

PAO NOVATEK

REPORT ON PAYMENTS TO GOVERNMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

INTRODUCTORY LETTER

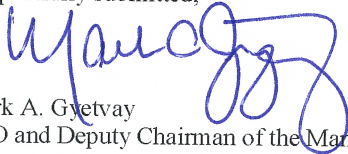
We are pleased to present our “Report on Payments to Governments” for the year ended 31 December 2016, in accordance with Chapter DTR 4.3A, Reports on Payments to Governments, of the Disclosure and Transparency Rules, enacted by the Financial Conduct Authority in the United Kingdom published in December 2014.

PAO 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 2016 in the Russian Federation and on a project-by-project basis. Our main extractive activities as defined by the Rules are confined 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

PAO NOVATEK

Report on payments to governments for the year ended 31 December 2016

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

1 INTRODUCTION

PAO 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 mainly 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 Group prepared this report on payments to governments for the 12 months period ended 31 December 2016.

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 direct 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.

Certain payments to governments may be made by the operator on behalf of a project. In such cases, when the Group is the operator full payment made by the Group on behalf of partners (100 percent) is included in the report. In cases where the Group is not the operator, payments made by the operator on the Group’s behalf are only disclosed by the Group if the operator is a state-owned entity (a government).

Government. 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 7.4 million at the average exchange rate for the year ended 31 December 2016) 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 2016, 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
<i>Governments</i>				
<i>Russian Federation</i>				
Federal Treasury	77,710	1,969	-	79,679
YNAO Region	-	66	1,007	1,073
Total payments to governments	77,710	2,035	1,007	80,752
<i>Project report</i>				
<i>Projects</i>				
NOVATEK-Yurkharovneftegas	22,719	1,499	28	24,246
NOVATEK-Tarkosaleneftegas	11,020	50	19	11,089
Yarudeyskoye	9,632	19	917	10,568
Gydan peninsula and the Gulf of Ob	-	467	43	510
<i>Not attributable to projects</i>				
Group level payments	34,339	-	-	34,339
Total payments to governments	77,710	2,035	1,007	80,752