

OAO NOVATEK

REPORT ON PAYMENTS TO GOVERNMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

INTRODUCTORY LETTER

We are pleased to present our “Report on Payments to Governments” for the year ended 31 December 2015, in accordance with Chapter DTR 4.3A, Reports on Payments to Governments, of the Disclosure and Transparency Rules, enacted by the Financial Conduct Authority in the United Kingdom published in December 2014. Our inaugural Report is one step in our ongoing belief to disclose financial information in a transparent manner.

OAQ NOVATEK has always demonstrated a proactive commitment to achieve the highest standards of transparency and corporate governance, and we have adopted the best practices in disclosure and transparency as promulgated by the Extractive Industries Transparency Initiative. It is our responsibility as a Company to uphold the tenets of sustainable development in all areas of our operations, and we are proud of our commitment to these initiatives and the differences we make in society.

Our Report discloses the payments to governments we have made during the financial year 2015 in the Russian Federation and on a project-by-project basis. Our main extractive activities as defined by the Rules are confined solely to our activities in the Russian Federation. We believe we have demonstrated the highest standard of stewardship in the extraction of hydrocarbons bestowed to us by the rights and obligations of our respective license terms. The conversion of these natural resources into revenue streams and the subsequent payment of the mineral extraction tax and other taxes provide necessary funds to help improve the living standards and implement social programs in the regions where we operate.

Although our extraction activities contribute meaningfully to the federal budget, we are committed to supporting the broader economic and social contributions through the payment of these taxes as well as our ongoing commitments to social and environmental programs within the country. This Report represents one element of our contribution to society as a whole, and further demonstrates our commitment to disclosing our activities in a timely and transparent manner.

Respectfully submitted,

Mark A. Gyetvay
CFO and Deputy Chairman of the Management Board

ОАО NOVATEK

Report on payments to governments for the year ended 31 December 2015

(in Russian roubles [tabular amounts in millions], unless otherwise stated)

1 INTRODUCTION

ОАО NOVATEK (hereinafter referred to as “NOVATEK”) and its subsidiaries (hereinafter jointly referred to as the “Group”) is an independent oil and gas company engaged in the acquisition, exploration, development, production, processing and marketing of hydrocarbons with its oil and gas operations located and incorporated in the Yamal-Nenets Autonomous Region (“YNAO”) of the Russian Federation. The Group delivers its natural gas on the Russian Federation’s domestic market and liquid hydrocarbons on both the Russian domestic and international markets.

NOVATEK’s equity securities are listed on the Moscow Exchange (in the form of ordinary shares) and on the London Stock Exchange (in the form of Global Depositary Receipts).

2 BASIS FOR PREPARATION

Legislation. This report has been prepared in accordance with the Chapter DTR 4.3A, *Reports on payments to governments*, of the Disclosure and Transparency Rules, enacted by the Financial Conduct Authority in the UK in December 2014 (“the Rules”). The Rules require oil, gas, mining and logging companies whose securities are listed on UK-regulated markets to annually disclose the payments they make to governments in accordance with the provisions of the *Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013* (“the EU Accounting Directive”).

The Rules apply for annual periods beginning on or after 1 January 2015, therefore the Group prepared its first report on payments to governments for the 12 months period ended 31 December 2015.

Presentation currency. The report is presented in Russian roubles which are the functional currency for the majority of the Group’s subsidiaries involved in the exploration, development and/or production of natural gas and liquid hydrocarbons.

Reporting activities and entities. This report includes payments to governments made by the Group’s subsidiaries that are involved in the exploration, development and/or production of hydrocarbons. Where any payment is performed on a consolidated basis and relates to both extractive and non-extractive activities of the Group, that payment is disclosed in the report in full without eliminating portions attributable to non-extractive activities. The report does not include payments made by the Group’s joint ventures, that are accounted for using the equity method in the Group’s consolidated financial statements prepared in accordance with International Financial Reporting Standards.

Governments. Government includes any national, regional or local authority of a country, and includes departments, agencies or entities controlled by that authority.

Projects. Project is defined as the operational activities which are governed by a license, lease, concession or similar legal agreement, and form the basis for payment liabilities with governments. If such agreements are substantially interconnected, they are treated as a single project. In determining projects, the Group considered such factors as geographic proximity, the use of shared infrastructure and common operational management.

Payments which are not attributable to a specific project are reported at the Group level without splitting or disaggregating the payment and without allocating it to a project.

Materiality level. This report includes payments whether made as a single payment or as a series of related payments, that equal or exceed the equivalent of EUR 100 thousand (approximately RR 7 million at the average exchange rate for the year ended 31 December 2015) during the year.

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2 BASIS FOR PREPARATION (CONTINUED)

Payments. Payments are reported on a cash basis.

Payment types required to be reported by the EU Accounting Directive and applicable for the Group are as follows:

(a) *Taxes*

These are taxes paid by the Group on its income, profits or production. These payments are reported net of refunds. Personal income tax, social contributions, value added tax, excises, export duties and property tax are excluded.

In accordance with the Russian tax legislation, the Group pays income tax in relation to its major subsidiaries in the Russian Federation on a consolidated tax payer basis. This payment is disclosed on the Group level in full amount without elimination of portions relating to Group's operations and subsidiaries not involved in extractive activities.

(b) *License and rental fees*

License and rental fees are payments to governments in the form of fees which are levied on the initial or ongoing right to use a geographical area for exploration, development and/or production.

(c) *Infrastructure improvements*

These are payments for infrastructure improvements in the regions where the Group conducts its extractive activities. The Group includes in this category payments for development of social infrastructure facilities and other social programs, including in relation to indigenous peoples, where such payments are performed in connection to the Group's extractive activities. Payments which are of a social sponsorship in nature are excluded.

During the year ended 31 December 2015, the Group did not have other required reporting types of payments to governments.

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3 PAYMENTS TO GOVERNMENTS

<i>Government report</i>	Taxes	License and rental fees	Infrastructure improvements	Total
Governments				
<i>Russian Federation</i>				
Federal Treasury	48,881	40	-	48,921
YNAO Region	-	318	380	698
Total payments to governments	48,881	358	380	49,619
Project report				
<i>Projects</i>				
NOVATEK-Yurkharovneftegas	21,522	116	-	21,638
NOVATEK-Tarkosaleneftegas	11,135	88	19	11,242
Yarudeyskoye	70	62	270	402
Gydan peninsula and the Gulf of Ob	16	92	91	199
<i>Not attributable to projects</i>				
Group level payments	16,138	-	-	16,138
Total payments to governments	48,881	358	380	49,619