

APPROVED

by the Board of Directors of

OAO NOVATEK

Minutes No. 170 of 01 September 2014

**REGULATIONS ON  
RISK MANAGEMENT AND  
INTERNAL CONTROL SYSTEM  
OF NOVATEK JOINT-STOCK COMPANY**

**as amended and restated by the Board of Directors  
(Minutes No. 173 of 12 March 2015)**

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## 1. GENERAL PROVISIONS

1.1. These Regulations on Risk Management and Internal Control System of NOVATEK Joint-Stock Company (hereinafter referred to as “the Regulations”) are developed in accordance with the applicable legislation of the Russian Federation, the Articles of Association of NOVATEK Joint-Stock Company (hereinafter referred to as “the Company” or “OAO NOVATEK”), Regulations on the Board of Directors of OAO NOVATEK, Regulations on the Audit Committee of the Board of Directors of OAO NOVATEK, Corporate Governance Code recommended by Letter of the Bank of Russia No. 06-52/2463 dated April 10, 2014, COSO international concepts “Internal Control — Integrated Framework” and “Enterprise Risk Management — Integrated Framework”, regulations on structural divisions of the Company, and other local regulatory documents of the Company.

1.2. In order to ensure a uniform approach to organization and efficient performance of the risk management and internal control system of the Company, principles and procedures of risk management and internal control stipulated by the Regulations are subject to implementation and application in all entities of OAO NOVATEK Group of Companies (as defined below) through available mechanisms of corporate governance and other means of safeguarding of the Company’s interests in relation to financial and economic activities of controlled entities.

1.3. The Regulations are the local regulatory document of the Company outlining definitions, objectives, tasks, and procedures of internal control of financial and economic activities of OAO NOVATEK, as well as tasks of internal control bodies concerning enforcement of internal control procedures established by the Company and supervision of compliance therewith.

## 2. TERMS AND DEFINITIONS

2.1. **Risk** means the probability of an event having negative consequences preventing from creation of value or leading to decrease of the Company’s value.

2.2. **Possibility** means likelihood of occurrence of an event having positive consequences which promotes creation and preservation of the Company’s value.

2.3. **Risk management system** means a cluster of processes performed by the Board of Directors, the executive bodies of the Company and its controlled entities, structural divisions, and employees and aimed at management of risks and possibilities affecting creation and preservation of the Company’s value.

2.4. **Internal control system** means a cluster of organizational measures, techniques, procedures, corporate culture standards, and actions taken by the executive bodies of the Company and its controlled entities to ensure financial stability of the Company, reach an optimal balance between growth of the Company’s value, profitability, and risks, carry on economic activities efficiently and consistently, protect assets, reveal, correct, and prevent any breaches, prepare true and accurate financial reports in due time, and thus enhance investment appeal of the Company.

2.5. **OAO NOVATEK Group of Companies** means the Company and its controlled entities.

2.6. **Controlled Entity** means any business entity, including those established outside the Russian Federation in which NOVATEK JSC, directly or indirectly, owns more than 20 (twenty) percent of shares (stakes).

### 3. GOALS, TASKS, AND LIMITATIONS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

3.1. The risk management and internal control system is established with a view to protect rights and legal interests of the shareholders and provide reasonable assurance of achievement of the goals set for the Company.

3.2. Tasks of the risk management and internal control system are listed below:

- provision of reasonable assurance of achievement of the Company's goals;
- ensuring efficiency of financial and economic activities;
- ensuring sustainable use of resources;
- identification of risks and management thereof;
- safeguarding the Company's assets;
- making accounting (financial), statistical, management, and other reporting accurate and complete;
- control over compliance with the applicable legislation and internal policies, regulations, and procedures of the Company.

3.3. An internal control process forms an integral part of the risk management process.

3.4. The risk management process has certain limitations of subjective nature, namely:

- a personal judgment may lead to a wrong decision;
- collusion of two and more persons may lead to non-fulfillment of control procedures;
- incomplete and untimely fulfillment by the Company's employees of the decisions of the top management concerning risk management.

3.5. In order to reduce negative influence of limitations having subjective nature on the risk management process the Company has implemented a multilevel system of risk management and internal control consisting of:

- the Board of Directors and the Audit Committee of the Board of Directors at the strategic level;
- Chairman of the Management Committee, the Management Committee, executive bodies of the controlled entities, the Internal Audit Division of the Company, the Revision Commission at the tactical level;
- heads of structural divisions of the Company at the organizational level of the Company;
- employees of the Company at the operational level.

### 4. RISK MANAGEMENT SYSTEM PRINCIPLES

4.1. Principles of the Company's risk management system consist of eight interrelated components:

- **The principle of openness** . The internal environment is an atmosphere of open and keen perception by the executive bodies of the Company and controlled entities of information on any risk and prompt response.
- **The principle of goal-setting g**. Strategic goals are set at the level of approval of long-term and short-term plans of the Company's development where the goals are defined and measured in quantitative and/or monetary units.

- **The principle of probabilistic assessment** . Internal and external events able to exert influence on achievement of the set goals are divided into risks and possibilities. While identifying risks, risk assessment is performed. While detecting possibilities, the executive bodies of the Company take them into account in the course of setting strategic goals.

- **The principle of mitigation** . Risks are analyzed taking into account their probability and influence in order to determine actions needed to be taken. While identifying risks, activities are developed aimed at risk elimination or reduction of negative consequences to acceptable level.

- **The principle of adequate response** . Executive bodies of the Company choose a risk response method — risk aversion, risk acceptance, risk reduction or risk redistribution developing a number of activities which allow to bring the identified risk into line with the acceptable level of risk.

- **The principle of risk appetite and cyclicity** . The process of preparation and application of control procedures is based upon combination of risk-oriented and cyclic approaches.

- **The principle of promptitude** . Necessary information is determined, recorded, and transmitted in such form and terms which allow the employees to perform their functional responsibilities. Information exchange is performed within the Company both vertically from top downward and from the bottom upwards, and horizontally.

- **The principle of monitoring**. The Company carries out risk portfolio analysis and prepares consolidated reporting on risks on a regular basis. Process of risk management is controlled on a day-to-day basis by the Company's divisions and by controlled entities in the established order.

4.2. Management of the Company's risks is not a linear process where one component affects the next one. It is a multidirectional cyclic process in which the components may affect each other.

## 5. INTERNAL CONTROL SYSTEM PRINCIPLES

5.1. Principles of the Company's internal control system consist of eight interrelated components:

- **The principle of continuity**. The internal control system functions on a permanent basis.

- **The principle of integration**. The internal control system forms an integral part of the corporate governance system of the Company.

- **The principle of comprehensiveness**. The internal control system covers all areas of activities of the Company and all business processes at all management levels.

- **The principle of functionality**. Risk management responsibilities are distributed in accordance with allocation of functional responsibilities in the Company.

- **The principle of optimality**. Volume and complexity of the internal control procedures applied in the Company are necessary and sufficient for accomplishment of tasks and achievement of goals of the internal control system of the Company.

- **The principle of reasonable approach to regulation**. The Company strives to regulate the internal control procedures in a way that the documentation and formalization scope would be sufficient for the efficient functioning of the internal control system.

- **The principle of timeliness of notification**. Information on identified risks and deviations from approved plans and procedures is in due time submitted to persons authorized to take respective decisions.

- **The principle of professionalism and competence.** The employees of the management bodies and executives of the Company performing internal control procedures shall have sufficient knowledge and skills for carrying out internal control activities and upgrade their skills constantly.

5.2. Internal control of the Company is a linear process where one component affects the next one.

## **6. DISTRIBUTION OF FUNCTIONS AND RESPONSIBILITIES WITHIN RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM**

In the framework of the risk management and internal control system functions and responsibilities of subjects of the risk management and internal control system are distributed as follows:

### 6.1. The Board of Directors of the Company:

- approves the internal audit policy defining goals, tasks, and functions of internal audit;
- approves general policy of the Company on risk management and internal control;
- assesses both financial and non-financial risks which the Company is exposed to, including operating, social, ethical, environmental, and other non-financial risks;
- stipulates acceptable risk level for the Company;
- annually considers issues of organization, functioning, and efficiency of the system of risk management and internal control and gives recommendations on its improvement, if necessary; Results of consideration by the Board of Directors of issues concerning efficiency of the risk management and internal control system are submitted to the shareholders as part of annual report of the Company;
- determines principles and approaches to organization of the risk management and internal control system.

### 6.2. The Audit Committee of the Board of Directors:

- controls reliability and efficiency of the risk management and internal control system 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;
- performs analysis and assessment of implementation of the risk management and internal control policy;
- controls procedures ensuring compliance by the Company with the legal requirements, as well as ethical norms, rules, and procedures of the Company, regulations of stock exchanges;
- performs analysis and assessment of implementation of the conflict of interests management policy.

### 6.3. Chairman of the Management Committee:

- ensures creation and keeping functioning of efficient risk management and internal control system of the Company;
- accounts for fulfillment of decisions taken by the Board of Directors in the area of organization of the risk management and internal control system;

- distributes authorities, responsibilities, and liability among its subordinate deputies concerning certain procedures of risk management and internal control within functional area of the Company's activities entrusted to them;
- coordinates activities on preparation of the report to the Board of Directors on results of functioning of the risk management and internal control system;
- ensures public disclosure of information concerning fulfillment by the Board of Directors of responsibilities related to its role in the organization of efficient risk management and internal control system in the Company.

6.4. Members of the Management Committee:

- distribute authorities, responsibilities, and liability among those heads of structural divisions of the Company who are under their supervision or being coordinated by them in relation to certain procedures of risk management and internal control;
- while taking decisions shall consider and take into account financial, social, and environmental aspects of the Company's activities, as well as risks accepted by the Company.

6.5. The Revision Commission of the Company performs annual audits and reports their results to the Audit Committee of the Board of Directors and shareholders.

6.6. The Internal Audit Division of the Company:

- assesses efficiency of the risk management and internal control system, corporate governance (by means of on-site audits and in-house audits) and reports the results of assessment to the Audit Committee of the Board of Directors and the executive bodies of the Company;
- performs analysis of risk portfolio of the Company (including risk identification and assessment) and defines assessment criteria for efficiency of the risk management activities, including internal control activities;
- prepares consolidated reporting on potential risks and analyzes information on risks occurred;
- performs day-to-day control over the process of risk management by the divisions of the Company and according to the established order in controlled entities.

6.7. Heads of structural divisions of the Company are liable in accordance with their functional responsibilities for development, recording, implementation, monitoring, and development of the risk management and internal control system within functional areas of the Company's activities entrusted to them.

6.8. The employees of the Company:

- are responsible for timely notification of their immediate supervisors of any new risks identification;
- are responsible for complete and timely performance of control procedures in relation to risk management in accordance with job descriptions and requirements of local regulatory documents of the Company.

## **7. EFFICIENCY ASSESSMENT OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM**

7.1. The Company performs internal audit with the view of systematic, independent assessment of reliability and efficiency of the risk management and internal control system, as well as corporate governance practice.

7.2. Assessment of efficiency of the internal control system includes:

- analyzing compliance of objectives of the business processes, projects, and structural divisions of the Company with the Company's goals, check of assurance of reliability and integrity of business processes (activities) and information systems, including reliability of procedures counteracting unlawful acts, abuse, and corruption;
- checking assurance of reliability of accounting (financial), statistical, management, and other reporting, determining of the extent to which the results of the business processes and activities of structural divisions of the Company correspond to the goals set;
- determining adequacy of the criteria established by the executive bodies for analysis of the extent of achievement of the goals set;
- detecting defects of the internal control system which prevented (prevent) the Company from achievement of the goals set;
- assessing the results of implementation of activities aimed at elimination of breaches and defects and improvement of the internal control system which are implemented by the Company at all management levels;
- checking efficiency and practicability of the resources use;
- checking assurance of the asset safeguarding;
- checking compliance with the requirements of the applicable legislation, the Articles of Association, and internal documents of the Company.

7.3. Assessment of efficiency of the risk management system includes:

- checking sufficiency and maturity of elements of the risk management system necessary for efficient management of risks (objectives and tasks, infrastructure, process organization, regulatory and methodological support, interaction of structural divisions in the framework of the risk management system, reporting);
- checking completeness of detection and accuracy of the risk assessment by the Company's top management at all management levels;
- checking efficiency of control procedures and other activities related to risk management, including efficiency of disposal of the target funds;
- analyzing information on occurred risks (breaches detected following the results of internal audits, non-achievements of the goals set, legal proceedings).

7.4. Assessment of corporate governance includes checking of the following aspects:

- compliance with ethical principles and corporate values of the Company;
- order of the Company goals' setting, monitoring and control over achievement thereof;
- level of regulatory support and information interaction procedures (including those concerning internal control and risk management) at all levels of the Company's management, including interaction with interested parties;
- enforcement of shareholders' rights, including rights of controlled entities and efficiency of relations with interested parties;



- procedures of disclosure of information on the Company's activities and controlled entities.

## **8. INTERNAL AUDIT TASKS AND FUNCTIONS**

8.1. The internal audit function is realized in the Company by means of establishment of a separate division, the Internal Audit Division.

8.2. In terms of functions, the Internal Audit Division is accountable to the Board of Directors meaning the following:

- appointment of the head of the Internal Audit Division and his/her dismissal by Chairman of the Management Committee on the grounds of decision of the Board of Directors;
- determination by the Board of Directors of the remuneration paid to the head of the Internal Audit Division;
- approval by the Audit Committee of the Board of Directors of the performance plan for the Internal Audit Division;
- receipt by the Audit Committee of the Board of Directors of information on progress of the performance plan and the course of internal audit;
- consideration by the Audit Committee of the Board of Directors of substantial restrictions of authorities of the Internal Audit Division able to affect adversely the internal audit performance;
- annual submission to the Board of Directors of the operations report of the Internal Audit Division.

8.3. In terms of administration, the Internal Audit Division is accountable to the sole executive body of the Company, the Chairman of the Management Committee, meaning the following:

- allocation of necessary funds within approved budget of the Internal Audit Division;
- receipt of operating reports of the Internal Audit Division;
- support of interaction with divisions of the Company;
- administration of policies and procedures of activities of the Internal Audit Division.

8.4. The following activities belong to the tasks of internal audit:

- assistance to the Company executive bodies and the Company employees in development and monitoring over implementation of procedures and activities on improvement of the risk management and internal control system, corporate governance of the Company;
- coordination of activities with external auditor of the Company and persons providing consulting services in the area of risk management, internal control, and corporate governance;
- performance of internal audit of controlled entities according to the established order;
- preparation and submission to the Board of Directors and the executive bodies of reports based on results of activities of the Internal Audit Division, including those with information on substantial risks, defects, results, and efficiency of corrective actions aimed at elimination of the defects revealed, results of fulfillment of internal audit performance plan, results of assessment of actual state, reliability, and efficiency of the risk management, internal control, and corporate governance system;
- check of compliance of members of the executive bodies of the Company and its employees with provisions of the applicable legislation and internal policies of the Company

concerning insider information and anti-corruption activities, compliance with Business Ethics Code of the Company.

8.5. Functions of internal audit, in particular, include:

- analyzing compliance of objectives of business processes, projects, and structural divisions with goals of the Company;
- determining the extent to which the results of activity of business processes and structural divisions of the Company comply with the goals set;
- detecting defects of the internal control system which prevented (prevent) the Company from achievement of the goals set;
- determining adequacy of the criteria established by the executive bodies for analysis of the extent of achievement (or non-achievement) of the goals set;
- checking efficiency of control procedures and other activities related to risk management in the Company;
- assessing the results of implementation of activities aimed at elimination of breaches and defects and improvement of the internal control system which are implemented by the Company at all management levels;
- analyzing efficiency and maturity of elements of the risk management system necessary for efficient management of risks;
- analyzing information on occurred risks, breaches detected following the results of internal audits, non-achievements of the goals set.

8.6. While organizing the internal audit the Company uses the general standards of internal audit.

8.7. The Internal Audit Division has the following authority:

- request and receive from the Company Units and Controlled Entities information and materials required to perform the Division's functions;
- request and receive unimpaired access to any assets (movable and immovable), documents, accounting entries and other information (including electronic) related to the activities of the Company and Controlled Entities as required to perform the Division's functions; copy relevant documents and photograph and capture on video facts related to the business activities of the Company and Controlled Entities in order to collect audit evidence;
- review current and forward-looking business plans, budgets, plan and program status reports and resolutions of the Board of Directors of the Company and Controlled Entities;
- interview employees of the Company and Controlled Entities in the course of audits;
- use information resources and computer software of the Company Units and Controlled Entities in accordance with the established procedure;
- request and obtain required assistance from employees of the audited Controlled Entities and Company Units;
- initiate, in accordance with the established procedure, drafting of Company internal regulations, executive and in-house documents concerning matters within the Division's terms of reference;

- agree (sign off), in accordance with the established procedure, draft Company internal regulations, executive and in-house documents concerning matters within the Division's terms of reference;
- interact with Company Units, Controlled Entities, Company Management, Board of Directors, BoD Audit Committee and third parties within its terms of reference;
- make suggestions to the Board of Directors, BoD Audit Committee and Company Management regarding improvement of the Company and Controlled Entities' existing systems, processes, standards and business methods and make comments regarding any matters within the Division's terms of reference;
- in the event of discovery of any violation of law in the Company or Controlled Entities, take appropriate steps and inform the Chairman of the Management Board of such violations in order to call those at fault to account and to take action to rectify the violations;
- maintain correspondence with other Company Units and Controlled Entities regarding matters within the terms of reference of the Division;
- duly give clarifications and recommendations to the Company Units and Controlled Entities regarding implementation of decisions made by the Company in connection with the activities of the Division;
- submit nominations, transfers and terminations of, incentives for, and administrative actions against the Division employees for the consideration by Chairman of the Management Board or any other person authorized by him/her;
- sign and agree (sign off) documents within its terms of reference;
- duly hold and attend meetings concerning matters within its terms of reference;
- take part as an attendee in meetings and sessions of Company bodies (committees, commissions, working groups, etc.); and
- engage Company employees and external experts in the performance of audits and other tasks in accordance with the procedure set by the Company's regulations and rules.

## **9. FINAL PROVISIONS**

9.1. These Regulations, as well as all additions and modifications thereto are approved by the Board of Directors of the Company.

9.2. Issues not covered by these Regulations shall be governed by the applicable legislation of the Russian Federation, decisions of the Board of Directors, and other local regulatory documents of the Company.

9.3. If as a result of change of the applicable legislation or regulatory documents of the Russian Federation certain clauses of the Regulations come into contradiction with them, such clauses shall become null and void and before any changes are introduced, the Regulations shall be applied to the extent not contradictory to the applicable legislation and other regulatory documents of the Russian Federation.