not fully complied with.	Relevant comments are provided in items 2.4.4. and 2.5.1 hereof.
7.1.3	When taking material corporate actions which would affect rights or legitimate interests of shareholders, equal terms and conditions are guaranteed for all shareholders; if the statutory procedure designed to protect shareholders' rights proves insufficient, additional measures are taken to protect their rights and legitimate interests. In doing so, the company is guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements.	1. Due to specifics of the company's operations, the company's charter contains less stringent criteria for material corporate actions than required by law. 2. All material corporate actions in the reporting period were duly approved before they were taken.	This principle is complied with.	-
7.2	The company provides a procedure for taking material corporate actions that would enable its shareholders to receive full information about such actions in due time and influence them, and also guarantee that the shareholder rights are observed and duly protected when such actions are taken.			
7.2.1	Information about material corporate actions is disclosed with explanations of the grounds, circumstances and consequences.	1. In the reporting period, the company disclosed information about its material corporate actions in due time and in detail, including the grounds for, and timelines of, such actions.	This principle is complied with.	-

7.2.2	Rules and procedures related to material corporate actions taken by the company are set out in the company's internal documents.	<p>1. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of assets either disposed of or acquired in a major transaction or a related-party transaction</p> <p>2. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of shares acquired and redeemed by the company.</p> <p>3. The company's internal documents provide for an expanded list of grounds on which the company's directors and other persons as per the applicable law are deemed to be related parties to the company's transactions.</p>	<p>This principle is not complied with.</p> <p>The need to involve an appraiser for the valuation of the purchase price of the Company's shares is provided by the current legislation. There is no need to duplicate this requirement in the internal documents of the Company.</p>

## **Forward-looking Statements**

This Annual Review includes ‘forward-looking information’ within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the US Securities Exchange Act of 1934, as amended. Certain statements included in this Annual Report and Accounts, including, without limitation, statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “expect,” “anticipate,” “intends,” “estimate,” “forecast,” “project,” “will,” “may,” “should” and similar expressions identify forward-looking statements. Forward-looking statements include statements regarding: strategies, outlook and growth prospects; future plans and potential for future growth; liquidity, capital resources and capital expenditures; growth in demand for our products; economic outlook and industry trends; developments of our markets; the impact of regulatory initiatives; and the strength of our competitors. The forward-looking statements in this Annual Review are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies, which are difficult or impossible to predict and are beyond our control. As a result, we may not achieve or accomplish these expectations, beliefs or projections. In addition, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in the balance of oil and gas supply and demand in Russia and Europe;
- the effects of domestic and international oil and gas price volatility and changes in regulatory conditions, including prices and taxes;
- the effects of competition in the domestic and export oil and gas markets;
- our ability to successfully implement any of our business strategies;
- the impact of our expansion on our revenue potential, cost basis and margins;
- our ability to produce target volumes in the event, among other factors, of restrictions on our access to transportation infrastructure;
- the effects of changes to our capital expenditure projections on the growth of our production;
- potentially lower production levels in the future than currently estimated by our management and/or independent petroleum reservoir engineers;
- inherent uncertainties in interpreting geophysical data;
- changes to project schedules and estimated completion dates;
- our success in identifying and managing risks to our businesses;
- the effects of changes to the Russian legal framework concerning currently held and any newly acquired oil and gas production licenses;
- changes in political, social, legal or economic conditions in Russia and the CIS;
- the effects of technological changes;
- the effects of changes in accounting standards or practices.

This list of important factors is not exhaustive. When relying on forward-looking statements, one should carefully consider the foregoing factors and other uncertainties and events, especially in

light of the political, economic, social and legal environment in which we operate. Such forward looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. The information and opinions contained in this document are provided as at the date of this review and are subject to change without notice.

## **Terms and Abbreviations**

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

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

## **Conversion Factors**

1000 cubic meters of gas = 6.54 boe.

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

## **Contact Information**

### **Office in Tarko-Sale**

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

### **Office in Moscow**

2, Udaltsova Street, 119415, Moscow, Russia

### **Central Information Service**

Tel: +7 495 730-6000

Fax: +7 495 721-2253

E-mail: novatek@novatek.ru

### **Press Service**

Tel: +7 495 721-2207

E-mail: press@novatek.ru

### **Investor Relations**

Tel: +7 495 730-6013

Fax: +7 495 730-6000

E-mail: ir@novatek.ru

### **Registrar**

IRC – R.O.S.T.

18/13 Stromynka Street, Moscow

Russia 107996

Tel: +7 495 989-76-50

Fax: +7 495 780-73-67

E-mail: info@nrcreg.ru

### **GDR program Administrator**

The Bank of New York Mellon

Depositary Receipts

101 Barclay Street, 22W, New York, NY 10286, USA

New York +1 212 815 4158

London +44 207 163 7512

Moscow +7 495 967 3110

### **Independent Auditor**

AO PricewaterhouseCoopers Audit

White Square Office Center, Butyrsky Val 10,

125047 Moscow, Russia

Tel: +7 495 967-6000

Fax: +7 495 967-6001

### **Independent Reserves Auditor**

DeGolyer and MacNaughton

5001 Spring Valley Road, Suite 800, East Dallas

Texas 75244, USA

Tel: +1 214 368-6391

Fax: +1 214 369-4061

E-mail: degolyer@demac.com

**Website:**

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

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