PAO Novatek

Rating Type	Rating	Outlook	Last Rating Action
Long-Term Local-Currency IDR	BBB	Stable	Affirmed 27 February 2019
Long-Term IDR	BBB	Stable	Affirmed 27 February 2019

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Financial Summary

(RUBm)	Dec 2017	Dec 2018	Dec 2019F	Dec 2020F
Gross Revenue	583,186	831,758	846,690	879,124
Operating EBITDAR Margin (%)	34.0	31.2	32.6	33.0
Free Cash Flow Margin (%)	15.7	5.5	-4.1	0.1
FFO Fixed Charge Coverage (x)	16.9	25.1	22.5	27.1
FFO Adjusted Net Leverage (x)	0.6	0.6	0.6	0.5

Source: Fitch Ratings, Fitch Solutions

Fitch Ratings' affirmation of PAO Novatek's Long-Term Foreign-Currency Issuer Default Ratings (IDRs) in February reflected its improved business profile following the start-up and full ramping-up of the company's transformational Yamal LNG project, a strong cash-flow generation capacity, a large low-cost reserve base, and solid credit metrics.

Novatek is working towards another LNG project, Arctic LNG 2, and its leverage could increase in the medium term depending on funding arrangements for this project. However, we believe that the company will maintain its leverage comfortably within our sensitivity for the present rating since the project should be predominantly funded by equity injections from other partners and by project finance.

Novatek is rated above the 'BBB-' Country Ceiling for Russia (BBB-/Positive). This is in line with our *Rating Non-Financial Corporates Above the Country Ceiling Rating Criteria* and takes into account the company's strong hard-currency external debt service ratio, which is supported by significant operating cash flows from exports.

Key Rating Drivers

Yamal Improves Business Profile: Novatek's Yamal LNG mega project has significantly enhanced the company's business profile and has propelled the company from being a niche Russian natural gas producer into a global LNG player with a 5% share of the global market. Although Novatek does not consolidate Yamal LNG on its balance sheet, its financial profile will benefit from the repayment of shareholder loans and, later, dividends. We expect that in the next four years annual cash flows from Yamal LNG to Novatek will exceed USD600 million annually.

New LNG Venture: Novatek is progressing with another large project with a 19.8 metric tonnes per annum (mtpa) LNG capacity, Arctic LNG 2, with the final investment decision (FID) expected in 2H19. The project should be more than 30% cheaper to construct than Yamal LNG on a per-tonne basis. Novatek is planning to reduce costs though new engineering solutions, such as placing the plant on gravity-based structures, and a higher degree of localisation. Novatek expects the first train could come on stream in late 2023.

Artcic LNG Funding: It is not completely clear how the project will be funded. Total SA (AA-/Stable), Novatek's partner in Yamal LNG and Novatek's minority shareholder, has recently acquired a 10% stake in Arctic LNG 2. Additionally, Novatek has mentioned several potential partners from Japan, South Korea, China and Saudi Arabia. We understand from Novatek that the project should be largely funded by equity from partners (70%) and by project finance (30%), but the exact structure is yet to be agreed.

The new project adds some uncertainty to the company's credit profile due to its large scale and still unknown financial arrangements, but it will enhance Novatek's business profile in the longer term. We believe it is possible that Novatek may decide to provide shareholder loans as bridge funding for the project, which could have a temporarily negative impact on its credit metrics; however, we expect that the company will be able to maintain leverage within our guidance for the current rating. Our base case is that Novatek's investments in the project will be broadly covered by proceeds from sale of equity stakes to partners.

Low Breakeven LNG Price: We assess Yamal LNG's operational break-even natural gas price at around USD3/MMBtu (Million British Thermal Units), which makes it a low-risk project in terms of price. In general US LNG projects would broadly break-even at the price of USD5-USD6/mmBtu for Europe and Asia (excluding capex or tolling fees). The future LNG projects of Novatek, including Arctic LNG 2, would have even lower operating costs given efforts to optimise logistics across the Northern Sea Route.

Piercing of Country Ceiling: Novatek is rated one notch above Russia's Country Ceiling of 'BBB-' in line with Fitch's *Rating Non-Financial Corporates above the Country Ceiling Rating Criteria*. This rating factors in the company's strong hard-currency debt service ratio, which is a function of strong hard-currency cash flows from exports. At the same time, Novatek's cash reserves are predominantly deposited with Russian banks.

Higher Capex Funded Internally: We expect that, starting from 2019, Novatek will significantly intensify investments in LNG-related projects and infrastructure, including transhipment hubs, as well as in exploration and drilling aimed at stabilising its domestic production. In 2019, Novatek's capex will almost double its 2018 level, and will remain high by historical standards at least for the next three to four years. However, we still expect Novatek's free cash flow (FCF after repayment of loans from JVs) to remain broadly neutral to positive given the company's strong operating cash flows and contribution from JVs, including Yamal LNG.

Low Leverage: Novatek's funds from operations (FFO) adjusted net leverage has been very low in the last three years (end-2018: 0.6x) as the company has switched to funding its growth projects mainly from internally generated funds. In our base case, which excludes the Artic LNG 2 project, we expect Novatek's leverage to remain well below 1x, a very conservative level by both international and Russian standards. Leverage may end up higher depending on the funding arrangements for the new project; however, we expect the project will be predominantly funded by equity injections from other partners and by project finance.

Stabilising Natural Gas Production: Novatek's natural gas production started declining in 2016 as some of its key producing fields are depleting. Development of new fields, including North Russkoye cluster, as well as small-scale acquisitions, should help arrest the production decline. We expect Novatek's natural gas production, including share in associates but excluding Yamal LNG, to remain above 60 billion cubic meters (bcm) in the medium term, compared with the peak of 68 bcm in 2015. This should be sufficient to meet Novatek's domestic gas sales commitments.

Positive Long-Term Outlook for LNG: Our long-term outlook for the LNG market is positive. We believe that the currently observed surplus in the market is temporary, as rising demand in Asia and elsewhere is likely to absorb new LNG volumes coming from the US and other regions. Moreover, there is a risk that the market may shift into deficit in the next two to three years as global investments in LNG have subsided following a drop in oil prices. Meanwhile, prices may remain volatile, but Novatek's LNG projects should remain profitable even under reasonable stress-case price assumptions, given the company's very low operating costs.

Sanctions Manageable: Novatek has been included on the Sectoral Sanctions List by the US Office of Foreign Asset Control, which prohibits US companies and banks from providing new finance of longer than 60 days to the company and its subsidiaries. This has effectively barred Novatek from the US capital markets, and we believe made access to other western markets difficult. We estimate the company should be able to repay its upcoming debt maturities largely from internally generated funds, or resort to domestic borrowings in case of necessity.

State Supportive Towards Arctic: Novatek's existing and potential projects, including Yamal LNG and Arctic LNG 2, are aligned with Russia's strategic aspirations, such as the diversification of energy exports through LNG and the development of the Arctic territories. The government has provided substantial tax breaks to Yamal LNG and helped to build infrastructure and partially funded the project from the National Welfare Fund. We believe that the state will continue supporting other Novatek projects in the Arctic through tax incentives and infrastructure investments.

Rating Derivation Relative to Peers

Rating Derivation vs. Peers	
Peer Comparison	Novatek is Russia's major LNG and domestic natural gas producer with large exposure to liquids. Its business profile significantly improved after the Yamal LNG mega project started operations and ramped up to full capacity in late 2018. The company has an abundant low-cost reserve base with very strong proved reserve life of 31 years (including shares in associates). Reserves are concentrated in the Yamal region of Russia. In 2018, Novatek generated USD4.1 billion in EBITDAX and produced 874 mboepd (thousand barrels of oil equivalent per day), excluding equity affiliates, comparable to that of Russia's PAO Gazprom Neft (1,308 mboepd, BBB-/Positive) and PJSC Tatneft (596 mboepd, BBB-/Stable). Novatek's international peers include Anadarko Petroleum Corp. (663 mboepd, BBB/Rating Watch Positive), Apache Corporation (476 mboepd in 3Q18, BBB/Positive), and Marathon Oil Corporation (419 mboepd, BBB/Stable). Novatek's leverage is low by Russian and international standards. We believe it should be able to maintain its leverage within our sensitivity for the present rating even assuming its potential investments in Arctic LNG 2, since the project will be predominantly funded through equity injections from partners and project finance. The company's rating also takes into take into consideration higher-than-average systemic risks associated with the Russian business and jurisdictional environment.
Parent/Subsidiary Linkage	No Parent/Subsidiary Linkage is applicable.
Country Ceiling	Novatek is rated one notch above Russia's country ceiling of 'BBB-' due to sufficient hard currency debt service ratio
Operating Environment	Novatek's rating also takes into take into consideration higher-than-average systemic risks associated with the Russian business and jurisdictional environment.
Other Factors	n.a.
Source: Fitch Ratings	

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Diversification	Proved Reserves	Cash Flow Cycle	Production Size	Profitability	Financial Structure	Financial Flexibility
PAO Novatek	BBB/Sta	bb-	bbb	bbb+	aa	a	a	bbb+	aa	bbb+
PJSC Gazprom Neft	BBB-/Pos	bb-	bbb	a	aa	bbb	a	a-	a	bbb-
PJSC Lukoil	BBB+/Sta	bb	bbb	a	aa	a	aa-	a	aa	a+
PJSC Tatneft	BBB-/Sta	bb	bb	bbb	aa	bbb	bbb+	bbb+	aa	bbb+
Anadarko Petroleum Corporation	BBB/Pos	aa	bbb	bbb	bbb-	bbb	bbb+	a-	a-	bbb+
Apache Corporation	BBB/Pos	aa-	bbb+	bbb	bb+	bbb	bbb	bbb	bbb+	a-
Marathon Oil Corporation	BBB/Sta	aa	bbb+	bbb	bb+	bbb	bbb	bb+	bbb+	bbb+

Source: Fitch

Importance: Higher; Moderate; Lower

Source: Fitch Ratings

Rating Sensitivities

Developments That May, Individually or Collectively, Lead to Positive Rating Action

– Improvement in the company's business profile evidenced by accomplishment of funding arrangements and visible progress with implementation of Arctic LNG 2, provided that credit metrics remain conservative. We do not expect an upgrade in the next two years

Developments That May, Individually or Collectively, Lead to Negative Rating Action

– A downward revision of the Country Ceiling below 'BBB- and deterioration in hard-currency debt service cover ratio consistently below 1x (2018: 0.6x)

– FFO adjusted net leverage rising above 2.5x on a sustained basis

– Intensification of western sanctions directly affecting Novatek and/or its LNG projects

Liquidity and Debt Structure

Comfortable Liquidity: At 31 December 2018, Novatek's short-term debt equalled RUB4.4 billion and was fully covered by a cash balance of RUB69.3 billion. We assume Novatek will be able to service its existing debt mostly from internally generated funds and available cash. If needed Novatek also has access to domestic funding, including Russia's largest banks. Other sources of liquidity include undrawn long-term committed credit lines totalling almost RUB100 billion. Besides, redemption of shareholder loans and dividends from Yamal LNG and Arcticgas will provide additional liquidity.

Guarantees Excluded: Novatek has provided around USD10 billion of completion and other non-financial guarantees to Yamal LNG's creditors. We exclude these from Novatek's leverage, as we view the risk of cash outflows under these guarantees as diminishing since the project was launched and reached full capacity. Most guarantees will be released shortly after the project passes commercial, production and other tests this year.

Debt Maturities and Liquidity at 31 December 2018

Available Liquidity (RUBm)	2019F	2020F	2021F	2022F
Beginning Cash Balance	69,260	53,615	47,602	20,327
Rating Case FCF after Acquisitions and Divestitures	-45,047	-8,970	-4,287	7,761
Loans Repayment by Yamal LNG and other JVs	**35,861**	**19,670**	**34,351**	**67,000**
Total Available Liquidity (A)	**60,073**	**64,316**	**77,666**	**95,088**
Liquidity Uses				
Debt Maturities	-4,458	-14,713	-55,339	-73,625
Share buyback	**-2,000**	**-2,000**	**-2,000**	**-2,000**
Total Liquidity Uses (B)	**-6,458**	**-16,713**	**-57,339**	**-75,625**
Liquidity Calculation				
Ending Cash Balance (A+B)	53,615	47,602	20,327	19,463
Revolver Availability	104,000	100,250	50,000	0
Ending Liquidity	**157,615**	**147,852**	**70,327**	**19,463**
Liquidity Score (A/B)	**25.4**	**9.8**	**2.2**	**1.3**

[a] Loans repayments is included in the numerator of liquidity score
Source: Fitch Ratings, Fitch Ratings, Novatek

Full Debt Maturities Schedule	Original
Statement Date	**31 December 2018**
2019	4,458
2020	14,713
2021	55,339
2022	73,625
2023	4,266
Thereafter	
Total	**29,560**

Note: Financial leasing is included
Source: Fitch Ratings, Fitch Ratings, Novatek

Key Assumptions

Fitch's key assumptions within our rating case for the issuer include:

- Brent crude oil price: USD65/bbl in 2019, USD62.5/bbl in 2020, USD60/bbl in 2021 and USD57.5/bbl thereafter
- USD/RUB: 67.5 in 2019 and thereafter
- Broadly stable tax environment in Russia
- Stabilisation in natural gas and liquids production from consolidated subsidiaries in 2020 due to the launch of the North Russkoye cluster
- Capex peaking at RUB185 billion in 2019 and moderating to RUB160 billion in 2020 and thereafter
- Novatek's investments into Artcic LNG 2 to be broadly covered by proceeds from equity stake sales to other partners, so we currently include in our base case only investments in exploration activities and the development of the LNG construction centre
- Dividend pay-outs in line with dividend policy (30% of net income)
- Small bolt-in acquisitions in the upstream segment

Financial Data

	Historical			Forecast		
(RUBm)	Dec 2016	Dec 2017	Dec 2018	Dec 2019F	Dec 2020F	Dec 2021F
Summary Income Statement						
Gross Revenue	537,472	583,186	831,758	846,690	879,124	876,835
Revenue Growth (%)	13.1	8.5	42.6	1.8	3.8	-0.3
Operating EBITDA (Before Income from Associates)	187,003	198,326	258,920	275,973	289,871	294,328
Operating EBITDA Margin (%)	34.8	34.0	31.1	32.6	33.0	33.6
Operating EBITDAR	187,217	198,416	259,096	276,153	290,051	294,508
Operating EBITDAR Margin (%)	34.8	34.0	31.2	32.6	33.0	33.6
Operating EBIT	152,372	163,803	225,826	232,372	237,345	233,533
Operating EBIT Margin (%)	28.4	28.1	27.2	27.4	27.0	26.6
Gross Interest Expense	-16,297	-10,354	-9,176	-9,791	-9,191	-8,616
Pretax Income (Including Associate Income/Loss)	308,164	200,839	228,534	346,196	358,171	355,387
Summary Balance Sheet						
Readily Available Cash and Equivalents	48,301	65,943	69,260	53,615	47,602	55,327
Total Debt with Equity Credit	216,765	163,046	181,961	177,503	162,790	142,450
Total Adjusted Debt with Equity Credit	218,049	163,586	183,017	178,583	163,870	143,530
Net Debt	168,464	97,103	112,701	123,888	115,187	87,124
Summary Cash Flow Statement						
Operating EBITDA	187,003	198,326	258,920	275,973	289,871	294,328
Cash Interest Paid	-16,737	-9,917	-8,056	-9,791	-9,191	-8,616
Cash Tax	-28,314	-32,629	-47,127	-69,058	-71,446	-70,891
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	0	2,383	-11,568	17,625	35,232	35,050
Other Items Before FFO	-1,401	1,209	6,138	0	0	0
Funds Flow from Operations	142,534	165,321	199,618	216,249	245,966	251,370
FFO Margin (%)	26.5	28.3	24.0	25.5	28.0	28.7
Change in Working Capital	14,520	5,161	-11,393	-164	-356	25
Cash Flow from Operations (Fitch Defined)	157,054	170,482	188,225	216,085	245,610	251,396
Total Non-Operating/Non-Recurring Cash Flow	0	0	0			
Capital Expenditure	-31,027	-37,046	-90,205	-185,000	-160,000	-160,000
Capital Intensity (Capex/Revenue) (%)	5.8	6.4	10.8	21.8	18.2	18.2
Common Dividends	-41,653	-42,075	-51,980			
Free Cash Flow	84,374	91,361	46,040			
Net Acquisitions and Divestitures	62,452	-19,558	-28,361			
Other Investing and Financing Cash Flow Items	-24,076	1,075	4,224	35,861	19,670	34,351
Net Debt Proceeds	-102,720	-53,794	-16,449	-4,458	-14,713	-20,339
Net Equity Proceeds	-916	-1,442	-2,137	-2,000	-2,000	-2,000
Total Change in Cash	19,114	17,642	3,317	-15,645	-6,013	7,724
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	-10,228	-98,679	-170,546	-261,132	-254,579	-255,683
Free Cash Flow After Acquisitions and Divestitures	146,826	71,803	17,679	-45,047	-8,970	-4,288
Free Cash Flow Margin (After Net Acquisitions) (%)	27.3	12.3	2.1	-5.3	-1.0	-0.5

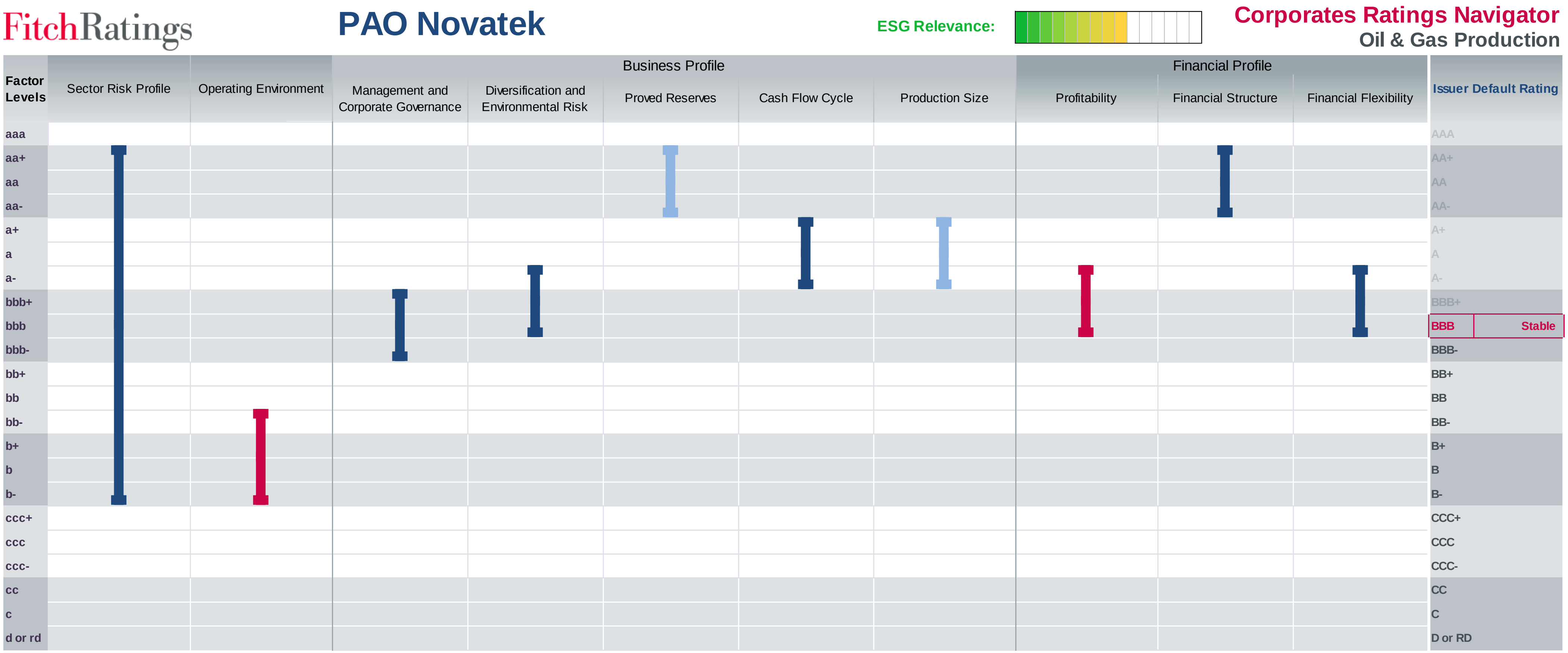
Coverage Ratios						
FFO Interest Coverage (x)	9.4	17.1	25.6	22.9	27.6	30.0
FFO Fixed Charge Coverage (x)	9.3	16.9	25.1	22.5	27.1	29.4
Operating EBITDAR/Interest Paid + Rents (x)	11.0	20.1	30.1	29.5	34.7	37.5
Operating EBITDA/Interest Paid (x)	11.2	20.2	30.7	30.0	35.4	38.2
Leverage Ratios						
Total Adjusted Debt/Operating EBITDAR (x)	1.2	0.8	0.7	0.6	0.5	0.4
Total Adjusted Net Debt/Operating EBITDAR (x)	0.9	0.5	0.5	0.4	0.4	0.3
Total Debt with Equity Credit/Operating EBITDA (x)	1.2	0.8	0.7	0.6	0.5	0.4
FFO Adjusted Leverage (x)	1.4	1.0	0.9	0.8	0.6	0.6
FFO Adjusted Net Leverage (x)	1.1	0.6	0.6	0.6	0.5	0.3

Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



Operating Environment

bb	Economic Environment	bbb	Average combination of countries where economic value is created and where assets are located.
bb-	Financial Access	bb	Below average combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	b	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'b'.
b-			
ccc+			

Management and Corporate Governance

a-	Management Strategy	a	Coherent strategy and good track record in implementation.
bbb+	Governance Structure	bb	Board effectiveness questionable with few independent directors. "Key man" risk from dominant CEO or shareholder.
bbb	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bbb-	Financial Transparency	a	High quality and timely financial reporting.
bb+			

Diversification and Environmental Risk

a	Diversification	bbb	Upstream E&P companies with diverse projects or smaller integrated. Less vulnerable to price volatility; still subject to cost overruns and production delays.
a-	Environmental Risk	bbb	Moderate exposure to environmental regulations and/or material but manageable remediation costs relative to projected cash flows.
bbb+			
bbb			
bbb-			

Proved Reserves

aaa	Reserve Base (boe)	aa	>4 billion
aa+			
aa			
aa-			
a+			

Cash Flow Cycle

aa-	Free Cash Flow	a	Mostly positive across the cycle.
a+			
a			
a-			
bbb+			

Production Size

aa-	Production (thousand boe/day)	a	700 - 2,000
a+			
a			
a-			
bbb+			

Profitability

a	FFO ($)	bbb	$4 billion
a-	Capex/CFO (%)	aa	0.67
bbb+			
bbb			
bbb-			

Financial Structure

aaa	Lease Adjusted FFO Gross Leverage	aa	1.2x
aa+	Lease Adjusted FFO Net Leverage	aa	1.0x
aa	Total Adjusted Debt/Operating EBITDAR	aa	1.0x
aa-			
a+			

Financial Flexibility

a	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a-	Liquidity	bbb	One year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bbb+	FFO Fixed Charge Cover	aa	10.0x
bbb	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging in place.
bbb-	EBITDAR/(Gross Interest Expense + Rent)	aa	15.0x

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Credit-Relevant ESG Derivation

PAO Novatek has 12 ESG potential rating drivers

- Emissions from OGP production
- Energy use in OGP operations
- Water management (e.g. usage levels, recycling capacity)
- Waste and material handling; operations proximity to environmentally sensitive areas
- Hydrocarbon reserves exposure to present/future regulation and environmental costs
- Operations proximity to areas of conflict or indigenous lands

Showing top 6 issues

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	12	issues	3
not a rating driver	1	issues	2
	1	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

Navigator Version: RN 2.2.0.0

Credit-Relevant ESG Derivation

PAO Novatek has 12 ESG potential rating drivers

- PAO Novatek has exposure to emissions regulatory risk but this has very low impact on the rating.
- PAO Novatek has exposure to energy productivity risk but this has very low impact on the rating.
- PAO Novatek has exposure to water management risk but this has very low impact on the rating.
- PAO Novatek has exposure to waste and impact management risk but this has very low impact on the rating.
- PAO Novatek has exposure to extreme weather events but this has very low impact on the rating.
- PAO Novatek has exposure to land rights/conflicts risk but this has very low impact on the rating.

Showing top 6 issues

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	12	issues	3
not a rating driver	1	issues	2
	1	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	3	Emissions from OGP production	Diversification and Environmental Risk; Profitability
Energy Management	3	Energy use in OGP operations	Diversification and Environmental Risk; Profitability
Water & Wastewater Management	3	Water management (e.g. usage levels, recycling capacity)	Diversification and Environmental Risk; Profitability
Waste & Hazardous Materials Management; Ecological Impacts	3	Waste and material handling; operations proximity to environmentally sensitive areas	Diversification and Environmental Risk; Profitability
Exposure to Environmental Impacts	3	Hydrocarbon reserves exposure to present/future regulation and environmental costs	Diversification and Environmental Risk; Profitability; Financial Flexibility

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Operations proximity to areas of conflict or indigenous lands	Diversification and Environmental Risk; Profitability; Financial Flexibility
Customer Welfare - Fair Messaging, Privacy & Data Security	1	n.a.	n.a.
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability; Financial Structure; Financial Flexibility
Employee Wellbeing	2	Worker safety and accident prevention	Diversification and Environmental Risk; Profitability; Financial Flexibility
Exposure to Social Impacts	3	Social resistance to major projects or operations that leads to delays and cost increases	Production Size; Profitability; Financial Structure; Financial Flexibility

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

G Scale: 5, 4, 3, 2, 1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

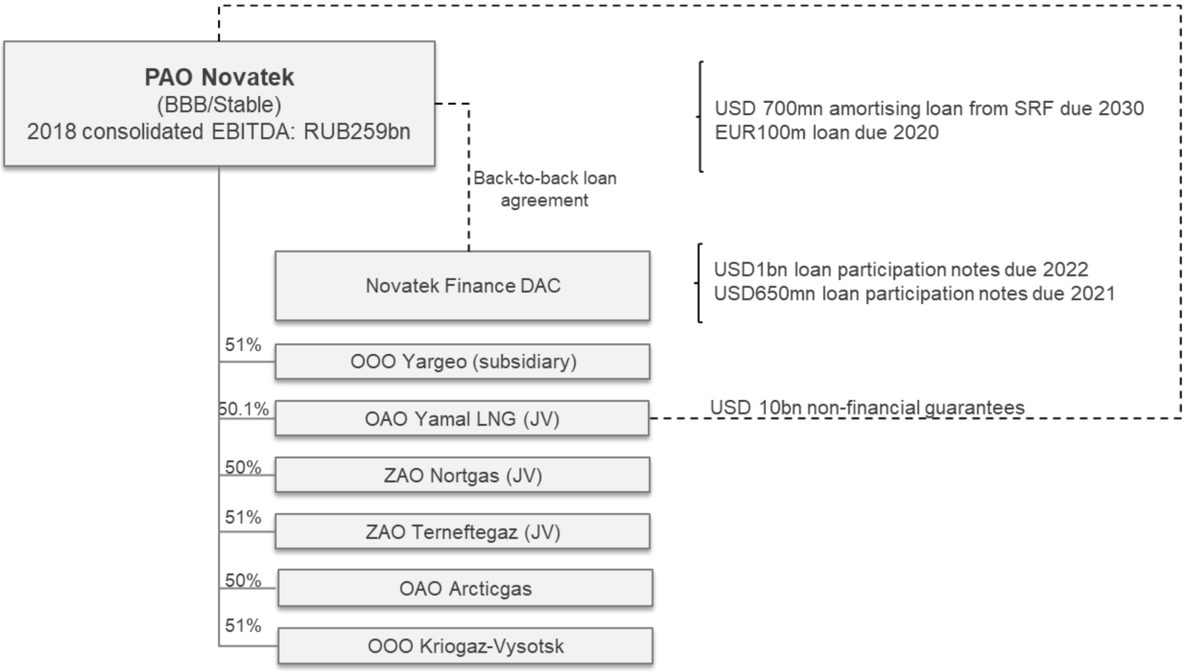
Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



Source: Fitch Ratings, Fitch Solutions, Novatek as of 31 December 2018

Peer Financial Summary

Company	IDR	Financial Statement Date	Operating EBITDA (Before Income From Associates) (USDm)	Funds Flow From Operations (USDm)	Free Cash Flow (USDm)	FFO Fixed Charge Coverage (x)	FFO Adjusted Net Leverage (x)
PAO Novatek	BBB						
	BBB	2018	4,111	3,170	731	25.1	0.6
	BBB	2017	3,402	2,836	1,567	16.9	0.6
	BBB-	2016	2,796	2,131	1,262	9.3	1.1
PJSC Lukoil	BBB+						
	BBB+	2018	17,702	14,259	5,023	14.1	0.2
	BBB+	2017	13,969	13,129	1,143	12.9	0.5
	BBB-	2016	10,337	8,443	1,117	9.2	0.9
PJSC Tatneft	BBB-						
	BBB-	2017	3,480	2,994	-438	527.0	0.2
	BBB-	2016	2,533	2,091	476	105.7	-0.2
	BBB-	2015	2,696	2,391	352	131.9	0.0
Anadarko Petroleum Corporation	BBB						
	BBB	2018	7,463	5,297	-1,277	6.0	2.7
	BBB	2017	5,792	3,743	-1,578	4.9	2.5
	BBB	2016	4,012	2,630	-972	3.8	3.7
Apache Corporation	BBB						
	BBB	2018	4,795	3,206	-721	7.7	2.4
	BBB	2017	3,686	2,334	-799	5.8	2.7
	BBB	2016	3,268	2,133	-10	5.5	3.0
Marathon Oil Corporation	BBB						
	BBB	2018	3,564	3,189	312	9.6	1.4
	BBB	2017	2,616	2,015	-15	5.3	2.3
	BBB	2016	1,431	1,081	-334	3.3	3.6
Gazprom PJSC	BBB-						
	BBB-	2017	26,825	20,837	-2,853	6.7	1.8
	BBB-	2016	21,548	20,554	217	6.9	1.3
	BBB-	2015	30,583	30,026	3,012	9.8	1.2
PJSC Gazprom Neft	BBB-						
	BBB-	2018	9,937	8,642	1,565	9.4	1.2
	BBB-	2017	7,544	6,441	357	8.0	1.8
	BBB-	2016	5,472	4,624	-942	7.2	2.2

Source: Fitch Ratings, Fitch Solutions

Reconciliation of Key Financial Metrics

(RUB Millions, As reported)	31 Dec 2018
Income Statement Summary	
Operating EBITDA	258,920
+ Recurring Dividends Paid to Non-controlling Interest	-20,068
+ Recurring Dividends Received from Associates	8,500
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	**247,352**
+ Operating Lease Expense Treated as Capitalised (h)	**176**
= Operating EBITDAR after Associates and Minorities (j)	**247,528**
Debt & Cash Summary	
Total Debt with Equity Credit (l)	**181,961**
+ Lease-Equivalent Debt	1,056
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	**183,017**
Readily Available Cash [Fitch-Defined]	69,260
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	**69,260**
Total Adjusted Net Debt (b)	**113,757**
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	**0**
Interest Received	1,311
+ Interest (Paid) (d)	**-8,056**
= Net Finance Charge (e)	**-6,745**
Funds From Operations [FFO] (c)	**199,618**
+ Change in Working Capital [Fitch-Defined]	-11,393
= Cash Flow from Operations [CFO] (n)	**188,225**
Capital Expenditures (m)	**-90,205**
Multiple applied to Capitalised Leases	**6.0**
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	**0.7**
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	**0.9**
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	**0.7**
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	**0.5**
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	**0.6**
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	**1.1**
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	**30.1**
Op. EBITDA / Interest Paid* [x] (k/(-d))	**30.7**
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	**25.1**
(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	**25.6**
(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)	

* EBITDA/R after Dividends to Associates and Minorities

Source: Fitch Ratings, Fitch Solutions, Novatek

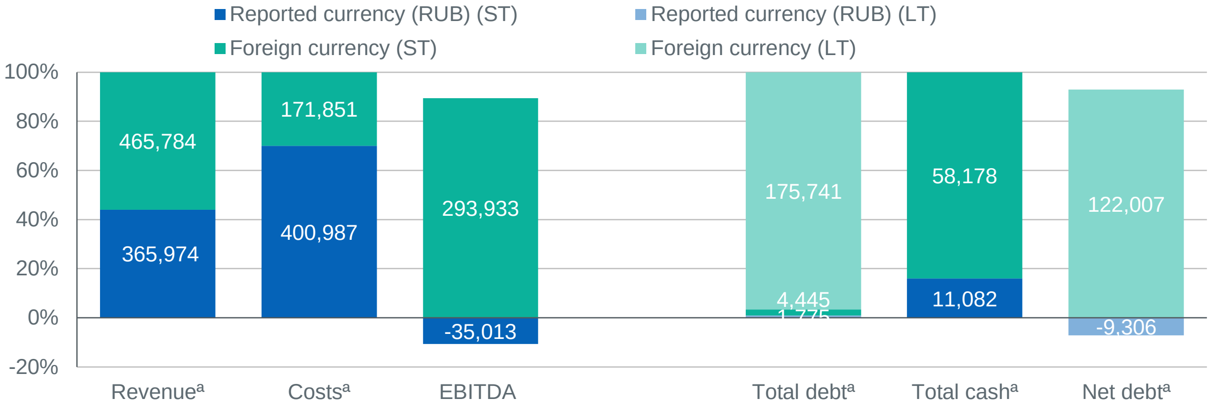
Fitch Adjustment Reconciliation

	Reported Values 31 Dec 18	Sum of Fitch Adjustments	Preferred Dividends, Associates and Minorities Cash Adjustments	Cash Adjustment	Other Adjustment	Adjusted Values
Income Statement Summary						
Revenue	831,758	0				831,758
Operating EBITDAR	259,096	0				259,096
Operating EBITDAR after Associates and Minorities	259,096	-11,568	-11,568			247,528
Operating Lease Expense	176	0				176
Operating EBITDA	258,920	0				258,920
Operating EBITDA after Associates and Minorities	258,920	-11,568	-11,568			247,352
Operating EBIT	225,826	0				225,826
Debt & Cash Summary						
Total Debt With Equity Credit	181,961	0				181,961
Total Adjusted Debt With Equity Credit	181,961	1,056			1,056	183,017
Lease-Equivalent Debt	0	1,056			1,056	1,056
Other Off-Balance Sheet Debt	0	0				0
Readily Available Cash & Equivalents	41,472	27,788		27,788		69,260
Not Readily Available Cash & Equivalents	0	0				0
Cash-Flow Summary						
Preferred Dividends (Paid)	0	0				0
Interest Received	1,311	0				1,311
Interest (Paid)	-8,056	0				-8,056
Funds From Operations [FFO]	211,186	-11,568	-11,568			199,618
Change in Working Capital [Fitch-Defined]	-11,393	0				-11,393
Cash Flow from Operations [CFO]	199,793	-11,568	-11,568			188,225
Non-Operating/Non-Recurring Cash Flow	0	0				0
Capital (Expenditures)	-90,205	0				-90,205
Common Dividends (Paid)	-51,980	0				-51,980
Free Cash Flow [FCF]	57,608	-11,568	-11,568			46,040
Gross Leverage						
Total Adjusted Debt / Op. EBITDAR* [x]	0.7					0.7
FFO Adjusted Leverage [x]	0.8					0.9
Total Debt With Equity Credit / Op. EBITDA* [x]	0.7					0.7
Net Leverage						
Total Adjusted Net Debt / Op. EBITDAR* [x]	0.5					0.5
FFO Adjusted Net Leverage [x]	0.6					0.6
Total Net Debt / (CFO - Capex) [x]	1.3					1.1
Coverage						
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	31.5					30.1
Op. EBITDA / Interest Paid* [x]	32.1					30.7
FFO Fixed Charge Coverage [x]	26.5					25.1
FFO Interest Coverage [x]	27.1					25.6

Source: Fitch Ratings, Fitch Solutions, Novatek

FX Screener

Fitch FX Screener
(PAO Novatek – BBB/Stable, Dec 18, RUBm)



[a] Post hedge, absolute figures displayed are Fitch's analytical estimates, based on publicly available information
Source: Fitch Ratings

Related Research & Criteria

Corporate Rating Criteria (February 2019)
Non-Financial Corporates Exceeding the Country Ceiling Criteria (January 2019)

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