

PAO NOVATEK

**IFRS CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)**

**AS OF AND FOR THE THREE
MONTHS ENDED 31 MARCH 2021**

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Report on Review of Consolidated Interim Condensed Financial Statements

To the Shareholders and Board of Directors of PAO NOVATEK:

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of PAO NOVATEK and its subsidiaries (together – the “Group”) as at 31 March 2021 and the related consolidated interim condensed statements of income, comprehensive income, cash flows and changes in equity for the three-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Accounting Standard 34, “Interim Financial Reporting”. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of consolidated interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, “Interim Financial Reporting”.

AO PricewaterhouseCoopers Audit

27 April 2021

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

Tarko-Sale, Purovsky District, Yamal-Nenets Autonomous District, Russian Federation

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

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PAO NOVATEK**Consolidated Interim Condensed Statement of Financial Position (unaudited)**

(in millions of Russian roubles)

	Notes	At 31 March 2021	At 31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	3	760,992	729,407
Investments in joint ventures	4	467,797	450,632
Long-term loans and receivables	5	368,729	391,053
Other non-current assets	6	127,670	125,152
Total non-current assets		1,725,188	1,696,244
Current assets			
Inventories		15,060	10,723
Current income tax prepayments		159	302
Trade and other receivables	7	78,143	71,255
Prepayments and other current assets	8	173,089	98,071
Short-term bank deposits			
with original maturity more than three months		15,897	62,876
Cash and cash equivalents		90,442	119,707
Total current assets		372,790	362,934
Total assets		2,097,978	2,059,178
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	9	161,963	168,988
Long-term lease liabilities	18	5,893	6,670
Deferred income tax liabilities		66,269	64,132
Asset retirement obligations		11,552	14,397
Other non-current liabilities		7,326	6,568
Total non-current liabilities		253,003	260,755
Current liabilities			
Current portion of long-term debt	9	14,137	53,152
Current portion of long-term lease liabilities	18	3,807	3,798
Trade payables and accrued liabilities	10	101,792	83,995
Current income tax payable		4,246	3,048
Other taxes payable		16,250	16,003
Total current liabilities		140,232	159,996
Total liabilities		393,235	420,751
Equity attributable to PAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(20,386)	(20,386)
Additional paid-in capital		31,297	31,297
Currency translation differences		4,760	2,652
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		1,665,224	1,600,391
Total equity attributable to PAO NOVATEK shareholders	11	1,686,905	1,619,964
Non-controlling interest		17,838	18,463
Total equity		1,704,743	1,638,427
Total liabilities and equity		2,097,978	2,059,178

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


 L. Mikhelson
 Chairman of the Management Committee


 M. Gyetyay
 Chief Financial Officer

27 April 2021

PAO NOVATEK
Consolidated Interim Condensed Statement of Income (unaudited)

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

	Notes	Three months ended 31 March:	
		2021	2020
Revenues			
Oil and gas sales	12	240,749	182,595
Other revenues		3,834	1,967
Total revenues		244,583	184,562
Operating expenses			
Purchases of natural gas and liquid hydrocarbons	13	(92,977)	(65,062)
Transportation expenses	14	(43,319)	(39,506)
Taxes other than income tax	15	(19,904)	(14,530)
Depreciation, depletion and amortization		(12,420)	(8,871)
Materials, services and other		(8,264)	(6,812)
General and administrative expenses		(6,034)	(5,664)
Exploration expenses		(2,473)	(2,788)
Impairment (expenses) reversals, net		23	(3)
Changes in natural gas, liquid hydrocarbons and work-in-progress		6,549	(3,299)
Total operating expenses		(178,819)	(146,535)
Other operating income (loss), net	18	(622)	(33,236)
Profit from operations		65,142	4,791
Finance income (expense)			
Interest expense	16	(1,165)	(1,203)
Interest income	16	3,816	5,756
Change in fair value of non-commodity financial instruments	18	3,490	(5,907)
Foreign exchange gain (loss), net	16	(4,533)	142,807
Total finance income (expense)		1,608	141,453
Share of profit (loss) of joint ventures, net of income tax	4	14,847	(145,231)
Profit before income tax		81,597	1,013
Income tax expense			
Current income tax expense		(10,230)	(30,198)
Deferred income tax benefit (expense), net		(1,695)	1,573
Total income tax expense	17	(11,925)	(28,625)
Profit (loss)		69,672	(27,612)
Profit (loss) attributable to:			
Non-controlling interest		4,520	3,068
Shareholders of PAO NOVATEK		65,152	(30,680)
Basic and diluted earnings per share (in Russian roubles)		21.70	(10.20)
<i>Weighted average number of shares outstanding (in millions)</i>		<i>3,002.8</i>	<i>3,008.4</i>

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

PAO NOVATEK**Consolidated Interim Condensed Statement of Comprehensive Income (unaudited)**

(in millions of Russian roubles)

	Three months ended 31 March:	
	2021	2020
Profit (loss)	69,672	(27,612)
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to profit (loss)		
Remeasurement of pension obligations	(500)	(428)
Share of remeasurement		
of pension obligations of joint ventures	(20)	(51)
	(520)	(479)
Items that may be reclassified subsequently to profit (loss)		
Currency translation differences	2,114	(667)
Share of currency translation differences of joint ventures	(6)	(2,211)
	2,108	(2,878)
Other comprehensive income (loss)	1,588	(3,357)
Total comprehensive income (loss)	71,260	(30,969)
Total comprehensive income (loss) attributable to:		
Non-controlling interest	4,520	3,068
Shareholders of PAO NOVATEK	66,740	(34,037)

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

PAO NOVATEK
Consolidated Interim Condensed Statement of Cash Flows (unaudited)

(in millions of Russian roubles)

	Notes	Three months ended 31 March:	
		2021	2020
Profit before income tax		81,597	1,013
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		12,420	8,871
Impairment expenses (reversals), net		(23)	3
Foreign exchange loss (gain), net		4,533	(142,807)
Interest expense		1,165	1,203
Interest income		(3,816)	(5,756)
Share of loss (profit) of joint ventures, net of income tax	4	(14,847)	145,231
Change in fair value of non-commodity financial instruments		(3,490)	5,907
Revaluation of commodity derivatives and contingent consideration through profit or loss	18	(914)	31,718
Other adjustments		81	(197)
Decrease (increase) in long-term advances given		970	1,504
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(5,369)	25,495
Decrease (increase) in inventories		(6,871)	2,723
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		11,592	(10,481)
Increase (decrease) in taxes payable, other than income tax		208	1,105
Total effect of working capital changes		(440)	18,842
Dividends and cash received from joint ventures		409	660
Interest received		1,545	705
Income taxes paid		(5,918)	(7,872)
Net cash provided by operating activities		73,272	59,025
Cash flows from investing activities			
Purchases of property, plant and equipment	3	(35,585)	(35,342)
Payments for mineral licenses	3	(898)	(104)
Purchases of materials for construction		(3,945)	(4,403)
Purchases of intangible assets		(167)	(405)
Capital contributions to joint ventures	4	(10)	-
Proceeds from disposal of interests in subsidiaries and joint ventures	4	218	46,021
Interest paid and capitalized	3	(1,916)	(1,398)
Net decrease (increase) in bank deposits with original maturity more than three months		47,645	(1,959)
Guarantee fees paid		-	(457)
Loans provided to joint ventures	5	(64,516)	(14,413)
Repayments of loans provided to joint ventures	5	9,285	83
Net cash used for investing activities		(49,889)	(12,377)

PAO NOVATEK**Consolidated Interim Condensed Statement of Cash Flows (unaudited)**

(in millions of Russian roubles)

	Notes	Three months ended 31 March:	
		2021	2020
Cash flows from financing activities			
Repayments of long-term debt	9	(49,338)	(1,007)
Increase (decrease) in short-term debt with original maturity three months or less, net		(14)	-
Dividends paid to non-controlling interest		(5,145)	(3,969)
Payments of lease liabilities		(786)	(790)
Purchases of treasury shares	11	-	(7,806)
Net cash used for financing activities		(55,283)	(13,572)
Net effect of exchange rate changes on cash and cash equivalents		2,635	26,395
Net increase (decrease) in cash and cash equivalents		(29,265)	59,471
Cash and cash equivalents at the beginning of the period		119,707	53,240
Cash and cash equivalents at the end of the period		90,442	112,711

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

PAO NOVATEK
Consolidated Interim Condensed Statement of Changes in Equity (unaudited)

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

<i>For the three months ended 31 March 2020</i>	<i>Number of ordinary shares (in millions)</i>	<i>Ordinary share capital</i>	<i>Treasury shares</i>	<i>Additional paid-in capital</i>	<i>Currency translation differences</i>	<i>Asset revaluation surplus on acquisitions</i>	<i>Retained earnings</i>	<i>Equity attributable to PAO NOVATEK shareholders</i>	<i>Non- controlling interest</i>	<i>Total equity</i>
At 1 January 2020	3,011.2	393	(12,308)	31,297	3,814	5,617	1,618,696	1,647,509	19,567	1,667,076
Profit (loss)	-	-	-	-	-	-	(30,680)	(30,680)	3,068	(27,612)
Other comprehensive loss	-	-	-	-	(2,878)	-	(479)	(3,357)	-	(3,357)
Total comprehensive income (loss)	-	-	-	-	(2,878)	-	(31,159)	(34,037)	3,068	(30,969)
Dividends	-	-	-	-	-	-	-	-	(4,312)	(4,312)
Effect from other changes in joint ventures' net assets (Note 4)	-	-	-	-	-	-	(356)	(356)	-	(356)
Purchase of treasury shares (Note 11)	(8.0)	-	(7,615)	-	-	-	-	(7,615)	-	(7,615)
At 31 March 2020	3,003.2	393	(19,923)	31,297	936	5,617	1,587,181	1,605,501	18,323	1,623,824
<i>For the three months ended 31 March 2021</i>										
At 1 January 2021	3,002.8	393	(20,386)	31,297	2,652	5,617	1,600,391	1,619,964	18,463	1,638,427
Profit	-	-	-	-	-	-	65,152	65,152	4,520	69,672
Other comprehensive income (loss)	-	-	-	-	2,108	-	(520)	1,588	-	1,588
Total comprehensive income (loss)	-	-	-	-	2,108	-	64,632	66,740	4,520	71,260
Dividends	-	-	-	-	-	-	-	-	(5,145)	(5,145)
Effect from other changes in joint ventures' net assets (Note 4)	-	-	-	-	-	-	201	201	-	201
At 31 March 2021	3,002.8	393	(20,386)	31,297	4,760	5,617	1,665,224	1,686,905	17,838	1,704,743

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

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 mainly through trunk pipelines and regional distribution networks, as well as sells liquefied natural gas (“LNG”) produced at the Group’s small-scale LNG plant in the Chelyabinsk region through its refueling complexes.

The Group sells natural gas in Russia 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 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.

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 consolidated interim condensed financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2020 prepared in accordance with International Financial Reporting Standards (“IFRS”).

Use of estimates and judgments. The critical accounting estimates and judgments followed by the Group in the preparation of consolidated interim condensed financial statements are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2020. Estimates have principally been made in respect to fair values of assets and liabilities, deferred income taxes, estimation of oil and gas reserves, impairment provisions, pension obligations and asset retirement obligations.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experience and other factors considered as reasonable which form the basis for assessing the book values of assets and liabilities. 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. Management also makes certain judgments, apart from those involving estimations, in the process of applying the Group’s accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

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

PAO NOVATEK
Notes to the Consolidated Interim Condensed Financial Statements (unaudited)

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

2 BASIS OF PREPARATION (CONTINUED)

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

<i>Russian roubles to one currency unit</i>	At 31 March 2021	At 31 December 2020	Average rate for the three months ended 31 March:	
			2021	2020
US dollar (USD)	75.70	73.88	74.34	66.38
Euro (EUR)	88.88	90.68	89.70	73.23
Polish zloty (PLN)	19.12	20.01	19.72	16.94

3 PROPERTY, PLANT AND EQUIPMENT

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

<i>For the three months ended 31 March 2020</i>	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	609,958	168,743	22,294	800,995
Accumulated depreciation, depletion and amortization	(238,633)	-	(5,564)	(244,197)
Net book value at 1 January 2020	371,325	168,743	16,730	556,798
Additions	1,093	48,495	-	49,588
Transfers	12,543	(16,507)	3,964	-
Change in asset retirement costs	(3,241)	-	-	(3,241)
Depreciation, depletion and amortization	(8,357)	-	(350)	(8,707)
Disposals, net	(29)	(5)	(1,336)	(1,370)
Currency translation differences	2,560	220	85	2,865
Cost	622,954	200,946	25,060	848,960
Accumulated depreciation, depletion and amortization	(247,060)	-	(5,967)	(253,027)
Net book value at 31 March 2020	375,894	200,946	19,093	595,933
<i>For the three months ended 31 March 2021</i>				
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 1 January 2021	464,940	243,616	20,851	729,407
Additions	1,380	45,978	-	47,358
Transfers	26,000	(26,764)	764	-
Change in asset retirement costs	(3,087)	-	-	(3,087)
Depreciation, depletion and amortization	(11,643)	-	(617)	(12,260)
Disposals, net	(232)	(153)	(18)	(403)
Currency translation differences	24	(45)	(2)	(23)
Cost	761,909	262,632	28,832	1,053,373
Accumulated depreciation, depletion and amortization	(284,527)	-	(7,854)	(292,381)
Net book value at 31 March 2021	477,382	262,632	20,978	760,992

PAO NOVATEK**Notes to the Consolidated Interim Condensed Financial Statements (unaudited)**

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

3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in additions to property, plant and equipment for the three months ended 31 March 2021 and 2020 are capitalized interest and foreign exchange differences of RR 3,180 million and RR 3,132 million, respectively.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 72,935 million and RR 66,415 million at 31 March 2021 and 31 December 2020, respectively.

Included in property, plant and equipment at 31 March 2021 and 31 December 2020 are right-of-use assets with carrying value of RR 8,954 million and RR 9,839 million, respectively, primarily related to long-term agreements on time chartering of marine tankers. Depreciation charge for right-of-use assets for the three months ended 31 March 2021 and 2020 amounted to RR 854 million and RR 699 million, respectively.

In March 2021, the Group won an auction for an oil and gas exploration and production license for the North-Gydanskiy license area located on the Gydan peninsula in the YNAO for the total amount of RR 775 million, of which RR 705 million was paid as the auction participation fee and included within assets under construction and advances for construction at the reporting date.

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 March 2021	At 31 December 2020
Proved properties acquisition costs	104,189	103,002
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(22,236)	(21,856)
Unproved properties acquisition costs	10,969	10,924
Total acquisition costs	92,922	92,070

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

No impairment was recognized in respect of oil and gas properties and equipment for the three months ended 31 March 2021 and 2020.

Capital commitments are disclosed in Note 19.

4 INVESTMENTS IN JOINT VENTURES

	At 31 March 2021	At 31 December 2020
<i>Joint ventures:</i>		
OOO Arctic LNG 2	252,170	250,470
AO Arcticgas	166,575	151,886
ZAO Nortgas	43,995	43,805
ZAO Terneftegas	4,737	4,157
Rostock LNG GmbH	283	286
OOO SMART LNG	37	28
OAo Yamal LNG	-	-
OOO Cryogas-Vysotsk	-	-
Total investments in joint ventures	467,797	450,632

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.

4 INVESTMENTS IN JOINT VENTURES (CONTINUED)

OOO Arctic LNG 2. The Group holds a 60 percent ownership in OOO Arctic LNG 2, along with TOTAL S.A. (10 percent), CNPC (10 percent), CNOOC Limited (10 percent) and Japan Arctic LNG B.V. (10 percent). Arctic LNG 2 undertakes a project to construct a liquefied natural gas plant on the Gydan peninsula based on the hydrocarbon resources of the Salmanovskoye (Utrenneye) field (the “Arctic LNG 2 project”). The project will have an annual nameplate capacity of 19.8 million tons (three LNG trains of 6.6 million tons of LNG per annum each).

In the first quarter 2020, the Group received the second cash transfer in the amount of RR 46,021 million (the equivalent of USD 700 million) from the sale of a 10 percent participation interest in OOO Arctic LNG 2 in the first quarter 2019.

AO Arcticgas. The Group holds a 50 percent ownership in Arcticgas, its joint venture with PAO Gazprom Neft. Arcticgas operates the Samburskoye, Urengoykoye and Yaro-Yakhinskoye fields and the East-Urengoykoye+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-Urengoykoye 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 March 2021, 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.

OA O 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). In addition, the fourth liquefaction train with an annual nameplate capacity of 0.9 million tons is currently in the commissioning phase.

At 31 March 2021 and 31 December 2020, 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 March 2021 and 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 accumulated unrecognized share of loss of Yamal LNG at 31 March 2021 and 31 December 2020 was RR 6,289 million and RR 27,763 million, respectively, and resulted from significant non-cash foreign exchange losses. For the three months ended 31 March 2021 the Group’s share of profit of Yamal LNG amounted to RR 21,474 million; however, the share of profit was not recognized in the consolidated statement of income as it was offset against the previously unrecognized share of losses.

OOO 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.

At 31 March 2021 and 31 December 2020, 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.

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4 INVESTMENTS IN JOINT VENTURES (CONTINUED)

The Group's investment in Cryogas-Vysotsk at 31 March 2021 and 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 accumulated unrecognized share of loss in Cryogas-Vysotsk at 31 March 2021 and 31 December 2020 was RR 1,893 million and RR 2,483 million, respectively, and resulted from significant non-cash foreign exchange losses. For the three months ended 31 March 2021, the Group's share of profit in Cryogas-Vysotsk amounted to RR 589 million; however, the share of profit was not recognized in the consolidated statement of income as it was offset against the previously unrecognized share of losses.

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

	Three months ended 31 March:	
	2021	2020
At 1 January	450,632	585,340
Share of profit from operations	48,058	35,884
Share of finance income (expense)	(3,005)	(216,354)
Share of total income tax benefit (expense)	(8,143)	34,737
Unrecognized share of loss (profit) of joint ventures	(22,063)	502
Share of profit (loss) of joint ventures, net of income tax	14,847	(145,231)
Share of other comprehensive income (loss) of joint ventures	(26)	(2,262)
Dividends and cash from joint ventures	(409)	(160)
Effect from other changes in joint ventures' net assets	201	(356)
Capital contributions	10	-
Effect from initial measurement of loans provided by the Group to joint ventures (see Note 18) net of deferred income tax	-	2,107
Group's costs capitalized in investments	-	357
Elimination of the Group's share in unrealized profits of joint ventures from balances of hydrocarbons purchased from joint ventures	2,542	(1,096)
At 31 March	467,797	438,699

For the three months ended 31 March 2021 and 2020, Terneftegas transferred cash in the amount of RR 409 million and RR 160 million, respectively, distributed in favor of the Group.

In March 2021, the capital of OOO SMART LNG was increased through proportional contributions by its participants totaling RR 20 million, of which RR 10 were contributed by the Group.

Subsequent to the balance sheet date, in April 2021, Arcticgas declared and paid dividends in the total amount of RR 104 billion, of which RR 52 billion 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.

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4 INVESTMENTS IN JOINT VENTURES (CONTINUED)

For the three months ended 31 March 2021 and 2020, the summarized statements of income (loss) for the Group's principal joint ventures are as follows (100 percent base):

<i>For the three months ended 31 March 2021</i>	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Revenues	-	66,050	109,316	4,556
Depreciation, depletion and amortization	-	(6,504)	(28,870)	(1,764)
Profit (loss) from operations	(38)	35,488	61,021	640
Interest expense	(21)	(449)	(29,753)	(167)
Change in fair value of non-commodity financial instruments	(450)	-	(10,569)	-
Foreign exchange gain (loss), net	7,809	-	26,681	-
Profit (loss) before income tax	7,312	35,160	47,398	481
Income tax benefit (expense)	(4,474)	(5,763)	(4,498)	(99)
Profit (loss), net of income tax	2,838	29,397	42,900	382
Ownership	60%	50%	50.1%	50%
Total based on ownership interest	1,703	14,699	21,481	191
Elimination of the Group's share in unrealized profits of joint ventures from balances of hydrocarbons purchased from joint ventures	-	(2,104)	(7)	(130)
Unrecognized share of loss (profit) of joint ventures	-	-	(21,474)	-
Share of profit (loss) of joint ventures, net of income tax	1,703	12,595	-	61
<i>For the three months ended 31 March 2020</i>	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Revenues	-	40,910	99,787	4,047
Depreciation, depletion and amortization	-	(7,863)	(28,011)	(1,765)
Profit (loss) from operations	(750)	16,301	53,981	167
Interest expense	(13)	(1,085)	(36,877)	(314)
Change in fair value of non-commodity financial instruments	496	-	25,123	-
Foreign exchange gain (loss), net	(23,525)	(4)	(375,008)	-
Profit (loss) before income tax	(23,788)	15,320	(332,741)	(116)
Income tax benefit (expense)	4,757	(2,417)	63,326	23
Profit (loss), net of income tax	(19,031)	12,903	(269,415)	(93)
Ownership	60%	50%	50.1%	50%
Total based on ownership interest	(11,419)	6,452	(134,904)	(47)
Elimination of the Group's share in unrealized profits of joint ventures from balances of hydrocarbons purchased from joint ventures	-	874	(10)	101
Share of profit (loss) of joint ventures, net of income tax	(11,419)	7,326	(134,914)	54

5 LONG-TERM LOANS AND RECEIVABLES

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

	At 31 March 2021	At 31 December 2020
Long-term loans receivable	485,429	431,880
Other long-term receivables	505	426
Total	485,934	432,306
Less: current portion of long-term loans receivable	(117,205)	(41,253)
Total long-term loans and receivables	368,729	391,053

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

	At 31 March 2021	At 31 December 2020
OOO Arctic LNG 2	278,236	215,336
OAo Yamal LNG	200,201	209,637
OOO Cryogas-Vysotsk	6,992	6,907
Total long-term loans receivable	485,429	431,880

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 April 2021, the Group provided RR 22,437 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 three months ended 31 March 2021, Yamal LNG repaid to the Group a part of the loans and accrued interest in the total amount of RR 10,433 million.

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.

No provisions for impairment of long-term loans and receivables were recognized at 31 March 2021 and 31 December 2020. The carrying values of long-term loans and receivables approximate their respective fair values.

6 OTHER NON-CURRENT ASSETS

	At 31 March 2021	At 31 December 2020
Financial assets		
Contingent consideration (see Note 18)	79,423	76,918
Commodity derivatives	432	13
Other financial assets	36	13
Non-financial assets		
Deferred income tax assets	22,122	22,694
Materials for construction	19,494	18,341
Intangible assets, net	2,787	2,820
Long-term advances	2,566	3,536
Other non-financial assets	810	817
Total other non-current assets	127,670	125,152

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7 TRADE AND OTHER RECEIVABLES

	At 31 March 2021	At 31 December 2020
Trade receivables (net of provision of RR 475 million and RR 506 million at 31 March 2021 and 31 December 2020, respectively)	71,388	64,073
Other receivables (net of provision of RR 302 million and RR 305 million at 31 March 2021 and 31 December 2020, respectively)	6,755	7,182
Total trade and other receivables	78,143	71,255

Trade receivables in the amount RR 17,815 million and RR 14,568 million at 31 March 2021 and 31 December 2020, 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 18 for credit risk disclosures).

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 18.

8 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 March 2021	At 31 December 2020
Financial assets		
Current portion of long-term loans receivable (see Note 5)	117,205	41,253
Commodity derivatives	14,305	13,041
Other financial assets	1,339	1,316
Non-financial assets		
Value-added tax receivable	17,031	15,703
Recoverable value-added tax	9,631	10,767
Prepayments and advances to suppliers	8,096	9,088
Deferred transportation expenses for liquid hydrocarbons	2,441	1,996
Deferred export duties for liquid hydrocarbons	658	649
Prepaid customs duties	149	616
Deferred transportation expenses for natural gas	5	1,779
Other non-financial assets	2,229	1,863
Total prepayments and other current assets	173,089	98,071

9 LONG-TERM DEBT

	At 31 March 2021	At 31 December 2020
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	75,652	73,820
Eurobonds – Ten-Year Tenor (par value USD 650 million, repaid in 2021)	-	48,012
Loan from Silk Road Fund	47,278	46,076
Bank loans	53,170	54,232
Total	176,100	222,140
Less: current portion of long-term debt	(14,137)	(53,152)
Total long-term debt	161,963	168,988

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.

9 LONG-TERM DEBT (CONTINUED)

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 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.

The fair value of long-term debt including its current portion was RR 186,444 million and RR 235,473 million at 31 March 2021 and 31 December 2020, 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 18). 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 18).

Scheduled maturities of long-term debt are disclosed in Note 18.

Available credit line facilities. In addition to disclosed above, at 31 March 2021, the Group had available long-term bank credit line facilities with credit limits for the total amount of RR 161 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.

Furthermore, at 31 March 2021, the Group had available revolving credit line facilities under which the Group may obtain loans with original maturities of three months or less to finance trade activities, secured by cash revenues from specifically determined liquid hydrocarbons export sales contracts.

10 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 March 2021	At 31 December 2020
Financial liabilities		
Trade payables	69,159	55,149
Commodity derivatives	14,927	14,278
Interest payable	1,662	1,529
Other payables	4,696	3,786
Non-financial liabilities		
Advances from customers	3,838	4,245
Salary payables	1,075	1,042
Other liabilities and accruals	6,435	3,966
Total trade payables and accrued liabilities	101,792	83,995

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 18.

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11 SHAREHOLDERS' EQUITY

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 Depositary 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.

At 31 March 2021 and 31 December 2020, the Group held in total 33.5 million ordinary shares at a total cost of RR 20,386 million. The Group has decided that these shares do not vote.

Dividends. Subsequent to the balance sheet date, on 23 April 2021, the Annual General Meeting of Shareholders of PAO NOVATEK approved the final dividend of RR 23.74 per share or RR 237.4 per GDR based on the financial results for the year ended 31 December 2020 totaling RR 72,082 million (including treasury shares).

12 OIL AND GAS SALES

	Three months ended 31 March:	
	2021	2020
Natural gas	110,802	98,794
Naphtha	42,353	25,486
Crude oil	28,061	21,568
Liquefied petroleum gas	21,995	10,550
Other gas and gas condensate refined products	21,212	17,472
Stable gas condensate	16,326	8,725
Total oil and gas sales	240,749	182,595

13 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Three months ended 31 March:	
	2021	2020
Unstable gas condensate	51,414	24,196
Natural gas	41,935	39,576
Other liquid hydrocarbons	2,871	2,856
Reverse excise	(3,243)	(1,566)
Total purchases of natural gas and liquid hydrocarbons	92,977	65,062

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 20).

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 20).

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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14 TRANSPORTATION EXPENSES

	Three months ended 31 March:	
	2021	2020
Natural gas transportation by trunk and low-pressure pipelines	29,888	26,098
Stable gas condensate and liquefied petroleum gas transportation by rail	8,924	8,240
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	2,434	2,629
Crude oil transportation by trunk pipelines	1,710	2,201
Other	363	338
Total transportation expenses	43,319	39,506

15 TAXES OTHER THAN INCOME TAX

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

	Three months ended 31 March:	
	2021	2020
Unified natural resources production tax	18,580	13,469
Property tax	1,216	967
Other taxes	108	94
Total taxes other than income tax	19,904	14,530

16 FINANCE INCOME (EXPENSE)

	Three months ended 31 March:	
	2021	2020
<i>Interest expense (including transaction costs)</i>		
Interest expense on fixed rate debt	1,958	2,307
Interest expense on variable rate debt	273	-
Total	2,231	2,307
Less: capitalized interest	(1,458)	(1,500)
Interest expense on debt	773	807
Provisions for asset retirement obligations: effect of the present value discount unwinding	242	256
Interest expense on lease liabilities	122	140
Other interest expense	28	-
Total interest expense	1,165	1,203

	Three months ended 31 March:	
	2021	2020
<i>Interest income</i>		
Interest income on loans receivable classified as at amortised cost	231	242
Interest income on loans receivable classified as at fair value through profit or loss	2,668	4,011
Interest income on cash, cash equivalents, deposits and other assets	917	1,503
Total interest income	3,816	5,756

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16 FINANCE INCOME (EXPENSE) (CONTINUED)

<i>Foreign exchange gain (loss)</i>	Three months ended 31 March:	
	2021	2020
Gains	7,904	175,462
Losses	(12,437)	(32,655)
Total foreign exchange gain (loss), net	(4,533)	142,807

17 INCOME TAX

Effective income tax rate. The Group's Russian statutory income tax rate for 2021 and 2020 was 20 percent.

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 three months ended 31 March 2021 and 2020 was 18.6 percent and 19.5 percent, respectively.

18 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 March 2021		At 31 December 2020	
	Non-current	Current	Non-current	Current
<i>At amortised cost</i>				
Long-term loans receivable	11,235	6,347	11,558	6,017
Trade and other receivables	505	78,143	426	71,255
Short-term bank deposits				
with original maturity more than three months	-	15,897	-	62,876
Cash and cash equivalents	-	90,442	-	119,707
Other	36	1,339	13	1,316
<i>At fair value through profit or loss</i>				
Long-term loans receivable	356,989	110,858	379,069	35,236
Contingent consideration	79,423	-	76,918	-
Commodity derivatives	432	14,305	13	13,041
Total financial assets	448,620	317,331	467,997	309,448
<i>Financial liabilities</i>				
<i>At amortised cost</i>				
Long-term debt	161,963	14,137	168,988	53,152
Long-term lease liabilities	5,893	3,807	6,670	3,798
Interest payable	-	1,662	-	1,529
Trade and other payables	-	73,855	-	58,935
<i>At fair value through profit or loss</i>				
Commodity derivatives	1,000	14,927	880	14,278
Total financial liabilities	168,856	108,388	176,538	131,692

18 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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) and require applying judgment by the Group (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.

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 March 2021	At 31 December 2020
Within other non-current and current assets	14,737	13,054
Within other non-current and current liabilities	(15,927)	(15,158)
	Three months ended 31 March:	
<i>Included in other operating income (loss)</i>	2021	2020
Operating realized income (loss)	(1,636)	(1,836)
Change in fair value	914	2,392

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:

	Three months ended 31 March:	
<i>Effect on the fair value</i>	2021	2020
Increase by ten percent	158	(1,230)
Decrease by ten percent	(158)	1,230

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 and OOO Arctic LNG 2 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.

18 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:

	Three months ended 31 March:	
	2021	2020
At 1 January	414,305	268,024
Loans provided	64,494	14,212
Repayment of loans and accrued interest	(10,433)	(84)
Initial measurement at fair value allocated		
to increase the Group's investments in joint ventures (see Note 4)	-	(2,408)
Subsequent remeasurement		
at fair value recognized in profit or loss as follows:		
– Interest income (using the effective interest rate method)	2,668	4,011
– Foreign exchange gain (loss), net	(6,677)	65,919
– Remaining effect from changes in fair value		
(attributable to free cash flows of the borrowers and interest rates)	3,490	(5,907)
At 31 March	467,847	343,767

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>	Three months ended 31 March:	
	2021	2020
Increase by one percent	(14,910)	(12,084)
Decrease by one percent	15,734	12,775

Contingent consideration. According to the terms of the transactions on the sale in 2019 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. 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 exchange 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.

18 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

	Three months ended 31 March:	
	2021	2020
At 1 January	76,918	101,391
Subsequent remeasurement		
at fair value recognized in profit or loss as follows:		
– Interest income (using the effective interest rate method)	593	844
– Foreign exchange gain (loss), net	1,912	26,065
– Remaining effect from changes in fair value (attributable to crude oil benchmark prices forecast)	-	(34,110)
At 31 March	79,423	94,190

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>	Three months ended 31 March:	
	2021	2020
Increase by one percent	5,213	5,741
Decrease by one percent	(5,495)	(4,941)

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.

PAO NOVATEK**Notes to the Consolidated Interim Condensed Financial Statements (unaudited)**

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

18 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 March 2021</i>	Russian rouble	US dollar	Euro	Other	Total
<i>Financial assets</i>					
<i>Non-current</i>					
Long-term loans receivable	6,992	82	361,150	-	368,224
Trade and other receivables	337	-	4	164	505
Contingent consideration	-	79,423	-	-	79,423
Commodity derivatives	-	-	432	-	432
Other	-	-	-	36	36
<i>Current</i>					
Current portion of long-term loans receivable	-	41,093	76,112	-	117,205
Trade and other receivables	36,460	29,029	10,890	1,764	78,143
Commodity derivatives	-	-	14,305	-	14,305
Short-term bank deposits with original maturity more than three months	-	15,897	-	-	15,897
Cash and cash equivalents	14,020	63,590	12,249	583	90,442
Other	939	-	400	-	1,339
<i>Financial liabilities</i>					
<i>Non-current</i>					
Long-term debt	-	(117,681)	(44,282)	-	(161,963)
Long-term lease liabilities	(247)	(3,271)	(2,085)	(290)	(5,893)
Commodity derivatives	-	-	(1,000)	-	(1,000)
<i>Current</i>					
Current portion of long-term debt	-	(5,249)	(8,888)	-	(14,137)
Current portion of long-term lease liabilities	(230)	(2,276)	(1,147)	(154)	(3,807)
Interest payable	-	(1,661)	(1)	-	(1,662)
Trade and other payables	(61,440)	(2,133)	(9,984)	(298)	(73,855)
Commodity derivatives	-	-	(14,927)	-	(14,927)
Net exposure	(3,169)	96,843	393,228	1,805	488,707

18 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At 31 December 2020	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
<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
Financial liabilities					
<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

(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.

Natural gas supplies on the Russian domestic market through the Unified Gas Supply System. 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 Federal Anti-Monopoly Service by 3 percent effective 1 August 2020 and remained unchanged through the end of the first quarter 2021.

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.

18 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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 markets. The Group purchases and sells natural gas on the European 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 short-term contracts. Stable gas condensate and naphtha volumes sold to the Asian-Pacific Region, European and North American markets are primarily based on benchmark crude oil prices of Brent and/or naphtha prices, mainly of Naphtha Japan or Naphtha CIF NWE, plus a margin or a 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 a 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 or 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, *Financial Instruments*.

(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 March 2021		At 31 December 2020	
	RR million	Percentage	RR million	Percentage
At fixed rate	131,818	75%	176,623	80%
At variable rate	44,282	25%	45,517	20%
Total debt	176,100	100%	222,140	100%

18 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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.

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.

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.

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

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.

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18 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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 March 2021</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt					
<i>Principal</i>	14,137	80,951	60,186	26,243	181,517
<i>Interest</i>	6,826	6,480	7,431	3,273	24,010
Lease liabilities	3,955	3,852	2,496	66	10,369
Trade and other payables	73,855	-	-	-	73,855
Total financial liabilities	98,773	91,283	70,113	29,582	289,751
<i>At 31 December 2020</i>					
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

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

<i>At 31 March 2021</i>	Less than 1 year	Between 1 and 2 years	Total
Cash inflow	166,336	27,006	193,342
Cash outflow	(166,958)	(27,573)	(194,531)
Net cash flows	(622)	(567)	(1,189)
<i>At 31 December 2020</i>			
Cash inflow	155,732	18,975	174,707
Cash outflow	(156,944)	(19,843)	(176,787)
Net cash flows	(1,212)	(868)	(2,080)

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 March 2021, 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.

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.

18 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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 the three months ended 31 March 2021. At 31 March 2021 and 31 December 2020, the Group’s capital totaled RR 1,757 billion and RR 1,660 billion, respectively.

19 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 the COVID-19 virus 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. From the second quarter and through the end of 2020, global economic activity had begun a gradual recovery 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 in April 2020 and the compliance to the target cuts.

In the beginning of 2021, the OPEC+ participants continued to restrict their production targets due to the ongoing instability caused by the spread of the COVID-19 virus and stricter quarantine measures enforced by some countries. The maintenance of the restricted production targets as well as an increase in hydrocarbons consumption due to the severe cold weather in Europe, Asia and North America has led to a significant increase in benchmark hydrocarbons prices in the first quarter 2021.

Further developments surrounding the COVID-19 virus spread 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 energy needs of 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.

Contractual commitments. At 31 March 2021, the Group had contractual capital expenditures commitments aggregating approximately RR 260 billion (at 31 December 2020: RR 248 billion) mainly for development of LNG projects (through 2025), and for development at the Kharbeyskoye field (through 2023), the Yevo-Yakhinskiy (through 2023), the North-Russkiy (through 2022) and the Ust-Yamsoveyskiy (through 2023) license areas 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).

19 CONTINGENCIES AND COMMITMENTS (CONTINUED)

At 31 March 2021 and 31 December 2020, 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 March 2021 is EUR 42.5 million to the State of Montenegro and EUR 5.8 million to the Republic of Lebanon (at 31 December 2020: EUR 42.5 million and EUR 5.8 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 interim condensed financial statements.

The Group has entered into a number of marine tankers time charter agreements for the period from 20 to 29 years, under which provision of the services has not yet commenced. At 31 March 2021, the Group's future minimum payments under these charter agreements amounted to RR 137 billion (at 31 December 2020: RR 135 billion), of which RR 99 billion related to an LNG ice-class tanker charter agreement. In the first quarter 2021, the Group signed a novation agreement to transfer the LNG tanker time charter agreement to the Group's joint venture OOO Arctic LNG 2. It is expected that this novation agreement will come into force in the near future.

The Group has also entered into floating gas storage units bareboat charter agreements for the period of 20 years, under which provision of the services has not yet commenced. These floating gas storage units will become a part of the Group's LNG transshipment terminals at Kamchatka and Murmansk. At 31 March 2021, the Group's future minimum payments under these bareboat charter agreements amounted to RR 97 billion (31 December 2020: RR 99 billion). The Group is presently in the process of signing a long-term take-or-pay agreement with its joint venture OOO Arctic LNG 2 on the usage of these LNG terminals.

Guarantees issued. In accordance with the project financing agreements of OAO Yamal LNG, the Group issued 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 at 31 March 2021 and at 31 December 2020. 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 depends on macroeconomic factors (benchmark hydrocarbon prices and foreign exchange rates), but may not exceed USD 2.4 billion and EUR 1.0 billion at 31 March 2021 and 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.

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 270 million at 31 March 2021 (at 31 December 2020: EUR 276 million).

The aggregated amount of non-financial guarantees issued by the Group in respect of its joint venture Arctic LNG 2 relating to LNG-tankers time charter agreements, under which provision of the services has not yet commenced, totaled USD 2.0 billion at 31 March 2021 and 31 December 2020.

The Group also 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 LNG-tankers time charter agreements, to the extent of the Group's participation interest in OOO SMART LNG.

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

19 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 interim condensed 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.

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.

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 system of control and current 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 interim condensed financial statements.

20 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 interim condensed 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>	Three months ended 31 March:	
	2021	2020
Transactions		
Revenues from oil and gas sales	1,263	850
Other revenues	3,076	1,002
Purchases of natural gas and liquid hydrocarbons	(88,472)	(58,319)
Transportation expenses	(21)	(10)
Materials, services and other	(44)	(41)
Interest income on loans receivable	2,874	4,223
Dividends declared and cash received	409	160

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20 RELATED PARTY TRANSACTIONS (CONTINUED)

<i>Related parties – joint ventures</i>	At 31 March 2021	At 31 December 2020
Balances		
Long-term loans receivable	368,224	390,627
Current portion of long-term loans receivable	117,205	41,253
Trade and other receivables	2,457	2,974
Trade payables and accrued liabilities	35,384	27,532

The terms and conditions of the loans receivable from the joint ventures are disclosed in Note 5.

The Group issued guarantees in favor of its joint ventures as described in Note 19.

<i>Related parties – entities with significant influence and their subsidiaries</i>	Three months ended 31 March:	
	2021	2020
Transactions		
Revenues from oil and gas sales	9,143	8,803
Other operating income (loss), net	(232)	(7,848)
Interest income	165	220

<i>Related parties – entities with significant influence and their subsidiaries</i>	At 31 March 2021	At 31 December 2020
Balances		
Trade and other receivables	2,667	8,943
Contingent consideration	22,170	21,470
Trade payables and accrued liabilities	267	114

<i>Related parties – parties under control of key management personnel</i>	Three months ended 31 March:	
	2021	2020
Transactions		
Transportation expenses	(2,794)	(2,540)
Purchases of construction services (capitalized within property, plant and equipment)	(3,260)	(4,748)

<i>Related parties – parties under control of key management personnel</i>	At 31 March 2021	At 31 December 2020
Balances		
Advances for construction	4,567	4,768
Prepayments and other current assets	705	585
Trade payables and accrued liabilities	2,371	2,126

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>	Three months ended 31 March:	
	2021	2020
Board of Directors	30	38
Management Committee	186	1,737
Total compensation	216	1,775

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.

21 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 3).

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, France, the United Kingdom, the Netherlands, Poland, Spain, Finland, Denmark, Belgium, Lithuania, Latvia, Estonia, Sweden, Germany and Montenegro)* – sales of natural gas, naphtha, stable gas condensate, gas condensate refined products, liquefied petroleum gas and exploration activities within joint operations;
- *Countries of the Asia-Pacific region (primarily, China, including Taiwan, Japan, South Korea and Singapore)* – sales of naphtha, stable gas condensate and crude oil;
- *Countries of North America (primarily, the USA)* – sales of naphtha and stable gas condensate refined products;
- *Countries of the Middle East (primarily, the United Arab Emirates and Lebanon)* – sales of stable gas condensate, crude oil and exploration activities within joint operations.

Geographical information of the Group's oil and gas sales for the three months ended 31 March 2021 and 2020 is as follows:

	Three months ended 31 March:	
	2021	2020
Russia	132,567	102,883
Europe	59,308	54,633
Asia-Pacific Region	41,108	23,977
North America	10,987	6,264
The Middle East	620	1,157
Other	11	-
Less: export duties	(3,852)	(6,319)
Total outside Russia	108,182	79,712
Total oil and gas sales	240,749	182,595

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 three months ended 31 March 2021 and 2020, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 12.9 percent (RR 31.6 billion) and 15 percent (RR 28 billion) of total external revenues, respectively. The Group's major customer resides within the Russian Federation.

22 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies and methods of computation followed by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2020, except for income tax expense and adoption of revised standard as described below.

Income tax expense is recognized based on management's estimate of the expected annual income tax rate for the full financial year.

The Group early adopted the following amendments to the standard 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 1 January 2022, early adoption permitted). 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 their initial application.

23 NEW ACCOUNTING PRONOUNCEMENTS

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.

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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