

Approved by the Board of Directors of  
OAO NOVATEK  
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**INTERNAL AUDIT POLICY  
OF OPEN JOINT-STOCK COMPANY NOVATEK**

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## Article 1. GENERAL PROVISIONS

1.1. This Internal Audit Policy of Joint-Stock Company NOVATEK (hereinafter referred to as the “**Regulations**”) is developed in accordance with the applicable legislation of the Russian Federation, the Articles of Association of Joint-Stock Company NOVATEK (hereinafter referred to as the “**Company**” or “**NOVATEK**”), Regulations on the Board of Directors of NOVATEK, Regulations on the Audit Committee of the Board of Directors of NOVATEK, Corporate Governance Code recommended by Letter of the Bank of Russia No. 06-52/2463 dated April 10, 2014, and takes account of international practice (specifically, international professional internal audit standards of Institute of Internal Auditors) to the extent not contradictory to the applicable legislation of the Russian Federation, regulations on business units of the Company, and other local regulatory documents of the Company.

1.2. The Policy is a local regulatory document of the Company outlining goals, objectives, functions and authorities of internal audit, its place within the organizational chart, the procedure for interaction between internal audit and external auditor and other subjects of the internal control system, the procedure for planning and implementation of activities, as well as the procedure for NOVATEK's internal audit quality control and performance appraisal.

## Article 2. TERMS AND DEFINITIONS

2.1. **Internal audit** means a function performed by the Company through the establishment of a business unit - the Internal Audit Division - to conduct a regular and independent assessment of reliability and efficiency of the risk management and internal control system, as well as corporate governance practice whereby generally accepted international internal auditing standards are applied.

2.2. **NOVATEK Group** means the Company and its controlled entities.

2.3. **Executive Bodies** means members of the Company's Management Board, Controlled Entities' CEOs and their deputies, supervisors of the Company's and Controlled Entities' business units reporting directly to the Chairman of the Management Board and the Controlled Entity CEO respectively.

2.4. **Controlled Entity** means a business entity, including one set up outside Russia, in which NOVATEK directly or indirectly holds more than 25 percent of shares (participation interests).

2.5. **Corporate Governance** means a system of relationships between NOVATEK's executive bodies, its Board of Directors, shareholders and the Controlled Entities.

2.6. **Internal Control System** means the totality of organizational measures, techniques, procedures, corporate culture standards, and actions taken by the executive bodies of the Company and its controlled entities to ensure financial stability of the Company, reach an optimal balance between growth of the Company's value, profitability, and risks, carry on economic activities efficiently and consistently, protect assets, reveal, correct, and prevent any breaches, prepare true and accurate financial reports in due time, and thus enhance investment appeal of the Company.

2.7. **Risk Management System** means the totality of processes performed by the Board of Directors, the executive bodies of the Company and its controlled entities, business units, and employees and aimed at management of risks and possibilities affecting creation and preservation of the Company's value.

## Article 3. INTERNAL AUDIT GOALS, OBJECTIVES AND FUNCTIONS

3.1. The goal of internal audit shall be to assist the Board of Directors and executive bodies in making governance in the Company and its Controlled Entities more efficient, improving their

financial and economic activities by means of a systemic and consistent approach to analyzing and evaluating the risk management and internal control system as well as of corporate governance as a tool to give reasonable assurance that NOVATEK Group will achieve the set strategic goals.

### 3.2. Objectives of internal audit shall be:

1) assistance to the Company executive bodies and the Company employees in developing, and monitoring the implementation of, procedures and activities to improve the Company's risk management and internal control system and corporate governance;

2) coordination of activities with external auditor of the Company and persons providing consulting services in the area of risk management, internal control, and corporate governance;

3) performance of internal audit of Controlled Entities according to the established procedure;

4) preparation and submission to the Board of Directors and the executive bodies of reports based on results of activities of the Internal Audit Division, including those with information on substantial risks, defects, results, and efficiency of corrective actions aimed at eliminating of the defects revealed, results of fulfillment of internal audit performance plan, results of assessment of actual state, reliability, and efficiency of the risk management, internal control, and corporate governance system;

5) check for compliance by members of the executive bodies of the Company and its employees with provisions of the applicable legislation and internal policies of the Company concerning insider information and anti-corruption activities as well as compliance with the Company's Code of Business Ethics.

3.3. To address the objectives, internal audit shall perform the following functions in the following areas:

#### 3.3.1. Assessment of the internal control system reliability and efficiency:

1) analyzing compliance of objectives of the business processes, projects, and structural divisions of the Company with the NOVATEK Group goals, checks into how reliability and integrity of business processes (activities) and information systems is assured, including reliability of procedures counteracting unlawful acts, abuse, and corruption;

2) checking how reliability of accounting (financial), statistical, management, and other report is assured, determining the extent to which the results of the business processes and activities of the Company's structural divisions correspond to the goals set;

3) determining adequacy of the criteria established by the executive bodies for analyzing the extent to which the goals set are achieved;

4) detecting defects of the internal control system which prevented (prevent) the Company from achieving the goals set;

5) assessing the results of activities aimed at eliminating breaches and defects and improving the internal control system, which are implemented by the Company at all management levels;

6) checking efficiency and practicability of the use of resources;

7) checking how assets are safeguarded;

8) checking compliance with the requirements of the applicable legislation and the Company's Articles of Association and internal documents.

#### 3.3.2. Assessment of the risk management system reliability and efficiency:

1) checking sufficiency and maturity of the risk management system elements necessary for efficient management of risks (goals and objectives, infrastructure, process organization, regulatory

and methodological support, interaction of structural divisions in the framework of the risk management system, reporting);

2) checking completeness of detection and accuracy of risk assessment by the Company's and Controlled Entities' management at all governance levels;

3) checking efficiency of control procedures and other activities related to risk management, including efficiency of the use of funds allocated to such purposes;

4) analyzing information on occurred risks (breaches detected by internal audits, legal proceedings and in other occasions).

### 3.3.3. Assessment of corporate governance:

1) checking compliance with ethical principles and corporate values of the Company;

2) checking the procedure for goal setting in the Company and Controlled Entities, monitoring them and following up on them;

3) checking the level of regulatory support and information interaction procedures (including those concerning internal control and risk management) at all levels of the Company's and Controlled Entities' governance, including interaction with stakeholders;

4) checking the enforcement of shareholders' rights, including rights of Controlled Entities, and the efficiency of interactions with stakeholders;

5) checking disclosure procedures for information on the Company's and Controlled Entities' activities.

### 3.4. To address the set objectives and achieve the goals, the internal audit shall:

- perform internal audits (the "audits") based on an approved Internal Audit Work Plan;

- perform other checks and other tasks when requested/instructed to do so by the Board of Directors Audit Committee and/or the Company's executive bodies within its scope of authority, including based on information received via the Company's Hotline;

- perform comprehensive check (revision) of audited entities' activities, which shall comprise desktop and site audits to see if financial and business activities done are legal and if these are recorded reliably and accurately in relevant accounting (financial) statements;

- analyze audited entities to survey certain aspects of their activities and assess the status of certain areas of the audited entity;

- advise the Company's executive bodies on risk management, internal control and corporate governance (provided that the internal audit retains its independence and unbiased approach);

- monitor the implementation by NOVATEK Group of the action plans to fix deficiencies and breaches and to improve the internal control system, as approved by the audited entities' chief executive officers following respective audits;

- provide follow-up control over NOVATEK Group's financial and business activities;

- assist the Company's executive bodies in investigating in-bad-faith/unlawful actions by employees and third parties;

- develop and update internal regulations that govern the activities of internal audit (internal audit methodology);

- perform internal audit of Controlled Entities according to the established procedure;

- elaborate an internal audit annual plan prioritizing its activities;

- coordinate activities with the Company's external auditor and persons providing consulting services in risk management, internal control, and corporate governance;
- interact with the Company's business units concerning the internal audit activities;
- perform other functions being essential to address the tasks set for internal audit in the Company.

#### **Article 4. INTERNAL AUDIT AUTHORITIES**

4.1. The Head of the Internal Audit Division shall be authorized to:

- directly approach the Chairman of the Board of Directors, the Chairman of the BoD Audit Committee and the Chairman of the Management Board;
- request and receive from the Company executive bodies any information and materials required to perform his/her functions;
- review current and forward-looking business plans, plan and program status reports and resolutions of the Board of Directors and executive bodies of the Company;
- make suggestions to the BoD Audit Committee and the Company executive bodies regarding improvement of the existing systems, processes, standards and business methods and make comments regarding any matters within the internal audit's scope of authority;
- engage Company employees and external experts in the performance of audits and other tasks in accordance with the procedure set by the Company's regulations and rules;
- take part as an attendee in meetings and sessions of the Company's operating bodies (committees, commissions, working groups, etc.);

The Head of the Internal Audit Division shall not be entitled to manage business functions requiring decision-making related to audited entities.

4.2. Internal auditors are authorized to:

- request and receive unimpaired access to any assets, documents, accounting entries and other information (including electronic) related to the activities of the Company and Controlled Entities in accordance with the procedure established in the Company as required to perform their functions; copy relevant documents and photograph and capture on video facts related to the business activities of the Company and Controlled Entities;
- interview executive bodies and employees of the Company and Controlled Entities in the course of audits;
- use information resources and computer software of the business units for the purposes of internal audit in accordance with the established procedure;
- scrutinize and assess any documents requested in the course of audits and send such documents and/or relevant information to the Head of the Internal Audit Division;
- request and receive necessary help from the employees of the audited business units as well as employees of other units/functions of the Company and Controlled Entities;
- perform other activities required to achieve the audit objectives.

4.3. To avoid potential conflict of interests (when there is a risk of internal audit not being independent and auditor's opinion not being unbiased) the Head of the Internal Audit and the internal auditors shall abstain from:

- checking the fields of work they were responsible for throughout the year preceding the check;
- taking part in the checks and other assignments when a competitive professional or personal interest is present (having financial, material, familial or any other interest in the activity of audited entities);
- taking part in any activity that could impair their impartiality or be deemed impairing it;
- managing employees of other business units unless such employees were assigned to participate in performing the check.

4.4. The Head of the Internal Audit Division and internal auditors shall not:

- refrain from disclosing any material facts known to them, which may distort the audit report's data if suppressed;
- use or disclose confidential information without proper authorization unless such disclosure is required by law;
- accept presents that may prejudice an internal auditor's professional opinion or be regarded as prejudicial.

4.5. Internal auditors shall inform the Head of the Internal Audit Division about any limitations of their authority and arising conflicts of interest. The Head of the Internal Audit shall inform the Chairman of the Management Board and the BoD Audit Committee about the existing limitations and possible impact of such limitations.

## **Article 5. INTERNAL AUDIT ACCOUNTABILITY**

5.1. The internal audit function shall be implemented in the Company by means of establishing a separate division, the Internal Audit Division.

5.2. In terms of functions, the Internal Audit Division is accountable to the Board of Directors, which means:

- 1) approval of the Internal Audit Policy that determines the internal audit goals, objectives, and authorities;
- 2) passing resolutions to appoint and dismiss the head of internal audit as well as resolutions on the remuneration for the head of internal audit;
- 3) approval by the Board of Directors of the Internal Audit Division's Work Plan;
- 4) the Board of Directors receiving information about the status of the work plan execution and the performance of internal audit;
- 5) consideration by the Board of Directors Audit Committee of substantial restrictions of authorities of the Internal Audit Division which may adversely impact the internal audit performance;
- 6) the Internal Audit Division submitting its annual performance report to the Board of Directors.

5.3. In terms of administration, the Internal Audit Division is accountable to the sole executive body of the Company, the Chairman of the Management Committee, which means:

- 1) allocation of necessary funds within the approved Internal Audit Division budget;
- 2) receiving Internal Audit Division's performance reports;
- 3) giving support in interacting with divisions of the Company;

4) administration of the Internal Audit Division's policies and procedures.

5.4. The Head of the Internal Audit Division shall be appointed and dismissed by the Chairman of the Management Board based on a respective resolution by the Company's Board of Directors.

5.5. Remuneration to the Head of the Internal Audit Division

1) For discharging their functions, the Head of the Internal Audit Division shall receive remuneration (salary), the amount of which shall be determined by the Board of Directors.

2) Bonuses shall be paid to the Head of the Internal Audit Division based on performance in the 1st and 2nd half-year periods in the amount of 60 percent of the total remuneration that the Head of the Internal Audit Division received in the reporting period.

2) The Regulations on NOVATEK Employees' Compensation and Incentives shall not apply to the Head of the Internal Audit Division as regards salary determination and change (exclusive of changing salary due to indexation as per the procedure established in the Collective Bargaining Agreement) and bonus payment.

3) The remuneration (salary) and bonuses shall be paid to the Head of the Internal Audit Division within the time limit specified for salary and bonus payment to the Company's employees.

4) The Head of the Internal Audit Division shall be entitled to receive remuneration as a member of NOVATEK Group's Revision Commissions in the amount and in the manner specified in the Company's internal documents and by resolutions of the NOVATEK Group authorized management bodies.

## **Article 6. INTERNAL AUDIT INTERFACE WITH OTHER ENTITIES**

6.1. Internal audit and the external auditor shall interact in the process of:

- exchanging information about the results of NOVATEK Group internal control system efficiency assessment, including when preparing accounting (financial) statements;
- discussing the internal audit's and external auditor's work plans to coordinate them and minimize activities doubling;
- analyzing the efficiency of corrective actions to fix the NOVATEK Group's internal control system deficiencies when preparing accounting (financial) statements.

6.2. Internal audit may use in its activities the deliverables of other internal control system entities, i.e. various Company structural units that due to their functionality monitor and assess the internal control system in their respective aspects as does the internal audit.

## **Article 7. INTERNAL AUDIT PLANNING AND PERFORMANCE**

7.1. The Head of the Internal Audit Division shall annually develop the internal audit work plan, which shall include scheduled audits and other actions by the internal audit.

7.2. Scheduled audits shall be the Internal Audit Division's principal activity. In addition, the head shall include the following actions in the time budget:

- advising the Company's executive bodies on risk management, internal control and corporate governance;
- developing and updating internal regulations that govern the activities of internal audit (internal audit methodology);



- monitoring the implementation by the Company and Controlled Entities of the action plans to fix deficiencies and breaches and to improve the internal control system, as approved by the audited entities' chief executive officers following respective audits;
- interacting with the external auditor and the Company's business units concerning the internal audit activities;
- pursuing professional development of internal auditors, etc..

## **Article 8. INTERNAL AUDIT QUALITY CONTROL AND ASSESSMENT**

8.1. The Head of the Internal Audit Division shall develop and implement a quality assessment and improvement program to maintain close control over the Internal Control Division performance quality and appraisal.

8.2. The Head of the Internal Audit Division shall on a regular basis (usually once a year) inform the Company's Chairman and members of the Management Board and report to the BoD Audit Committee on activities performed under the quality assessment and improvement program and on their results, and shall, inter alia, report on the results of internal and external assessments.

8.3. The quality assessment and improvement program shall include:

- a continuous monitoring of the internal audit work quality;
- regular internal assessments of the internal audit work quality;
- regular external assessments of the internal audit work quality;

The quality assessment and improvement program shall also include the procedures for continuous performance measurement and analysis (for instance, the internal audit work plan delivery, recommendations accepted by the executive bodies, the extent to which chief executive officers of audited entities are satisfied with internal audit, etc.).

8.4. Should continuous quality monitoring or a quality assessment (internal or external) reveal any internal audit deficiencies, the head of the Internal Audit Division shall develop a plan to fix the deficiencies and ensure that it is implemented efficiently and timely.

### 8.5. Continuous quality monitoring

Continuous quality monitoring shall include an ongoing analysis and assessment of the internal audit work quality. Within the continuous quality monitoring, the head of internal audit and/or internal auditors that the former accordingly authorizes shall:

- supervise audits and other activities by internal audit;
- receive feedback from audited units and other stakeholders;
- run random expert examinations of working documents;
- analyze the set work assessment parameters;
- put together the audits budget (for example, for travel expenses), keep working time records;
- analyze other performance indicators (such as the audit cycle duration and acceptance of recommendations).

### 8.6. Regular internal assessment

Internal auditors shall at least once a year perform regular internal quality self-assessment.

8.6.1. Main objective of regular internal assessment shall be to assess the conformity of internal audit activities to the chosen assessment parameters:

- conformity to the requirements of the International Standards for the Professional Practice of Internal Auditing;
- adequacy of internal audit regulations, goals, objectives and functions, policies and procedures;
- compliance of internal audit activities with the expectations of the BoD and executive bodies;
- internal audit contribution to corporate governance, risk management and internal control, as well as the Company's business processes improvement;
- compliance with the requirements of applicable laws and regulations;
- compliance of internal audit activities with the best practices.

8.6.2. Internal quality assessment may be performed by means of:

- interviewing the parties concerned (e.g. the chief executive officers of audited entities);
- checking the working documents to see if they comply with the established internal audit policies and applicable standards;
- reviewing parameters used to assess internal audit quality and benchmark them versus best practices.

#### 8.7. External assessment of audit quality

An external assessment of audit quality shall be performed at least once in five years. External assessments shall be made to give all stakeholders an independent opinion on the quality of the internal audit function.

8.7.1. An external assessment may be made the following ways:

- quality assessment by an independent external expert;
- validation of an internal assessment by an independent external expert.

8.7.2. The selection of assessment procedure, the external expert and the amount of their remuneration shall be made by the BoD Audit Committee as advised by the Head of the Internal Audit Division.

### **Article 9. FINAL PROVISIONS**

9.1. This Policy, as well as all additions and modifications thereto shall be approved by the Company's Board of Directors.

The Head of the Internal Audit Division shall check the relevance of the Policy annually to make sure it is in line with the objectives of the Company and the internal audit unit. Following the assessment, if any inconsistencies are found, they shall initiate amendments as envisaged by the local regulatory documents of the Company.

9.2. Issues not covered by this Policy shall be governed by the applicable legislation of the Russian Federation, resolutions of the Board of Directors, and other local regulatory documents of the Company.

9.3. If as a result of change of the applicable legislation or regulatory documents of the Russian Federation certain clauses of this Policy come into contradiction with them, such clauses shall become null and void and before any changes are introduced, the Policy shall be applied to the extent not contradictory to the applicable legislation and other regulatory documents of the Russian Federation.