

APPROVED

by a resolution of the Board of Directors of
NOVATEK

(minutes No. 247 dated 27.08.2021)

**REGULATIONS ON RISK MANAGEMENT
AND INTERNAL CONTROL SYSTEM OF
NOVATEK**

CONTENTS

1. GENERAL PROVISIONS3

2. TERMS AND DEFINITIONS.....4

3. GOALS, OBJECTIVES, AND LIMITATIONS OF THE RMICS6

4. The RMICS Principles8

5. THE RMICS MODEL10

6. RMICS PARTICIPANTS ROLES AND RESPONSIBILITIES11

1. GENERAL PROVISIONS

1.1. Purpose of the Document

1.1.1. Regulations on Risk Management and Internal Control System of NOVATEK are internal regulations describing main principles and approaches, goals and tasks, list of participants of the Risk Management and Internal Control System of NOVATEK, as well as their obligations and cooperation procedure.

1.1.2. The regulations were developed in compliance with the laws of the Russian Federation and NOVATEK's Articles of Association, Regulations on NOVATEK's Board of Directors and Regulations on the Audit Committee of NOVATEK's Board of Directors,

1.2. Scope of application

1.2.1. The RMICS Regulations are applied to all types and lines of the Company's business.

1.2.2. The Company's RMICS principles and approaches shall be implemented in Controlled Entities through the established corporate governance mechanisms and other means of securing the Company's interests in relation to the Controlled Entities' business.

1.3. Procedural framework

1.3.1. The RMICS is organized and functions in compliance with the following methodological and regulatory documents on arrangement of risk management and internal control:

- Document (concept) of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) — Enterprise Risk Management. Integrating with the Strategy and Performance (COSO ERM) (2017);
- Document (concept) of COSO — Internal Control – Integrated Framework (2013);
- Concept of the Institute of Internal Auditors — IIA's Three Lines Model. Updated Three Lines of Defense model (2020);
- Risk management standards developed by the Federation of European Risk Management Association (2002 г.);
- GOST R ISO 31000-2019 National Standard of the Russian Federation — Risk management. Principles and Guidelines (2020);
- GOST R 58771-2019 National Standard of the Russian Federation — Risk Management. Risk Assessment Technology (2020);
- GOST R ISO 31000-2019 National Standard of the Russian Federation — Risk Management. Terms and Definitions (2012);
- GOST R 51901.7-2017 National Standard of the Russian Federation — Risk Management. Guidance for the implementation of ISO 31000 (2018).

1.3.2. The following recommendations of the Bank of Russia were used when organizing the RMICS and developing the Regulations:

- Corporate Governance Code. Recommended by the letter of the Bank of Russia No. 06-52/2463 dated April 10, 2014;
- Recommendations on organizing risk management, internal control, internal audit, work of audit committee of the board of directors (supervisory board) in public joint stock companies. Recommended by the information letter of the Bank of Russia No. IN-06-28/143 dated October 1, 2020;

1.4. Approval and revision procedure

1.4.1. The Regulations, as well as all additions and modifications thereto shall be approved by the Board of Directors.

1.4.2. All matters which are not covered by the Regulations shall be governed by the applicable legislation of the Russian Federation, resolutions of the Board of Directors, and Internal Regulations.

1.4.3. If as a result of a change in the applicable legislation of the Russian Federation certain requirements of these Regulations come into contradiction with them, such requirements shall become null and void, and until the necessary changes are introduced, the Regulations shall be applied to the extent not contradictory to the legislation of the Russian Federation.

1.4.4. The revision of the Regulations may be initiated by members of the Board of Directors, Audit Committee, members of the Management Board, Internal Control Division, and the Risk Control Division of the Company.

2. TERMS AND DEFINITIONS

For the purpose of these Regulations the following terms (used in these Regulations with a lowercase letter) shall have the meaning assigned to them hereunder:

2.1. Business Process – a set of functionally interrelated activities, the performance of which leads to producing a meaningful result in the process of creating and selling products of the Company or Controlled Entities.

2.2. Opportunity is a potential event that may have a positive impact on achieving the Company's goals, as well as reveal new areas for development of the Company and earning profit in the future.

2.3. Corporate Governance – system of relationships between the Executive Bodies, Board of Directors and its committees, shareholders, and other stakeholders.

2.4. Risk Management Measures – a set of practical actions developed and implemented by the Risk Owner to prevent or minimize the negative impact of risk on the achievement of the Company's goals.

2.5. Risk – a potential event which may have negative impact on the achievement of the Company's goals or its future development prospects.

2.6. Risk Culture – an understanding of risk management approaches and procedures shared by all management bodies and employees of the Company and a responsible attitude to potential risks in their work.

2.7. Management – Chairman of the Management Board, members of the Management Board, heads of business units.

2.8. Risk Scenario – the most probable set of causes and consequences of a risk, and the impact of a possible risk occurrence on the performance of the Company, its structural or standalone subdivision.

For the purpose of these Regulations, the following terms (used in these Regulations with a capital letter) shall have the meaning assigned to them hereunder:

2.9. Risk Probability – forecast of a possible future risk/opportunity occurrence, with quantitative or qualitative estimates.

2.10. Risk Owner – the management and employees of the Company who, in accordance with the procedure established by the Company, identify and assess a particular risk, as well as develop and implement measures to manage it.

2.11. Executive Bodies – the Management Board and the Chairman of the Management Board.

2.12. Risk Map – an aggregate of all the Company's risks, identified and controlled during the given forecasting period, which are mapped and updated according to the Company's established procedure.

2.13. Quantitative Risk Assessment – amount of the possible consequences of the risk scenario occurrence in value terms.

2.14. Audit Committee – Audit Committee of the Company's Board of Directors.

2.15. Controlled Entity shall mean a business entity including one set up outside Russia, in which the Company has a direct or indirect participation.

2.16. Controlling Bodies – the Company's independent subdivisions, the objectives and functions of which include financial control, information security, audits and checks, risk management control, quality control, legal assistance, as well as other control functions.

2.17. Internal Regulations are internal documents of the Company binding within the Company, regulating certain intra-company relationship by establishing, changing or cancellation of long-term rules of conduct, intended for repeated use (such as guidelines, regulations, procedures, rules, by-laws, standards).

2.18. Company is NOVATEK Joint-Stock Company (NOVATEK JSC).

2.19. General Meeting of Shareholders is the Company's supreme governing body.

2.20. Regulations are NOVATEK's Regulations on Risk Management and Internal Control System.

2.21. Revision Commission is a body of the Company elected by the Company's General Meeting of Shareholders in order to exercise oversight of the Company's financial and business activity.

2.22. Regulatory authorities are state authorities, as well as organizations that exercise oversight of and/or determine procedures for organizing internal control and risk management of issuer companies (joint stock companies) in the Company's countries of operation, including, but not limited to: the Government of the Russian Federation, the Bank of Russia, stock exchanges and commodities exchanges.

2.23. Risk Appetite is the acceptable or maximum allowable risk size that the Company is ready to take while pursuing its operational and strategic goals.

2.24. Heads of business units are heads of the Company's separate structural units and standalone subdivisions, as well as Deputy Chairmen of the Management Board who are not members of the Management Board and Directors for areas of business activities.

2.25. Risk management and internal control system (RMICS) is a set of organizational measures, methods, procedures, norms of corporate culture and actions taken by the Company to achieve an optimal balance between the growth of the Company's value, profitability and risks, to ensure financial stability of the Company, effective conduct of business activities, safeguarding of assets, compliance with legislation, the Company's Internal Regulations and timely preparation of good-faith reporting.

2.26. The Board of Directors is the Company's management body responsible for the general management of the Company's activities.

2.27. The Internal Audit Division (IAD) is a standalone structural subdivision of the Company that performs internal audits.

2.28. Risk Control Department (RCD) is an independent structural subdivision of the Company, which develops and implements a unified approach to organizing insurance protection and risk management.

3. GOALS, OBJECTIVES, AND LIMITATIONS OF THE RMICS

3.1. Goals of the RMICS

The goals of the RMICS are:

- provision of reasonable assurance of achievement of the Company's goals;

– Ensuring proper control over the Company's financial and business operations to protect the rights and lawful interests of the Company's shareholders and, in cases stipulated by the laws of the Russian Federation or another country where the Company operates, other stakeholders.

3.2. Objectives of the RMICS

The objectives of the RMICS are:

- 1) increasing the stability and efficiency of the Company's financial and economic activities;
- 2) ensuring the safety of assets, controlling and increasing the efficiency of the use and distribution of the Company's resources;
- 3) timely identification of deficiencies, deviations and violations of internal control procedures, supporting a systematic process for identifying and assessing risks and opportunities that affect the achievement of the Company's strategic and operational goals;
- 4) development of measures to eliminate identified deficiencies in internal control and risk management procedures that prevent or may prevent the Company from achieving its goals, and control over their implementation;
- 5) providing advisory support to managers and employees of the Company on relevant risk management and internal control issues and developing measures to improve the efficiency of the RMICS;
- 6) ensuring that the Executive Bodies, the Audit Committee and the Board of Directors are regularly informed of the results of risk management and internal control activities;
- 7) controlling compliance with the laws of the Russian Federation and other countries where the Company operates and all the Company's Internal Regulations, including on certain issues of corporate governance;
- 8) making accounting (financial), statistical, management, and other reporting of the Company accurate and complete;
- 9) arranging for sharing with shareholders, investors, Regulatory Authorities, external auditors, partners in joint ventures and, in cases stipulated by the legislation of the Russian Federation or other country where the Company operates, other authorized organizations of information about the practices and instruments of risk management and internal control applied in the Company;
- 10) developing a risk culture in the Company.

3.3. The RMICS constraints

3.3.1. In carrying out its activities, the Company is mindful of the fact that even the most perfect RMICS cannot guarantee the achievement of the Company's goals due to the following real constraints:

- the subjectivity of the judgments of the Company's managers and employees, which form the basis of management decisions;

- the uncertainty of the future and the impossibility to fully guarantee the accuracy of behavior forecast and risk assessment;
- intentional or unintentional violations by the Company's executives and employees expressed in concealment, provision of incomplete information on risks and/or failure to implement developed risk management measures;
- the influence of external unforeseen (force majeure) events beyond the Company's control.

3.3.2. In order to reduce the negative impact of subjective constraints on the risk management process, the Company has a multi-level RMICS, which provides for the assignment of authority and responsibility for all decisions made in the Company:

- 1) at the strategic level – the Board of Directors and the Audit Committee of the Board of Directors;
- 2) at the tactic level – the Chairman of the Management Board, the Management Board, IAD, Revision Commission;
- 3) at the organizational level – Management Board members, RCD, heads of business units;
- 4) at the operational level – all employees of the Company.

4. The RMICS Principles

The RMICS is organized and functions in compliance with the following principles:

4.1. The principle of consistency and integration

The RMICS is an integral part of the corporate governance system, integrated with Company's planning systems, projects and programs management systems, process safety management system and other control systems. Risk management processes and internal control procedures shall integrate in all business processes of the Company.

4.2. The principle of structuredness and comprehensiveness

The RMICS applies at all levels of corporate governance, in all structural and standalone units of the Company.

4.3. The fit for purpose principle

The risk management shall be based on the established strategic and operational targets of the Company, taking into account the set value of Risk Appetite.

4.4. The principle of continuity

The RMICS is implemented on a constant basis, enabling timely risk identification and development of risk management activities.

4.5. The principle of responsiveness and adaptability

The RMICS organization ensures its timely improvement, development and adjustment required to achieve the RMICS purposes in changing parameters of external environment.

4.6. The economic efficiency principle

Resources aimed at implementation of risk management activities and internal control procedures shall be comparable with the assessment of the possible impact of risks and justified by economic efficiency from mitigation of impact of risks on the achievement of the Company's goals.

4.7. The principle of the common regulatory space

The risks management processes and internal control procedures shall be implemented based on common principle and approaches, terminology, methodology and reporting principles applicable in the Company.

4.8. Principle of segregation of powers, duties and responsibilities

The distribution of powers, duties and responsibilities among the RMICS participants shall be done based on their roles in the process of development of managerial decisions and control over their implementation, and ensure elimination or significant mitigation of risks. At the same time each employee of the Company shall bear the responsibility for risk management within the functional tasks, provided for by his job description and the employment contract with the Company.

4.9. The principle of cooperation and collegiality

This principle implies the agreed actions of all the RMICS participants intended to achieve common goals and objectives. Development of risk management activities and internal control procedures with regard to objectives of several structural or standalone divisions of the Company shall be done based on joint decisions.

4.10. The principle of basing on the best available information

The information formed in the process of the RMICS functioning is of high quality, full and available, which allows to monitor and provide objective assessment of the RMICS efficiency.

4.11. The principle of professionalism and competence

The Company's employees whose job duties include the implementation of risk management and internal control procedures have sufficient knowledge and skills to implement efficient RMICS procedures and measures and constantly improve their qualifications.

4.12. The principle of pro-activity and risk-oriented approach to activity

Implementation of the RMICS procedures is aimed at timely identification of risks and development of measures to prevent or reduce the impact of risk (or maximize the effects of opportunities), rather than minimizing the consequences of already occurred risks or violations.

4.13. The principle of awareness and timeliness of communication

Information on risks and deviations from approved plans and procedures is provided in a timely manner to managers and employees of the Company responsible for decision-making. Information exchange is performed within the Company both vertically from top downward and from the bottom upwards, and horizontally.

4.14. The principle of improvement

On the one hand, risk management and internal control are aimed at constantly improving the efficiency of activities, optimization of business processes and organizational structure of the Company, ensuring the achievement of the Company's goals; on the other hand, all elements of the RMICS, including procedures and methods, are constantly being improved, taking into account the Company's goals, changes in the external environment and innovations in world practice.

4.15. The principle of interest and leadership

The Company's managers ensure the spread of knowledge and skills in the field of risk management within the Company, contribute to the development of the corporate culture of compliance with the RMICS principles and the adoption of decisions taking into account risks. Involvement of decision-makers in risk management processes at all levels of the Company's management ensures an appropriate level of development of the risk management system and its compliance with the requirements of internal and external environment.

5. THE RMICS MODEL

5.1. The RMICS functioning is implemented on all management levels and covers all business processes, structural and standalone units of the Company.

5.2. The RMICS includes arrangement of three lines of efficient cooperation between all participants of the RMICS:

- *Line 1. "Continuous control": identification, development and implementation of measures to eliminate/mitigate impact of/prevent the RMICS deficiencies and risks.*

Ensured by Risk Owners at the operating level of the Company management. Includes prompt elimination of the RMICS deficiencies and risks, as well as development and timely implementation of the elimination of deficiencies and risks within the functional tasks and the scope of responsibility of Risk Owners.

- *Line 2. "Internal control and supervision": efficiency control, prevention.*

Includes provision of additional knowledge, monitoring and assistance in resolving problems of Risk Owners. Performed by Controlling Structural Units.

- *Line 3. "Internal audit": provision of independent and unbiased guarantees and recommendations to Executive Bodies, Board of Directors, Audit Committee and General Meeting of Shareholders with respect to the RMICS adequacy and efficiency.*

Ensured by Controlling Structural Units, Audit Committee, Board of Directors and Executive Bodies. The IAD performs the RMICS efficiency and adequacy checks in the Company's structural and standalone units to efficiently prevent risks. The Audit Committee exercises overall control over the RMICS functioning.

Functions and obligations of participants of all three lines of the RMICS cooperation are defined in the section 6 of these Regulations.

5.3. In order to assess the impact of risks on operational and strategic goals of activities, a Risk Appetite value approved by the Board of Directors shall be established within the Company.

5.4. A systematic risk management activity is arranged within the Company. It includes risk identification and assessment, as well as development of risk management measures and regular control over the efficiency of these activities.

5.5. Risk Map is updated on a regular basis in accordance with the following procedure:

- All the identified Company's risks have a quantitative assessment of impact on the Company's goals in accordance with likelihood scenarios of each risk occurrence taking into account the risk occurrence over previous periods;
- two main tools to assess impact of risks of the Company's activities are used within the Company: Risk Probability and Quantitative Risk Assessment;
- all identified risks are ranked according to the scale of the established values of the Risk Appetite, which makes it possible to determine the degree of criticality of each risk in order to achieve the Company's goals;
- The Risk Map with all identified risks is submitted to the Management Board and the Audit Committee for review.

5.6. RMICS is aimed at identifying the complete spectrum of risks and opportunities in order to make effective management decisions aimed at maximizing shareholder returns and development of the Company.

5.7. The Company conducts an annual internal performance evaluation of the RMICS, the results of which are reported to the Audit Committee and the Board of Directors.

5.8. As part of the RMICS, the Company has established a set of measures to prevent corruption, including but not limited to approval of the anticorruption policy.

5.9. Seeking to maintain a high level of trust in the Company, to ensure compliance with international standards of business ethics, and to prevent and intercept fraud and corruption, the Company has established a Safety Hotline as well as a hotline for reporting violations of the Code of Business Conduct and Ethics to the Internal Audit Division.

6. RMICS PARTICIPANTS ROLES AND RESPONSIBILITIES

The RMICS functioning is ensured by the following participants in accordance with the responsibilities, powers and liabilities assigned to them on the following matters:

6.1. Board of Directors

1) approves Internal Regulations which determine the Company's internal control, internal audit and risk management policies, including principles and approaches to organizing the Company's RMICS;

2) approves the Risk Appetite;

3) at least once a year reviews RMICS organization, functioning and efficiency matters, including RMICS evaluation results, provides recommendations on its improvement, if necessary.

6.2. Audit Committee

1) controls the reliability and efficiency of RMICS and corporate governance system, including assessment of efficiency of the risk management and internal control procedures of the Company, corporate governance practices, and preparation of suggestions on their improvement;

2) analyses and assesses the implementation of the risk management and internal control policy;

3) controls the procedures ensuring compliance by the Company with the legal requirements of the Russian Federation and other countries where the Company operates, as well as ethical norms, rules and procedures of the Company, regulations of stock exchanges where securities of the Company and Controlled Entities are listed;

4) analyzes and evaluates the implementation of conflict of interest principles set out in Internal Regulations;

5) performs preliminary review and provides recommendations on decisions to be made by the Board of Directors regarding matters set out in clause 6.1 hereof;

6) reviews regular reporting on the results of IAD and RCD activities.

6.3. Chairman of the Management Board

1) ensures the establishment and maintenance of RMICS functioning;

2) ensures implementation of the decisions made by the Board of Directors regarding the organization of RMICS;

3) distributes authorities, responsibilities, and liability among the members of the Management Board regarding risk management and internal control within the functional area of the Company's activities entrusted to them;

4) coordinates the preparation of periodic reporting for the Board of Directors on the results of RMICS functioning.

6.4. Members of the Management Board

1) distribute authorities, responsibilities, and liability regarding the development and execution of risk management procedures and internal audit among Heads of the Company's units subordinated to them within their area of responsibility;

2) organize risk identification and assessment activities and develop risk management measures in the process of achieving the Company's established goals and making management decisions regarding the Company's structural and standalone units controlled by them and activities overseen by them in accordance with the procedure established by these Regulations and other Internal Regulations in the field of RMICS.

6.5. Risk Control Division

1) Exercises overall coordination and operational control over risk management processes by the Company's structural and separate subdivisions, and assesses the effectiveness of risk management measures;

2) develops methodological documents to support the risk management process;

3) organizes training in the field of risk management and internal control for managers and employees of the Company and Controlled Entities;

4) analyzes the risk portfolio of the Company and Controlled Entities, generates consolidated reports on risks (Risk Map) with regular updates (at least once a year) and informs the Executive Bodies, Audit Committee and Board of Directors about the effectiveness of the risk management process;

5) Develops proposals for a response strategy and reallocation of resources with respect to the management of relevant risks (including through insurance);

6) develops, formalizes and maintains a centralized approach to the organization of insurance coverage of the Company and Controlled Entities (except for voluntary medical and personal types of insurance); controls the completeness of insurance coverage of risks and timeliness of insurance contracts of the Company and Controlled Entities, completeness and timeliness of receipt of insurance compensation upon the occurrence of an insured event.

6.6. Revision Commission

1) 1) confirms reliability of data contained in the Company's annual report, annual accounts and other reports and financial statements;

2) analyzes the Company's financial state, reveals reserves to improve the Company's financial standing and develops recommendations to the Company's management bodies;

3) Organizes and conducts inspections (audits) of the Company's financial and business activities in the areas provided for by the Company's Articles of Association.

6.7. Heads of business units

1) create, maintain, and monitor the effectiveness of the RMICS within their functional scope in accordance with the principles and approaches established by these Regulations;

2) organizes risk identification and risk assessment activities and develops risk management measures while achieving the established goals of the Company and making management decisions

within their area of responsibility in accordance with the procedure established by these Regulations and other Internal Regulations in the field of RMICS.

6.8. All employees of the Company

1) formulate, maintain, and continuously monitor RMICS in their disciplines and within the scope of tasks and responsibilities set forth in their job descriptions and employment contracts with the Company;

2) carry out measures to improve efficiency of the Company's RMICS in accordance with the procedure established by these Regulations and other Internal Regulations in the field of RMICS.

6.9. Internal Audit Division

1) evaluates the RMICS reliability and efficiency, in particular, assesses the availability and functioning of risk management and internal audit components, as well as their efficiency as a whole in an integrated manner;

2) when forming an opinion on risk management efficiency within the Company, reviews, among other aspects, the following ones:

- compliance of the goals of the Company's activities with its mission;
- completeness and correctness of identification and assessment of significant risks;
- efficiency of risk response measures and their containment within the Risk Appetite;
- procedure for collecting and exchanging information about risks within the Company to ensure appropriate risk response.