FitchRatings

Corporates
Energy (Oil & Gas)
Russian Federation

PAO Novatek

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB	Stable	Affirmed 7 Sep 21
Long-Term Local-Currency IDR	BBB	Stable	Affirmed 7 Sep 21

Click here for full list of ratings

PAO Novatek's rating reflects its strong integrated business profile, vast low-cost reserve base, which the company is able to efficiently monetise. The rating also factors in growing liquefied natural gas (LNG) operations, stable domestic gas production and strong cash flow generation.

Novatek managed to maintain low leverage through the cycle, despite substantial capex for the completion of its large-scale Yamal LNG (YLNG) project and volatility of oil and gas prices. Fitch Ratings forecasts higher leverage in 2021-2024 but remaining comfortably within Fitch's negative rating sensitivities.

Novatek is the largest independent gas producer in Russia. The rating also takes into account Novatek's exposure to the operating environment in Russia.

Key Rating Drivers

LNG-Driven Growth: YLNG has transformed Novatek into a global LNG producer, with a 5% global market share, from a domestic natural gas producer. It has an ambitious target to increase its LNG production to 39 million tonnes (mt) by 2026 from the current 19mt after the start-up of all Arctic LNG-2 (ALNG-2) trains, and further to 57mt-70mt by 2030.

Its large reserve base, low lifting costs, and expertise with launching YLNG should support the LNG expansion target. The economics of future LNG projects will improve due to the construction of LNG hubs in Kamchatka and Murmansk, which will optimise logistics along the Northern Sea Route and reduce transportation costs.

ALNG-2 on Track: Novatek's second LNG project with 19.8mt capacity is 45% complete, and three LNG trains will be launched throughout late 2023 to 2026. We estimate capex at USD21.3 billion. Novatek holds a 60% stake and sold the remaining 40% to TotalEnergies SE (AA-/Stable), China National Petroleum Corporation (A+/Stable), China National Offshore Oil Corporation and the consortium of Mitsui & Co and Japan Oil, Gas and Metals National Corporation. Each project partner holds a 10% stake and provides a long-term LNG offtake in proportion to their respective ownership interest.

ALNG-2 Financing: The management views a 50%/50% debt/equity split as the most likely financing structure for ALNG-2, which translates to up to around USD11 billion of project-finance debt. Of this, EUR3.1 billion has been secured from a consortium of Russian banks, and financing with international banks is being finalised. We anticipate that Novatek's share of investments in the project will predominantly be covered by proceeds from the sale of equity stakes to partners, which include cash of around USD5.2 billion and a contingent part linked to train launches.

Conservative, Albeit Rising, Leverage: Novatek has a low debt load compared with its peers, with funds from operations (FFO) net leverage that we project to remain comfortably below 2x over 2021-2024. It has an internal net debt/EBITDA target of 1.0x through the cycle. The pipeline of new LNG projects adds some uncertainty to the credit profile due to their large scale and not-yet-finalised financial arrangements.

The company has also provided sizable, mostly non-financial guarantees for YLNG, which we do not add to adjusted debt, and it plans to provide some guarantees for ALNG-2. Novatek reports both LNG projects on an equity basis. In a hypothetical scenario, if these projects were proportionally consolidated, its FFO net leverage would be above 3x over the next three years.

Applicable Criteria

Corporate Rating Criteria (December 2020)

Sector Navigators – Addendum to the Corporate Rating Criteria (April 2021)

Corporates Recovery Ratings and Instrument Ratings Criteria (April 2021)

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Negative (Post-Dividend) Free Cash Flow: Novatek's intensified investment programme, with capex of RUB200 billion planned for 2021 and a reinstated dividend policy that envisages a 50% net income payout, will lead to negative free cash flow (FCF) in the medium term. Novatek has historically financed its project capex through the sale of stakes to partners. However, if it decides to provide shareholder loans as bridge funding for future projects, this could have a temporary negative impact on its credit metrics.

Guarantees Excluded: Novatek had provided around USD11 billion of completion and other non-financial guarantees to YLNG's creditors. After passing completion tests in December 2020, these guarantees were withdrawn and replaced with non-financial guarantees of up to USD5.9 billion and financial guarantees of up to USD3.6 billion. We exclude these from Novatek's leverage, as we view the risk of cash outflows under these guarantees as very low since the project was launched and given its resilient performance even under stressed market conditions in 2020. We will assess our view on ALNG-2's guarantees once the terms and conditions are finalised.

Energy Transition Agenda: Natural gas has better prospects than other fossil fuels over the following decades in view of energy transition. A high share of natural gas, which has one of the lowest emission intensity in the industry, in the production mix of Novatek supports its position as a supplier of low-cost and low-emission natural gas. Its next smaller-scale Obskiy project is a gas chemistry complex that will give Novatek exposure to production of clean-burning fuels like ammonia, methanol and hydrogen. The project configuration is still to be determined.

YLNG Resilient: The surge in spot gas prices with TTF at USD16 per million British thermal units (MMBtu) and the oil price recovery will support YLNG's earnings in 2021. However, the pricing mechanism in offtake contracts that covers about 75% of sales limits both downside and upside volatility. Despite low spot gas prices and pressure on demand in 2020, the project performance has been resilient due to pricing and a low-cost base.

We assess YLNG's operational break-even natural gas price at around USD3/MMBtu. Novatek's financial profile will benefit from the repayment of shareholder loans and dividends from YLNG, which we estimate to exceed USD800 million a year under normal market conditions.

Natural Gas Production Stabilising: The commissioning of the North Russkoye cluster, which at plateau will produce 14 billion cubic metres (bcm) of gas, as well as small-scale acquisitions, should help mitigate the production decline (on consolidated basis) at the company's key producing fields, resulting in mid-single-digit growth in natural gas production in the medium term. Domestic sales of gas have historically provided lower profitability than the liquids business, but stable revenue and cash flow.

Financial Summary

PAO Novatek

(RUBm)	Dec 18	Dec 19	Dec 20	Dec 21F	Dec 22F	Dec 23F
Gross revenue	831,758	862,803	711,812	906,710	852,691	857,085
Operating EBITDA margin (%)	31.1	29.1	27.6	27.3	23.9	22.5
Free cash flow margin (%)	5.5	2.4	-19.9	-14.3	-10.4	-2.7
FFO net leverage (x)	0.5	0.1	0.2	0.5	1.4	1.6
FFO interest coverage (x)	25.6	32.9	20.1	22.6	15.1	11.2

F – Forecast.
Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

Novatek is Russia's major LNG and domestic natural gas producer with a sizable exposure to liquids. Its upstream production volume in 2020 was 839kboepd by subsidiaries and 1,660kboepd, including equity affiliates and joint ventures. Its EBITDA in 2020 was USD2.7 billion. This compares with Russian oil majors production in 2020 (all excluding equity affiliates): 1,348kboepd by PJSC Gazprom Neft (BBB/Stable), 2,067kboepd by PJSC Lukoil (BBB+/Stable), 520kboepd by PJSC Tatneft (BBB-/Stable) and 9,391kboepd by PJSC Gazprom (BBB/Stable).

Novatek compares well with US peers Marathon Oil Corporation (BBB-/Positive), Hess Corporation (BBB-/Positive) and Diamondback Energy, Inc. (BBB/Stable), which have smaller production volumes in the range of 300kboepd-400kboepd, but comparable earnings. Devon Energy Corporation (BBB+/Stable) and Pioneer Natural Resources Co. (BBB+/Stable) have production volumes of around 600kboepd after their recent acquisitions, higher profitability and low debt loads with around 1x FFO net leverage.

Novatek has much lower consolidated EBITDA than its Russian peers' (Gazprom Neft's USD4.8 billion and Lukoil's USD8 billion) but is on a par with Tatneft's USD2.6 billion. Novatek has lower FFO/boe compared with domestic and foreign peers. This is because it primarily focuses on domestic sales of natural gas (on a subsidiary level), which is less profitable than liquids.

Novatek has one of the highest reserve life metrics domestically of 26.1 years based on 1P reserves for consolidated subsidiaries, which is also very strong compared with the median of eight years for US peers in the 'BBB' rating category. All of Novatek's reserves are concentrated in the Yamal region of Russia, hence the company is subject to higher-than-average risks pertaining to the Russian operating environment.

Novatek's leverage is low compared with Russian and international peers', with only Lukoil and Tatneft being less leveraged, and we believe that the company will be able to maintain its conservative leverage profile in the next three to four years. However, we expect some increase in leverage due to its extensive capex programme and increased dividend pay-out.

Navigator Peer Comparison

Issuer		Business profile							Financial profile	
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Diversification	Proved Reserves	Cash Flow Cycle	Production Size	Profitability	Financial Structure	Financial Flexibility
Devon Energy Corporation	BBB+/Sta	aa	a-	bbb	bb+	bbb	bbb	bbb+	a-	bbb+
Diamondback Energy, Inc.	BBB/Sta	aa	bbb	bbb	bbb-	bbb	bbb	bbb-	a	a-
Marathon Oil Corporation	BBB-/Pos	aa-	bbb	bbb	bb	bbb+	bbb	bbb-	bbb	bbb
PAO Novatek	BBB/Sta	bb-	bbb	bbb+	aa	bbb	a	bbb	aa	bbb+
Pioneer Natural Resources Co.	BBB+/Sta	aa	bbb	bb+	bbb	bbb	bbb+	bbb	aa-	a
PJSC Gazprom	BBB/Sta	bb	bb+	a	aa+	bbb	aa+	a+	a+	a-
PJSC Gazprom Neft	BBB/Sta	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+

Source: Fitch Ratings.

Importance — Higher — Moderate — Lower

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
Devon Energy Corporation	BBB+/Sta	5.0	1.0	-1.0	-3.0	-1.0	-1.0	0.0	1.0	0.0
Diamondback Energy, Inc.	BBB/Sta	6.0	0.0	0.0	-1.0	0.0	0.0	-1.0	3.0	2.0
Marathon Oil Corporation	BBB-/Pos	6.0	1.0	1.0	-2.0	2.0	1.0	0.0	1.0	1.0
PAO Novatek	BBB/Sta	-4.0	0.0	1.0	6.0	0.0	3.0	0.0	6.0	1.0
Pioneer Natural Resources Co.	BBB+/Sta	5.0	-1.0	-3.0	-1.0	-1.0	0.0	-1.0	4.0	2.0
PJSC Gazprom	BBB/Sta	-3.0	-2.0	3.0	7.0	0.0	7.0	4.0	4.0	2.0
PJSC Gazprom Neft	BBB/Sta	-4.0	0.0	3.0	6.0	0.0	3.0	2.0	3.0	-1.0
PJSC Lukoil	BBB+/Sta	-4.0	-1.0	2.0	5.0	2.0	4.0	2.0	5.0	3.0
PJSC Tatneft	BBB-/Sta	-2.0	-2.0	0.0	7.0	1.0	2.0	2.0	7.0	2.0

Source: Fitch Ratings.

Worse positioned than IDR — In line with IDR — Better positioned than IDR

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Enhanced business profile as evident in a larger scale and increased operating cash flow due to clear progress in the implementation of LNG projects, including ALNG-2, along with an improvement in Russia's operating environment, provided that credit metrics remain conservative.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- FFO net leverage sustained above 2.5x.
- Intensification of western sanctions directly affecting Novatek or its LNG projects.

Liquidity and Debt Structure

Adequate Liquidity: At end-June 2021, Novatek had short-term debt of around RUB14 billion, fully covered by cash balances and short-term bank deposits of around RUB113 billion. Other sources of liquidity include undrawn long-term committed credit lines totalling RUB159 billion. We assume that Novatek will tap the capital market to partially fund its expected FCF shortfall in 2021-2023. The company has strong access to domestic funding, including Russia's largest banks, but is barred from the US dollar debt market due to sanctions.

Sanctions Manageable: Novatek was 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 may make access to other western markets difficult. We estimate the company should be able to repay its upcoming debt maturities largely from internally generated funds, as it did with its 2021 Eurobond, or resort to domestic borrowings in case of need.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Liquidity and Debt Maturities

PAO Novatek – Liquidity Analysis

(RUBm)	2021F	2022F	2023F	2024F
Available liquidity				
Beginning cash balance	182,583	-631	-177,195	-205,376
Rating-case FCF after acquisitions and divestitures	-130,062	-88,571	-23,042	-27,937
Total available liquidity (A)	**52,521**	**-89,203**	**-200,236**	**-233,313**
Liquidity uses				
Debt maturities	-1,552	-87,992	-5,140	-5,140
Debt repaid since last balance sheet	-51,600			
Total liquidity uses (B)	**-53,152**	**-87,992**	**-5,140**	**-5,140**
Liquidity calculation				
Ending cash balance (A+B)	-631	-177,195	-205,376	-238,453
Revolver availability	159,000	159,000	159,000	159,000
Ending liquidity	**158,369**	**-18,195**	**-46,376**	**-79,453**
Liquidity score (x)	136.3	0.8	-8.0	-14.5

F – Forecast.
Source: Fitch Ratings, Fitch Solutions, PAO Novatek

Scheduled debt maturities	**Original**
(RUBm)	**31 December 20**
2021	53,152
2022	87,992
2023	5,140
2024	5,140
2025	50,340
Thereafter	20,376
Total	**222,140**

Source: Fitch Ratings, Fitch Solutions, PAO Novatek

Key Assumptions

Fitch's Key Assumptions Within the Rating Case for the Issuer

- Brent crude oil price: USD63/bbl in 2021, USD55/bbl in 2022, USD53/bbl from 2023.
- USD/RUB: 74.1 in 2021, 72.5 in 2022, 72 in 2023.
- A broadly stable tax environment in Russia.
- Mid-single-digit growth in natural gas and condensate production from consolidated subsidiaries in 2021 and 2022, due to the launch of the North Russkoye cluster.
- Oil production declines due to OPEC+ agreement restrictions and postponed oil-related capex.
- Capex peaking at RUB200 billion in 2021 and moderating towards RUB100 billion from 2023.
- Novatek's investments into ALNG-2 to be broadly covered by proceeds from equity stake sales to other partners.
- Dividend pay-outs in line with the dividend policy at more than 50% of adjusted net income.

Financial Data

PAO Novatek

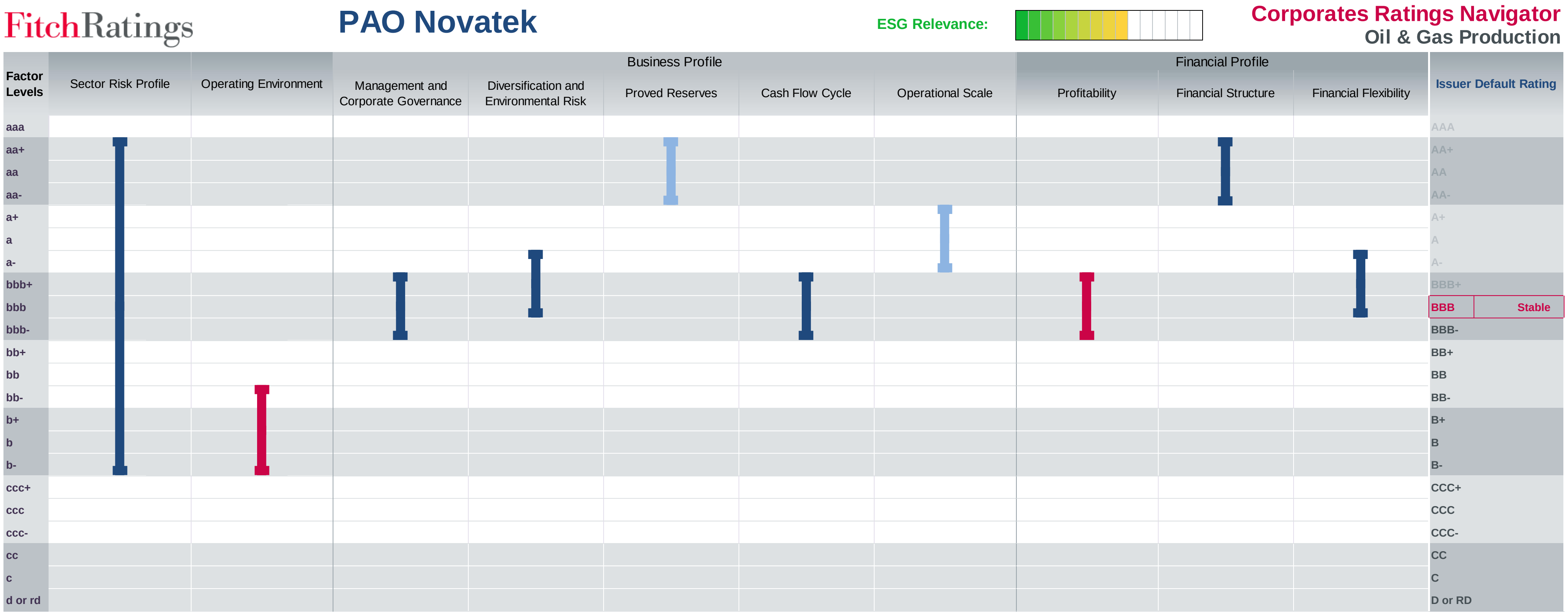
	Historical			Forecast		
(RUBm)	**Dec 18**	**Dec 19**	**Dec 20**	**Dec 21**	**Dec 22**	**Dec 23**
Summary income statement						
Gross revenue	831,758	862,803	711,812	906,710	852,691	857,085
Revenue growth (%)	42.6	3.7	-17.5	27.4	-6.0	0.5
Operating EBITDA (before income from associates)	258,920	250,788	196,564	247,078	203,429	192,945
Operating EBITDA margin (%)	31.1	29.1	27.6	27.3	23.9	22.5
Operating EBITDAR	259,096	253,790	200,258	251,783	207,854	197,393
Operating EBITDAR margin (%)	31.2	29.4	28.1	27.8	24.4	23.0
Operating EBIT	225,826	221,016	160,454	209,162	161,722	147,067
Operating EBIT margin (%)	27.2	25.6	22.5	23.1	19.0	17.2
Gross interest expense	-9,176	-9,112	-10,054	-10,442	-12,616	-16,611
Pre-tax income (including associate income/loss)	228,534	1,003,115	129,596	329,072	248,701	229,949
Summary balance sheet						
Readily available cash and equivalents	69,260	136,992	182,583	92,761	73,859	71,297
Total debt with equity credit	181,961	152,098	222,140	198,988	330,996	365,856
Total adjusted debt with equity credit	183,017	170,110	244,304	227,221	357,547	392,543
Net debt	112,701	15,106	39,557	106,227	257,137	294,559
Summary cash flow statement						
Operating EBITDA	258,920	250,788	196,564	247,078	203,429	192,945
Cash interest paid	-8,056	-7,596	-8,179	-10,442	-12,616	-16,611
Cash tax	-47,127	-35,061	-40,977	-65,815	-49,740	-45,990
Dividends received less dividends paid to minorities (inflow/(out)flow)	-11,568	29,292	-438	55,000	36,766	39,589
Other items before FFO	6,138	5,208	9,642	0	0	0
Funds flow from operations	199,618	290,044	165,054	229,532	180,793	172,785
FFO margin (%)	24.0	33.6	23.2	25.3	21.2	20.2
Change in working capital	-11,393	-9,967	-16,889	-4,294	1,190	-97
Cash flow from operations (Fitch defined)	188,225	280,077	148,165	225,239	181,983	172,688
Total non-operating/nonrecurring cash flow	0	0	0			
Capex	-90,205	-165,572	-199,932			
Capital intensity (capex/revenue) (%)	10.8	19.2	28.1			
Common dividends	-51,980	-93,468	-89,857			
Free cash flow	46,040	21,037	-141,624			
Net acquisitions and divestitures	-28,361	71,703	195,479			
Other investing and financing cash flow items	4,224	6,821	44,263	68,392	-57,338	-12,380
Net debt proceeds	-16,449	-2,176	39,496	-23,152	132,008	34,860
Net equity proceeds	-2,137	-1,865	-8,271	-5,000	-5,000	-2,000
Total change in cash	3,317	95,520	129,343	-89,822	-18,902	-2,562
Leverage ratios						
Total net debt with equity credit/operating EBITDA (x)	0.5	0.1	0.2	0.4	1.1	1.3
Total debt with equity credit/operating EBITDA (x)	0.7	0.5	1.1	0.7	1.4	1.6
FFO leverage (x)	0.9	0.6	1.3	0.8	1.7	2.0
FFO net leverage (x)	0.5	0.1	0.2	0.5	1.4	1.6
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-170,546	-187,337	-94,310	-355,301	-270,555	-195,730
Free cash flow after acquisitions and divestitures	17,679	92,740	53,855	-130,062	-88,571	-23,042
Free cash flow margin (after net acquisitions) (%)	2.1	10.7	7.6	-14.3	-10.4	-2.7
Coverage ratios						
FFO interest coverage (x)	25.6	32.9	20.1	22.6	15.1	11.2
Operating EBITDAR/interest paid + rents (x)	30.1	26.7	16.8	20.3	14.4	11.3
Operating EBITDA/interest paid (x)	30.7	36.9	24.0	28.9	19.0	14.0
Additional metrics						
CFO-capex/total debt with equity credit (%)	53.9	75.3	-23.3	12.7	8.2	19.9
CFO-capex/total net debt with equity credit (%)	87.0	758.0	-130.9	23.8	10.5	24.7

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



Bar Chart Legend:			
Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colours = Relative Importance		⇧	Positive
■	Higher Importance	⇩	Negative
■	Average Importance	⇳	Evolving
■	Lower Importance	□	Stable

FitchRatings

PAO Novatek

Corporates Ratings Navigator
Oil & Gas Production

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 person" 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

a-	Free Cash Flow	bbb	Neutral across the cycle.
bbb+			
bbb			
bbb-			
bb+			

Operational Scale

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

Profitability

a-	FFO ($)	bb	$1.5 billion
bbb+	Capex/CFO (%)	aa	67%
bbb			
bbb-			
bb+			

Financial Structure

aaa	FFO Leverage	aa	1.2x
aa+	FFO Net Leverage	aa	1.0x
aa	Total Debt With Equity Credit/Op. EBITDA	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 Interest Coverage	aa	12.0x
bbb	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging in place.
bbb-	Op. EBITDA/Interest Paid	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.

FitchRatings

PAO Novatek

Corporates Ratings Navigator
Oil & Gas Production

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	E Scale
GHG Emissions & Air Quality	3	Emissions from OGP production	Diversification and Environmental Risk; Profitability	5
Energy Management	3	Energy use in OGP operations	Diversification and Environmental Risk; Profitability	4
Water & Wastewater Management	3	Water management (e.g. usage levels, recycling capacity)	Diversification and Environmental Risk; Profitability	3
Waste & Hazardous Materials Management; Ecological Impacts	3	Waste and material handling; operations proximity to environmentally sensitive areas	Diversification and Environmental Risk; Profitability	2
Exposure to Environmental Impacts	3	Hydrocarbon reserves exposure to present/future regulation and environmental costs	Diversification and Environmental Risk; Profitability; Financial Flexibility	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	3	Operations proximity to areas of conflict or indigenous lands	Diversification and Environmental Risk; Profitability; Financial Flexibility	5
Customer Welfare - Fair Messaging, Privacy & Data Security	1	n.a.	n.a.	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability; Financial Structure; Financial Flexibility	3
Employee Wellbeing	2	Worker safety and accident prevention	Diversification and Environmental Risk; Profitability; Financial Flexibility	2
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	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	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 right-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 some of the main 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.

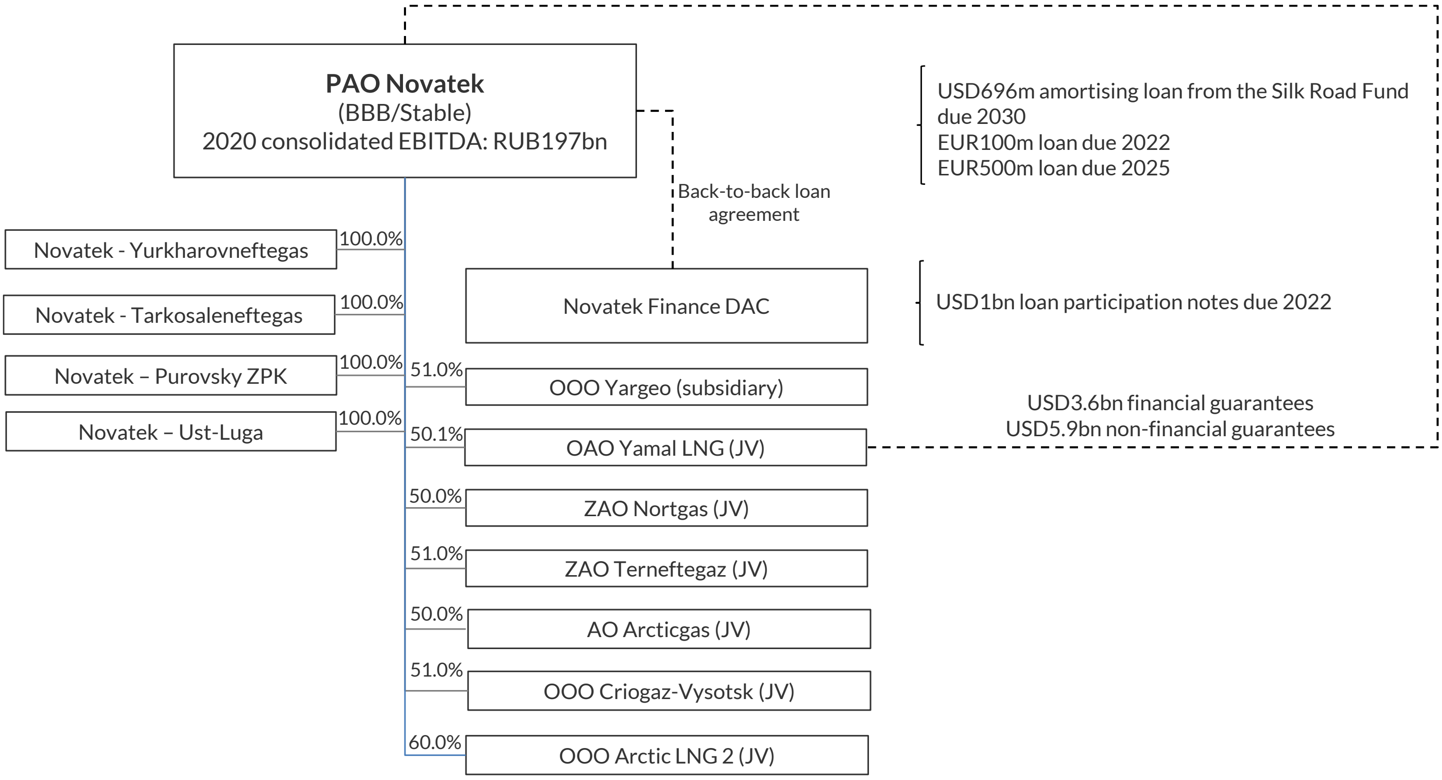
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

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, PAO Novatek, as of 30 June 2021

Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	Gross revenue (USDm)	Operating EBITDA margin (%)	Free cash flow margin (%)	FFO net leverage (x)	FFO interest coverage (x)
PAO Novatek	BBB						
	BBB	2020	9,725	27.6	-19.9	0.2	20.1
	BBB	2019	11,788	29.1	2.4	0.1	32.9
	BBB	2018	11,364	31.1	5.5	0.5	25.6
	BBB	2017	7,968	34.0	15.7	0.6	17.1
PJSC Gazprom Neft	BBB						
	BBB	2020	27,320	17.5	-1.3	1.7	7.0
	BBB	2019	33,956	24.2	-3.2	0.9	11.4
	BBB-	2018	34,011	25.1	4.0	1.1	12.3
	BBB-	2017	26,432	22.7	1.1	1.6	10.3
PJSC Gazprom	BBB						
	BBB	2020	86,370	22.6	-10.8	2.5	10.2
	BBB	2019	104,652	24.9	-4.3	1.4	12.1
	BBB-	2018	112,366	33.2	4.1	0.9	14.3
	BBB-	2017	89,439	23.9	-2.5	1.7	8.1
PJSC Lukoil	BBB+						
	BBB+	2020	77,050	10.3	-4.2	0.2	19.3
	BBB+	2019	107,134	14.8	5.5	-0.1	34.0
	BBB+	2018	109,793	13.6	3.9	0.0	23.0
	BBB+	2017	81,112	13.7	1.1	0.3	20.4
PJSC Tatneft	BBB-						
	BBB-	2020	9,846	26.0	1.6	0.1	50.8
	BBB-	2019	12,738	34.6	-4.4	0.1	401.4
	BBB-	2018	12,440	34.8	5.6	-0.1	37.1
	BBB-	2017	9,307	29.8	-3.8	0.1	23.9
Marathon Oil Corporation	BBB-						
	BBB-	2020	3,240	51.6	2.0	2.8	6.6
	BBB	2019	5,115	62.4	0.7	1.5	11.6
	BBB	2018	5,621	63.4	5.6	1.2	12.7
	BBB	2017	4,454	58.7	-0.3	2.1	6.2
Hess Corporation	BBB-						
	BBB-	2020	4,927	47.1	-29.7	3.3	4.3
	BBB-	2019	6,611	46.6	-28.7	2.8	5.3
	BBB-	2018	6,505	46.5	-11.0	1.8	5.1
	BBB-	2017	5,563	42.9	-28.7	1.5	4.2
Diamondback Energy, Inc.	BBB						
	BBB	2020	3,063	70.0	-2.3	2.7	9.2
	BBB	2019	4,044	75.8	-10.5	1.7	13.4
	BBB-	2018	2,056	76.8	-11.5	2.6	14.1
		2017	1,212	79.7	-1.1	1.4	17.1
Devon Energy Corporation	BBB+						
	BBB	2020	4,989	31.8	-1.6	1.3	6.9

Company	Issuer Default Rating	Financial statement date	Gross revenue (USDm)	Operating EBITDA margin (%)	Free cash flow margin (%)	FFO net leverage (x)	FFO interest coverage (x)
	BBB	2019	6,840	35.9	0.2	1.2	7.8
	BBB+	2018	10,042	29.5	1.0	1.5	6.2
	BBB+	2017	13,845	26.1	-2.0	2.6	6.8
Pioneer Natural Resources Co.	BBB+						
	BBB	2020	7,101	32.8	-0.3	0.9	22.1
	BBB	2019	9,718	39.5	-2.5	0.5	29.6
	BBB	2018	8,905	39.8	-6.7	0.4	23.7
	BBB	2017	5,362	46.7	-11.7	0.4	13.7

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

Fitch Adjustments and Reconciliation Table for PAO Novatek

(RUBm)	Notes and Formulas	Reported Values	Sum of Adjustments	Cash Adjustment	Other Adjustments	Adjusted Values
31 December 2020						
Income Statement Summary						
Revenue		711,812				711,812
Operating EBITDAR		152,435	47,823		47,823	200,258
Operating EBITDAR After Associates and Minorities	(a)	151,997	47,823		47,823	199,820
Operating Lease Expense	(b)	0	3,694		3,694	3,694
Operating EBITDA	(c)	152,435	44,129		44,129	196,564
Operating EBITDA After Associates and Minorities	(d) = (a-b)	151,997	44,129		44,129	196,126
Operating EBIT	(e)	113,197	47,257		47,257	160,454
Debt and Cash Summary						
Total Debt with Equity Credit	(f)	222,140				222,140
Lease-Equivalent Debt	(g)	0	22,164		22,164	22,164
Other Off-Balance-Sheet Debt	(h)	0				0
Total Adjusted Debt with Equity Credit	(i) = (f+g+h)	222,140	22,164		22,164	244,304
Readily Available Cash and Equivalents	(j)	119,707	62,876	62,876		182,583
Not Readily Available Cash and Equivalents		0				0
Cash Flow Summary						
Operating EBITDA After Associates and Minorities	(d) = (a-b)	151,997	44,129		44,129	196,126
Preferred Dividends (Paid)	(k)	0				0
Interest Received	(l)	8,442				8,442
Interest (Paid)	(m)	-8,745	566		566	-8,179
Cash Tax (Paid)		-40,977				-40,977
Other Items Before FFO		57,465	-47,823		-47,823	9,642
Funds from Operations (FFO)	(n)	168,182	-3,128		-3,128	165,054
Change in Working Capital (Fitch-Defined)		-16,889				-16,889
Cash Flow from Operations (CFO)	(o)	151,293	-3,128		-3,128	148,165
Non-Operating/Nonrecurring Cash Flow		0				0
Capital (Expenditures)	(p)	-199,932				-199,932
Common Dividends (Paid)		-89,857				-89,857
Free Cash Flow (FCF)		-138,496	-3,128		-3,128	-141,624
Gross Leverage (x)						
Total Adjusted Debt/Operating EBITDAR[a]	(i/a)	1.5				1.2
FFO Adjusted Leverage	(i/(n-m-l-k+b))	1.3				1.5
FFO Leverage	(i-g)/(n-m-l-k)	1.3				1.3
Total Debt with Equity Credit/Operating EBITDA[a]	(i-g)/d	1.5				1.1
(CFO-Capex)/Total Debt with Equity Credit (%)	(o+p)/(i-g)	-21.9%				-23.3%
Net Leverage (x)						
Total Adjusted Net Debt/Operating EBITDAR[a]	(i-j)/a	0.7				0.3
FFO Adjusted Net Leverage	(i-j)/(n-m-l-k+b)	0.6				0.4
FFO Net Leverage	(i-g-j)/(n-m-l-k)	0.6				0.2
Total Net Debt with Equity Credit/Operating EBITDA[a]	(i-g-j)/d	0.7				0.2
(CFO-Capex)/Total Net Debt with Equity Credit (%)	(o+p)/(i-g-j)	-47.5%				-130.9%
Coverage (x)						
Operating EBITDA/(Interest Paid + Lease Expense)[a]	a/(-m+b)	17.4				16.8
Operating EBITDA/Interest Paid[a]	d/(-m)	17.4				24.0
FFO Fixed-Charge Coverage	(n-l-m-k+b)/(-m-k+b)	19.3				14.2
FFO Interest Coverage	(n-l-m-k)/(-m-k)	19.3				20.1

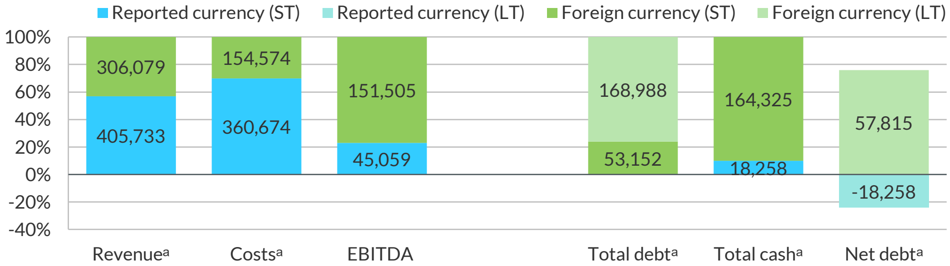
[a] EBITDA/R after dividends to associates and minorities.

Source: Fitch Ratings, Fitch Solutions, PAO Novatek

FX Screener

Fitch FX Screener

(PAO Novatek – BBB/Stable, Dec 20, RUBm)



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

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