

PAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

AND INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

To the Shareholders and Board of Directors of PAO NOVATEK:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PAO NOVATEK and its subsidiaries (together – the “Group”) as at 31 December 2020, and the Group’s consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group’s consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Auditor’s Professional Ethics Code and Auditor’s Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview



- Overall group materiality: Russian Roubles (“RUB”) 6,200 million which represents 4% of adjusted profit before tax excluding currency exchange differences, net gain on disposal of interests in subsidiaries and joint ventures and the Group’s share of joint ventures’ currency exchange differences net of income tax.
- We conducted audit work covering all significant components in Russia, Switzerland, Singapore and Republic of Cyprus.
- Our audit scope addressed more than 99% of the Group’s revenues and more than 99% of absolute value of income and expense items forming the Group’s underlying profit before tax.
- Impairment of production assets and investments in joint ventures.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.



Overall Group materiality	RUB 6,200 million
How we determined it	4% of adjusted profit before tax excluding currency differences, net gain on disposal of interests in subsidiaries and joint ventures and share of joint ventures' currency differences net of income tax.
Rationale for the materiality benchmark applied	<p>We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. The use of adjusted profit before tax mitigates the effect of volatility (that could be material) caused by non-recurring factors such as gains on disposals of assets and foreign exchange differences and provides a more stable basis for determining materiality, focusing on the underlying profitability of the Group.</p> <p>We chose 4% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector and prior year approach.</p>

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of production assets and investments in joint ventures</p> <p>Due to the lower demand for crude oil, natural gas and oil products and a fall in global hydrocarbon commodity prices there is a possibility that property, plant and equipment, as well as investments in joint ventures may not be recoverable.</p> <p>We focused on this area due to the significance of the carrying values of property, plant and equipment and of the investments in joint ventures for the Group, and due to the nature of judgements and assumptions management is required to make in determining whether there are any impairment triggers or impairments.</p>	<p>We analyzed management's assessment of the impairment triggers, including decrease in estimated hydrocarbon reserves for particular fields where applicable, and agreed that impairment triggers existed as of the reporting date. We engaged our valuation experts to form our conclusion on the assumptions and methodology that were used in the impairment assessment.</p> <p>We evaluated impairment models for production assets and investments in joint ventures prepared by management to identify recoverable amount as value-in-use using discounted cash flows models.</p> <p>Specific work that we performed over the assessment of the impairment models prepared by management included:</p> <ul style="list-style-type: none"> • evaluation of the methodology used by the Group management for the impairment test;



Key audit matter	How our audit addressed the key audit matter
<p>There was no impairment charge identified as a result of the impairment test performed as disclosed in Note 5 of the consolidated financial statements.</p>	<ul style="list-style-type: none">• comparing the assumptions used within the impairment review models to approved plans and models of the Group, which we found to be consistent;• benchmarking some of the key assumptions including commodity prices, discount rates and inflation rates against available reliable external sources and our industry-specific expertise, which we found to be consistent;• performing sensitivity analysis over key assumptions in the models in order to assess the potential impact of reasonably possible changes in key assumptions and of a range of possible outcomes on the carrying value of underlying assets / cash-generating units; and• challenged management on inclusion of cash flows from all appropriate assets and liabilities in the cash-generating units. <p>For investments in joint ventures we also reconciled adjustments for the Group's share in carrying amount of assets and liabilities of joint venture with respective financial reporting items.</p>

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the reporting units by the group engagement team and by the component auditors from other PwC network firms. For each reporting unit we issued specific instructions to the component auditors within our audit scope. We determined the level of involvement for component auditors whom we need to engage in the audit process at those reporting units so as to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. We determined whether we required an audit of full scope of financial information or whether a defined scope of specified procedures was sufficient.

The Group's consolidated financial statements disclosures and a number of financial statement line items are audited directly by the PAO NOVATEK audit engagement team. Our procedures included, among others, the assessment of accounting estimates and judgements applied by management in respect of fair values and classification of financial assets and liabilities, deferred income tax asset recognition, estimation of oil and gas reserves, expected credit loss allowance of financial assets and impairment of non-financial assets, pension obligations and asset retirement obligations.

By performing the procedures described above at the individual component level, combined with the additional procedures performed at the group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group to provide a basis for our opinion on the consolidated financial statements.



Other information

Management is responsible for the other information. The other information comprises report “Management’s discussion and analysis of financial condition and results of operations of PAO NOVATEK for the years ended 31 December 2020 and 2019” (but does not include the consolidated financial statements and our auditor’s report thereon), which we obtained prior to the date of this auditor’s report, and “Quarterly Issuer’s Report of PAO NOVATEK for the first quarter of 2021” as well as “Annual Report Review of PAO NOVATEK for 2020”, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the “Annual Report Review of PAO NOVATEK for 2020” and “Quarterly Issuer’s Report of PAO NOVATEK for the first quarter of 2021”, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Maxim E. Timchenko.

AO PricewaterhouseCoopers Audit
16 February 2009
Moscow, Russian Federation

M.E. Timchenko, certified auditor (licence No. 01-000267), AO PricewaterhouseCoopers Audit

Audited entity: PAO NOVATEK

Record made in the Unified State Register of Legal Entities on
20 August 2002 under State Registration Number 1026303117642

Taxpayer Identification Number: 6316031581

Russian Federation, Yamalo-Nenetski state, Purovsky region, Tarko-Sale.

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on
28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on
22 August 2002 under State Registration Number 1027700148431

Taxpayer Identification Number 7705051102

Member of Self-regulatory organization of auditors Association
«Sodruzhestvo»

Principal Registration Number of the Record in the Register of Auditors and
Audit Organizations –12006020338

PAO NOVATEK
Consolidated Statement of Financial Position
(in millions of Russian roubles)

	Notes	At 31 December 2020	At 31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	5	729,407	556,798
Investments in joint ventures	6	450,632	585,340
Long-term loans and receivables	7	391,053	231,898
Other non-current assets	8	125,152	142,335
Total non-current assets		1,696,244	1,516,371
Current assets			
Inventories	9	10,723	12,263
Current income tax prepayments		302	3,819
Trade and other receivables	10	71,255	229,581
Prepayments and other current assets	11	98,071	113,841
Short-term bank deposits			
with original maturity more than three months		62,876	83,752
Cash and cash equivalents	12	119,707	53,240
Total current assets		362,934	496,496
Total assets		2,059,178	2,012,867
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	13	168,988	139,852
Long-term lease liabilities	25	6,670	7,516
Deferred income tax liabilities	24	64,132	62,146
Asset retirement obligations		14,397	12,372
Other non-current liabilities		6,568	6,792
Total non-current liabilities		260,755	228,678
Current liabilities			
Current portion of long-term debt	13	53,152	12,246
Current portion of long-term lease liabilities	25	3,798	2,947
Trade payables and accrued liabilities	15	83,995	86,728
Current income tax payable		3,048	2,140
Other taxes payable		16,003	13,052
Total current liabilities		159,996	117,113
Total liabilities		420,751	345,791
Equity attributable to PAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(20,386)	(12,308)
Additional paid-in capital		31,297	31,297
Currency translation differences		2,652	3,814
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		1,600,391	1,618,696
Total equity attributable to PAO NOVATEK shareholders	16	1,619,964	1,647,509
Non-controlling interest		18,463	19,567
Total equity		1,638,427	1,667,076
Total liabilities and equity		2,059,178	2,012,867

The accompanying notes are an integral part of these consolidated financial statements.


L. Mikhelson
Chairman of the Management Committee


M. Gyetvay
Chief Financial Officer

16 February 2021

PAO NOVATEK

Consolidated Statement of Income

(in millions of Russian roubles, except for share and per share amounts)

	Notes	Year ended 31 December:	
		2020	2019
Revenues			
Oil and gas sales	17	699,750	852,232
Other revenues		12,062	10,571
Total revenues		711,812	862,803
Operating expenses			
Purchases of natural gas and liquid hydrocarbons	18	(235,224)	(330,818)
Transportation expenses	19	(154,757)	(151,651)
Taxes other than income tax	20	(54,501)	(61,981)
Depreciation, depletion and amortization	5	(39,238)	(32,230)
Materials, services and other	21	(29,577)	(25,183)
General and administrative expenses	22	(26,795)	(24,568)
Exploration expenses	5	(9,103)	(8,386)
Impairment (expenses) reversals, net		(254)	(162)
Changes in natural gas, liquid hydrocarbons and work-in-progress		(2,613)	(5,484)
Total operating expenses		(552,062)	(640,463)
Gain on disposal of interests in subsidiaries and joint ventures, net	4	69	682,733
Other operating income (loss), net	25	(46,807)	(35,484)
Profit from operations		113,012	869,589
Finance income (expense)			
Interest expense	23	(4,939)	(4,491)
Interest income	23	25,440	20,699
Change in fair value of non-commodity financial instruments	25	(7,397)	12,827
Foreign exchange gain (loss), net	23	147,461	(44,747)
Total finance income (expense)		160,565	(15,712)
Share of profit (loss) of joint ventures, net of income tax	6	(143,981)	149,238
Profit before income tax		129,596	1,003,115
Income tax expense			
Current income tax expense		(52,016)	(97,832)
Deferred income tax benefit (expense), net		1,006	(21,822)
Total income tax expense	24	(51,010)	(119,654)
Profit		78,586	883,461
Profit attributable to:			
Non-controlling interest		10,754	17,984
Shareholders of PAO NOVATEK		67,832	865,477
Basic and diluted earnings per share (in Russian roubles)		22.58	287.39
<i>Weighted average number of shares outstanding (in millions)</i>		<i>3,004.5</i>	<i>3,011.5</i>

The accompanying notes are an integral part of these consolidated financial statements.

PAO NOVATEK**Consolidated Statement of Comprehensive Income**

(in millions of Russian roubles)

	Notes	Year ended 31 December:	
		2020	2019
Profit		78,586	883,461
Other comprehensive income (loss)			
Items that will not be reclassified subsequently to profit (loss)			
Remeasurement of pension obligations	14	(92)	(976)
Share of remeasurement of pension obligations of joint ventures		(80)	(205)
		(172)	(1,181)
Items that may be reclassified subsequently to profit (loss)			
Currency translation differences		(43)	4,860
Share of currency translation differences of joint ventures		(1,119)	656
		(1,162)	5,516
Other comprehensive income (loss)		(1,334)	4,335
Total comprehensive income		77,252	887,796
Total comprehensive income attributable to:			
Non-controlling interest		10,754	17,984
Shareholders of PAO NOVATEK		66,498	869,812

The accompanying notes are an integral part of these consolidated financial statements.

PAO NOVATEK

Consolidated Statement of Cash Flows

(in millions of Russian roubles)

	Notes	Year ended 31 December:	
		2020	2019
Profit before income tax		129,596	1,003,115
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		39,238	32,230
Impairment expenses (reversals), net		254	162
Foreign exchange loss (gain), net		(147,461)	44,747
Gain on disposal of interests in subsidiaries and joint ventures, net	4	(69)	(682,733)
Interest expense		4,939	4,491
Interest income		(25,440)	(20,699)
Share of loss (profit) of joint ventures, net of income tax	6	143,981	(149,238)
Change in fair value of non-commodity financial instruments		7,397	(12,827)
Revaluation of commodity derivatives and contingent consideration through profit or loss	25	49,512	34,304
Other adjustments		1,940	(294)
Decrease (increase) in long-term advances given		6,013	5,740
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(13,766)	(21,498)
Decrease (increase) in inventories		2,565	7,560
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		(8,615)	6,086
Increase (decrease) in taxes payable, other than income tax		2,927	(2,115)
Total effect of working capital changes		(16,889)	(9,967)
Dividends and cash received from joint ventures		11,420	46,050
Interest received		8,442	47,413
Income taxes paid excluding actual payments relating to disposal of interests in subsidiaries and joint ventures	24	(40,977)	(35,061)
Net cash provided by operating activities		171,896	307,433
Cash flows from investing activities			
Purchases of property, plant and equipment	5	(181,195)	(144,186)
Payments for mineral licenses	5	(434)	(7,827)
Purchases of materials for construction		(17,039)	(12,413)
Purchases of intangible assets		(1,264)	(1,146)
Capital contributions to joint ventures	6	-	(298)
Proceeds from disposal of interests in subsidiaries and joint ventures, net of cash disposed	4	195,479	136,541
Actual income tax payments relating to disposal of interests in subsidiaries and joint ventures	4, 24	(23)	(64,540)
Interest paid and capitalized	5	(6,343)	(5,903)
Net decrease (increase) in bank deposits with original maturity more than three months		43,057	(58,945)
Guarantee fees paid		(855)	(1,427)
Loans provided to joint ventures	7	(120,798)	(29,664)
Repayments of loans provided to joint ventures	7	41,543	20,764
Net cash used for investing activities		(47,872)	(169,044)

PAO NOVATEK
Consolidated Statement of Cash Flows
(in millions of Russian roubles)

	Notes	Year ended 31 December:	
		2020	2019
Cash flows from financing activities			
Proceeds from long-term debt		45,395	-
Repayments of long-term debt		(5,935)	(2,176)
Proceeds from short-term debt			
with original maturity more than three months		441	1,000
Repayments of short-term debt			
with original maturity more than three months		(441)	(1,000)
Increase (decrease) in short-term debt			
with original maturity three months or less, net		36	-
Loan commitment fee		(534)	-
Interest on debt paid		(2,402)	(2,237)
Dividends paid to shareholders of PAO NOVATEK	16	(89,857)	(93,468)
Dividends paid to non-controlling interest		(11,858)	(16,758)
Payments of lease liabilities		(4,649)	(2,944)
Purchases of treasury shares	16	(8,271)	(1,865)
Net cash used for financing activities		(78,075)	(119,448)
Net effect of exchange rate changes on cash and cash equivalents		20,518	(7,173)
Net increase (decrease) in cash and cash equivalents		66,467	11,768
Cash and cash equivalents at the beginning of the period		53,240	41,472
Cash and cash equivalents at the end of the period		119,707	53,240

The accompanying notes are an integral part of these consolidated financial statements.

PAO NOVATEK

Consolidated Statement of Changes in Equity

(in millions of Russian roubles, except for number of shares)

	<i>Number of ordinary shares (in millions)</i>	Ordinary share capital	Treasury shares	Additional paid-in capital	Currency translation differences	Asset revaluation surplus on acquisitions	Retained earnings	Equity attributable to PAO NOVATEK shareholders	Non- controlling interest	Total equity
At 1 January 2019	3,012.9	393	(10,445)	31,297	(1,702)	5,617	843,094	868,254	18,341	886,595
Profit	-	-	-	-	-	-	865,477	865,477	17,984	883,461
Other comprehensive income (loss)	-	-	-	-	5,516	-	(1,181)	4,335	-	4,335
Total comprehensive income (loss)	-	-	-	-	5,516	-	864,296	869,812	17,984	887,796
Dividends (Note 16)	-	-	-	-	-	-	(93,468)	(93,468)	(16,758)	(110,226)
Effect from other changes in joint ventures' net assets (Note 6)	-	-	-	-	-	-	4,774	4,774	-	4,774
Purchase of treasury shares (Note 16)	(1.7)	-	(1,863)	-	-	-	-	(1,863)	-	(1,863)
At 31 December 2019	3,011.2	393	(12,308)	31,297	3,814	5,617	1,618,696	1,647,509	19,567	1,667,076
Profit	-	-	-	-	-	-	67,832	67,832	10,754	78,586
Other comprehensive loss	-	-	-	-	(1,162)	-	(172)	(1,334)	-	(1,334)
Total comprehensive income (loss)	-	-	-	-	(1,162)	-	67,660	66,498	10,754	77,252
Dividends (Note 16)	-	-	-	-	-	-	(89,857)	(89,857)	(11,858)	(101,715)
Effect from other changes in joint ventures' net assets (Note 6)	-	-	-	-	-	-	3,892	3,892	-	3,892
Purchase of treasury shares (Note 16)	(8.4)	-	(8,078)	-	-	-	-	(8,078)	-	(8,078)
At 31 December 2020	3,002.8	393	(20,386)	31,297	2,652	5,617	1,600,391	1,619,964	18,463	1,638,427

The accompanying notes are an integral part of these consolidated financial statements.

PAO NOVATEK

Notes to the Consolidated Financial Statements

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

PAO NOVATEK (hereinafter referred to as “NOVATEK” or the “Company”) 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 District (hereinafter referred to as “YNAO”) of the Russian Federation. The Group delivers its natural gas and its liquid hydrocarbons on both the Russian domestic and international markets.

The Group sells its natural gas on the Russian domestic market at unregulated market prices (except for deliveries to residential customers); however, the majority of natural gas sold on the Russian domestic market by all producers is sold at prices regulated by the governmental agency of the Russian Federation that carries out state regulation of prices and tariffs for goods and services of natural monopolies in energy, utilities and transportation. The Group’s natural gas sales volumes on the domestic market fluctuate on a seasonal basis mostly due to Russian weather conditions, with sales peaking in the winter months of December and January and troughing in the summer months of July and August.

The Group’s joint ventures OAO Yamal LNG and OOO Cryogas-Vysotsk produce liquefied natural gas (“LNG”) at their LNG plants. The Group purchases a portion of the LNG produced by Yamal LNG and Cryogas-Vysotsk and sells it primarily on the international markets. The Group’s LNG sales volumes are not subject to significant seasonal fluctuations.

In August 2020, the Group’s subsidiary OOO NOVATEK-Chelyabinsk launched its first small-scale LNG plant in the Chelyabinsk Region with a nameplate capacity of 40 thousand tons per annum. The LNG produced is sold primarily as natural gas motor fuel at the Group’s branded refueling complexes for passenger, cargo transport and mining equipment in the Chelyabinsk Region and the neighboring areas.

The Group also purchases and sells natural gas on the European market under long-term and short-term supply contracts to carry out its foreign commercial trading activities, as well as conducts LNG regasification in Poland.

The Group processes unstable gas condensate at its Purovsky Gas Condensate Processing Plant located in close proximity to its fields into stable gas condensate and liquefied petroleum gas. The majority of stable gas condensate is further processed at the Group’s Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea into higher-value refined products (naphtha, jet fuel, gasoil and fuel oil). The remaining stable gas condensate volumes are sold on domestic and international markets. The Group sells its liquid hydrocarbons at prices that are subject to fluctuations in underlying benchmark crude oil, naphtha and other gas condensate refined products prices. The Group’s liquids sales volumes are not subject to significant seasonal fluctuations.

2 BASIS OF PREPARATION

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss or other comprehensive income. In the absence of specific IFRS guidance for oil and gas producing companies, the Group has developed accounting policies in accordance with other generally accepted accounting principles for oil and gas producing companies, mainly US GAAP, insofar as they do not conflict with IFRS principles.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Functional and presentation currency. The consolidated financial statements are presented in Russian roubles, the Group’s presentation currency and the functional currency for the Company and the majority of the Group’s subsidiaries.

PAO NOVATEK

Notes to the Consolidated Financial Statements

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

2 BASIS OF PREPARATION (CONTINUED)

Transactions denominated in foreign currencies are converted into the functional currency of each entity at the exchange rates prevailing on the date of transactions. Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency of each entity by applying the year end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies valued at cost are converted into the functional currency of each entity at the historical exchange rate. Non-monetary assets that are remeasured to fair value, recoverable amount or realizable value, are converted at the exchange rate applicable to the date of remeasurement. Exchange gains and losses resulting from foreign currency remeasurement into the functional currency are included in profit (loss) for the reporting period.

On consolidation the assets and liabilities (both monetary and non-monetary) of the Group entities whose functional currency is not the Russian rouble are translated into Russian roubles at the closing exchange rate at each balance sheet date. All items included in the shareholders' equity, other than profit or loss, are translated at historical exchange rates. The financial results of these entities are translated into Russian roubles using exchange rates at the dates of the transactions or the average exchange rate for the period when this is a reasonable approximation. Exchange adjustments arising on the opening net assets and the profits for the reporting period are taken to other comprehensive income and reported as currency translation differences in the consolidated statement of changes in equity and the consolidated statement of comprehensive income.

Exchange rates for foreign currencies in which the Group conducted significant transactions or had significant assets and/or liabilities in the reporting period were as follows:

<i>Russian roubles to one currency unit</i>	At 31 December:		Average rate for the year ended 31 December:	
	2020	2019	2020	2019
US dollar (USD)	73.88	61.91	72.15	64.74
Euro (EUR)	90.68	69.34	82.45	72.50
Polish zloty (PLN)	20.01	16.24	18.54	16.87

Significant accounting policies. The principal accounting policies are disclosed in Note 30. In 2020, the Group adopted all IFRS, amendments and interpretations which are effective 1 January 2020 and relevant to its operations. None of them had material impact on the Group's consolidated financial statements. In particular, the following amendments to standards were adopted by the Group starting from 1 January 2020:

Amendments to IFRS 3, Business Combinations. These amendments revise the definition of a business with the aim to make its application less complicated. In addition, they introduce an optional "concentration test" that, if met, eliminates the need for further assessment. Under this concentration test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. The Group will apply the new definition of a business in accounting for future transactions.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Consolidated financial statements prepared in accordance with IFRS require management to make estimates which the Group's management reviews on a continuous basis, by reference to past experience and other factors considered as reasonable. Adjustments to accounting estimates and assumptions are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both are affected. The Group's management also makes certain judgments, apart from those involving estimations, in the process of applying the Group's accounting policies.

Judgments and estimates that have the most significant effect on the amounts reported in these consolidated financial statements are described below.

Fair value of financial instruments. The fair value of financial assets and liabilities, other than financial instruments that are traded in active markets, is determined by applying various valuation methodologies. The Group's management uses its judgment to make assumptions primarily based on market conditions existing at each reporting date.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

For commodity derivative contracts where observable information is not available, fair value estimations are determined using mark-to-market analysis and other acceptable valuation methods, for which the key inputs include future prices, volatility, price correlation, counterparty credit risk and market liquidity. Fair values of the Group's commodity derivative contracts and sensitivities are presented in Note 25.

In some cases, judgment is required to determine whether contracts to buy or sell commodities meet the definition of a derivative. Contracts to buy or sell LNG are not considered to meet the definition of a derivative, as they are not considered capable of being net settled. Therefore, such contracts are not within the scope of IFRS 9, *Financial Instruments*, and are accounted for on an accruals basis.

Fair value estimation of shareholders' loans to joint ventures is determined using benchmark interest rates adjusted for the borrower credit risk and free cash flows from the borrower's strategic plans approved by the shareholders of the joint ventures. Fair values of the shareholders' loans to joint ventures and sensitivities are presented in Note 25.

Discounted cash flow analysis is used for loans and receivables as well as debt instruments that are not traded in active markets. The effective interest rate is determined by reference to the interest rates of financial instruments available to the Group in active markets. In the absence of such instruments, the effective interest rate is determined by reference to the interest rates of active market financial instruments available adjusted for the Group's specific risk premium estimated by management.

Deferred income tax asset recognition. Management assesses deferred income tax assets at each reporting date and determines the amount recorded to the extent that realization of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimations based on prior years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Estimation of oil and gas reserves. Oil and gas reserves have a direct impact on certain amounts reported in the consolidated financial statements, most notably depreciation, depletion and amortization, as well as impairment expenses and asset retirement obligations. The Group's principal oil and gas reserves have been independently estimated by internationally recognized petroleum engineers whereas other oil and gas reserves of the Group have been determined based on estimates of hydrocarbon reserves prepared by the Group's management in accordance with internationally recognized definitions.

Depreciation rates on oil and gas assets using the unit-of-production method are based on proved developed reserves and total proved reserves estimated by the Group in accordance with rules promulgated by the Securities and Exchange Commission (SEC) for proved reserves. The Group also uses estimated probable and possible reserves to calculate future cash flows from oil and gas properties, which serve as an indicator in determining their economic lives and whether or not property impairment is present.

A portion of the reserves estimated by the Group includes reserves expected to be produced beyond license expiry dates. The Group's management believes that there is requisite legislation and past experience to extend mineral licenses at the initiative of the Group and, as such, intends to extend its licenses for properties expected to produce beyond the current license expiry dates.

Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted.

Impairment of investments in joint ventures and property, plant and equipment. Management assesses whether there are any indicators of possible impairment of investments in joint ventures and property, plant and equipment at each reporting date based on events or circumstances that indicate that the carrying value of assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes, and for oil and gas properties, significant downward revisions of estimated proved reserves. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Pension obligations. The costs of defined benefit pension plans and related current service costs are determined using actuarial valuations. The actuarial valuations involve making demographic assumptions (mortality rates, age of retirement, employee turnover and disability) as well as financial assumptions (discount rates, expected rates of return on assets, future salary and pension increases). Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Asset retirement obligations. The Group's exploration, development and production activities involve the use of wells, related equipment and operating sites, oil and gas gathering and treatment facilities and in-field pipelines. Generally, licenses and other regulatory acts set requirements to decommission such assets upon the completion of production, in accordance with which the Group is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Group's estimates of these obligations are based on current regulatory or license requirements, as well as actual dismantling costs and other data.

The Group's management believes that due to the limited history of gas and gas condensate processing plants activities, the useful lives of these assets are indeterminable (while certain of the operating components and equipment have definite useful lives). Because of these reasons, and the lack of clear legal requirements as to the recognition of obligations, the present value of an asset retirement obligation for such processing facilities cannot be reasonably estimated and, therefore, legal or contractual asset retirement obligations related to these assets are not recognized.

In accordance with the guidelines of IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, the amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation where the Group's respective operating assets are located, and is subject to change because of modifications, revisions and changes in laws and regulations and their interpretation thereof. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Fair value assessment of investment in OOO Arctic LNG 2. As further discussed in Note 4, as a result of the sale of a 10 percent participation interest in Arctic LNG 2 to TOTAL S.A. in March 2019, the Group's control over Arctic LNG 2 was replaced by joint control.

In accordance with IAS 28, *Investments in Associates and Joint Ventures*, the Group recognized a gain resulting from the remeasurement at fair value of the participation interest retained to the extent of the unrelated investor's interest in the new joint venture. The fair value of the investment in Arctic LNG 2 was calculated based on a discounted cash flow model for the Arctic LNG 2 project including a number of key assumptions, the sensitivities of which are disclosed in Note 4.

4 ACQUISITIONS AND DISPOSALS

Disposal of a 10 percent participation interest in OOO Arctic LNG 2 in March 2019

In March 2019, the Group sold a 10 percent participation interest in OOO Arctic LNG 2 to TOTAL E&P Salmanov, a wholly owned subsidiary of TOTAL S.A. Arctic LNG 2 undertakes a project to construct a new LNG plant on the Gydan peninsula based on the hydrocarbon resources of the Salmanovskoye (Utrenneye) field (the "Project").

As a part of the transaction on the sale of a 10 percent participation interest in Arctic LNG 2, total consideration to be paid by TOTAL E&P Salmanov comprises the following:

- *cash payments to the Group* of USD 1,300 million equivalent, of which USD 600 million equivalent was paid upon the transaction closing date and the remaining amount was paid within twelve months from that date, in the first quarter of 2020;
- *contingent cash consideration to the Group* consisting of tranches in total of up to USD 800 million equivalent depending on average crude oil benchmark prices level for the year preceding each payment. The contingent payments dates are linked to the dates of launching the Project's LNG trains;

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4 ACQUISITIONS AND DISPOSALS (CONTINUED)

- *capital contributions to OOO Arctic LNG 2 (in the form of contributions to the assets)* ranging from USD 363 million to USD 863 million equivalent (these amounts are presented, in particular, taking into account revisions made upon the entry of the three additional participants to the Project in July 2019, see below) with the terms and payment amounts depending on the Project's capital expenditure program determined upon the results of the Final Investment Decision and the date of production launch at the Project's first LNG train.

The Group retained a 90 percent participation interest in Arctic LNG 2 after closing the transaction; at the same time, the terms of the transaction stipulate that key strategic, operational and financial decisions are subject to unanimous approval by participants. As a result of these changes, upon closing the transaction, the Group's control over Arctic LNG 2 was replaced by joint control. The Group determined Arctic LNG 2 to be a joint venture and accounts for the investment retained under the equity method.

The Group treated the transaction on the sale of a 10 percent participation interest in OOO Arctic LNG 2 as a contribution of a non-monetary asset to a newly formed joint venture. In accordance with IAS 28, *Investments in Associates and Joint Ventures*, the Group recognized within the gain on the transaction the part of a gain resulting from the remeasurement at fair value of the participation interest retained only to the extent of the unrelated investor's interest in the new joint venture.

The following table summarizes the consideration details and shows the components of the gain on disposal of a 10 percent participation interest in Arctic LNG 2:

	<u>RR million</u>
Cash payments	85,540
Contingent consideration ⁽¹⁾	35,810
Capital contributions ⁽²⁾ (at 90 percent)	40,446
Total consideration	161,796
Less: carrying amount of the Group's 10 percent interest in the net assets	(3,382)
Add: fair value adjustment relating to the retained investment in joint venture	1,501,643
Less: elimination of a 90 percent of the fair value adjustment	(1,351,479)
Gain on the sale of a 10 percent participation interest	308,578

⁽¹⁾ – Estimated based on assumptions regarding a discount rate, long-term crude oil prices forecasts and the Project's realization schedule.

⁽²⁾ – Estimated based on assumptions regarding a discount rate, future capital expenditure and the Project's realization schedule.

Gain on the disposal of a 10 percent participation interest amounted to RR 308,578 million, before associated income tax (current and deferred) of RR 37,372 million.

The fair value of the investment in Arctic LNG 2 was based on a discounted cash flow model for the Arctic LNG 2 project. The significant assumptions in the discounted cash flow model included: forecasted prices for liquefied natural gas ("LNG"); anticipated production volumes; future capital expenditures required to build necessary infrastructure and drill production wells; and the discount factor used in the fair value calculation. The key sensitivities in relation to the discounted cash flows are:

- future LNG prices were based on benchmark natural gas prices at the major natural gas hubs and benchmark crude oil prices using forecasted growth rates. If these estimated future crude oil prices were to decrease by one percent for each year in the cash flow projection then, assuming that other parameters remain unchanged, the fair value of the retained interest in Arctic LNG 2 and the gain on the transaction would be reduced by RR 36,731 million and RR 3,673 million, respectively;
- future production was based on expected Project capacity. If production volumes were to be one percent lower in the cash flow projection then, assuming that other parameters remain unchanged, the fair value of the retained interest in Arctic LNG 2 and the gain on the transaction would be reduced by RR 17,719 million and RR 1,772 million, respectively;

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4 ACQUISITIONS AND DISPOSALS (CONTINUED)

- future capital expenditure over the Project's life has been estimated based on preliminary engineering and cost estimates. If the level of capital expenditure were to be one percent higher in the cash flow projection then, assuming that other parameters remain unchanged, the fair value of the retained interest in Arctic LNG 2 and the gain on the transaction would be reduced by RR 8,871 million and RR 887 million, respectively; and
- the discount rate was assumed to be 9.4 percent (in US dollar terms). If the discount rate was increased by half of one percent (to 9.9 percent) then, assuming that other parameters remain unchanged, the fair value of the retained interest in Arctic LNG 2 and the gain on the transaction would be reduced by RR 152,748 million and RR 15,275 million, respectively.

Below is a breakdown of major classes of assets and liabilities of OOO Arctic LNG 2 at the date of disposal:

	<u>RR million</u>
Property, plant and equipment	73,102
Other non-current assets	4,486
Cash and cash equivalents	15,990
Other current assets	5,714
Long-term debt	(58,329)
Other non-current liabilities	(3,546)
Other current liabilities	(3,596)
Total identifiable net assets at disposal	33,821

The following table reconciles the carrying value of net assets of OOO Arctic LNG 2 at the date of disposal and the carrying value of the retained investment in the entity recorded under the equity method of accounting:

	<u>RR million</u>
Carrying value of the net assets at disposal	33,821
Add: Group's proportion of proceeds from future capital contributions	40,446
Less: carrying amount of the Group's 10 percent interest in the net assets	(3,382)
Add: fair value adjustment relating to the retained investment in joint venture	1,501,643
Less: elimination of 90 percent of the fair value adjustment	(1,351,479)
The carrying value of the retained 90 percent participation interest	221,049
Less: reclassification of a 30 percent participating interest to assets held for sale	(73,683)
The carrying value of equity investment at the transaction closing date	147,366

At the transaction closing date, the conditions for recognition of a 30 percent participation interest in Arctic LNG 2 as an asset held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, have been met.

The carrying value of the asset held for sale of RR 73,683 million was determined based on the carrying value of the retained participation interest recognized upon closing the transaction as presented above. In accordance with IAS 12, *Income taxes*, the Group recorded associated deferred tax liability in the amount of RR 13,510 million, calculated as the difference between that carrying value and its tax base, included in the total income tax expense related to the transaction disclosed above. No impairment of assets was identified as a result of the decision to sell an interest in this entity.

Disposal of a 30 percent participation interest in OOO Arctic LNG 2 in July 2019

In June 2019, the Group signed agreements with CNPC, CNOOC Limited, Mitsui & Co., Ltd. and JOGMEC on entering the Arctic LNG 2 project. In accordance with these agreements, CNOOC Dawn Light Limited and CEPR Limited, respective subsidiaries of CNPC and CNOOC Limited, and Japan Arctic LNG B.V., a joint venture of Mitsui & Co. Ltd. and JOGMEC, each acquired a 10 percent participation interest in OOO Arctic LNG 2 on the terms similar to the aforementioned terms for TOTAL S.A.'s entrance to the Project. The transactions were closed in July 2019.

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4 ACQUISITIONS AND DISPOSALS (CONTINUED)

As a result of these transactions, the Group's interest in Arctic LNG 2 is 60 percent. As key strategic, operational and financial decisions are subject to unanimous approval by the participants, the Group continues recognising the company to be a joint venture and accounts for this investment under the equity method.

The following table summarizes the consideration details and shows the components of the gain on disposal of an additional 30 percent participation interest in Arctic LNG 2 in July 2019:

	<u>RR million</u>
Cash payments	245,331
Contingent consideration ⁽¹⁾	101,689
Capital contributions ⁽²⁾ (at 60 percent)	93,053
Total consideration	440,073
Less: carrying amount of the Group's disposed 30 percent participation interest classified as held for sale	(73,683)
Gain on the sale of 30 percent participation interest	366,390

⁽¹⁾ – Estimated based on assumptions regarding a discount rate, long-term crude oil prices forecasts and the Project's realization schedule.

⁽²⁾ – Estimated based on assumptions regarding a discount rate, future capital expenditure and the Project's realization schedule.

Gain on the disposal of a 30 percent participation interest amounted to RR 366,390 million, before associated income tax (current and deferred) of RR 54,668 million.

The total gain on disposal of a 40 percent participation interest in Arctic LNG 2 in 2019 amounted to RR 674,968 million, before associated income tax (current and deferred) of RR 92,040 million.

Reorganization of AO Arcticgas

At the end of 2018, the Group and PAO Gazprom Neft agreed on series of transactions on reorganizing its joint venture AO Arcticgas aimed at obtaining by the Arcticgas' shareholders the full ownership over certain assets.

Under this agreement, in February 2019, the Group made a contribution of 100 percent participation interest in OOO NOVATEK-Yarsaleneftegas, the holder of the license for exploration and production of hydrocarbons within the Malo-Yamalskiy license area, to the capital of Arcticgas. The carrying value of the net assets of NOVATEK-Yarsaleneftegas at the disposal date was RR 2.2 billion.

Three subsidiaries were then carved out from Arcticgas: two subsidiaries, to which licenses for North-Chaselskiy and Yevo-Yakhinskiy license areas were transferred, in favor of the Group, and one subsidiary, the holder of the license for Malo-Yamalskiy license area, in favor of Gazprom Neft.

Reorganization transactions were completed in October 2019. The Group recognized a gain of RR 7.8 billion from the reorganization recorded in the line item "Gain on disposal of interests in subsidiaries and joint ventures" in the consolidated statement of income:

	<u>RR million</u>
Fair value of investments in new subsidiaries	19,650
Less: carrying value of the net assets of NOVATEK-Yarsaleneftegas	(2,163)
Less: Group's share in a decrease in the net assets of Arcticgas	(9,722)
Gain on reorganization	7,765

The fair value of investments in new subsidiaries has been allocated to property, plant and equipment, primarily to the licences cost, and respective deferred tax liabilities (See Note 5).

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4 ACQUISITIONS AND DISPOSALS (CONTINUED)*Disposal of OOO Chernichnoye*

In the fourth quarter of 2020, the Group sold a 100 percent participation interest in OOO Chernichnoye to the Group's joint venture ZAO Terneftegas for RR 730 million. Chernichnoye is a holder of the license for exploration and production of hydrocarbons within the Chernichniy license area located in YNAO. The carrying value of the net assets of Chernichnoye at the disposal date was RR 591 million. The Group's gain on the disposal after the elimination of an unrealized gain on the consolidation level amounted to RR 69 million, before associated income tax of RR 23 million.

5 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment for the reporting periods are as follows:

	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	525,089	77,953	17,949	620,991
Accumulated depreciation, depletion and amortization	(208,179)	-	(4,611)	(212,790)
Net book value at 1 January 2019	316,910	77,953	13,338	408,201
Additions	6,676	170,309	-	176,985
Transfers	58,000	(62,993)	4,993	-
Reorganisation (see Note 4)	18,605	3,165	-	21,770
Change in asset retirement costs	3,552	-	-	3,552
Depreciation, depletion and amortization	(30,805)	-	(1,066)	(31,871)
Reclassification to assets held for sale (see Note 4)	-	(18,761)	(386)	(19,147)
Disposals, net	(489)	(893)	(119)	(1,501)
Currency translation differences	(1,124)	(37)	(30)	(1,191)
Cost	609,958	168,743	22,294	800,995
Accumulated depreciation, depletion and amortization	(238,633)	-	(5,564)	(244,197)
Net book value at 31 December 2019	371,325	168,743	16,730	556,798
Additions	3,267	206,770	-	210,037
Transfers	124,504	(130,369)	5,865	-
Disposal of subsidiary (see Note 4)	(613)	(19)	(1)	(633)
Change in asset retirement costs	1,352	-	-	1,352
Depreciation, depletion and amortization	(36,852)	-	(1,691)	(38,543)
Disposals, net	(5)	(1,739)	(108)	(1,852)
Currency translation differences	1,962	230	56	2,248
Cost	737,953	243,616	28,107	1,009,676
Accumulated depreciation, depletion and amortization	(273,013)	-	(7,256)	(280,269)
Net book value at 31 December 2020	464,940	243,616	20,851	729,407

Included in additions to property, plant and equipment for the year ended 31 December 2019 are costs of RR 19,147 million related to the Arctic LNG 2 project and incurred until the date of the disposal of a 10 percent participation interest in OOO Arctic LNG 2 to TOTAL S.A. group (see Note 4).

Included in additions to property, plant and equipment for the years ended 31 December 2020 and 2019 are capitalized interest and foreign exchange differences of RR 10,624 million and RR 5,903 million, respectively.

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5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 66,415 million and RR 44,070 million at 31 December 2020 and 2019, respectively.

In 2019, as a result of the reorganization of AO Arcticgas, the Group consolidated the assets relating to the North Chaselsky and Yevo Yakhinsky license areas and recorded a disposal of assets relating to the Malo Yamalsky license area. The respective net increase in the carrying value of property, plant and equipment amounted to RR 21,770 million (see Note 4).

In December 2019, the Group purchased through auctions oil and gas exploration and production licenses for the South-Yamburgskiy, East-Ladertoyskiy and Bukharinskiy license areas located in the YNAO for the total amount of RR 3,493 million, of which RR 3,176 million was paid in 2019 as the auction's participation fees and included within assets under construction and advances for construction at 31 December 2019. The remaining amount of RR 317 million was paid after the state registration of the licenses in 2020.

In August 2019, the Group won an auction for oil and gas exploration and production license for the license area including the Soletskoye-Khanaveyskoye field located on the Gydan peninsula in the YNAO for a payment of RR 2,586 million, which was included within oil and gas properties and equipment.

In November 2018, the Group won an auction for an oil and gas exploration and production license for the South-Leskinskiy license area located on the Gydan peninsula in the YNAO for the total amount of RR 2,041 million, of which RR 35 million was paid in 2018 as the auction's participation fee and included within assets under construction and advances for construction at 31 December 2018. The remaining amount of RR 2,006 million was paid after the state registration of the license in January 2019.

The table below summarizes the Group's carrying values of total acquisition costs of proved and unproved properties included in oil and gas properties and equipment:

	At 31 December 2020	At 31 December 2019
Proved properties acquisition costs	103,002	100,495
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(21,856)	(20,463)
Unproved properties acquisition costs	10,924	10,997
Total acquisition costs	92,070	91,029

The Group's management believes these costs are recoverable as the Group has plans to explore and develop the respective fields.

Reconciliation of depreciation, depletion and amortization (DDA):

	Year ended 31 December:	
	2020	2019
Depreciation, depletion and amortization of property, plant and equipment	38,543	31,871
Add: DDA of intangible assets	1,091	714
Less: DDA capitalized in the course of intra-group construction services	(396)	(355)
DDA as presented in the consolidated statement of income	39,238	32,230

At 31 December 2020 and 2019, no property, plant and equipment were pledged as security for the Group's borrowings. No impairment was recognized in respect of oil and gas properties and equipment for the years ended 31 December 2020 and 2019.

Capital commitments are disclosed in Note 26.

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5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Leases. Included in property, plant and equipment at 31 December 2020 and 2019 are the right-of-use assets primarily related to long-term agreements on time chartering of marine tankers. Movements in the carrying amounts of the right-of-use assets are as follows:

	Oil and gas properties and equipment	Other	Total
Net book value at 1 January 2019	8,996	574	9,570
Additions	4,196	95	4,291
Depreciation, depletion and amortization	(2,278)	(180)	(2,458)
Other movements	(1,169)	(23)	(1,192)
Net book value at 31 December 2019	9,745	466	10,211
Additions	547	409	956
Depreciation, depletion and amortization	(2,864)	(264)	(3,128)
Other movements	1,755	45	1,800
Net book value at 31 December 2020	9,183	656	9,839

The maturity analysis of lease liabilities is disclosed in Note 25.

Included in property, plant and equipment at 31 December 2020 and 2019 are the assets subject to operating lease agreements where the Group is a lessor with cost of RR 39,328 million and accumulated depreciation, depletion and amortization of RR 1,415 million (2019: cost of RR 3,618 million, accumulated depreciation, depletion and amortization of RR 235 million). These operating lease agreements primarily relate to leasing of facilities of the Group's LNG construction center located in the Murmansk region, used for the construction of LNG plants, as soon as these facilities become ready for their intended use.

Revenues from operating lease are recognized in the line item "Other revenues" in the consolidated statement of income, and for the years ended 31 December 2020 and 2019 were RR 5,668 million and RR 2,941 million, respectively.

At 31 December 2020, future undiscounted lease payments under the Group's operating lease agreements, where the Group is a lessor, for period up to their maturity (mainly up to the end of 2025) amount to RR 73 billion (2019: RR 75 billion).

Exploration for and evaluation of mineral resources. The amounts of assets, liabilities, expense and cash flows arising from the exploration and evaluation of mineral resources comprise the following:

	Year ended 31 December	
	2020	2019
Net book value of assets at 1 January	20,382	19,311
Additions	10,998	18,526
Write off to exploration expenses	(1,372)	-
Reorganisation (see Note 4)	-	(1,176)
Reclassification to proved properties and development expenditures	(14,698)	(16,279)
Net book value of assets at 31 December	15,310	20,382
Liabilities	190	1,375
Cash flows used for operating activities	8,466	8,807
Cash flows used for investing activities	10,453	17,944

For the years ended 31 December 2020 and 2019, the Group has recognized exploration expenses within operating expenses in the amount of RR 9,103 million and RR 8,368 million, respectively. These expenses included employee compensations in the amount of RR 621 million and RR 431 million, respectively.

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

6 INVESTMENTS IN JOINT VENTURES

	<u>At 31 December 2020</u>	<u>At 31 December 2019</u>
<i>Joint ventures:</i>		
OOO Arctic LNG 2	250,470	247,450
AO Arcticgas	151,886	132,399
ZAO Nortgas	43,805	44,372
ZAO Terneftegas	4,157	6,394
Rostock LNG GmbH	286	225
OOO SMART LNG	28	46
OAo Yamal LNG	-	150,943
OOO Cryogas-Vysotsk	-	3,511
Total investments in joint ventures	450,632	585,340

The Group considers that Arctic LNG 2, Arcticgas, Nortgas, Terneftegas, Rostock LNG GmbH, SMART LNG, Yamal LNG and Cryogas-Vysotsk constitute jointly controlled entities based on existing contractual arrangements. The charters and/or participants' agreements of these entities stipulate that strategic and/or key decisions of a financial, operating and capital nature require effectively the unanimous approval by all participants or by a group of participants. The Group accounts for its interests in joint ventures under the equity method.

OOO Arctic LNG 2. In March 2019, the Group sold a 10 percent participation interest in OOO Arctic LNG 2, a Group's subsidiary at that time, to TOTAL S.A.

In July 2019, the Group sold a 30 percent participation interest in OOO Arctic LNG 2 to CNPC, CNOOC Limited and Japan Arctic LNG B.V. (10 percent each) (see Note 4).

The Group retained a 60 percent participation interest in Arctic LNG 2 upon the completion of the transactions and exercises joint control over the entity. The Group has determined Arctic LNG 2 to be a joint venture and accounts for this investment under the equity method.

In accordance with the equity method of accounting, investment in Arctic LNG 2 at 31 December 2020 was reduced for the Group's share of loss of the joint venture for the year ended 31 December 2020 in the amount of RR 17,955 million. This loss was generated mainly as a result of negative exchange rate differences of the joint venture, in which the Group's share amounted to RR 24,314 million.

AO Arcticgas. The Group holds a 50 percent ownership in Arcticgas, its joint venture with PAO Gazprom Neft. Arcticgas operates the Samburskoye, Urengoyskoye and Yaro-Yakhinskoye fields and the East-Urengoiskoye+North-Esetinskoye field (within the Samburskiy license area), located in the YNAO.

ZAO Nortgas. The Group holds a 50 percent ownership in Nortgas, its joint venture with PAO Gazprom Neft. Nortgas operates the North-Urengoyskoye field, located in the YNAO.

ZAO Terneftegas. The Group holds a 51 percent ownership in Terneftegas, its joint venture with TOTAL S.A. Terneftegas operates the Termokarstovoye field, located in the YNAO.

Rostock LNG GmbH. The Group holds a 49 percent ownership interest in Rostock LNG GmbH, its joint venture with Fluxys Germany Holding GmbH. The joint venture plans to construct a mid-scale LNG transshipment terminal with capacity of approximately 300 thousand tons per annum located in the port of Rostock in Germany.

OOO SMART LNG. The Group holds a 50 percent participation interest in OOO SMART LNG, its joint venture with PAO Sovcomflot. SMART LNG will lease Arctic ice-class LNG tankers to transport LNG from the Arctic LNG 2 project.

At 31 December 2020, the Group's 50 percent participation interest in SMART LNG was pledged in connection with lease agreements for Arctic ice-class LNG tankers entered into by SMART LNG.

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6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

ОАО Yamal LNG. The Group holds a 50.1 percent ownership in Yamal LNG, along with TOTAL S.A. (20 percent), CNPC (20 percent) and Silk Road Fund Co. Ltd. (9.9 percent). Yamal LNG undertakes a project on natural gas production, liquefaction and shipping based on the feedstock resources of the South-Tambeyskoye field located in YNAO (the “Yamal LNG project”). Annual nameplate capacity of the liquefaction plant after the launch of the first three LNG trains is 16.5 million tons of LNG (5.5 million tons each) and up to 1.2 million tons of stable gas condensate. In addition, the fourth liquefaction train with an annual nameplate capacity of 0.9 million tons is currently in the commissioning phase.

At 31 December 2020 and 2019, the Group’s 50.1 percent ownership in Yamal LNG was pledged in connection with credit line facility agreements signed by Yamal LNG with a number of Russian and foreign banks to obtain external project financing.

The Group’s investment in Yamal LNG at 31 December 2020 was valued at RR nil in the consolidated statement of financial position due to the Group’s proportionate share of accumulated losses exceeding the Group’s cost of investment. The unrecognized share of loss of Yamal LNG for the year ended 31 December 2020 was RR 27,763 million and resulted from significant non-cash foreign exchange losses.

ООО Cryogas-Vysotsk. The Group holds a 51 percent participation interest in Cryogas-Vysotsk, its joint venture with AO Gazprombank group. Cryogas-Vysotsk operates a medium-scale LNG plant with annual capacity of 660 thousand tons, located at the port of Vysotsk on the Baltic Sea.

In March 2019, Cryogas-Vysotsk commenced initial LNG production and in April 2019 reached nameplate capacity.

At 31 December 2020 and 2019, the Group’s 51 percent participation interest in Cryogas-Vysotsk was pledged in connection with credit line facility agreements signed by the joint venture with a Russian bank to obtain external project financing.

The Group’s investment in Cryogas-Vysotsk at 31 December 2020 was valued at RR nil in the consolidated statement of financial position due to the Group’s proportionate share of accumulated losses exceeding the Group’s cost of investment. The unrecognized share of loss of Cryogas-Vysotsk for the year ended 31 December 2020 was RR 2,483 million and resulted mainly from significant non-cash foreign exchange losses.

The table below summarizes the movements in the carrying amounts of the Group’s joint ventures:

	Year ended 31 December:	
	2020	2019
At 1 January	585,340	244,500
Share of profit from operations	113,952	139,065
Share of finance income (expense)	(325,707)	40,432
Share of total income tax benefit (expense)	37,529	(30,259)
Unrecognized share of losses of joint ventures	30,245	-
Share of profit (loss) of joint ventures, net of income tax	(143,981)	149,238
Share of other comprehensive income (loss) of joint ventures	(1,198)	451
Group’s costs capitalized in investments	1,173	1,457
Effect from initial measurement of loans provided by the Group to joint ventures (see Note 25) net of deferred income tax	17,418	1,992
Effect from other changes in joint ventures’ net assets	3,892	4,774
Capital contributions	-	298
Dividends and cash from joint ventures	(10,920)	(46,550)
Sale of interests in subsidiaries resulting in the recognition of investments in joint ventures (see Note 4)	(71)	147,366
Sale of interests in joint ventures (see Note 4)	-	93,053
Reorganization (see Note 4)	-	(9,722)
Elimination of the Group’s share in unrealized profits of joint ventures from balances of hydrocarbons purchased from joint ventures	(1,021)	(1,517)
At 31 December	450,632	585,340

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6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

For the years ended 31 December 2020 and 2019, the Group recorded commission fees in the amount of RR 1,173 million and RR 1,457 million, respectively, for the guarantee received from the State Corporation VEB.RF (see Note 26) as an increase to the investment in Yamal LNG.

For the year ended 31 December 2020, the capital of OOO Arctic LNG 2 was increased by RR 57,647 million through the cash contributions made by the other participants in the form of contributions to the assets representing a part of the consideration for the disposal of a 40 percent participation interest in OOO Arctic LNG 2 (see Note 4). The difference between the Group's share in the contributions made and the amount previously recognized within the investment in OOO Arctic LNG 2 comprised RR 4,512 million and was recorded as an increase in the investment in OOO Arctic LNG 2, with the corresponding effect recognized in the consolidated statement of changes in equity in accordance with the Group's accounting policy. The Group's participation interest in OOO Arctic LNG 2 did not change as a result of these transactions.

For the year ended 31 December 2019, the capital of OOO Arctic LNG 2 was increased by RR 107,938 million through the cash contributions made by other participants in the form of contributions to the assets representing a part of the consideration for the disposal of a 40 percent participation interest in OOO Arctic LNG 2 (see Note 4). The difference between the Group's share in the contributions made and the amount previously recognized within the investment in OOO Arctic LNG 2 comprised RR 1,789 million and was recorded as an increase in the investment in OOO Arctic LNG 2, with the corresponding effect recognized in the consolidated statement of changes in equity in accordance with the Group's accounting policy. The Group's participation interest in OOO Arctic LNG 2 did not change as a result of these transactions.

For the years ended 31 December 2020 and 2019, the Group recorded a decrease in equity in the amount of RR 949 million and an increase in the amount RR 2,985 million, respectively, from initial measurement of the loans (net of deferred income tax) provided to OOO Arctic LNG 2 by the other participants.

In 2019, the capital of Rostock LNG GmbH was increased through proportional contributions by its participants totaling RR 506 million, of which RR 248 were contributed by the Group.

In 2020, Arcticgas declared and paid dividends in the total amount of RR 20.5 billion, of which RR 10.25 billion were attributable to NOVATEK.

In 2019, Arcticgas declared dividends in the total amount of RR 92 billion, of which RR 46 billion were attributable to NOVATEK. Dividends in the amount of RR 91 billion, of which RR 45.5 billion were attributable to NOVATEK, were paid in 2019, and the remaining amount was paid in January 2020.

For the year ended 31 December 2020, Terneftegas transferred cash in the amount of RR 670 million distributed in favor of the Group.

In 2019, Nortgas declared and paid dividends in the amount of RR 1,100 million, of which RR 550 million were attributable to NOVATEK.

The Group eliminates its share in unrealized profits of joint ventures from the balances of natural gas and liquid hydrocarbons purchased from the joint ventures.

The summarized statements of financial position and statements of comprehensive income (loss) for the Group's principal joint ventures as at and for the year ended 31 December 2020 are as follows (100 percent base):

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6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

<i>At 31 December 2020</i>	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Property, plant and equipment and materials for construction	802,388	411,279	2,470,727	120,307
Other non-current non-financial assets	118	6	27,561	28
Non-current financial assets	937	63	12,619	12
Total non-current assets	803,443	411,348	2,510,907	120,347
Cash and cash equivalents	2,001	6,123	22,812	81
Other current financial assets	1,551	22,581	24,813	1,699
Current non-financial assets	14,180	14,930	34,137	343
Total current assets	17,732	43,634	81,762	2,123
Non-current financial liabilities	(373,463)	(30,000)	(2,339,045)	(3,860)
Non-current non-financial liabilities	(40,436)	(55,991)	(4,421)	(23,057)
Total non-current liabilities	(413,899)	(85,991)	(2,343,466)	(26,917)
Trade payables and accrued liabilities	(29,934)	(14,479)	(13,795)	(975)
Other current financial liabilities	(4,359)	(36,151)	(290,541)	(5,821)
Current non-financial liabilities	(478)	(14,590)	(313)	(1,147)
Total current liabilities	(34,771)	(65,220)	(304,649)	(7,943)
Net assets	372,505	303,771	(55,446)	87,610
<i>For the year ended 31 December 2020</i>	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Revenues	330	171,076	328,640	15,296
Depreciation, depletion and amortization	(20)	(30,645)	(109,950)	(6,938)
Profit (loss) from operations	(2,015)	73,677	151,821	(485)
Interest expense	(103)	(3,061)	(162,618)	(980)
Change in fair value of non-commodity financial instruments	(681)	-	31,172	-
Foreign exchange gain (loss), net	(40,523)	(45)	(444,213)	-
Profit (loss) before income tax	(43,268)	70,923	(423,780)	(1,393)
Income tax benefit (expense)	13,343	(11,376)	66,976	260
Profit (loss), net of income tax	(29,925)	59,547	(356,804)	(1,133)
Ownership	60%	50%	50.1%	50%
Total based on ownership interest	(17,955)	29,774	(178,662)	(567)
Elimination of the Group's share in unrealized profits of joint ventures from balances of hydrocarbons purchased from joint ventures	-	819	(1)	107
Unrecognized share of losses of joint ventures	-	-	27,763	-
Share of profit (loss) of joint ventures, net of income tax	(17,955)	30,593	(150,900)	(460)

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6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

Reconciliation of the summarized financial information presented to the Group's share in net assets of the joint ventures:

<i>As at and for the year ended 31 December 2020</i>	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Net assets at 1 January 2020	317,347	264,798	301,446	88,744
Profit (loss), net of income tax	(29,925)	59,547	(356,804)	(1,133)
Other comprehensive income (loss)	(11)	(74)	(2,430)	(1)
Capital contributions	57,647	-	-	-
Other equity movements	27,447	-	2,342	-
Dividends	-	(20,500)	-	-
Net assets at 31 December 2020	372,505	303,771	(55,446)	87,610
Ownership	60%	50%	50.1%	50%
Group's share in net assets	223,503	151,886	(27,763)	43,805
Unrecognized share of losses of joint ventures	-	-	27,763	-
Future capital contributions (see Note 4)	26,967	-	-	-
Investments in joint ventures	250,470	151,886	-	43,805

At 31 December 2020, the Group's investment in OOO Arctic LNG 2 totaled RR 250,470 million, which differed from its share in the net assets of Arctic LNG 2. This difference of RR 26,967 million related to the Group's share in the future cash payments in the form of capital contributions by other participants representing a part of the consideration for the disposal of a 40 percent interest in OOO Arctic LNG 2 (see Note 4).

The summarized statements of financial position and statements of comprehensive income (loss) for the Group's principal joint ventures as at and for the year ended 31 December 2019 are as follows (100 percent base):

<i>At 31 December 2019</i>	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Property, plant and equipment and materials for construction	415,122	400,614	2,392,117	125,638
Other non-current non-financial assets	122	13	1,341	34
Non-current financial assets	-	69	-	13
Total non-current assets	415,244	400,696	2,393,458	125,685
Cash and cash equivalents	58,601	5,265	23,281	1,266
Other current financial assets	125	21,737	25,821	2,146
Current non-financial assets	19,561	9,625	33,470	374
Total current assets	78,287	36,627	82,572	3,786
Non-current financial liabilities	(126,606)	(66,197)	(1,958,446)	(9,654)
Non-current non-financial liabilities	(39,823)	(51,296)	(44,542)	(23,186)
Total non-current liabilities	(166,429)	(117,493)	(2,002,988)	(32,840)
Trade payables and accrued liabilities	(9,579)	(15,760)	(15,386)	(551)
Other current financial liabilities	(75)	(28,804)	(152,757)	(5,821)
Current non-financial liabilities	(101)	(10,468)	(3,453)	(1,515)
Total current liabilities	(9,755)	(55,032)	(171,596)	(7,887)
Net assets	317,347	264,798	301,446	88,744

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6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

<i>For the year ended 31 December 2019</i>	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Revenues	36	196,191	324,018	21,137
Depreciation, depletion and amortization	-	(22,523)	(102,403)	(7,893)
Profit (loss) from operations	(485)	103,573	164,106	3,765
Interest expense	(77)	(5,389)	(126,627)	(1,709)
Change in fair value of non-commodity financial instruments	(581)	-	(9,231)	-
Foreign exchange gain (loss), net	1,702	1	213,509	-
Profit (loss) before income tax	574	99,400	242,139	2,216
Income tax benefit (expense)	(120)	(16,337)	(41,309)	(447)
Profit (loss), net of income tax	454	83,063	200,830	1,769
Ownership	60%	50%	50.1%	50%
Total based on ownership interest	272	41,532	100,561	885
Elimination of the Group's share in unrealized profits of joint ventures from balances of hydrocarbons purchased from joint ventures	-	1,207	18	142
Share of profit (loss) of joint ventures, net of income tax	272	42,739	100,579	1,027

Reconciliation of the summarized financial information presented to the Group's share in net assets of the joint ventures:

<i>As at and for the year ended 31 December 2019</i>	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Net assets at 1 January 2019	-	293,263	96,614	88,128
Profit (loss), net of income tax	454	83,063	200,830	1,769
Other comprehensive income (loss)	(11)	(84)	1,092	(53)
Sale of interests in subsidiaries (see Note 4)	200,673	-	-	-
Capital contributions	107,938	-	-	-
Reorganization (see Note 4)	-	(19,444)	-	-
Other equity movements	8,293	-	2,910	-
Dividends	-	(92,000)	-	(1,100)
Net assets at 31 December 2019	317,347	264,798	301,446	88,744
Ownership	60%	50%	50.1%	50%
Group's share in net assets	190,408	132,399	150,943	44,372
Future capital contributions (see Note 4)	57,042	-	-	-
Investments in joint ventures	247,450	132,399	150,943	44,372

At 31 December 2019, the Group's investment in OOO Arctic LNG 2 totaled RR 247,450 million, which differed from its share in the net assets of Arctic LNG 2. This difference of RR 57,042 million related to the Group's share in the future cash payments in the form of capital contributions by other participants representing a part of the consideration for the disposal of a 40 percent interest in OOO Arctic LNG 2 (see Note 4).

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7 LONG-TERM LOANS AND RECEIVABLES

The following table presents long-term loans (including interest accrued) and receivables:

	<u>At 31 December 2020</u>	<u>At 31 December 2019</u>
Long-term loans receivable	431,880	282,310
Other long-term receivables	426	403
Total	432,306	282,713
Less: current portion of long-term loans receivable	(41,253)	(50,815)
Total long-term loans and receivables	391,053	231,898

The Group's long-term loans receivable by borrowers are as follows:

	<u>At 31 December 2020</u>	<u>At 31 December 2019</u>
OOO Arctic LNG 2	215,336	76,085
OAO Yamal LNG	209,637	199,623
OOO Cryogas-Vysotsk	6,907	6,521
ZAO Terneftegas	-	81
Total long-term loans receivable	431,880	282,310

OOO Arctic LNG 2. The Group provided Euro credit line facilities to Arctic LNG 2, the Group's joint venture. The loans interest rates are set based on market interest rates and interest rates on borrowings of participants. The repayment schedules are linked to free cash flows of the joint venture.

Subsequent to the balance sheet date, in January 2021, the Group provided RR 37,547 million to Arctic LNG 2 under these credit line facilities.

OAO Yamal LNG. In prior years the Group provided US dollar and Euro credit line facilities to Yamal LNG, the Group's joint venture. The loans interest rates are set based on market interest rates, interest rates on borrowings of shareholders and/or combination thereof. The repayment schedules are linked to free cash flows of the joint venture.

For the years ended 31 December 2020 and 2019, Yamal LNG repaid to the Group a part of the loans and accrued interest in the total amount of RR 48,297 million and RR 65,210 million, respectively.

OOO Cryogas-Vysotsk. The Group provided Russian rouble denominated loans under agreed credit line facilities to Cryogas-Vysotsk, the Group's joint venture. The loans are repayable not later than 2033 and bear variable interest rates.

ZAO Terneftegas. The Group provided US dollar denominated loans to Terneftegas, the Group's joint venture. In January 2020, the loans and accrued interest were fully repaid.

No provisions for expected credit losses for long-term loans and receivables were recognized at 31 December 2020 and 2019. The carrying values of long-term loans and receivables approximate their respective fair values.

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8 OTHER NON-CURRENT ASSETS

	<u>At 31 December 2020</u>	<u>At 31 December 2019</u>
<i>Financial assets</i>		
Contingent consideration (see Note 25)	76,918	101,391
Commodity derivatives	13	749
Other financial assets	13	8
<i>Non-financial assets</i>		
Deferred income tax assets	22,694	14,800
Materials for construction	18,341	12,552
Long-term advances	3,536	9,549
Intangible assets, net	2,820	2,644
Other non-financial assets	817	642
Total other non-current assets	125,152	142,335

At 31 December 2020 and 2019, the “Long-term advances” line item represented advances to OAO Russian Railways. The advances were paid in accordance with the Strategic Partnership Agreement signed with Russian Railways in 2012.

9 INVENTORIES

	<u>At 31 December 2020</u>	<u>At 31 December 2019</u>
Natural gas and liquid hydrocarbons	7,055	8,685
Materials and supplies (net of provision of RR 4 million and RR 5 million at 31 December 2020 and 2019)	3,609	3,550
Other inventories	59	28
Total inventories	10,723	12,263

No inventories were pledged as security for the Group’s borrowings or payables at both dates.

10 TRADE AND OTHER RECEIVABLES

	<u>At 31 December 2020</u>	<u>At 31 December 2019</u>
Trade receivables (net of provision of RR 506 million and RR 362 million at 31 December 2020 and 2019, respectively)	64,073	48,539
Other receivables (net of provision of RR 305 million and RR 317 million at 31 December 2020 and 2019, respectively)	7,182	181,042
Total trade and other receivables	71,255	229,581

Trade receivables in the amount RR 14,568 million and RR 16,996 million at 31 December 2020 and 2019, respectively, are secured by letters of credit, issued by banks with investment grade ratings. The Group does not hold any other collateral as security for trade and other receivables (see Note 25 for credit risk disclosures).

At 31 December 2019, other receivables included RR 173,336 million of receivables in relation to the sale of a 40 percent participation interest in OOO Arctic LNG 2 (see Note 4). These receivables were fully paid in 2020.

At 31 December 2020, other receivables included RR 575 million of receivables in relation to the sale of OOO Chernichnoye.

The carrying values of trade and other receivables approximate their respective fair values. Trade and other receivables were categorized as Level 3 in the fair value measurement hierarchy described in Note 25.

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10 TRADE AND OTHER RECEIVABLES (CONTINUED)

Movements in the Group's provision for expected credit losses for trade receivables are as follows:

	Year ended 31 December:	
	2020	2019
At 1 January	362	349
Additional provision recorded	295	113
Receivables written off as uncollectible	(115)	(72)
Provision reversed	(36)	(28)
At 31 December	506	362

The provision for expected credit losses for trade and other receivables has been included in the consolidated statement of income in "Impairment (expenses) reversals, net" line item.

11 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 December 2020	At 31 December 2019
<i>Financial assets</i>		
Current portion of long-term loans receivable (see Note 7)	41,253	50,815
Commodity derivatives	13,041	16,966
Other financial assets	1,316	622
<i>Non-financial assets</i>		
Value-added tax receivable	15,703	22,401
Recoverable value-added tax	10,767	6,026
Prepayments and advances to suppliers	9,088	9,879
Deferred transportation expenses for liquid hydrocarbons	1,996	1,784
Deferred transportation expenses for natural gas	1,779	2,064
Deferred export duties for liquid hydrocarbons	649	1,218
Prepaid customs duties	616	530
Other non-financial assets	1,863	1,536
Total prepayments and other current assets	98,071	113,841

12 CASH AND CASH EQUIVALENTS

	At 31 December 2020	At 31 December 2019
Cash at current bank accounts	41,247	22,736
Bank deposits with original maturity of three months or less	78,460	30,504
Total cash and cash equivalents	119,707	53,240

All deposits are readily convertible to known amounts of cash and are not subject to significant risk of change in value (see Note 25 for credit risk disclosures).

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13 LONG-TERM DEBT

	<u>At 31 December 2020</u>	<u>At 31 December 2019</u>
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	73,820	61,833
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	48,012	40,209
Loan from Silk Road Fund	46,076	42,115
Bank loans	54,232	7,941
Total	222,140	152,098
Less: current portion of long-term debt	(53,152)	(12,246)
Total long-term debt	168,988	139,852

Eurobonds. In December 2012, the Group issued US dollar denominated Eurobonds in the amount of USD 1 billion. The US dollar denominated Eurobonds were issued with an annual coupon rate of 4.422 percent, payable semi-annually. The Eurobonds have a ten-year tenor and are repayable in December 2022.

In February 2011, the Group issued US dollar denominated Eurobonds in the amount of USD 650 million. The US dollar denominated Eurobonds were issued with an annual coupon rate of 6.604 percent, payable semi-annually. The Eurobonds have a ten-year tenor and were fully repaid according to their maturity schedule after the reporting date in February 2021.

Loan from Silk Road Fund. In December 2015, the Group obtained a loan from China's investment fund Silk Road Fund that is repayable until December 2030 by semi-annual equal installments starting from December 2019 and includes the maintenance of certain restrictive financial covenants.

Bank loans. In December 2016, the Group obtained EUR 100 million under a revolving credit line facility from the Russian subsidiary of a foreign bank. The loan was initially repayable until April 2020. In March 2020, it was extended to March 2022. The loan includes the maintenance of certain restrictive financial covenants.

In June 2020, the Group obtained a credit line facility from a Russian bank in the amount up to EUR 1.5 billion with a variable interest rate available to withdraw until March 2022. Interest is paid on a quarterly basis. At the reporting date EUR 500 million were withdrawn under the credit line facility, repayable until September 2025. The credit line facility includes the maintenance of certain restrictive financial covenants.

At 31 December 2019, bank loans also included a credit line facility obtained by a Group's subsidiary from a Russian bank in the amount of RR 1,007 million repayable until December 2020. In January 2020, the credit line facility was fully repaid ahead of its maturity schedule.

The fair value of long-term debt including its current portion was RR 235,473 million and RR 164,310 million at 31 December 2020 and 2019, respectively. The fair value of the corporate bonds was determined based on market quote prices (Level 1 in the fair value measurement hierarchy described in Note 25). The fair value of other long-term loans was determined based on future cash flows discounted at the estimated risk-adjusted discount rate (Level 3 in the fair value measurement hierarchy described in Note 25).

Scheduled maturities of long-term debt are disclosed in Note 25.

Available credit line facilities. In addition to disclosed above, at 31 December 2020, the Group had available long-term bank credit line facilities with credit limits for the total amount of RR 160 billion, as well as a short-term bank credit line facility with credit limit of RR 20 billion. The facilities include the maintenance of certain restrictive financial covenants.

14 PENSION OBLIGATIONS

Defined contribution plan. For the years ended 31 December 2020 and 2019, total amounts recognized as an expense in respect of payments made by employer on behalf of employees to the Pension Fund of the Russian Federation were RR 3,907 million and RR 3,190 million, respectively.

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

14 PENSION OBLIGATIONS (CONTINUED)

Defined benefit plan. The Group operates a post-employment benefit program for its retired employees. Under the current terms of the pension program, employees who are employed and retire from the Group on or after the statutory retirement age will receive from the Group pension benefits in the form of a lump sum retirement benefit and/or monthly life payments unless they are reemployed. The type and amounts of payments to be disbursed depend on the employee's average salary, duration and location of employment.

The program represents an unfunded defined benefit plan and is accounted for as such under provisions of IAS 19, *Employee Benefits*. The present value of the defined benefit obligation is included in "Other non-current liabilities" line item in the consolidated statement of financial position. The impact of the program on the consolidated financial statements is disclosed below.

The movements in the present value of the defined benefit obligation are as follows:

	Year ended 31 December:	
	2020	2019
At 1 January	5,111	4,174
Interest cost	242	269
Current service cost	423	340
Past service cost	-	(496)
Benefits paid	(181)	(152)
Actuarial gains (losses) arising from:		
- changes in financial assumptions	(238)	1,064
- changes in demographic assumptions	(91)	68
- experience adjustments	421	(156)
At 31 December	5,687	5,111

Defined benefit plan costs were recognized in:

	Year ended 31 December:	
	2020	2019
Materials, services and other (as employee compensation)	390	76
General and administrative expenses (as employee compensation)	275	37
Other comprehensive loss	92	976

The principal actuarial assumptions used are as follows:

	At 31 December 2020	At 31 December 2019
Weighted average discount rate	6.4%	5.6%
Projected annual increase in employee compensation	5.1%	4.0%
Expected increases to pension benefits	5.0%	4.0%

The discount rate was determined by reference to Russian rouble denominated bonds issued by the Government of the Russian Federation chosen to match the duration of the post-employment benefit obligations.

The assumed average salary and pension payment increases for Group employees have been calculated on the basis of inflation forecasts, analysis of increases of past salaries and the general salary policy of the Group.

Mortality assumptions are based on the Russian mortality tables published by the Federal State Statistics Service from the year 2018 adjusted for estimates of mortality improvements in the future periods.

The Group's management has assessed that reasonable changes in the principal significant actuarial assumptions will not have a significant impact on the consolidated statement of income or the consolidated statement of comprehensive income or the liability recognized in the consolidated statement of financial position.

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15 TRADE PAYABLES AND ACCRUED LIABILITIES

	<u>At 31 December 2020</u>	<u>At 31 December 2019</u>
<i>Financial liabilities</i>		
Trade payables	55,149	50,048
Commodity derivatives	14,278	16,450
Interest payable	1,529	1,291
Other payables	3,786	3,188
<i>Non-financial liabilities</i>		
Advances from customers	4,245	4,253
Salary payables	1,042	915
Other liabilities and accruals	3,966	10,583
Total trade payables and accrued liabilities	83,995	86,728

The carrying values of trade payables and accrued liabilities approximate their respective fair values. Trade and other payables were categorized as Level 3 in the fair value measurement hierarchy described in Note 25.

During the years ended 31 December 2020 and 2019, advances from customers in the amount of RR 4,194 million and RR 4,570 million, respectively, remained at the beginning of the respective period were recognized as revenue.

16 SHAREHOLDERS' EQUITY

Ordinary share capital. Share capital issued and paid in consisted of 3,036,306,000 ordinary shares with a par value of RR 0.1 each at 31 December 2020 and 2019. The total authorized number of ordinary shares was 10,593,682,000 shares at both dates.

Treasury shares. In accordance with the *Share Buyback Programs* authorized by the Board of Directors, the Group's wholly owned subsidiary, Novatek Equity (Cyprus) Limited, purchases ordinary shares of PAO NOVATEK in the form of Global Depository Receipts (GDRs) on the London Stock Exchange (LSE) and ordinary shares on the Moscow Exchange through the use of independent brokers. NOVATEK also purchases its ordinary shares from shareholders where required by Russian legislation.

During the years ended 31 December 2020 and 2019, the Group purchased 8.4 million and 1.7 million ordinary shares at a total cost of RR 8,078 million and RR 1,863 million, respectively. At 31 December 2020 and 2019, the Group held in total 33.5 million and 25.1 million ordinary shares at a total cost of RR 20,386 million and RR 12,308 million, respectively. The Group has decided that these shares do not vote.

Dividends. Dividends (including tax on dividends) declared and paid were as follows:

	<u>Year ended 31 December:</u>	
	<u>2020</u>	<u>2019</u>
Dividends payable at 1 January	-	-
Dividends declared (*)	89,857	93,468
Dividends paid (*)	(89,857)	(93,468)
Dividends payable at 31 December	-	-
Dividends per share declared during the year (in Russian roubles)	29.92	31.04
Dividends per GDR declared during the year (in Russian roubles)	299.20	310.40

(*) – excluding treasury shares.

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16 SHAREHOLDERS' EQUITY (CONTINUED)

The Group declares and pays dividends in Russian roubles. Dividends declared in 2020 and 2019 were as follows:

Final for 2019: RR 18.10 per share or RR 181.00 per GDR declared in April 2020	54,957
Interim for 2020: RR 11.82 per share or RR 118.20 per GDR declared in September 2020	35,889
Total dividends declared in 2020	90,846
Final for 2018: RR 16.81 per share or RR 168.10 per GDR declared in April 2019	51,040
Interim for 2019: RR 14.23 per share or RR 142.30 per GDR declared in September 2019	43,207
Total dividends declared in 2019	94,247

Distributable retained earnings. The basis for distribution of profits of a company to shareholders is defined by Russian legislation as net profit presented in its statutory financial statements prepared in accordance with the Regulations on Accounting and Reporting of the Russian Federation, which may differ significantly from amounts calculated on the basis of IFRS. At 31 December 2020 and 2019, NOVATEK's closing balances of the accumulated profit including the respective year's net statutory profit totaled RR 981 billion and RR 695 billion, respectively.

17 OIL AND GAS SALES

	Year ended 31 December:	
	2020	2019
Natural gas	359,040	414,844
Naphtha	112,963	144,541
Crude oil	78,381	114,641
Other gas and gas condensate refined products	58,913	88,010
Liquefied petroleum gas	48,725	47,668
Stable gas condensate	41,728	42,528
Total oil and gas sales	699,750	852,232

18 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Year ended 31 December:	
	2020	2019
Natural gas	125,844	175,023
Unstable gas condensate	102,568	138,092
Other liquid hydrocarbons	12,221	21,775
Reverse excise	(5,409)	(4,072)
Total purchases of natural gas and liquid hydrocarbons	235,224	330,818

The Group purchases not less than 50 percent of the natural gas volumes produced by its joint venture ZAO Nortgas, some volumes of natural gas produced by its joint venture AO Arcticgas, all volumes of natural gas produced by its joint venture ZAO Terneftegas and some volumes of liquefied natural gas produced by its joint ventures OAO Yamal LNG and OOO Cryogas-Vysotsk (see Note 28).

The Group purchases all volumes of unstable gas condensate produced by its joint ventures Nortgas, Arcticgas and Terneftegas at ex-field prices primarily based on benchmark reference crude oil prices, as well as some volumes of stable gas condensate produced by its joint venture Yamal LNG (see Note 28).

In accordance with tax legislation, the Group accrues excise tax on raw oil (blend of hydrocarbons comprised of one or more components of crude oil, stable gas condensate, vacuum gasoil, tar, and fuel oil sent by the owner for processing) and at the same time claims for deduction at a double rate. The net result from these operations is reported as a deduction to expense for purchases of natural gas and liquid hydrocarbons in the "Reverse excise" line item, as the Group obtains most of its raw oil from unstable gas condensate purchased from its joint ventures.

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19 TRANSPORTATION EXPENSES

	Year ended 31 December:	
	2020	2019
Natural gas transportation by trunk and low-pressure pipelines	100,594	97,371
Stable gas condensate and liquefied petroleum gas transportation by rail	34,198	32,674
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	10,283	8,589
Crude oil transportation by trunk pipelines	8,042	9,639
Other	1,640	3,378
Total transportation expenses	154,757	151,651

20 TAXES OTHER THAN INCOME TAX

The Group is subject to a number of taxes other than income tax, which are detailed as follows:

	Year ended 31 December:	
	2020	2019
Unified natural resources production tax	50,204	57,935
Property tax	3,929	3,658
Other taxes	368	388
Total taxes other than income tax	54,501	61,981

21 MATERIALS, SERVICES AND OTHER

	Year ended 31 December:	
	2020	2019
Employee compensation	14,027	11,273
Repair and maintenance	3,294	2,778
Preparation and processing of hydrocarbons	2,323	2,431
Materials and supplies	1,833	1,945
Electricity and fuel	1,702	1,551
Liquefied petroleum gas volumes reservation expenses	1,205	1,157
Fire safety and security expenses	1,152	1,051
Transportation services	1,140	924
Labor safety expenses	703	91
Rent expenses	592	591
Insurance expenses	462	366
Other	1,144	1,025
Total materials, services and other	29,577	25,183

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22 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:	
	2020	2019
Employee compensation	17,849	17,905
Social expenses and compensatory payments	4,128	2,503
Legal, audit, and consulting services	1,289	975
Repair and maintenance expenses	947	228
Advertising expenses	599	531
Fire safety and security expenses	581	509
Business travel expense	187	720
Rent expenses	184	189
Other	1,031	1,008
Total general and administrative expenses	26,795	24,568

Auditor's fees. AO PricewaterhouseCoopers Audit has served as the independent external auditor of PAO NOVATEK for each of the reported financial years. The independent external auditor is subject to appointment at the Annual General Meeting of shareholders based on the recommendations from the Board of Directors. The aggregate fees for audit and other services rendered by PricewaterhouseCoopers Audit to the parent company of the Group included within legal, audit, and consulting services are as follows:

	Year ended 31 December:	
	2020	2019
Audits of PAO NOVATEK (audit of the Group's consolidated financial statements and audit of statutory financial statements of PAO NOVATEK)	37	37
Other services	11	12
Total auditor's fees and services	48	49

23 FINANCE INCOME (EXPENSE)

	Year ended 31 December:	
	2020	2019
<i>Interest expense (including transaction costs)</i>		
Interest expense on fixed rate debt	9,879	9,079
Interest expense on variable rate debt	172	33
Total	10,051	9,112
Less: capitalized interest	(6,641)	(5,903)
Interest expense on debt	3,410	3,209
Provisions for asset retirement obligations:		
effect of the present value discount unwinding	960	738
Interest expense on lease liabilities	566	544
Other interest expense	3	-
Total interest expense	4,939	4,491

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23 FINANCE INCOME (EXPENSE) (CONTINUED)

<i>Interest income</i>	Year ended 31 December:	
	2020	2019
Interest income on loans receivable classified as at amortised cost	936	963
Interest income on loans receivable classified as at fair value through profit or loss	20,329	15,319
Interest income on cash, cash equivalents, deposits and other assets	4,175	4,417
Total interest income	25,440	20,699

<i>Foreign exchange gain (loss)</i>	Year ended 31 December:	
	2020	2019
Gains	340,662	37,683
Losses	(193,201)	(82,430)
Total foreign exchange gain (loss), net	147,461	(44,747)

24 INCOME TAX

Reconciliation of income tax. The table below reconciles actual income tax expense and theoretical income tax, determined based on the applicable rates for each of the Group's entities and their accounting profit before income tax.

	Year ended 31 December:	
	2020	2019
Profit before income tax	129,596	1,003,115
Theoretical income tax expense at applicable rate of the Group's entities	21,079	192,157
Increase (decrease) due to:		
Permanent differences in respect of the Group's share of loss (profit) of joint ventures	29,000	(29,544)
Permanent differences in respect of disposal of interests in subsidiaries and joint ventures	-	(44,507)
Other differences	931	1,548
Total income tax expense	51,010	119,654

Domestic and foreign components of current income tax expense were:

	Year ended 31 December:	
	2020	2019
Russian Federation income tax	50,602	95,590
Foreign income tax	1,414	2,242
Total current income tax expense	52,016	97,832

Effective income tax rate. The Russian statutory income tax rate for 2020 and 2019 was 20 percent. A number of the Group's investment projects were included by the government authorities in the list of priority projects, in respect of them the Group was able to apply a reduced income tax rate. Profits of the Group's foreign subsidiaries are taxed at rates applicable in accordance with legislation of the respective jurisdiction.

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24 INCOME TAX (CONTINUED)

The Group recognizes in profit before income tax its share of net profit (loss) from joint ventures, which influences the consolidated profit of the Group but does not result in additional income tax expense (benefit) at the Group's level. Net profit (loss) of joint ventures was recorded in their financial statements on an after-tax basis. The dividend income received from the joint ventures in which the Group holds at least a 50 percent interest is subject to a zero withholding tax rate according to the Russian tax legislation.

Without the effect of net profit (loss) from joint ventures and effects from disposal of interests in subsidiaries and joint ventures (initial recognition of gain on disposal and subsequent non-monetary revaluation of contingent consideration), the effective income tax rate for the years ended 31 December 2020 and 2019 was 18.8 percent and 16.7 percent, respectively.

For the year ended 31 December 2019, the Group paid income tax in the amount of RR 99.6 billion, inclusive of a payment of RR 40 billion to a government-controlled entity under an agreement to finance infrastructure facilities in federal ownership in YNAO, to which an investment tax credit was applied.

In respect of PAO NOVATEK and the majority of its Russian subsidiaries, the Group submits a single consolidated income tax return in accordance with Russian tax legislation (see Note 30).

Deferred income tax. Differences between IFRS and tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes.

Deferred income tax balances are presented in the consolidated statement of financial position as follows:

	<u>At 31 December 2020</u>	<u>At 31 December 2019</u>
Long-term deferred income tax assets (other non-current assets)	22,694	14,800
Long-term deferred income tax liabilities	(64,132)	(62,146)
Net deferred income tax liabilities	(41,438)	(47,346)

Deferred income tax assets expected to be realized within twelve months as at 31 December 2020 and 2019 were RR 6,194 million and RR 4,031 million, respectively. Deferred tax liabilities expected to be reversed within twelve months as at 31 December 2020 and 2019 were RR 1,420 million and RR 1,521 million, respectively.

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24 INCOME TAX (CONTINUED)

Movements in deferred income tax assets and liabilities during the years ended 31 December 2020 and 2019 were as follows:

	At 31 December 2019	Statement of Income effect	Other Comprehensive Income effect	Statement of Financial Position effect	At 31 December 2020
Property, plant and equipment	(44,931)	(9,345)	(4)	(10)	(54,290)
Contingent consideration	(20,278)	4,895	-	-	(15,383)
Other	(1,845)	510	(85)	-	(1,420)
Deferred income tax liabilities	(67,054)	(3,940)	(89)	(10)	(71,093)
<i>Less: deferred tax assets offset</i>	<i>4,908</i>	<i>2,053</i>	<i>-</i>	<i>-</i>	<i>6,961</i>
Total deferred income tax liabilities	(62,146)	(1,887)	(89)	(10)	(64,132)
Tax losses carried forward	8,241	2,686	2	(7)	10,922
Property, plant and equipment	3,545	299	-	-	3,844
Asset retirement obligations	2,542	352	-	1	2,895
Inventories	1,950	3,681	(4)	-	5,627
Trade payables and accrued liabilities	1,412	(1,257)	20	-	175
Loans receivable	1,349	(451)	2,414	2,488	5,800
Other	669	(364)	87	-	392
Deferred income tax assets	19,708	4,946	2,519	2,482	29,655
<i>Less: deferred tax liabilities offset</i>	<i>(4,908)</i>	<i>(2,053)</i>	<i>-</i>	<i>-</i>	<i>(6,961)</i>
Total deferred income tax assets	14,800	2,893	2,519	2,482	22,694
Net deferred income tax liabilities	(47,346)	1,006	2,430	2,472	(41,438)

	At 31 December 2018	Statement of Income effect	Other Comprehensive Income effect	Statement of Financial Position effect	At 31 December 2019
Property, plant and equipment	(36,895)	(3,732)	-	(4,304)	(44,931)
Contingent consideration	-	(20,278)	-	-	(20,278)
Other	(1,483)	(405)	34	9	(1,845)
Deferred income tax liabilities	(38,378)	(24,415)	34	(4,295)	(67,054)
<i>Less: deferred tax assets offset</i>	<i>8,451</i>	<i>(3,543)</i>	<i>-</i>	<i>-</i>	<i>4,908</i>
Total deferred income tax liabilities	(29,927)	(27,958)	34	(4,295)	(62,146)
Tax losses carried forward	4,943	3,634	-	(336)	8,241
Property, plant and equipment	3,509	(33)	-	69	3,545
Asset retirement obligations	1,708	843	-	(9)	2,542
Inventories	2,304	(24)	2	(332)	1,950
Trade payables and accrued liabilities	1,234	190	(13)	1	1,412
Loans receivable	1,009	(2,460)	989	1,811	1,349
Other	230	443	(3)	(1)	669
Deferred income tax assets	14,937	2,593	975	1,203	19,708
<i>Less: deferred tax liabilities offset</i>	<i>(8,451)</i>	<i>3,543</i>	<i>-</i>	<i>-</i>	<i>(4,908)</i>
Total deferred income tax assets	6,486	6,136	975	1,203	14,800
Net deferred income tax liabilities	(23,441)	(21,822)	1,009	(3,092)	(47,346)

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24 INCOME TAX (CONTINUED)

At 31 December 2020, the Group had recognized deferred income tax assets of RR 10,922 million (31 December 2019: RR 8,241 million) in respect of unused tax loss carry forwards of RR 54,752 million (31 December 2019: RR 41,456 million). In accordance with tax legislation of Russian Federation effective 1 January 2017, taxable profits can be reduced in the amount of tax losses carried forward for relief during unlimited period of time, at the same time in 2017 to 2021 tax losses carried forward cannot exceed 50 percent of taxable profits. In determining future taxable profits and the amount of tax benefits that are probable in the future, the Group's management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The accounting policies and disclosure requirements for financial instruments have been applied to the line items below:

<i>Financial assets</i>	At 31 December 2020		At 31 December 2019	
	Non-current	Current	Non-current	Current
<i>At amortised cost</i>				
Long-term loans receivable	11,558	6,017	11,408	2,878
Trade and other receivables	426	71,255	403	229,581
Short-term bank deposits				
with original maturity more than three months	-	62,876	-	83,752
Cash and cash equivalents	-	119,707	-	53,240
Other	13	1,316	8	622
<i>At fair value through profit or loss</i>				
Long-term loans receivable	379,069	35,236	220,087	47,937
Contingent consideration	76,918	-	101,391	-
Commodity derivatives	13	13,041	749	16,966
Total financial assets	467,997	309,448	334,046	434,976
<i>Financial liabilities</i>				
<i>At amortised cost</i>				
Long-term debt	168,988	53,152	139,852	12,246
Long-term lease liabilities	6,670	3,798	7,516	2,947
Interest payable	-	1,529	-	1,291
Trade and other payables	-	58,935	-	53,236
<i>At fair value through profit or loss</i>				
Commodity derivatives	880	14,278	1,680	16,450
Total financial liabilities	176,538	131,692	149,048	86,170

Fair value measurement. The Group evaluates the quality and reliability of the assumptions and data used to measure fair value in accordance with IFRS 13, *Fair Value Measurement*, in the three hierarchy levels as follows:

- i. quoted prices in active markets (Level 1);
- ii. inputs other than quoted prices included in Level 1 that are directly or indirectly observable in the market (externally verifiable inputs) (Level 2); or
- iii. inputs that are not based on observable market data (unobservable inputs) (Level 3).

Commodity derivative instruments. The Group conducts natural gas foreign trading in active markets under long-term and short-term purchase and sales contracts, as well as purchases and sells various derivative instruments (with reference to the European natural gas hubs) for delivery optimization and to decrease exposure to the risk of negative changes in natural gas prices. In addition, from time to time, the Group enters into commodity derivative contracts to manage price risks relating to the Group's own use liquid hydrocarbons purchase agreements.

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

These contracts include pricing terms that are based on a variety of commodities and indices, and/or volume flexibility options that collectively qualify them under the scope of IFRS 9, *Financial Instruments*, although the activity surrounding certain contracts involves the physical delivery of hydrocarbons. All contracts mentioned above are recognized in the consolidated statement of financial position at fair value with movements in fair value recognized in the consolidated statement of income.

The fair value of long-term commodity derivative contracts involving the physical delivery of hydrocarbons is determined using internal models and other valuation techniques (the mark-to-market and mark-to-model analysis) due to the absence of quoted prices or other observable, market-corroborated data, for the duration of the contracts. Due to the assumptions underlying their fair value, the commodity derivative contracts are categorized as Level 3 in the fair value hierarchy, described above.

The fair value of short-term commodity derivative contracts involving the physical delivery and likewise contracts used for the price risk management and delivery optimization is determined based on available futures quotes in the active market (mark-to-market analysis) (Level 1).

The amounts recognized by the Group in respect of the natural gas derivative contracts measured in accordance with IFRS 9, *Financial Instruments*, are as follows:

<i>Commodity derivatives</i>	At 31 December 2020	At 31 December 2019
Within other non-current and current assets	13,054	17,715
Within other non-current and current liabilities	(15,158)	(18,130)
	Year ended 31 December:	
	2020	2019
<i>Included in other operating income (loss)</i>		
Operating realized income (loss)	1,479	(1,072)
Change in fair value	(1,689)	238

The table below represents the effect on the fair value estimation of commodity derivative contracts that would occur from hydrocarbon prices changes by ten percent in 12 months after the reporting date:

<i>Effect on the fair value</i>	Year ended 31 December:	
	2020	2019
Increase by ten percent	(985)	(1,478)
Decrease by ten percent	985	1,478

Recognition and remeasurement of the shareholders' loans to joint ventures. Terms and conditions of certain shareholders' loans provided by the Group to its joint ventures OAO Yamal LNG, OOO Arctic LNG 2 and ZAO Terneftegas contain certain financial (benchmark interest rates adjusted for the borrower credit risk) and non-financial (actual interest rates on the borrowings of shareholders, expected free cash flows of the borrower and expected maturities) variables and in accordance with the Group's accounting policy were classified as financial assets at fair value through profit or loss.

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25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The following table summarizes the movements in the carrying amounts of shareholders' loans provided to joint ventures, which are accounted for at fair value through profit or loss:

	Year ended 31 December:	
	2020	2019
At 1 January	268,024	263,345
Loans provided	120,552	24,441
Repayment of loans and accrued interest	(48,380)	(66,352)
Initial measurement at fair value allocated		
to increase the Group's investments in joint ventures (see Note 6)	(19,906)	(3,803)
Recognition of loans, classified previously		
as intercompany, due to disposal of a subsidiary (see Note 4)	-	58,329
Subsequent remeasurement		
at fair value recognized in profit or loss as follows:		
– Interest income (using the effective interest rate method)	20,329	15,319
– Foreign exchange gain (loss), net	81,083	(36,082)
– Remaining effect from changes in fair value		
(attributable to free cash flows of the borrowers and interest rates)	(7,397)	12,827
At 31 December	414,305	268,024

Fair value measurement of shareholders' loans to joint ventures is determined using benchmark interest rates adjusted for the borrower credit risk and internal free cash flows models based on the borrower's strategic plans approved by the shareholders of the joint ventures. Due to the assumptions underlying fair value estimation, shareholders' loans are categorized as Level 3 in the fair value hierarchy, described above.

The fair value of the shareholders' loans is sensitive to benchmark interest rates changes. The table below represents the effect on fair value of the shareholders' loans that would occur from one percent changes in the benchmark interest rates.

<i>Effect on the fair value</i>	Year ended 31 December:	
	2020	2019
Increase by one percent	(15,975)	(7,752)
Decrease by one percent	16,909	8,142

Contingent consideration. According to the terms of the transactions on the sale of a 40 percent participation interest in OOO Arctic LNG 2, total consideration comprises, inter alia, contingent cash payments in total of up to USD 3,200 million equivalent depending on average crude oil benchmark prices level for the year preceding each payment (see Note 4). The contingent payments dates are linked to the dates of launching the Arctic LNG 2 project's LNG trains.

Under IFRS 9, *Financial Instruments*, this contingent consideration contains a commodity based embedded derivative and was classified as a financial asset measured at fair value through profit or loss. Interest income, foreign exchanges differences and the remaining effect from fair value remeasurement of the contingent consideration (included in "Other operating income (loss)" line item) are disclosed separately in the consolidated statement of income.

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25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The following table summarizes the movements in the carrying amounts of the contingent consideration:

	Year ended 31 December:	
	2020	2019
At 1 January	101,391	-
Initial recognition of the contingent consideration (see Note 4)	-	137,499
Subsequent remeasurement		
at fair value recognized in profit or loss as follows:		
– Interest income (using the effective interest rate method)	2,730	2,269
– Foreign exchange gain (loss), net	20,620	(3,835)
– Remaining effect from changes in fair value (attributable to crude oil benchmark prices forecast)	(47,823)	(34,542)
At 31 December	76,918	101,391

Fair value measurement of the contingent consideration is determined based on cash flow model using a discount rate, internal projections of the crude oil benchmark price dynamics and the Arctic LNG 2 project's realization schedule. Due to the assumptions underlying fair value estimation, the contingent consideration is categorized as Level 3 in the fair value hierarchy, described above.

The table below represents the effect on the fair value estimation of the contingent consideration that would occur from crude oil price changes throughout the valuation period:

<i>Effect on the fair value</i>	Year ended 31 December:	
	2020	2019
Increase by one percent	5,048	4,492
Decrease by one percent	(5,321)	(4,551)

Financial risk management objectives and policies. In the ordinary course of business, the Group is exposed to market risks from fluctuating prices on commodities purchased and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on the degree of price volatility, such fluctuations in market prices may create volatility in the Group's financial results. To effectively manage the variety of exposures that may impact financial results, the Group's overriding strategy is to maintain a strong financial position.

The Group's principal risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to these limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Market risk. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and commodity and equity prices, will affect the Group's financial results or the value of its holdings of financial instruments. The primary objective of mitigating these market risks is to manage and control market risk exposures, while optimizing the return on risk.

The Group is exposed to market price movements relating to changes in commodity prices such as crude oil, oil and gas condensate refined products and natural gas (commodity price risk), foreign currency exchange rates, interest rates, equity prices and other indices that could adversely affect the value of the Group's financial assets, liabilities or expected future cash flows.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various exposures in the normal course of business, primarily with respect to the US dollar and Euro. Foreign exchange risk arises primarily from future commercial transactions, recognized assets and liabilities when assets and liabilities are denominated in a currency other than the functional currency.

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25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble, the US dollar and Euro. The Group may utilize foreign currency derivative instruments to manage the risk exposures associated with fluctuations on certain firm commitments for sales and purchases, debt instruments and other transactions that are denominated in currencies other than the Russian rouble, and certain non-Russian rouble assets and liabilities.

The carrying amounts of the Group's financial instruments are denominated in the following currencies:

<i>At 31 December 2020</i>	Russian rouble	US dollar	Euro	Other	Total
<i>Financial assets</i>					
<i>Non-current</i>					
Long-term loans receivable	6,907	14,227	369,493	-	390,627
Trade and other receivables	348	-	-	78	426
Contingent consideration	-	76,918	-	-	76,918
Commodity derivatives	-	-	13	-	13
Other	-	-	-	13	13
<i>Current</i>					
Trade and other receivables	33,089	26,963	9,758	1,445	71,255
Current portion					
of long-term loans receivable	-	35,166	6,087	-	41,253
Commodity derivatives	-	-	13,041	-	13,041
Short-term bank deposits with original maturity more than three months	-	62,876	-	-	62,876
Cash and cash equivalents	13,056	78,812	26,519	1,320	119,707
Other	908	-	408	-	1,316
<i>Financial liabilities</i>					
<i>Non-current</i>					
Long-term debt	-	(114,755)	(54,233)	-	(168,988)
Long-term lease liabilities	(276)	(3,706)	(2,367)	(321)	(6,670)
Commodity derivatives	-	-	(880)	-	(880)
<i>Current</i>					
Current portion of long-term debt	-	(53,152)	-	-	(53,152)
Current portion					
of long-term lease liabilities	(260)	(2,220)	(1,162)	(156)	(3,798)
Interest payable	-	(1,528)	(1)	-	(1,529)
Trade and other payables	(47,568)	(4,487)	(6,500)	(380)	(58,935)
Commodity derivatives	-	-	(14,278)	-	(14,278)
Net exposure	6,204	115,114	345,898	1,999	469,215

PAO NOVATEK

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25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

<i>At 31 December 2019</i>	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
<i>Non-current</i>					
Long-term loans receivable	6,521	28,037	196,937	-	231,495
Trade and other receivables	339	1	-	63	403
Contingent consideration	-	101,391	-	-	101,391
Commodity derivatives	-	-	749	-	749
Other	-	-	-	8	8
<i>Current</i>					
Trade and other receivables	25,561	192,947	10,057	1,016	229,581
Current portion of long-term loans receivable	-	47,843	2,972	-	50,815
Commodity derivatives	-	-	16,966	-	16,966
Short-term bank deposits with original maturity more than three months	-	83,752	-	-	83,752
Cash and cash equivalents	13,375	27,498	11,598	769	53,240
Other	622	-	-	-	622
Financial liabilities					
<i>Non-current</i>					
Long-term debt	-	(139,852)	-	-	(139,852)
Long-term lease liabilities	(264)	(4,661)	(2,529)	(62)	(7,516)
Commodity derivatives	-	-	(1,680)	-	(1,680)
<i>Current</i>					
Current portion of long-term debt	(1,007)	(4,305)	(6,934)	-	(12,246)
Current portion of long-term lease liabilities	(21)	(1,981)	(866)	(79)	(2,947)
Interest payable	(3)	(1,287)	(1)	-	(1,291)
Trade and other payables	(43,232)	(3,253)	(6,496)	(255)	(53,236)
Commodity derivatives	-	-	(16,450)	-	(16,450)
Net exposure	1,891	326,130	204,323	1,460	533,804

The Group chooses to provide information about market risk and potential exposure to hypothetical loss from its use of financial instruments through sensitivity analysis disclosures in accordance with IFRS requirements.

The sensitivity analysis depicted in the table below reflects the hypothetical profit (loss) that would occur assuming a ten percent increase in exchange rates and no changes in the portfolio of instruments and other variables at 31 December 2020 and 2019, respectively:

<i>Effect on profit before income tax</i>	Increase in exchange rate	Year ended 31 December:	
		2020	2019
RUB / USD	10%	11,511	32,613
RUB / EUR	10%	34,590	20,432

The effect of a corresponding ten percent decrease in exchange rate is approximately equal and opposite.

(b) Commodity price risk

The Group's overall commercial trading strategy in natural gas and liquid hydrocarbons is centrally managed. Changes in commodity prices could negatively or positively affect the Group's results of operations. The Group manages the exposure to commodity price risk by optimizing its core activities to achieve stable price margins.

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

Natural gas supplies on the Russian domestic market. As an independent natural gas producer, the Group is not subject to the Government's regulation of natural gas prices, except for those volumes sold to residential customers. Nevertheless, the Group's prices for natural gas sold are strongly influenced by the prices regulated by the governmental agency of the Russian Federation that carries out state regulation of prices and tariffs for goods and services of natural monopolies in energy, utilities and transportation.

Wholesale natural gas prices for sales to all customer categories (excluding residential customers) on the domestic market were increased by the Regulator by 1.4 percent effective 1 July 2019 and further by 3 percent effective 1 August 2020.

Management believes it has limited downside commodity price risk for natural gas in the Russian Federation and does not use commodity derivative instruments for trading purposes. The Group's natural gas purchase and sales contracts in the domestic market are not considered to meet the definition of a derivative and are not within the scope of IFRS 9, *Financial Instruments*. However, to effectively manage the margins achieved through its natural gas trading activities, management has established targets for volumes sold to wholesale traders and end-customers.

LNG supplies. The Group sells liquefied natural gas purchased primarily from its joint ventures Yamal LNG and Cryogas-Vysotsk on international markets under short- and long-term contracts at prices based on benchmark natural gas prices at the major natural gas hubs and benchmark crude oil prices. The Group sells liquefied natural gas produced at the small-scale LNG plant in the Chelyabinsk Region on domestic market under short-term contracts at prices depending on oil products prices on the domestic market. The Group's LNG purchase and sales contracts are not considered to meet the definition of a derivative and are not within the scope of IFRS 9, *Financial Instruments*.

LNG regasification activity in Europe. The Group purchases and sells regasified LNG in Europe primarily at prices linked to natural gas prices at major European natural gas hubs. Regasified LNG purchase and sales contracts are not considered to meet the definition of a derivative and are not within the scope of IFRS 9, *Financial Instruments*.

Natural gas trading activities on the European and other foreign markets. The Group purchases and sells natural gas on the European and other foreign markets under short- and long-term supply contracts, as well as purchases and sells different derivative instruments based on formulas with reference to benchmark natural gas prices quoted for the North-Western European natural gas hubs, crude oil and oil products prices and/or a combination thereof. Therefore, the Group's results from natural gas foreign trading and derivative instruments foreign trading are subject to commodity price volatility based on fluctuations or changes in the respective benchmark prices.

Liquid hydrocarbons supplies. The Group sells its crude oil, stable gas condensate and gas condensate refined products under spot contracts. Naphtha and stable gas condensate volumes sold to the Asian-Pacific Region, European and North American markets are primarily based on benchmark crude oil prices of Brent and Dubai and/or naphtha prices, mainly of Naphtha Japan and Naphtha CIF NWE or a combination thereof, plus a margin or discount, depending on current market situation. Other gas condensate refined products volumes sold mainly to the European market are based on benchmark jet fuel prices of Jet CIF NWE and gasoil prices of Gasoil 0.1 percent CIF NWE plus a margin or discount, depending on current market situation. Crude oil sold internationally is based on benchmark crude oil prices of Brent, or Dubai, plus a premium or a discount, and on a transaction-by-transaction basis or based on benchmark crude oil prices of Brent and Urals or a combination thereof for volumes sold domestically.

As a result, the Group's revenues from the sales of liquid hydrocarbons are subject to fluctuations in the crude oil and gas condensate refined products benchmark prices. The Group's liquid hydrocarbons purchase and sales contracts are mainly concluded to meet supply requirements to fulfill contract obligations or for own consumption and are not within the scope of IFRS 9, *Financial Instruments*. From time to time, the Group also enters into commodity derivative contracts to manage price risks relating to the Group's own use liquid hydrocarbons purchase agreements. Such commodity derivative contracts are accounted for in accordance with IFRS 9.

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25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)*(c) Cash flow and fair value interest rate risk*

The Group is subject to interest rate risk on financial liabilities with variable interest rates. Changes in interest rates impact primarily debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). To mitigate this risk, the Group's treasury function performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In cases where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favorable interest rate terms.

The interest rate profiles of the Group's interest-bearing financial instruments are as follows:

	At 31 December 2020		At 31 December 2019	
	RR million	Percentage	RR million	Percentage
At fixed rate	176,623	80%	152,098	100%
At variable rate	45,517	20%	-	-
Total debt	222,140	100%	152,098	100%

The Group centralizes the cash requirements and surpluses of controlled subsidiaries and the majority of their external financing requirements, and applies, on its consolidated net debt position, a funding policy to optimize its financing costs and manage the impact of interest rate changes on its financial results in line with market conditions. In this way, the Group is able to ensure that the balance between the floating rate portion of its debt and its cash surpluses has a low level of exposure to any changes in interest rates over the short-term. This policy makes it possible to significantly limit the Group's sensitivity to interest rate volatility.

The Group's financial results are sensitive to changes in interest rates on the floating rate portion of the Group's debt portfolio. If the interest rates applicable to floating rate debt were to increase by 100 basis points (one percent) at the reporting dates, assuming all other variables remain constant, it is estimated that the Group's profit before taxation would decrease by the amounts shown below:

<i>Effect on profit before income tax</i>	Year ended 31 December	
	2020	2019
Increase by 100 basis points	455	-

The effect of a corresponding 100 basis points decrease in interest rate is approximately equal and opposite.

Credit risk. Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations.

Credit risk is managed on a Group level and arises from cash and cash equivalents, other bank deposits, as well as credit exposures to customers, including outstanding trade receivables and committed transactions. Cash, cash equivalents and deposits are placed only with banks that are considered by the Group during the whole deposit period to have minimal risk of default.

The Group's trade and other receivables consist of a large number of customers, spread across diverse industries and geographical areas. The Group has developed standard credit payment terms and constantly monitors the status of trade and other receivables and the creditworthiness of the customers.

Most of the Group's international natural gas and liquid hydrocarbons sales are made to customers with independent external ratings; however, if the customer has a credit rating below BBB-, the Group requires the collateral for the trade receivable to be in the form of letters of credit from banks with an investment grade rating. Most of domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis.

As a result of the domestic regional natural gas trading activities, the Group is exposed to the risk of payment defaults of small and medium-sized industrial users and individuals. To minimize credit risk the Group monitors the recoverability of these debtors by analyzing ageing of receivables by type of customers and their respective prior payment history.

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25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

The table below highlights the Group's trade and other receivables to published credit ratings of its counterparties and/or their parent companies:

<i>Moody's, Fitch and/or Standard & Poor's</i>	At 31 December 2020	At 31 December 2019
Investment grade rating	47,210	199,446
Non-investment grade rating	205	328
No external rating	23,840	29,807
Total trade and other receivables	71,255	229,581

The table below highlights the Group's cash, cash equivalents and short-term bank deposits with original maturity more than three months to published credit ratings of its banks and/or their parent companies:

<i>Moody's, Fitch and/or Standard & Poor's</i>	At 31 December 2020	At 31 December 2019
Investment grade rating	182,542	131,049
Non-investment grade rating	34	5,915
No external rating	7	28
Total cash, cash equivalents and short-term bank deposits with original maturity more than three months	182,583	136,992

Investment grade ratings classification referred to as Aaa to Baa3 for Moody's Investors Service, and as AAA to BBB- for Fitch Ratings and Standard & Poor's.

In addition, the Group provides long-term loans receivable to its joint ventures for development, construction and acquisitions of oil and gas assets. Required amount of loans and their maturity schedules are based on the budgets and strategic plans approved by the shareholders of the joint ventures.

Liquidity risk. Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. The Group has entered into a number of short-term credit facilities. Such credit lines and overdraft facilities can be drawn down to meet short-term financing needs. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

The following tables summarize the maturity profile of the Group's financial liabilities, except for natural gas derivative contracts, based on contractual undiscounted payments, including interest payments:

<i>At 31 December 2020</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt					
<i>Principal</i>	53,159	88,083	60,758	25,696	227,696
<i>Interest</i>	8,322	6,416	7,690	3,194	25,622
Lease liabilities	3,949	3,819	3,436	71	11,275
Trade and other payables	58,935	-	-	-	58,935
Total financial liabilities	124,365	98,318	71,884	28,961	323,528

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25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

<i>At 31 December 2019</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt					
<i>Principal</i>	12,246	44,545	74,827	25,839	157,457
<i>Interest</i>	7,572	5,965	7,269	3,796	24,602
Lease liabilities	3,153	2,959	5,610	-	11,722
Trade and other payables	53,236	-	-	-	53,236
Total financial liabilities	76,207	53,469	87,706	29,635	247,017

The following tables represent the maturity profile of the Group's derivative commodity contracts based on undiscounted cash flows:

<i>At 31 December 2020</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Cash inflow	155,732	18,975	-	174,707
Cash outflow	(156,944)	(19,843)	-	(176,787)
Net cash flows	(1,212)	(868)	-	(2,080)

<i>At 31 December 2019</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Cash inflow	113,918	43,034	15,146	172,098
Cash outflow	(113,402)	(43,649)	(15,462)	(172,513)
Net cash flows	516	(615)	(316)	(415)

Reconciliation of liabilities arising from financing activities. The movements in the Group's liabilities arising from financing activities were as follows:

	Long-term debt and interest payable	Long-term lease liabilities	Total
At 1 January 2019	173,614	9,798	183,412
Cash flows	(10,316)	(2,944)	(13,260)
Non-cash movements			
Non-cash additions	-	4,291	4,291
Interest accrued	9,112	544	9,656
Foreign exchange movements	(19,021)	(1,226)	(20,247)
At 31 December 2019	153,389	10,463	163,852
Cash flows (*)	30,751	(3,849)	26,902
Non-cash movements			
Non-cash additions	-	956	956
Interest accrued	10,051	566	10,617
Foreign exchange movements	29,478	2,332	31,810
At 31 December 2020	223,669	10,468	234,137

(*) – Excluding prepayments under lease agreements, in respect of which lease liabilities were not recognized.

Capital management. The primary objectives of the Group's capital management policy are to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain investor, market and creditor confidence to support its business activities.

At 31 December 2020, the Group had investment grade ratings of BBB by Standard & Poor's, BBB by Fitch Ratings and Baa2 by Moody's Investors Service. The Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis to maintain its credit ratings.

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The Group manages its capital on a corporate-wide basis to ensure adequate funding to sufficiently meet the Group's operational requirements. The majority of external debts raised to finance NOVATEK's wholly owned subsidiaries are centralized at the parent level, and financing to Group entities is facilitated through inter-company loan arrangements or additional contributions to share capital.

The Group has a stated dividend policy that distributes not less than 50 percent of the Group's consolidated net profit determined according to IFRS, adjusted for one-off profits or losses (until December 2020, the minimum dividend payout level was set at 30 percent of the Group's adjusted consolidated net profit). The dividend payment for a specific year is determined after taking into consideration the Group's development strategy. Dividends are recommended by the Board of Directors of NOVATEK and approved by the NOVATEK's shareholders.

The Group defines the term "capital" as equity attributable to PAO NOVATEK shareholders plus net debt (total debt less cash and cash equivalents and bank deposits with maturity more than three months). There were no changes to the Group's approach to capital management during 2020. At 31 December 2020 and 2019, the Group's capital totaled RR 1,660 billion and RR 1,663 billion, respectively.

26 CONTINGENCIES AND COMMITMENTS

Operating environment. The Russian Federation continues to display some characteristics of an emerging market. In addition, the Russian economy is particularly sensitive to world oil and gas prices. The tax, currency and customs legislation is subject to varying interpretations and frequent changes. The Group's business operations are primarily located in the Russian Federation and are thus exposed to the economic and financial markets of the Russian Federation.

The spread of a new coronavirus COVID-19 in 2020 has caused financial and economic stress to the global markets that is out of the Group's management control. In particular, the COVID-19 pandemic has led to lower demand for crude oil, natural gas and oil products, which combined with the increase in the supply of crude oil due to the cancellation of the OPEC+ production agreement in March 2020 has led to a fall in global hydrocarbon commodity prices. Global economic activity has begun a gradual recovery during the second quarter following the partial removals of restrictions aimed at preventing the epidemic spread, as well as a partial recovery in benchmark crude oil prices following the new OPEC+ production agreement reached and the compliance to the target cuts. This recovery has continued throughout the second half of 2020. Nevertheless, the scale and duration of these events remain uncertain and may continue to influence our future earnings, cash flows and financial position.

The Group's management is taking necessary precautions to protect the safety and well-being of employees, contractors and their families against the infectious spread of COVID-19, while maintaining commitment to meet the growing energy needs of valued customers domestically and internationally. The Group's management continues to work closely with federal, regional and local authorities, as well as partners, to contain the spread of the coronavirus and to take appropriate actions, where necessary, to minimize the possible disruptions of the Group's business operations.

Sectoral sanctions imposed by the U.S. government. On 16 July 2014, the Office of Foreign Assets Control (OFAC) of the U.S. Treasury included PAO NOVATEK on the Sectoral Sanctions Identification List (the "List"), which prohibits U.S. persons or persons within the United States from providing new financing to the Group for longer than 60 days. Whereas all other transactions, including financial, carried out by U.S. persons or within the United States with the Group are permitted. The inclusion on the List has not impacted the Group's business activities, in any jurisdiction, nor does it affect the Group's assets and debt.

Management has reviewed the Group's capital expenditure programs and existing debt portfolio and has concluded that the Group has sufficient liquidity, through internally generated (operating) cash flows, to adequately fund its core oil and gas business operations including finance of planned capital expenditure programs of its subsidiaries, as well as to repay and service Group's short-term and long-term debt existing at the current reporting date and, therefore, inclusion on the List does not adversely impact the Group's operational activities.

The Group together with its foreign partners currently raises necessary financing for our joint ventures from non-US debt markets and lenders.

26 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Contractual commitments. At 31 December 2020, the Group had contractual capital expenditures commitments aggregating approximately RR 248 billion (at 31 December 2019: RR 223 billion) mainly for development of LNG projects (through 2025), and for development at the Kharbeyskoye field (through 2023), the Ust-Yamsoveyskiy (through 2023), the North-Russkiy (through 2021), the Yevo-Yakhinskiy (through 2023) license areas and the Yarudeyskoye field (through 2023) all in accordance with duly signed agreements as well as for construction of a hydrocracker unit at the Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea (through 2022).

At 31 December 2020 and 31 December 2019, the Group was a participant of joint operations on exploration and production in Montenegro (50 percent participation interest) and in Republic of Lebanon (20 percent participation interest) under the agreements concluded with the State of Montenegro and the Ministry of Energy and Water of Republic of Lebanon, respectively. Jointly with other participants of these agreements, the Group committed to conduct mandatory work program exploration activities during the established periods, as stipulated by these agreements. The maximum amount to be paid by the Group in case of non-performance of work program exploration activities at 31 December 2020 is EUR 42.5 million to the State of Montenegro and EUR 5.8 million to the Republic of Lebanon (at 31 December 2019: EUR 42.5 million and EUR 12.7 million, respectively). The Group expects that mandatory exploration work programs under its joint operations will be performed and, therefore, no provision for these contingent liabilities was recognized in the consolidated financial statements.

The Group has entered into a number of agreements, relating to time chartering of marine tankers and bareboat chartering of floating gas storage units with service terms from 20 to 29 years under which provision of the services has not yet commenced. At 31 December 2020, the Group's future minimum payments under these charter agreements amounted to RR 234 billion (at 31 December 2019: RR 110 billion). Of this amount RR 196 billion relate to agreements which management plans to transfer to Group's joint ventures involved into LNG projects (at 31 December 2019: RR 81 billion).

Guarantees issued. At 31 December 2019, the aggregated amount of non-financial guarantees in respect of the Yamal LNG project issued by the Group to a number of third parties totaled USD 1.4 billion and EUR 8.5 billion. At 31 December 2020, these guarantees have been withdrawn after passing the tests proving successful project completion.

Simultaneously, in accordance with the project financing agreements of OAO Yamal LNG, the Group issued new guarantees, financial and non-financial, which cover only limited specific risks of the project. Non-financial guarantees represent undertakings to provide repayable funds to the project to the extent necessary for the project to fulfil its obligations to creditors, upon occurrence of limited events, and may not exceed USD 5.9 billion. Payments under financial guarantees may be claimed only upon Yamal LNG's default on its obligations to creditors, and the amount of these financial guarantees in most cases depends on macroeconomic factors (benchmark hydrocarbon prices, foreign exchange rates), but may not exceed USD 2.4 billion and EUR 1.0 billion. At 31 December 2020, based on the current estimations and long-term macroeconomic forecasts of the Group's management, the likelihood of claims under these financial guarantees is remote.

At 31 December 2019, with regard to the Group's obligations under the non-financial guarantee issued to the banks providing project financing to Yamal LNG, the State Development Corporation VEB.RF issued in favor of the banks a counter guarantee for the amount not exceeding the equivalent of USD 3 billion. The guarantee was terminated in September 2020 simultaneously with the termination of the Group's non-financial guarantee.

The aggregated amount of non-financial guarantees issued by the Group to a Russian bank in respect of the Group's joint venture Cryogas-Vysotsk totaled EUR 276 million at 31 December 2020 (at 31 December 2019: EUR 277 million).

The aggregated amount of non-financial guarantees issued by the Group in respect of its joint venture Arctic LNG 2 relating to LNG tanker time charter agreements, under which provision of the services has not yet commenced, totaled USD 2.0 billion at 31 December 2020.

In 2020, the Group issued non-financial performance guarantees to OOO Arctic LNG 2 in respect of the obligations of the joint venture OOO SMART LNG relating to provision of services under long-term LNG tanker time charter agreements, to the extent of the Group's participation interest in OOO SMART LNG.

26 CONTINGENCIES AND COMMITMENTS (CONTINUED)

The outflow of resources embodying economic benefits required to settle the obligations under the aforementioned guarantees issued by the Group is not probable; therefore, no provision for these liabilities was recognized in the consolidated financial statements.

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Correspondingly, the relevant regional and federal tax authorities may periodically challenge management's interpretation of such taxation legislation as applied to the Group's transactions and activities. Furthermore, events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued in the consolidated financial statements.

Mineral licenses. The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its mineral licenses. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitation, suspension or revocation. The Group's management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any material adverse effect on the Group's financial position, results of operations or cash flows.

PAO NOVATEK**Notes to the Consolidated Financial Statements**

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26 CONTINGENCIES AND COMMITMENTS (CONTINUED)

The major of the Group's oil and gas fields and license areas are located in the YNAO. Licenses are issued by the Federal Agency for the Use of Natural Resources of the Russian Federation and the Group pays unified natural resources production tax to produce crude oil, natural gas and unstable gas condensate from these fields and contributions for exploration of license areas. The principal licenses of the Group and its joint ventures and their expiry dates are:

Field	License holder	License expiry date
Subsidiaries:		
Geofizicheskoye	OOO Arctic LNG 1	2034
Soletskoye+Khanaveyskoye	OOO Arctic LNG 1	2046
Gydanskoye	OOO Arctic LNG 1	2044
Verhnetiuteyskoye and West Seyakhinskoye	OOO Obskiy LNG	2044
Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2034
Urengoyskoye (within the Yevo-Yakhinsky and Ust-Yamsoveysky license areas)	OOO NOVATEK-Yurkharovneftegas	2034/2198
Nyakhartinskoye	OOO NOVATEK-Yurkharovneftegas	2043
East Urengoyskoye+North Yesetinskoye (within the Yevo-Yakhinsky and West Yaro Yakhinsky license areas)	OOO NOVATEK-Yurkharovneftegas	2034/2025
West Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2029
Yevo-Yakhinskoye	OOO NOVATEK-Yurkharovneftegas	2034
North Russkoye	OOO NOVATEK-Tarkosaleneftegas	2031
East Tarkosalinskoye	OOO NOVATEK-Tarkosaleneftegas	2043
Kharbeyskoye	OOO NOVATEK-Tarkosaleneftegas	2036
East Tazovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
Urengoyskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
Dorogovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
Khancheyskoye	OOO NOVATEK-Tarkosaleneftegas	2044
Dobrovolskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
South Khadyryakhinskoye	OOO NOVATEK-Tarkosaleneftegas	2031
North Khancheyskoye + Khadyryakhinskoye	OOO NOVATEK-Tarkosaleneftegas	2029
Sterkhovoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
North Chaselskoye	AO NOVATEK-Pur	Life of field
Beregovoye	AO NOVATEK-Pur	2070
Syskonsyninskoye	AO NOVATEK-Pur	2027
Yarudeyskoye	OOO Yargeo	2029
Joint ventures:		
South-Tambeyskoye	OAO Yamal LNG	2045
Salmanovskoye (Utrenneye)	OOO Arctic LNG 2	2120
Urengoyskoye (within the Samburgskiy license area)	AO Arcticgas	2130
Yaro-Yakhinskoye	AO Arcticgas	2119
Samburgskoye	AO Arcticgas	2130
East Urengoyskoye +North Esetinskoye (within the Samburgskiy license area)	AO Arcticgas	2130
North Urengoyskoye	ZAO Nortgas	2038
Termokarstovoye	ZAO Terneftegas	2097

Management believes the Group has the right to extend its licenses beyond the initial expiration date under the existing legislation and intends to exercise this right on all of its fields.

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26 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Environmental liabilities. The Group operates in the oil and gas industry in the Russian Federation and abroad. The enforcement of environmental regulation in the Russian Federation and other countries of operation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations and, as obligations are determined, they are recognized as an expense immediately if no future benefit is discernible. Potential liabilities arising as a result of a change in interpretation of existing regulations, civil litigation or changes in legislation cannot be estimated. Under existing legislation, management believes that there are no probable liabilities, which will have a material adverse effect on the Group's financial position, results of operations or cash flows.

Legal contingencies. The Group is subject of, or party to a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the consolidated financial statements.

27 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

The principal subsidiaries and joint ventures of the Group and respective effective ownership in the ordinary share capital at 31 December 2020 and 2019 are set out below:

	Ownership percent at 31 December:		Country of incorporation	Principal activities
	2020	2019		
Subsidiaries:				
OOO NOVATEK-Yurkharovneftegas	100	100	Russia	Exploration and production
OOO NOVATEK-Tarkosaleneftegas	100	100	Russia	Exploration and production
OOO Yargeo	51	51	Russia	Exploration, development and production
AO NOVATEK-Pur	100	100	Russia	Exploration and production
OOO Arctic LNG 1	100	100	Russia	Exploration and development
OOO Arctic LNG 3	100	100	Russia	Exploration and development
OOO NOVATEK-NTC	100	100	Russia	Scientific and technical support of exploration and development
OOO NOVATEK-Murmansk	100	100	Russia	Construction of large-scale offshore structures
OOO NOVATEK-Purovsky ZPK	100	100	Russia	Gas Condensate Processing Plant
OOO NOVATEK-Transervice	100	100	Russia	Transportation services
OOO NOVATEK-Ust-Luga	100	100	Russia	Fractionation and Transshipment Complex
OOO NOVATEK-AZK	100	100	Russia	Wholesale and retail trading
OOO NOVATEK-Chelyabinsk	100	100	Russia	Trading and marketing
OOO NOVATEK-Kostroma	100	100	Russia	Trading and marketing
OOO NOVATEK-Perm	100	100	Russia	Trading and marketing
OOO NOVATEK Moscow Region	100	100	Russia	Trading and marketing
OOO Arctic Transshipment	100	100	Russia	Construction of offshore LNG transshipment complexes
Novatek Gas & Power GmbH	100	100	Switzerland	Trading and marketing
Novatek Gas & Power Asia Pte. Ltd.	100	100	Singapore	Trading and marketing
Novatek Green Energy Sp. z o.o. (before February 2020 Novatek Polska Sp. z o.o.)	100	100	Poland	Trading and marketing

PAO NOVATEK

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

27 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES (CONTINUED)

	Ownership percent at 31 December:		Country of incorporation	Principal activities
	2020	2019		
<i>Joint ventures:</i>				
OAo Yamal LNG	50.1	50.1	Russia	Exploration and development, production of LNG
OOO Arctic LNG 2 (subsidiary until March 2019)	60	60	Russia	Exploration and development, construction of LNG plant
AO Arcticgas	50	50	Russia	Exploration and production
ZAO Nortgas	50	50	Russia	Exploration and production
ZAO Terneftegas	51	51	Russia	Exploration and production
OOO Cryogas-Vysotsk	51	51	Russia	Operation of medium-scale LNG plant
OOO SMART LNG	50	50	Russia	Leasing of LNG tankers
Rostock LNG GmbH	49	49	Germany	Construction of LNG transshipment terminal

28 RELATED PARTY TRANSACTIONS

Transactions between NOVATEK and its subsidiaries, which are related parties of NOVATEK, have been eliminated on consolidation and are not disclosed in this Note.

For the purposes of these consolidated financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. Management has used reasonable judgments in considering each possible related party relationship with attention directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties.

<i>Related parties – joint ventures</i>	Year ended 31 December:	
	2020	2019
<i>Transactions</i>		
Revenues from oil and gas sales	4,136	3,210
Other revenues	7,375	5,304
Purchases of natural gas and liquid hydrocarbons	(214,228)	(296,442)
Transportation expenses	(283)	(73)
Materials, services and other	(214)	(164)
Materials, services and other (capitalized within property, plant and equipment)	(437)	(60)
Purchases of property, plant and equipment and materials for construction	(160)	(4)
Interest income	21,170	16,158
Dividends declared and cash received	10,920	46,550
<i>Related parties – joint ventures</i>		
	At 31 December 2020	At 31 December 2019
<i>Balances</i>		
Long-term loans receivable	390,627	231,495
Current portion of long-term loans receivable	41,253	50,815
Trade and other receivables	2,974	1,426
Trade payables and accrued liabilities	27,532	27,034

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28 RELATED PARTY TRANSACTIONS (CONTINUED)

The terms and conditions of the loans receivable from the joint ventures are disclosed in Note 7.

The Group issued guarantees in favor of its joint ventures as described in Note 26.

<i>Related parties – entities with significant influence and their subsidiaries</i>	Year ended 31 December:	
	2020	2019
Transactions		
Revenues from oil and gas sales	36,436	38,325
Other revenues	-	106
Purchases of natural gas and liquid hydrocarbons	(443)	-
Gain on disposal of interests in subsidiaries and joint ventures, net	-	308,578
Other operating income (loss), net	(10,789)	(7,842)
Interest income	741	899

<i>Related parties – entities with significant influence and their subsidiaries</i>	At 31 December 2020	At 31 December 2019
Balances		
Trade and other receivables	8,943	43,910
Contingent consideration	21,470	26,513
Trade payables and accrued liabilities	114	359

<i>Related parties – parties under control of key management personnel</i>	Year ended 31 December:	
	2020	2019
Transactions		
Purchases of construction services (capitalized within property, plant and equipment)	(18,268)	(14,555)
Transportation expenses	(10,815)	(10,114)

<i>Related parties – parties under control of key management personnel</i>	At 31 December 2020	At 31 December 2019
Balances		
Advances for construction	4,768	4,773
Prepayments and other current assets	585	487
Trade payables and accrued liabilities	2,126	1,898

Key management personnel compensation. The Group paid to key management personnel (members of the Board of Directors and the Management Committee) short-term compensation, including salary, bonuses and excluding dividends, in the following amounts:

<i>Related parties – members of the key management personnel</i>	Year ended 31 December:	
	2020	2019
Board of Directors	211	166
Management Committee	7,125	4,134
Total compensation	7,336	4,300

Such amounts include personal income tax and are net of payments to non-budget funds made by the employer. Some members of key management personnel have direct and/or indirect interests in the Group and receive dividends under general conditions based on their respective shareholdings.

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Notes to the Consolidated Financial Statements

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29 SEGMENT INFORMATION

The Group's activities are considered by the chief operating decision maker (hereinafter referred to as "CODM", represented by the Management Committee of NOVATEK) to comprise one operating segment: "exploration, production and marketing".

The Group's management reviews financial information on the results of operations of the reporting segment prepared based on IFRS. The CODM assesses reporting segment performance based on profit comprising among others revenues, depreciation, depletion and amortization, interest income and expense, income tax and other items as presented in the Group's consolidated statement of income. The CODM also reviews capital expenditures of the reporting segment for the period defined as additions to property, plant and equipment (see Note 5).

Geographical information. The Group operates in the following geographical areas:

- *Russian Federation* – exploration, development, production and processing of hydrocarbons, and sales of natural gas, stable gas condensate, other gas and gas condensate refined products, liquefied petroleum gas and crude oil;
- *Countries of Europe (primarily, the Netherlands, France, Poland, Denmark, Belgium, the United Kingdom, Finland, Spain, Estonia, Germany, Sweden, Norway, Lithuania, Italy, Latvia and Montenegro)* – sales of natural gas, naphtha, stable gas condensate, gas condensate refined products, liquefied petroleum gas, crude oil and exploration activities within joint operations;
- *Countries of the Asia-Pacific region (primarily, China, including Taiwan, South Korea, Japan, Malaysia, Singapore, Philippines, Thailand and India)* – sales of natural gas, naphtha, stable gas condensate and crude oil;
- *Countries of North America (primarily, the USA)* – sales of naphtha, stable gas condensate refined products and crude oil;
- *Countries of the Middle East (primarily, the United Arab Emirates, Saudi Arabia, Oman, Turkey and Lebanon)* – sales of natural gas, naphtha, crude oil and exploration activities within joint operations.

Geographical information of the Group's oil and gas sales for the years ended 31 December 2020 and 2019 is as follows:

	Year ended 31 December:	
	2020	2019
Russia	393,358	403,639
Europe	178,245	303,564
Asia-Pacific Region	108,142	120,802
North America	25,434	41,205
The Middle East	12,133	16,217
Other	2	-
Less: export duties	(17,564)	(33,195)
Total outside Russia	306,392	448,593
Total oil and gas sales	699,750	852,232

Revenues pertaining to geographical information are prepared based on the products geographical destination. For products transported by tankers, the geography is determined based on the location of the port of discharge/transshipment designated by the Group's customer. Substantially all of the Group's operating assets are located in the Russian Federation.

Major customers. For the years ended 31 December 2020 and 2019, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 16 percent (RR 113.7 billion) and 13.4 percent (RR 115.9 billion) of total external revenues, respectively. The Group's major customer resides within the Russian Federation.

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation. These consolidated financial statements present the assets, liabilities, equity, income, expenses and cash flows of PAO “NOVATEK” and its subsidiaries as those of a single economic entity. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvements with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Accounting policies of the Group’s subsidiaries have been changed where necessary to ensure consistency with the Group’s policies.

Joint arrangements. The Group undertakes a number of business activities through joint arrangements, which exist when two or more parties have joint control. Joint arrangements are classified as either joint operations or joint ventures, based on the contractual rights and obligations between the parties to the arrangement.

Interests in joint ventures are accounted for using the equity method. With regard to joint operations, the Group records its share of assets, liabilities, revenues and expenses of its joint operations in the consolidated financial statements on a line-by-line basis.

Under the equity method, an investment in a joint venture is initially recognized at cost. The difference between the cost of an acquisition and the share of the fair value of the joint venture’s identifiable net assets represents goodwill upon acquiring the joint venture.

Post-acquisition changes in the Group’s share of net assets of a joint venture are recognized as follows: (a) the Group’s share of profits or losses is recorded in the consolidated profit or loss for the year as share of financial result of joint ventures; (b) the Group’s share of other comprehensive income or loss is recognized in other comprehensive income or loss and presented separately; (c) dividends received or receivable from a joint venture are recognized as a reduction in the carrying amount of the investment; (d) all other changes in the Group’s share of the carrying value of net assets of a joint venture are recognized within retained earnings in the consolidated statement of changes in equity.

After application of the equity method, including recognizing the joint venture’s losses, the entire carrying amount of the investment is tested for impairment as a single asset whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When the Group’s share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures. The interest in a joint venture is the carrying amount of the investment in the joint venture together with any long-term interests that, in substance, form part of the Group’s net investment in the joint venture, including receivables and loans for which settlement is neither planned nor likely to occur in the foreseeable future.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group’s interest in joint ventures; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Business combinations. The acquisition method of accounting is used to account for acquisitions of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill”) is recognized in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The consideration transferred for the acquiree is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to control a subsidiary as a result of its contribution to a joint venture, a joint operation or an associate, the subsidiary is deconsolidated and the retained interest in the entity is remeasured to its fair value only to the extent of the unrelated investors' interest in the joint venture, the joint operation or the associate, with the change in carrying amount recognized in profit or loss.

If the ownership interest in a joint venture is reduced but joint control is retained or replaced with significant influence, the Group continues to apply the equity method and does not remeasure the retained interest.

Extractive activities. The Group follows the successful efforts method of accounting for its oil and gas properties and equipment whereby property acquisitions and development costs are capitalized, and exploration costs (geological and geophysical expenditures, expenditures associated with the maintenance of non-proven reserves and other expenditures relating to exploration activity), excluding exploratory drilling expenditures and exploration license acquisition costs, are recognized within operating expenses in the consolidated statement of income as incurred.

Exploration license acquisition costs and exploratory drilling costs are recognized as exploration assets within property, plant and equipment until it is determined whether proved reserves justifying their commercial development have been found. If no proved reserves are found, the relevant costs are charged to the consolidated statement of income. When proved reserves are determined, exploration license acquisition costs are reclassified to proved properties acquisition costs and exploratory drilling costs are reclassified to development expenditure categories within property, plant and equipment. Exploration license acquisition costs and exploratory drilling costs recognized as exploration assets are reviewed for impairment on an annual basis.

The costs of 3-D seismic surveys used to assist production, increase total recoverability and determine the desirability of drilling additional development wells within proved reservoirs are capitalized as development costs. All other seismic costs are expensed as incurred.

Production costs and overheads are charged to expense as incurred.

Property, plant and equipment. Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation, depletion, amortization and impairment.

The cost of self-constructed assets includes the cost of direct materials, direct employee related costs, a pro-rata portion of depreciation of assets used for construction and an allocation of the Group's overhead costs.

Depreciation, depletion and amortization of oil and gas properties and equipment is calculated using the unit-of-production method for each field based upon total proved reserves for costs associated with acquisitions of proved properties and common infrastructure facilities, and proved developed reserves for other development costs, including wells. Where unit-of-production method does not reflect useful life and pattern of consumption of particular oil and gas assets, such as processing facilities serving several properties, those assets are depreciated on a straight-line basis.

Property, plant and equipment, other than oil and gas properties and equipment, are depreciated on a straight-line basis over their estimated useful lives. Land and assets under construction are not depreciated.

The estimated useful lives of the Group's property, plant and equipment depreciated on a straight-line basis are as follows:

	<u>Years</u>
Machinery and equipment	5-15
Processing facilities	20-30
Buildings	25-50

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At each reporting date management assesses whether there is any indication of impairment in respect of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less selling costs and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the respective period. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Borrowing costs. Interest costs on borrowings and exchange differences arising from foreign currency borrowings (to the extent that they are regarded as an adjustment to interest costs) used to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are recognized in the consolidated statement of income.

Asset retirement obligations. An asset retirement obligation is recognized when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment whose construction is substantially completed. The obligation is recognized when incurred at the present value of the estimated costs of dismantling the assets, including abandonment and site restoration costs, and are included within the carrying value of property, plant and equipment.

Changes in the asset retirement obligation relating to a change in the expected pattern of settlement of the obligation, or in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the current period. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability. Changes in the obligation resulting from the passage of time are recognized in the consolidated statement of income as interest expense.

Leases. A contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use assets are initially measured at cost and depreciated by the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The cost of right-of-use assets comprises of initial measurement of the lease liability, any lease payments made before or at the commencement date and initial direct costs. After the commencement date, the right-of-use assets are carried at cost less accumulated depreciation and impairment losses in accordance with IAS 16, *Property, Plant and Equipment*.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and subsequently measured at amortised cost with the interest expense recognized within finance income (expense) in the consolidated statement of income.

In accordance with IFRS 16, *Leases*, the Group elected not to apply accounting requirements under this standard to short-term leases.

Lease contracts where the Group acts as the lessor are classified as operating leases when substantially all the risks and rewards incidental to ownership do not transfer to the lessee. Lease payments under such contracts are recognized on a straight-line basis within other revenue in the consolidated statement of income.

Non-current assets held for sale. Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and the sale within a year from the date of classification is highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment are not depreciated once classified as held for sale.

The Group ceases to use the equity method of accounting in relation to an interest in a joint venture or an associate classified as an asset held for sale.

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories. Natural gas, gas condensate, crude oil and gas condensate refined products are valued at the lower of cost or net realizable value. The cost of natural gas and liquid hydrocarbons includes direct cost of materials, direct operating costs, and related production overhead expenses and is recorded on weighted average cost basis. Net realizable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

Materials and supplies are carried at amounts which do not exceed their respective recoverable amounts in the normal course of business.

Financial instruments. Financial assets are classified in the following measurement categories: those to be measured subsequently at amortised cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. If a hybrid contract contains a host that is a financial asset, the classification requirements apply to the entire hybrid contract.

Financial assets are classified as at amortised cost only if both of the following criteria are met: the asset is held within a business model with the objective of collecting the contractual cash flows, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Certain shareholders' loans provided by the Group to its joint ventures include embedded derivatives that modify cash flows of the loans based on financial (market interest rates) and non-financial (interest rate on borrowings of the lender and free cash flows of the borrower) variables. The risks relating to these variables are interrelated; therefore, terms and conditions of each of these loans related to those variables were defined as a single compound embedded derivative. The Group classified these loans as financial assets at fair value through profit or loss (see Note 25).

The difference between the loans provided and the fair value at initial recognition is recorded as the Group's investment in the joint ventures. Subsequently, the loans are measured at fair value at each reporting date with recognition of the revaluation through profit or loss. Interest income (calculated using the effective interest method), foreign exchanges differences and the remaining effect from fair value remeasurement of such loans are disclosed separately in the consolidated statement of income.

Other shareholders' loans provided by the Group, trade and other financial receivables, and cash and cash equivalents, are classified as at amortised cost. The Group does not have financial assets classified as at fair value through other comprehensive income.

The Group's non-derivative financial liabilities are measured at amortised cost. Derivatives are classified as at fair value through profit or loss. The Group does not apply hedge accounting.

Where there is an active market for a commodity, commodity contracts are accounted for as derivatives except for contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a commodity in accordance with the Group's expected purchase, sale or usage requirements. Gains or losses arising from changes in the fair value of commodity derivatives are recognized within other operating income (loss) in the consolidated statement of income (see Note 25).

An allowance for expected credit losses ("ECL") shall be recorded for financial assets classified as at amortised cost. Loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument.

For trade receivables, the Group measures loss allowances applying a simplified approach at an amount equal to lifetime ECLs. To measure the expected credit losses, expected loss rates are applied to trade receivables grouped based on the days past due. For other financial assets classified as at amortised cost, including some shareholders' loans provided, loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

The effective interest rate is the rate that exactly discounts future cash payments and receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying value of the financial asset or financial liability.

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Provisions for liabilities and charges. Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are reassessed at each reporting date, and those changes in the provisions resulting from the passage of time are recognized in the consolidated statement of income as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Pension obligations. The Group performs mandatory contributions to the Pension Fund of the Russian Federation on behalf of its employees based on gross salary payments. These contributions represent a defined contribution plan, are expensed when incurred and are included in the employee compensation in the consolidated statement of income.

The Group also operates a non-contributory post-employment defined benefit plan based on employees' years of service and average salary (see Note 14).

The liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the balance sheet date. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method.

Actuarial gains and losses on assets and liabilities arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. They are not reclassified to profit or loss in subsequent periods. Past-service costs are recognized in profit or loss in the period when a plan is amended or curtailed.

Guarantees issued. The Group issued a number of guarantees, financial and non-financial, for the obligations of its joint ventures.

Non-financial guarantees contracts issued by the Group meet the definition of insurance contracts and are accounted in accordance with IFRS 4, *Insurance Contracts*. Liabilities in respect of non-financial guarantee contracts are recognized when an outflow of funds (economic benefits) required to settle the liability is probable. Liabilities are recognized based on the best estimate of such an outflow.

Financial guarantees contracts issued are initially recognized as a liability at fair value. They are subsequently measured at the higher of two amounts: the amount of the loss allowance determined in accordance with IFRS 9, *Financial Instruments*, and the amount initially recognized less, where applicable, the accumulated income recognized in accordance with IFRS 15, *Revenue from Contracts with Customers*.

Income taxes. The income tax charge or benefit comprises current tax and deferred tax and is recognized in the consolidated statement of income unless it relates to transactions that are recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Russian tax legislation allows to prepare and file a single, consolidated income tax declaration by the taxpayers' group comprised of a holding company and any number of entities with at least 90 percent ownership in each (direct or indirect). Eligible taxpayers' group must be registered with tax authorities and meet certain conditions and criteria. The tax declaration can be submitted then by any member of the group. The Group prepares a consolidated tax return for the taxpayers' group including the Company and majority of its subsidiaries in Russia.

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax assets and liabilities are recognized on temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or when the tax loss carry forwards will be utilized. The Group applies a net-basis accounting in respect of temporary differences arising from right-of-use assets and long-term lease liabilities. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes balances relate to the same taxation authority and the same taxable entity, consolidated tax group of entities or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only with respect to individual companies of the Group (for companies outside the consolidated tax group of companies) and within the consolidated tax payers' group of companies.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognize deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Treasury shares. Where any Group company purchases PAO NOVATEK's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to PAO NOVATEK shareholders until the shares are cancelled or reissued or disposed. Where such shares are subsequently reissued or disposed, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to PAO NOVATEK shareholders. Treasury shares are recorded at weighted average cost. Gains or losses resulting from subsequent sales of shares are recorded in the consolidated statement of changes in equity, net of associated costs including taxation.

Dividends. Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed or declared after the balance sheet date but before the consolidated financial statements are authorized for issue.

Revenue recognition. Revenues represent the fair value of consideration received or receivable for the sale of goods and services in the normal course of business, net of discounts, export duties, value-added tax, excise and fuel taxes.

Revenues from oil and gas sales are recognized when control over such products has transferred to a customer, which refers to ability to direct the use of, and obtain substantially all of the remaining benefits from the products. The Group considers indicators of the transfer of control, which include, but are not limited to the following: the Group has a present right to payment for the products; the Group has transferred physical possession of the products; the customer has legal title to the products; the customer has the significant risks and rewards of ownership of the products; the customer has accepted the products. Not all of the indicators have to be met for management to conclude that control has transferred and revenue could be recognized. Management uses judgment to determine whether factors collectively indicate that the customer has obtained control over the products. Revenues from services are recognized in the period in which the services are rendered.

When the consideration includes a variable amount, minimum amounts must be recognized that are not at significant risk of reversal. If sales contract includes the variability associated with market price it represents a separated embedded derivative that is treated as part of revenue. Accordingly, at the date of sale the sales price is determined on a provisional basis, and the fair value of the final sales price adjustment is re-estimated continuously with changes in fair value recognized as an adjustment to revenue.

Trade receivables are recognized when the goods are transferred as this is the point in time that the consideration is unconditional and only the passage of time is required before the payment is due. No significant element of financing is deemed present as the sales are made with short-term credit terms consistent with market practice.

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General and administrative expenses. General and administrative expenses represent overall corporate management and other expenses related to the general management and administration of the business unit as a whole. They include management and administrative compensation, legal and other advisory expenses, insurance of administrative buildings, social expenses and compensatory payments of general nature not directly linked to the Group's oil and gas activities, charity and other expenses necessary for the administration of the Group.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to PAO NOVATEK shareholders by the weighted average number of shares outstanding during the reporting period.

Consolidated statement of cash flows. Cash and cash equivalents comprises cash on hand, cash deposits held with banks and short-term highly liquid investments which are readily convertible to known amounts of cash and which are not subject to significant risk of change in value and have an original maturity of three months or less.

The Group reports cash receipts and the repayments of short-term borrowings which have a maturity of three months or less on a net basis in the consolidated statement of cash flows.

31 NEW ACCOUNTING PRONOUNCEMENTS

The following amendments to standards have been issued, and the Group has decided to early adopt them starting from the annual period beginning on 1 January 2021:

Amendments to IAS 16, *Property, Plant and Equipment* (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022). These amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognized in profit or loss. The Group assessed that the adoption of these amendments did not have a material impact on the Group's consolidated financial position as at the date of transition.

The following amendments to standards have been issued, which the Group has not early adopted:

Amendments to IFRS 10, *Consolidated Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures* (issued in September 2014, in November 2015 the effective date was postponed indefinitely). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments stipulate that a full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is considering the implications of these amendments for the Group's consolidated financial statements, and the timing of their adoption by the Group.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). In the absence of specific IFRS guidance for the oil and gas industry, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with norms established for companies in the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities but excludes disclosures regarding the standardized measures of discounted cash flows related to oil and gas activities.

The Group’s exploration and production activities are mainly within the Russian Federation; therefore, the majority of the information provided in this section pertains to this country. The Group operates through various oil and gas production subsidiaries, and also has an interest in oil and gas companies that are accounted for under the equity method.

Oil and Gas Exploration and Development Costs

The following tables set forth information regarding oil and gas acquisition, exploration and development activities. The amounts reported as costs incurred include both capitalized costs and costs charged to expense, and are presented comprising amounts classified as assets held for sale and amounts allocated to fair values of the identified assets in acquisitions of subsidiaries (see Note 4), except for the effects from non-monetary transactions. These costs do not include LNG liquefaction and transportation operations (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2020	2019
Costs incurred in exploration and development activities		
Acquisition of unproved properties	317	5,217
Acquisition of proved properties	58	3,420
Exploration costs	21,156	25,604
Development costs	112,213	68,681
Total costs incurred in exploration and development activities	133,744	102,922
The Group’s share in joint ventures’ cost incurred in exploration and development activities	52,630	47,563
	At 31 December 2020	At 31 December 2019
Capitalized costs relating to oil and gas producing activities		
Proved and unproved properties	113,926	111,492
Wells, related equipment and facilities	348,900	287,447
Support equipment and facilities	176,171	158,732
Uncompleted wells, related equipment and facilities	106,086	86,758
Total capitalized costs relating to oil and gas producing activities	745,083	644,429
Less: accumulated depreciation, depletion and amortization	(246,111)	(218,316)
Net capitalized costs relating to oil and gas producing activities	498,972	426,113
The Group’s share in joint ventures’ capitalized costs relating to oil and gas producing activities	565,843	536,413

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Results of Operations for Oil and Gas Producing Activities

Results of operations for oil and gas producing activities of the Group's subsidiaries and the Group's share in the results of operations of joint ventures are shown below (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2020	2019
<i>Subsidiaries</i>		
Revenues from oil and gas sales (less transportation)	204,417	235,156
Lifting costs	(18,732)	(16,045)
Taxes other than income tax	(54,024)	(61,225)
Depreciation, depletion and amortization	(30,235)	(25,280)
Exploration expenses	(9,103)	(8,386)
Social expenses and charity ⁽¹⁾	(1,926)	(268)
Other operating expenses ⁽²⁾	(537)	(433)
Total operating expenses	(114,557)	(111,637)
Results of operations for oil and gas producing activities before income tax	89,860	123,519
Less: related income tax expenses	(16,987)	(23,088)
Results of operations for oil and gas producing activities of the Group's subsidiaries	72,873	100,431
<i>Group's share in joint ventures</i>		
Revenues from oil and gas sales (less transportation)	167,334	192,421
Lifting costs	(7,193)	(5,897)
Taxes other than income tax	(34,994)	(39,237)
Depreciation, depletion and amortization	(25,959)	(23,620)
Exploration expenses	(2,225)	(731)
Social expenses and charity ⁽¹⁾	(32)	(42)
Other operating expenses ⁽²⁾	(433)	(113)
Total operating expenses	(70,836)	(69,640)
Results of operations for oil and gas producing activities before income tax	96,498	122,781
Less: related income tax expenses	(16,049)	(20,415)
Group's share in results of operations for oil and gas producing activities of joint ventures	80,449	102,366
Total results of operations for oil and gas producing activities of the Group's subsidiaries and joint ventures	153,322	202,797

⁽¹⁾ Represent social expenses and compensatory payments related mainly to continued support of charities and social programs in the regions where production and development activities are performed.

⁽²⁾ Represent mainly materials, services and other expenses, as well as administrative expenses being by nature operating expenses relating to fields in exploration and development stage.

The results of operations for hydrocarbons producing activities are presented only for volumes produced by the Group's subsidiaries and joint ventures and do not include general corporate overheads, processing costs incurred after saleable hydrocarbons are received, such as stable gas condensate processing costs and natural gas liquefaction costs. Revenues from oil and gas sales are calculated based on hydrocarbons production volumes and netback prices determined at the point of marketable products production and do not include export duties, transportation expenses to customers, storage, sales and other similar expenses.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Operating expenses include only the amounts directly related to the extraction of natural gas, gas condensate and crude oil, such as lifting costs (materials, services and other expenses, as well as administrative expenses being by nature operating expenses of oil and gas producing activities), taxes other than income tax, depreciation, depletion and amortization and other expenses. Income tax expense is calculated based on income tax rates applicable to each Group's subsidiary and joint venture.

Proved Oil and Gas Reserves

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2020 and 2019.

The Group estimates its oil and gas reserves in accordance with rules promulgated by the Securities and Exchange Commission (SEC) for proved reserves.

The Group's oil and gas reserves estimation and reporting process involves an annual independent third party reserve appraisal as well as internal technical appraisals of reserves. The Group maintains its own internal reserve estimates that are calculated by qualified engineers and technical staff working directly with the oil and gas properties. The Group's technical staff periodically updates reserve estimates during the year based on evaluations of new wells, performance reviews, new technical information and other studies.

The oil and gas reserve estimates reported below are determined by the Group's independent petroleum reservoir engineers, DeGolyer and MacNaughton ("D&M"). The Group provides D&M annually with engineering, geological and geophysical data, actual production histories and other information necessary for the reserve determination. The Group's and D&M's technical staffs meet to review and discuss the information provided, and upon completion of this process, senior management reviews and approves the final reserve estimates issued by D&M.

The following reserve estimates were prepared using standard geological and engineering methods generally accepted by the petroleum industry. The method or combination of methods used in the analysis of each reservoir is tempered by experience with similar reservoirs, stages of development, quality and completeness of basic data, and production history.

Extensions of production licenses are assumed to be at the discretion of the Group. Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group's production licenses. The principal licenses of the Group for exploration and production expire between 2029 and 2130. Legislation of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Management intends to extend its licenses for properties expected to produce beyond the license expiry dates.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves which are expected to be recovered through existing wells with existing equipment and operating methods. Undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to re-complete existing wells and/or install facilities to collect and deliver the production.

Net reserves exclude quantities due to others when produced.

The reserve quantities below include 100 percent of the net proved reserve quantities attributable to the Group's consolidated subsidiaries and the Group's ownership percentage of the net proved reserves quantities of the joint ventures including volumes of natural gas consumed in hydrocarbons production and development activities. Production and reserves of the South-Tambeyskoye field of Yamal LNG are reported at 60 percent including an additional 9.9 percent interest not owned by the Group, since the Group assumes certain economic and operational risks related to this interest.

PAO NOVATEK
Unaudited Supplemental Oil and Gas Disclosures

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

For convenience, reserves estimates are provided both in English and Metric units.

Net proved reserves of natural gas are presented below:

	Net proved reserves		Group's share in joint ventures		Total net proved reserves	
	Billions of cubic feet	Billions of cubic meters	Billions of cubic feet	Billions of cubic meters	Billions of cubic feet	Billions of cubic meters
At 31 December 2018	47,707	1,351	29,174	826	76,881	2,177
Changes attributable to:						
Revisions of previous estimates	(1,296)	(37)	494	14	(802)	(23)
Extension and discoveries	5,030	143	2,611	74	7,641	217
Acquisitions ⁽¹⁾	3,698	105	-	-	3,698	105
Disposals ⁽²⁾	(5,884)	(167)	-	-	(5,884)	(167)
Reclassifications ⁽³⁾	(7,267)	(206)	7,267	206	-	-
Production	(1,391)	(40)	(1,247)	(35)	(2,638)	(75)
At 31 December 2019	40,597	1,149	38,299	1,085	78,896	2,234
Changes attributable to:						
Revisions of previous estimates	471	13	(603)	(17)	(132)	(4)
Extension and discoveries	1,075	30	2,018	57	3,093	87
Acquisitions ⁽¹⁾	138	4	-	-	138	4
Production	(1,435)	(40)	(1,297)	(37)	(2,732)	(77)
At 31 December 2020	40,846	1,156	38,417	1,088	79,263	2,244
Net proved developed reserves (included above)						
At 31 December 2018	12,187	345	14,103	399	26,290	744
At 31 December 2019	11,527	326	18,612	527	30,139	853
At 31 December 2020	12,128	343	17,922	508	30,050	851
Net proved undeveloped reserves (included above)						
At 31 December 2018	35,520	1,006	15,071	427	50,591	1,433
At 31 December 2019	29,070	823	19,687	558	48,757	1,381
At 31 December 2020	28,718	813	20,495	580	49,213	1,393

⁽¹⁾ Relate to an additional 50 percent interest in reserves of the North-Chaselskiy and Yevo-Yakhinskiy license areas acquired by the Group as a result of the reorganization of Arcticgas in 2019 (part of reserves was estimated in 2020). In 2019 also relate to reserves of the Soletskoye-Khanaveyskoye field acquired in the third quarter of 2019.

⁽²⁾ Represent reserves attributable to the disposal of a 40 percent participation interest in OOO Arctic LNG 2 in 2019.

⁽³⁾ Represent reclassification of reserves attributable to the Group's retained 60 percent participating interest in Arctic LNG 2, which after the sale of a 40 percent participating interest in 2019 is accounted for as an investment in a joint venture. This item also includes reclassification of a 50 percent interest in reserves of the North-Chaselskiy and Yevo-Yakhinskiy license areas which were transferred to the Group as a result of the reorganization of Arcticgas in 2019.

The net proved reserves of natural gas reported in the table above included reserves attributable to a non-controlling interest in a Group's subsidiary of 337 billion cubic feet (10 billion cubic meters) and 231 billion cubic feet (seven billion cubic meters) at 31 December 2020 and 2019, respectively, and reserves attributable to an additional 9.9 percent interest in Yamal LNG not owned by the Group (see above) of 2,341 billion cubic feet (66 billion cubic meters) and 2,413 billion cubic feet (68 billion cubic meters) at 31 December 2020 and 2019, respectively.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Net proved reserves of crude oil, gas condensate and natural gas liquids are presented below:

	Net proved reserves		Group's share in joint ventures		Total net proved reserves	
	Millions of barrels	Millions of metric tons	Millions of barrels	Millions of metric tons	Millions of barrels	Millions of metric tons
At 31 December 2018	792	93	759	88	1,551	181
Changes attributable to:						
Revisions of previous estimates	(4)	-	(7)	(1)	(11)	(1)
Extension and discoveries	150	17	82	9	232	26
Acquisitions ⁽¹⁾	39	5	-	-	39	5
Disposals ⁽²⁾	(56)	(6)	-	-	(56)	(6)
Reclassifications ⁽³⁾	(47)	(5)	47	5	-	-
Production	(52)	(6)	(49)	(6)	(101)	(12)
At 31 December 2019	822	98	832	95	1,654	193
Changes attributable to:						
Revisions of previous estimates	30	3	(16)	(2)	14	1
Extension and discoveries	50	6	66	8	116	14
Acquisitions ⁽¹⁾	5	1	-	-	5	1
Production	(52)	(6)	(50)	(6)	(102)	(12)
At 31 December 2020	855	102	832	95	1,687	197
Net proved developed reserves (included above)						
At 31 December 2018	340	42	387	44	727	86
At 31 December 2019	335	42	457	52	792	94
At 31 December 2020	349	43	439	50	788	93
Net proved undeveloped reserves (included above)						
At 31 December 2018	452	51	372	44	824	95
At 31 December 2019	487	56	375	43	862	99
At 31 December 2020	506	59	393	45	899	104

⁽¹⁾ Relate to an additional 50 percent interest in reserves of the North-Chaselskiy and Yevo-Yakhinskiy license areas acquired by the Group as a result of the reorganization of Arcticgas in 2019 (part of reserves was estimated in 2020). In 2019 also relate to reserves of the Soletskoye-Khanaveyskoye field acquired in the third quarter of 2019.

⁽²⁾ Represent reserves attributable to the disposal of a 40 percent participation interest in OOO Arctic LNG 2 in 2019.

⁽³⁾ Represent reclassification of reserves attributable to the Group's retained 60 percent participating interest in Arctic LNG 2, which after the sale of a 40 percent participating interest in 2019 is accounted for as an investment in a joint venture. This item also includes reclassification of a 50 percent interest in reserves of the North-Chaselskiy and Yevo-Yakhinskiy license areas which were transferred to the Group as a result of the reorganization of Arcticgas in 2019.

The net proved reserves of crude oil, gas condensate and natural gas liquids reported in the table above included reserves attributable to a non-controlling interest in a Group's subsidiary of 82 million barrels (11 million metric tons) and 75 million barrels (10 million metric tons) at 31 December 2020 and 2019, respectively, and reserves attributable to an additional 9.9 percent interest in Yamal LNG not owned by the Group (see above) of 19 million barrels (two million metric tons) and 20 million barrels (two million metric tons) at 31 December 2020 and 2019, respectively.

PAO NOVATEK
Contact Information

PAO NOVATEK was incorporated as a joint stock company in accordance with the Russian law and is domiciled in the Russian Federation.

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