

PAO NOVATEK

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

**AS OF AND FOR THE THREE AND
NINE MONTHS ENDED 30 SEPTEMBER 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 30 September 2021 and the related consolidated interim condensed statements of income and comprehensive income for the three-month and nine-month periods then ended, cash flows and changes in equity for the nine-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

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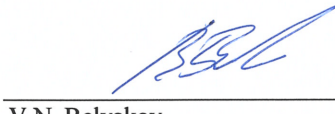
PAO NOVATEK
Consolidated Interim Condensed Statement of Financial Position (unaudited)

(in millions of Russian roubles)

	Notes	At 30 September 2021	At 31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	4	836,828	729,407
Investments in joint ventures	5	508,008	450,632
Long-term loans and receivables	6	330,061	391,053
Other non-current assets	7	124,603	125,152
Total non-current assets		1,799,500	1,696,244
Current assets			
Inventories		18,673	10,723
Current income tax prepayments		494	302
Trade and other receivables	8	78,542	71,255
Prepayments and other current assets	9	407,252	98,071
Short-term bank deposits			
with original maturity more than three months		65,456	62,876
Cash and cash equivalents		86,408	119,707
Total current assets		656,825	362,934
Total assets		2,456,325	2,059,178
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	10	153,399	168,988
Long-term lease liabilities	19	4,049	6,670
Deferred income tax liabilities		68,590	64,132
Asset retirement obligations		10,651	14,397
Other non-current liabilities		7,814	6,568
Total non-current liabilities		244,503	260,755
Current liabilities			
Current portion of long-term debt	10	13,540	53,152
Current portion of long-term lease liabilities	19	3,618	3,798
Trade payables and accrued liabilities	11	408,561	83,995
Current income tax payable		3,190	3,048
Other taxes payable		20,837	16,003
Total current liabilities		449,746	159,996
Total liabilities		694,249	420,751
Equity attributable to PAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(23,077)	(20,386)
Additional paid-in capital		31,297	31,297
Currency translation differences		7,920	2,652
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		1,723,199	1,600,391
Total equity attributable to PAO NOVATEK shareholders	12	1,745,349	1,619,964
Non-controlling interest		16,727	18,463
Total equity		1,762,076	1,638,427
Total liabilities and equity		2,456,325	2,059,178

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


L.V. Mikhelson
Chairman of the Management Committee


V.N. Belyakov
Deputy Chairman of the Management Board
for Economics and Finance

26 October 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 30 September:		Nine months ended 30 September:	
		2021	2020	2021	2020
Revenues					
Oil and gas sales	13	269,877	161,211	771,178	484,447
Other revenues		6,830	2,560	14,564	7,825
Total revenues		276,707	163,771	785,742	492,272
Operating expenses					
Purchases of natural gas and liquid hydrocarbons	14	(120,888)	(52,876)	(318,396)	(163,178)
Transportation expenses	15	(36,485)	(34,139)	(118,683)	(109,548)
Taxes other than income tax	16	(22,522)	(14,121)	(64,352)	(38,516)
Depreciation, depletion and amortization		(13,332)	(9,733)	(38,764)	(27,579)
Materials, services and other		(8,506)	(7,593)	(25,213)	(21,581)
General and administrative expenses		(8,472)	(8,424)	(22,136)	(18,414)
Exploration expenses		(695)	(2,415)	(4,039)	(8,548)
Impairment (expenses) reversals, net		2	5	31	28
Changes in natural gas, liquid hydrocarbons and work-in-progress		3,841	3,726	10,512	(1,008)
Total operating expenses		(207,057)	(125,570)	(581,040)	(388,344)
Gain on disposal of interests in subsidiaries, net	3	662	-	662	-
Other operating income (loss), net	19	984	352	548	(46,961)
Profit from operations		71,296	38,553	205,912	56,967
Finance income (expense)					
Interest expense	17	(1,104)	(1,239)	(3,476)	(3,684)
Interest income	17	4,066	6,443	12,079	18,084
Change in fair value of non-commodity financial instruments	19	2,034	(1,880)	8,754	(6,806)
Foreign exchange gain (loss), net	17	(7,739)	85,163	(33,140)	171,443
Total finance income (expense)		(2,743)	88,487	(15,783)	179,037
Share of profit (loss) of joint ventures, net of income tax	5	61,978	(86,804)	135,189	(160,028)
Profit before income tax		130,531	40,236	325,318	75,976
Income tax benefit (expense)					
Current income tax benefit (expense)		(10,654)	(20,780)	(30,033)	(47,426)
Deferred income tax benefit (expense), net		(2,287)	(3,223)	(3,898)	2,967
Total income tax benefit (expense)	18	(12,941)	(24,003)	(33,931)	(44,459)
Profit		117,590	16,233	291,387	31,517
Profit attributable to:					
Non-controlling interest		4,684	3,061	14,042	7,461
Shareholders of PAO NOVATEK		112,906	13,172	277,345	24,056
Basic and diluted earnings per share (in Russian roubles)		37.60	4.39	92.36	8.01
Weighted average number of shares outstanding (in millions)		3,002.7	3,003.2	3,002.7	3,005.0

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 30 September:		Nine months ended 30 September:	
	2021	2020	2021	2020
Profit	117,590	16,233	291,387	31,517
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to profit (loss)				
Remeasurement of pension obligations	(179)	337	(667)	(907)
Share of remeasurement of pension obligations of joint ventures	(20)	(51)	(60)	(154)
	(199)	286	(727)	(1,061)
Items that may be reclassified subsequently to profit (loss)				
Currency translation differences	957	(3,956)	4,844	(3,244)
Share of currency translation differences of joint ventures	(264)	(1,808)	424	(2,605)
	693	(5,764)	5,268	(5,849)
Other comprehensive income (loss)	494	(5,478)	4,541	(6,910)
Total comprehensive income	118,084	10,755	295,928	24,607
Total comprehensive income attributable to:				
Non-controlling interest	4,684	3,061	14,042	7,461
Shareholders of PAO NOVATEK	113,400	7,694	281,886	17,146

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	Nine months ended 30 September:	
		2021	2020
Profit before income tax		325,318	75,976
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		38,764	27,579
Impairment expenses (reversals), net		(31)	(28)
Foreign exchange loss (gain), net		33,140	(171,443)
Gain on disposal of interests in subsidiaries, net	3	(662)	-
Interest expense		3,476	3,684
Interest income		(12,079)	(18,084)
Share of loss (profit) of joint ventures, net of income tax	5	(135,189)	160,028
Change in fair value of non-commodity financial instruments		(8,754)	6,806
Revaluation of commodity derivatives and contingent consideration through profit or loss	19	775	49,780
Other adjustments		594	1,520
Decrease (increase) in long-term advances given		2,909	4,510
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(24,704)	12,845
Decrease (increase) in inventories		(10,966)	693
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		31,477	(14,926)
Increase (decrease) in taxes payable, other than income tax		4,872	2,895
Total effect of working capital changes		679	1,507
Dividends and cash received from joint ventures		84,926	3,887
Interest received		4,633	5,002
Income taxes paid excluding actual payments relating to disposal of interests in subsidiaries		(19,906)	(37,999)
Net cash provided by operating activities		318,593	112,725
Cash flows from investing activities			
Purchases of property, plant and equipment	4	(122,987)	(124,023)
Payments for mineral licenses	4	(12,986)	(376)
Purchases of materials for construction		(9,345)	(13,721)
Purchases of intangible assets		(532)	(959)
Capital contributions to joint ventures	5	(1,069)	-
Proceeds from disposal of interests in subsidiaries and joint ventures, net of cash disposed	5	806	195,324
Actual income tax payments relating to disposal of interests in subsidiaries	3, 18	(73)	-
Interest paid and capitalized	4	(4,061)	(4,560)
Net decrease (increase) in bank deposits with original maturity more than three months		(3,491)	(73,054)
Acquisition of joint ventures	3	(1,655)	-
Guarantee fees paid		-	(850)
Loans provided to joint ventures	6	(86,958)	(82,779)
Repayments of loans provided to joint ventures	6	34,644	14,095
Net cash used for investing activities		(207,707)	(90,903)

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

(in millions of Russian roubles)

	Notes	Nine months ended 30 September:	
		2021	2020
Cash flows from financing activities			
Proceeds from long-term debt		-	8,998
Repayments of long-term debt	10	(51,844)	(3,407)
Proceeds from short-term debt			
with original maturity more than three months		-	441
Repayments of short-term debt			
with original maturity more than three months		-	(441)
Increase (decrease) in short-term debt			
with original maturity three months or less, net		333	-
Loan commitment fee		-	(534)
Interest on debt paid		(1,145)	(1,197)
Dividends paid to shareholders of PAO NOVATEK	12	(71,286)	(54,359)
Dividends paid to non-controlling interest		(13,671)	(8,820)
Payments of lease liabilities		(2,719)	(3,470)
Purchases of treasury shares	12	(2,690)	(7,806)
Net cash used for financing activities		(143,022)	(70,595)
Net effect of exchange rate changes on cash and cash equivalents		(1,163)	24,997
Net increase (decrease) in cash and cash equivalents		(33,299)	(23,776)
Cash and cash equivalents at the beginning of the period		119,707	53,240
Cash and cash equivalents at the end of the period		86,408	29,464

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 nine months ended 30 September 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	-	-	-	-	-	-	24,056	24,056	7,461	31,517
Other comprehensive loss	-	-	-	-	(5,849)	-	(1,061)	(6,910)	-	(6,910)
Total comprehensive income (loss)	-	-	-	-	(5,849)	-	22,995	17,146	7,461	24,607
Dividends (Note 12)	-	-	-	-	-	-	(89,857)	(89,857)	(8,820)	(98,677)
Effect from other changes in joint ventures' net assets (Note 5)	-	-	-	-	-	-	2,880	2,880	-	2,880
Purchase of treasury shares (Note 12)	(8.0)	-	(7,615)	-	-	-	-	(7,615)	-	(7,615)
At 30 September 2020	3,003.2	393	(19,923)	31,297	(2,035)	5,617	1,554,714	1,570,063	18,208	1,588,271
<i>For the nine months ended 30 September 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	-	-	-	-	-	-	277,345	277,345	14,042	291,387
Other comprehensive income (loss)	-	-	-	-	5,268	-	(727)	4,541	-	4,541
Total comprehensive income (loss)	-	-	-	-	5,268	-	276,618	281,886	14,042	295,928
Dividends (Note 12)	-	-	-	-	-	-	(154,332)	(154,332)	(15,778)	(170,110)
Effect from other changes in joint ventures' net assets (Note 5)	-	-	-	-	-	-	522	522	-	522
Purchase of treasury shares (Note 12)	(1.5)	-	(2,691)	-	-	-	-	(2,691)	-	(2,691)
At 30 September 2021	3,001.3	393	(23,077)	31,297	7,920	5,617	1,723,199	1,745,349	16,727	1,762,076

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- and short-term supply contracts to carry out its foreign commercial trading activities, as well as conducts LNG regasification in Europe.

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.

In July 2021, the Group acquired from PAO Gazprom Neft a 49 percent participation interest in OOO Gazpromneft-Sakhalin, the holder of the license for exploration and development of the Severo-Wrangelevskiy license area located in the eastern part of the East Siberian Sea and the western part of the Chukchi Sea (see Note 3).

In July 2021, the Group sold a 10 percent participation interest in OOO Arctic Transshipment to TOTAL E&P Transshipment SAS, a subsidiary of TotalEnergies SE (see Note 3). OOO Arctic Transshipment operates two LNG transshipment terminals currently under construction in the Kamchatka and Murmansk regions.

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.

2 BASIS OF PREPARATION (CONTINUED)

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.

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>	Average rate for the three months ended 30 September:		Average rate for the nine months ended 30 September:	
	2021	2020	2021	2020
US dollar (USD)	73.47	73.56	74.01	70.78
Euro (EUR)	86.66	85.97	88.57	79.64
Polish zloty (PLN)	18.98	19.36	19.47	18.00

<i>Russian roubles to one currency unit</i>	At 30 September:		At 31 December:	
	2021	2020	2020	2019
US dollar (USD)	72.76	79.68	73.88	61.91
Euro (EUR)	84.88	93.02	90.68	69.34
Polish zloty (PLN)	18.35	20.30	20.01	16.24

3 ACQUISITIONS AND DISPOSALS

Acquisition of a participation interest in OOO Gazpromneft-Sakhalin

In June 2021, the Group entered into an agreement for acquisition from PAO Gazprom Neft of a 49 percent participation interest in OOO Gazpromneft-Sakhalin for a cash consideration of RR 1,655 million. The transaction was closed in July 2021. OOO Gazpromneft-Sakhalin holds the license for exploration and development of the Severo-Wrangel'skiy license area located in the eastern part of the East Siberian Sea and the western part of the Chukchi Sea.

The Charter of Gazpromneft-Sakhalin stipulates that key financial and operating decisions regarding its business activities require effectively the unanimous approval by both participants. Therefore, the voting mechanism effectively establishes joint control over OOO Gazpromneft-Sakhalin and the Group accounts for the investment in this entity under the equity method.

In accordance with IFRS 11 "Joint Arrangements", the Group assessed fair values of the identified assets and liabilities of OOO Gazpromneft-Sakhalin at the acquisition date, which primarily related to property, plant and equipment. Purchase consideration approximated fair value of the Group's share in net assets of OOO Gazpromneft-Sakhalin.

Disposal of a 10 percent participation interest in OOO Arctic Transshipment

In June 2021, the Group and TOTAL E&P Transshipment SAS, a subsidiary of TotalEnergies SE, entered into an agreement for acquisition by TOTAL E&P Transshipment SAS of a 10 percent participation interest in OOO Arctic Transshipment, the operator of two LNG transshipment terminals currently under construction in the Kamchatka and Murmansk regions. The transaction was closed in July 2021.

Consideration comprises the cash payment in the amount of RR 368 million (equivalent of USD 5 million) which was received in July 2021, as well as potential payments in the amount of up to USD 20 million equivalent subject to certain events in the future.

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

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

3 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

At 30 June 2021, the conditions for recognition of OOO Arctic Transshipment as an asset held for sale had been met in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*.

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

The gain on disposal of a 10 percent participation interest amounted to RR 662 million, before associated current income tax of RR 73 million.

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

	RR million
Property, plant and equipment	3,137
Other non-current assets	62
Cash and cash equivalents	137
Other current assets	1,211
Long-term debt	(4,091)
Other non-current liabilities	(115)
Other current liabilities	(111)
Total identifiable net assets at disposal	230

4 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment are as follows:

<i>For the nine months ended 30 September 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	2,602	143,692	-	146,294
Transfers	63,318	(67,912)	4,594	-
Change in asset retirement costs	(33)	-	-	(33)
Depreciation, depletion and amortization	(25,872)	-	(1,179)	(27,051)
Disposals, net	(109)	(1,431)	(116)	(1,656)
Currency translation differences	2,748	271	92	3,111
Cost	678,207	243,363	26,919	948,489
Accumulated depreciation, depletion and amortization	(264,228)	-	(6,798)	(271,026)
Net book value at 30 September 2020	413,979	243,363	20,121	677,463

PAO NOVATEK
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4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

<i>For the nine months ended 30 September 2021</i>	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
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	2,734	151,858	-	154,592
Transfers	114,800	(116,161)	1,361	-
Change in asset retirement costs	(4,315)	-	-	(4,315)
Depreciation, depletion and amortization	(36,913)	-	(1,351)	(38,264)
Reclassification to assets held for sale (see Note 3)	(1,263)	(1,863)	(11)	(3,137)
Disposals, net	(316)	(402)	(58)	(776)
Currency translation differences	(451)	(204)	(24)	(679)
Cost	848,656	276,844	29,247	1,154,747
Accumulated depreciation, depletion and amortization	(309,440)	-	(8,479)	(317,919)
Net book value at 30 September 2021	539,216	276,844	20,768	836,828

Included in additions to property, plant and equipment for the nine months ended 30 September 2021 and 2020 are capitalized interest and foreign exchange differences of RR 5,775 million and RR 8,751 million, respectively.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 78,282 million and RR 66,415 million at 30 September 2021 and 31 December 2020, respectively.

Included in property, plant and equipment at 30 September 2021 and 31 December 2020 are right-of-use assets with carrying value of RR 7,079 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 nine months ended 30 September 2021 and 2020 amounted to RR 2,341 million and RR 2,229 million, respectively.

In September 2021, the Group purchased through auctions oil and gas exploration and production licenses for the Arkticheskoye and Neytinskoye license areas located on the Yamal peninsula in the YNAO for the total amount of RR 13,155 million, of which RR 11,959 million were paid at the reporting date and included within assets under construction and advances for construction.

In March 2021, the Group won an auction for an oil and gas exploration and production license for the North-Gydanskiy license area located in the YNAO on the Gydan peninsula and partly in the shallow waters of the Gydan Bay of the Kara Sea for a payment of RR 775 million, which was included within oil and gas properties and equipment.

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 30 September 2021	At 31 December 2020
Proved properties acquisition costs	104,918	103,002
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(23,079)	(21,856)
Unproved properties acquisition costs	11,783	10,924
Total acquisition costs	93,622	92,070

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

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4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

No impairment was recognized in respect of oil and gas properties and equipment for the nine months ended 30 September 2021 and 2020.

Capital commitments are disclosed in Note 20.

5 INVESTMENTS IN JOINT VENTURES

	At 30 September 2021	At 31 December 2020
<i>Joint ventures:</i>		
OOO Arctic LNG 2	266,695	250,470
AO Arcticgas	115,848	151,886
OA O Yamal LNG	71,077	-
ZAO Norgas	44,485	43,805
ZAO Terneftegas	6,249	4,157
OOO Gazpromneft-Sakhalin	2,613	-
OOO Arctic Transshipment	508	-
OOO Cryogas-Vysotsk	401	-
OOO SMART LNG	132	28
Rostock LNG GmbH	-	286
Total investments in joint ventures	508,008	450,632

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

OOO Arctic LNG 2. The Group holds a 60 percent ownership in OOO Arctic LNG 2, along with TotalEnergies SE (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).

For the nine months ended 30 September 2020, the Group received cash transfers in the amount of RR 195,324 million (the equivalent of USD 2,800 million) from the sales of a 40 percent participation interest in OOO Arctic LNG 2 in 2019.

At 30 September 2021, the Group's 60 percent ownership in Arctic LNG 2 was pledged in connection with credit line facility agreements signed by Arctic LNG 2 to obtain external project financing.

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

OA O Yamal LNG. The Group holds a 50.1 percent ownership in Yamal LNG, along with TotalEnergies SE (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 fourth LNG train in May 2021 is 17.4 million tons of LNG (5.5 million tons for the first three trains and 0.9 million tons for the fourth train).

5 INVESTMENTS IN JOINT VENTURES (CONTINUED)

At 30 September 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 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 in the amount of RR 27,763 million as a result of significant non-cash foreign exchange losses. For the nine months ended 30 September 2021, the Group's share of profit of Yamal LNG amounted to RR 98,420 million of which RR 27,763 million were not recognized in the consolidated statement of income as were offset against the previously unrecognized share of losses.

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 TotalEnergies SE. Terneftegas operates the Termokarstovoye field, located in the YNAO.

OOO Gazpromneft-Sakhalin. The Group holds a 49 percent participation interest in OOO Gazpromneft-Sakhalin acquired in July 2021 (see Note 3). OOO Gazpromneft-Sakhalin is a joint venture with PAO Gazprom Neft (51 percent). The joint venture holds the license for exploration and development of the Severo-Wrangelevskiy license area located in the eastern part of the East Siberian Sea and the western part of the Chukchi Sea.

OOO Arctic Transshipment. In July 2021, the Group sold a 10 percent participation interest in OOO Arctic Transshipment, which was a Group's subsidiary at that time, to TOTAL E&P Transshipment SAS (see Note 3).

The Group retained a 90 percent participation interest in OOO Arctic Transshipment after closing the transaction and began to exercise joint control over the company. The Group determined Arctic Transshipment to be a joint venture and accounts for this investment under the equity method.

Arctic Transshipment operates two LNG transshipment terminals currently under construction in the Kamchatka and Murmansk regions.

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 30 September 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.

The Group's investment in Cryogas-Vysotsk at 31 December 2020 was valued at RR nil in the consolidated statement of financial position due to the Group's proportionate share of accumulated losses exceeding the Group's cost of investment in the amount of RR 2,483 million as a result of significant non-cash foreign exchange losses. For the nine months ended 30 September 2021, the Group's share of profit in OOO Cryogas-Vysotsk amounted to RR 2,883 million of which RR 2,483 million were not recognized in the consolidated statement of income as were offset against the previously unrecognized share of losses.

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 30 September 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.

Rostock LNG GmbH. As at 31 December 2020, the Group held a 49 percent ownership interest in Rostock LNG GmbH, its joint venture with Fluxys Germany Holding GmbH. In September 2021, shareholders made a decision to liquidate Rostock LNG GmbH.

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5 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

	Nine months ended 30 September:	
	2021	2020
At 1 January	450,632	585,340
Share of profit from operations	187,522	74,492
Share of finance income (expense)	13,173	(343,628)
Share of total income tax benefit (expense)	(35,260)	50,992
Unrecognized share of loss (profit) of joint ventures	(30,246)	58,116
Share of profit (loss) of joint ventures, net of income tax	135,189	(160,028)
Share of other comprehensive income (loss) of joint ventures	364	(2,759)
Dividends and cash from joint ventures	(84,926)	(3,387)
Effect from other changes in joint ventures' net assets	522	2,880
Capital contributions	1,069	-
Sale of interests in subsidiaries resulting in the recognition of investments in joint ventures (see Note 3)	525	-
Acquisitions of joint ventures (see Note 3)	1,655	-
Effect from initial measurement of loans provided by the Group to joint ventures (see Note 19) net of deferred income tax	-	11,860
Group's costs capitalized in investments	-	1,168
Elimination of the Group's share in unrealized profits of joint ventures from balances of hydrocarbons purchased from joint ventures	2,978	(1,093)
At 30 September	508,008	433,981

For the nine months ended 30 September 2021 and 2020, Arcticgas declared and paid dividends in the total amount of RR 167 billion and RR 6 billion, respectively, of which RR 83 billion and RR 3 billion, respectively, were attributable to NOVATEK.

For the nine months ended 30 September 2021 and 2020, the Group received from Terneftegas cash and dividends distributed to the Group in the total amount of RR 1,551 million and RR 387 million, respectively.

For the nine months ended 30 September 2021, the capital of OOO SMART LNG was increased through proportional contributions by its participants totaling RR 213 million, of which RR 107 million were contributed by the Group.

In the third quarter 2021, the capital of OOO Gazpromneft-Sakhalin was increased through proportional contributions by its participants totalling RR 1,963 million, of which RR 962 million were contributed by the Group.

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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5 INVESTMENTS IN JOINT VENTURES (CONTINUED)

For the nine months ended 30 September 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 nine months ended 30 September 2021</i>	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Revenues	2,778	212,128	387,072	14,025
Depreciation, depletion and amortization	(100)	(19,789)	(84,595)	(5,152)
Profit (loss) from operations	(377)	116,945	248,138	2,147
Interest expense	(239)	(4,084)	(89,881)	(489)
Change in fair value of non-commodity financial instruments	402	-	(31,645)	-
Foreign exchange gain (loss), net	36,631	22	107,587	-
Profit (loss) before income tax	36,629	113,332	234,209	1,691
Income tax benefit (expense)	(9,578)	(18,604)	(37,634)	(329)
Profit (loss), net of income tax	27,051	94,728	196,575	1,362
Ownership	60%	50%	50.1%	50%
Total based on ownership interest	16,231	47,364	98,431	681
Elimination of the Group's share in unrealized profits of joint ventures from balances of hydrocarbons purchased from joint ventures	-	(2,510)	(11)	(151)
Unrecognized share of profit of joint ventures	-	-	(27,763)	-
Share of profit (loss) of joint ventures, net of income tax	16,231	44,854	70,657	530
<i>For the nine months ended 30 September 2020</i>	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Revenues	-	118,500	234,290	11,168
Depreciation, depletion and amortization	(32)	(24,018)	(81,476)	(5,034)
Profit (loss) from operations	(1,647)	46,799	101,876	(516)
Interest expense	(81)	(2,541)	(119,186)	(792)
Change in fair value of non-commodity financial instruments	333	-	26,574	-
Foreign exchange gain (loss), net	(47,340)	(52)	(510,652)	-
Profit (loss) before income tax	(48,691)	44,475	(501,344)	(1,244)
Income tax benefit (expense)	9,718	(7,012)	93,196	244
Profit (loss), net of income tax	(38,973)	37,463	(408,148)	(1,000)
Ownership	60%	50%	50.1%	50%
Total based on ownership interest	(23,384)	18,732	(204,372)	(500)
Elimination of the Group's share in unrealized profits of joint ventures from balances of hydrocarbons purchased from joint ventures	-	857	14	107
Unrecognized share of loss of joint ventures	-	-	55,033	-
Share of profit (loss) of joint ventures, net of income tax	(23,384)	19,589	(149,325)	(393)

6 LONG-TERM LOANS AND RECEIVABLES

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

	At 30 September 2021	At 31 December 2020
Long-term loans receivable	472,918	431,880
Other long-term receivables	611	426
Total	473,529	432,306
Less: current portion of long-term loans receivable	(143,468)	(41,253)
Total long-term loans and receivables	330,061	391,053

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

	At 30 September 2021	At 31 December 2020
OOO Arctic LNG 2	291,401	215,336
OAo Yamal LNG	170,308	209,637
OOO Cryogas-Vysotsk	7,200	6,907
OOO Arctic Transshipment	4,009	-
Total long-term loans receivable	472,918	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.

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 nine months ended 30 September 2021 and 2020, Yamal LNG repaid to the Group a part of the loans and accrued interest in the total amount of RR 36,974 million and RR 17,696 million, respectively.

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

OOO Arctic Transshipment. The Group provided euro credit line facilities to OOO Arctic Transshipment, the Group's joint venture. The repayment schedules are linked to free cash flows of the joint venture and bear variable interest rates.

No provisions for impairment of long-term loans and receivables were recognized at 30 September 2021 and 31 December 2020. The carrying values of long-term loans and receivables approximate their respective fair values.

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7 OTHER NON-CURRENT ASSETS

	At 30 September 2021	At 31 December 2020
<i>Financial assets</i>		
Contingent consideration (see Note 19)	77,530	76,918
Commodity derivatives	1,177	13
Other financial assets	36	13
<i>Non-financial assets</i>		
Deferred income tax assets	22,512	22,694
Materials for construction	19,187	18,341
Intangible assets, net	2,719	2,820
Long-term advances	627	3,536
Other non-financial assets	815	817
Total other non-current assets	124,603	125,152

8 TRADE AND OTHER RECEIVABLES

	At 30 September 2021	At 31 December 2020
Trade receivables (net of provision of RR 465 million and RR 506 million at 30 September 2021 and 31 December 2020, respectively)	68,760	64,073
Other receivables (net of provision of RR 297 million and RR 305 million at 30 September 2021 and 31 December 2020, respectively)	9,782	7,182
Total trade and other receivables	78,542	71,255

Trade receivables in the amount RR 17,147 million and RR 14,568 million at 30 September 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 19 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 19.

9 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 30 September 2021	At 31 December 2020
<i>Financial assets</i>		
Commodity derivatives (see Note 19)	214,929	13,041
Current portion of long-term loans receivable (see Note 6)	143,468	41,253
Other financial assets	382	1,316
<i>Non-financial assets</i>		
Value-added tax receivable	18,174	15,703
Prepayments and advances to suppliers	9,987	9,088
Recoverable value-added tax	8,850	10,767
Deferred transportation expenses for natural gas	3,231	1,779
Deferred transportation expenses for liquid hydrocarbons	2,117	1,996
Deferred export duties for liquid hydrocarbons	968	649
Prepaid customs duties	452	616
Other non-financial assets	4,694	1,863
Total prepayments and other current assets	407,252	98,071

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10 LONG-TERM DEBT

	At 30 September 2021	At 31 December 2020
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	72,728	73,820
Eurobonds – Ten-Year Tenor (par value USD 650 million, repaid in 2021)	-	48,012
Loan from Silk Road Fund	43,422	46,076
Bank loans	50,789	54,232
Total	166,939	222,140
Less: current portion of long-term debt	(13,540)	(53,152)
Total long-term debt	153,399	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.

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 175,617 million and RR 235,473 million at 30 September 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 19). 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 19).

Scheduled maturities of long-term debt are disclosed in Note 19.

Available credit line facilities. In addition to disclosed above, at 30 September 2021, the Group had available long-term bank credit line facilities with credit limits for the total amount of RR 159 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 30 September 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.

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11 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 30 September 2021	At 31 December 2020
Financial liabilities		
Commodity derivatives (see Note 19)	217,929	14,278
Dividends payable to shareholders of PAO NOVATEK	83,046	-
Trade payables	77,925	55,149
Dividends payable to non-controlling interest	2,107	-
Interest payable	1,573	1,529
Other payables	14,501	3,786
Non-financial liabilities		
Advances from customers	4,519	4,245
Salary payables	1,057	1,042
Other liabilities and accruals	5,904	3,966
Total trade payables and accrued liabilities	408,561	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 19.

12 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.

During the nine months ended 30 September 2021 and 2020, the Group purchased 1.5 million and 8 million ordinary shares at a total cost of RR 2,691 million and RR 7,615 million, respectively. At 30 September 2021 and 31 December 2020, the Group held in total 35 million and 33.5 million ordinary shares at total cost of RR 23,077 million and RR 20,386 million, respectively. The Group has decided that these shares do not vote.

Dividends. The Group declares and pays dividends in Russian roubles (amounts include tax on dividends):

	Nine months ended 30 September:	
	2021	2020
Dividends payable at 1 January	-	-
Dividends declared (*)	154,332	89,857
Dividends paid (*)	(71,286)	(54,359)
Dividends payable at 30 September	83,046	35,498
Dividends per share declared during the period (in Russian roubles)	51.41	29.92
Dividends per GDR declared during the period (in Russian roubles)	514.10	299.20

(*) – excluding treasury shares.

On 23 April 2021, the Annual General Meeting of Shareholders of PAO NOVATEK approved the final 2020 dividends of RR 23.74 per share or RR 237.4 per GDR totaling RR 72,082 million (including treasury shares).

On 30 September 2021, the Extraordinary General Meeting of Shareholders of PAO NOVATEK approved the interim dividends of RR 27.67 per share or RR 276.7 per GDR totaling RR 84,015 million (including treasury shares) based on the financial results for the six months ended 30 June 2021.

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13 OIL AND GAS SALES

	Three months ended 30 September:		Nine months ended 30 September:	
	2021	2020	2021	2020
Natural gas	116,461	77,929	340,253	253,095
Naphtha	42,090	23,421	143,981	76,244
Crude oil	32,363	20,861	91,747	55,755
Other gas and gas condensate refined products	24,155	12,824	70,248	41,272
Liquefied petroleum gas	28,205	13,922	69,520	30,981
Stable gas condensate	26,603	12,254	55,429	27,100
Total oil and gas sales	269,877	161,211	771,178	484,447

14 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Three months ended 30 September:		Nine months ended 30 September:	
	2021	2020	2021	2020
Unstable gas condensate	65,472	28,740	171,052	67,161
Natural gas	58,116	22,134	151,398	89,825
Other liquid hydrocarbons	2,352	3,340	7,970	9,973
Reverse excise	(5,052)	(1,338)	(12,024)	(3,781)
Total purchases of natural gas and liquid hydrocarbons	120,888	52,876	318,396	163,178

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 21).

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 21).

In accordance with tax legislation, the Group obtains reverse excise 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 for processing. The amount of reverse excise on raw oil 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.

15 TRANSPORTATION EXPENSES

	Three months ended 30 September:		Nine months ended 30 September:	
	2021	2020	2021	2020
Natural gas transportation by trunk and low-pressure pipelines	23,786	22,483	78,297	70,434
Stable gas condensate and liquefied petroleum gas transportation by rail	8,682	7,494	27,075	24,633
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	1,713	1,887	6,791	7,297
Crude oil transportation by trunk pipelines	1,803	1,866	5,264	6,061
Other	501	409	1,256	1,123
Total transportation expenses	36,485	34,139	118,683	109,548

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16 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 30 September:		Nine months ended 30 September:	
	2021	2020	2021	2020
Unified natural resources production tax	21,265	13,060	60,611	35,479
Property tax	1,155	988	3,443	2,789
Other taxes	102	73	298	248
Total taxes other than income tax	22,522	14,121	64,352	38,516

17 FINANCE INCOME (EXPENSE)

	Three months ended 30 September:		Nine months ended 30 September:	
	2021	2020	2021	2020
<i>Interest expense (including transaction costs)</i>				
Interest expense on fixed rate debt	1,616	2,505	5,246	7,288
Interest expense on variable rate debt	265	7	810	7
Total	1,881	2,512	6,056	7,295
Less: capitalized interest	(1,111)	(1,651)	(3,668)	(4,769)
Interest expense on debt	770	861	2,388	2,526
Provisions for asset retirement obligations:				
effect of the present value discount unwinding	204	241	668	736
Interest expense on lease liabilities	102	137	336	422
Other interest expense	28	-	84	-
Total interest expense	1,104	1,239	3,476	3,684

	Three months ended 30 September:		Nine months ended 30 September:	
	2021	2020	2021	2020
<i>Interest income</i>				
Interest income on loans receivable classified as at amortised cost	262	230	731	702
Interest income on loans receivable classified as at fair value through profit or loss	2,877	5,436	8,451	14,136
Interest income on cash, cash equivalents, deposits and other assets	927	777	2,897	3,246
Total interest income	4,066	6,443	12,079	18,084

	Three months ended 30 September:		Nine months ended 30 September:	
	2021	2020	2021	2020
<i>Foreign exchange gain (loss)</i>				
Gains	2,451	113,576	18,537	309,506
Losses	(10,190)	(28,413)	(51,677)	(138,063)
Total foreign exchange gain (loss), net	(7,739)	85,163	(33,140)	171,443

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18 INCOME TAX

Effective income tax rate. The 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.

For the nine months ended 30 September 2021, the Group made cash payments for income tax in the amount of RR 20 billion and offset other taxes by applying a refund in the amount of RR 9.7 billion against income tax.

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 30 September 2021 and 2020 was 19.3 percent and 19.0 percent, respectively, and the effective income tax rate for the nine months ended 30 September 2021 and 2020 was 18.2 percent and 19.0 percent, respectively.

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

	At 30 September 2021		At 31 December 2020	
	Non-current	Current	Non-current	Current
Financial assets				
<i>At amortised cost</i>				
Long-term loans receivable	14,600	6,654	11,558	6,017
Trade and other receivables	611	78,542	426	71,255
Short-term bank deposits				
with original maturity more than three months	-	65,456	-	62,876
Cash and cash equivalents	-	86,408	-	119,707
Other	36	382	13	1,316
<i>At fair value through profit or loss</i>				
Long-term loans receivable	314,850	136,814	379,069	35,236
Contingent consideration	77,530	-	76,918	-
Commodity derivatives	1,177	214,929	13	13,041
Total financial assets	408,804	589,185	467,997	309,448
Financial liabilities				
<i>At amortised cost</i>				
Long-term debt	153,399	13,540	168,988	53,152
Long-term lease liabilities	4,049	3,618	6,670	3,798
Interest payable	-	1,573	-	1,529
Trade and other payables	-	92,426	-	58,935
Dividends payable				
to shareholders of PAO NOVATEK	-	83,046	-	-
Dividends payable to non-controlling interest	-	2,107	-	-
<i>At fair value through profit or loss</i>				
Commodity derivatives	1,056	217,929	880	14,278
Total financial liabilities	158,504	414,239	176,538	131,692

19 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 commodity derivative contracts measured in accordance with IFRS 9, *Financial Instruments*, are as follows:

<i>Commodity derivatives</i>	At 30 September 2021		At 31 December 2020	
Within other non-current and current assets	216,106		13,054	
Within other non-current and current liabilities	(218,985)		(15,158)	

<i>Included in other operating income (loss)</i>	Three months ended 30 September:		Nine months ended 30 September:	
	2021	2020	2021	2020
Operating realized income (loss)	1,931	3,009	1,149	2,080
Change in fair value	(922)	(2,979)	(775)	(1,957)

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:

<i>Effect on the fair value</i>	Nine months ended 30 September:	
	2021	2020
Increase by ten percent	(2,967)	70
Decrease by ten percent	2,967	(70)

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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.

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:

	Nine months ended 30 September:	
	2021	2020
At 1 January	414,305	268,024
Loans provided	86,931	82,539
Repayment of loans and accrued interest	(36,974)	(17,780)
Initial measurement at fair value allocated to increase the Group's investments in joint ventures (see Note 5)	-	(13,554)
Subsequent remeasurement at fair value recognized in profit or loss as follows:		
– Interest income (using the effective interest rate method)	8,451	14,136
– Foreign exchange gain (loss), net	(29,803)	95,138
– Remaining effect from changes in fair value (attributable to free cash flows of the borrowers and interest rates)	8,754	(6,806)
At 30 September	451,664	421,697

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>	Nine months ended 30 September:	
	2021	2020
Increase by one percent	(12,260)	(15,910)
Decrease by one percent	12,851	16,847

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.

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

	Nine months ended 30 September:	
	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)	1,803	2,113
– Foreign exchange gain (loss), net	(1,191)	26,641
– Remaining effect from changes in fair value (attributable to crude oil benchmark prices forecast)	-	(47,823)
At 30 September	77,530	82,322

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>	Nine months ended 30 September:	
	2021	2020
Increase by one percent	5,090	5,403
Decrease by one percent	(5,366)	(5,694)

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

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

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

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

(a) Foreign exchange risk

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

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19 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 30 September 2021</i>	Russian rouble	US dollar	Euro	Other	Total
<i>Financial assets</i>					
<i>Non-current</i>					
Long-term loans receivable	7,200	-	322,250	-	329,450
Trade and other receivables	358	-	3	250	611
Contingent consideration	-	77,530	-	-	77,530
Commodity derivatives	-	-	1,177	-	1,177
Other	-	-	-	36	36
<i>Current</i>					
Current portion of long-term loans receivable	-	15,035	128,433	-	143,468
Trade and other receivables	34,675	28,028	13,928	1,911	78,542
Commodity derivatives	-	-	214,929	-	214,929
Short-term bank deposits with original maturity more than three months	-	65,456	-	-	65,456
Cash and cash equivalents	15,711	31,118	38,113	1,466	86,408
Other	-	-	382	-	382
<i>Financial liabilities</i>					
<i>Non-current</i>					
Long-term debt	-	(111,098)	(42,301)	-	(153,399)
Long-term lease liabilities	(169)	(2,137)	(1,511)	(232)	(4,049)
Commodity derivatives	-	-	(1,056)	-	(1,056)
<i>Current</i>					
Current portion of long-term debt	-	(5,052)	(8,488)	-	(13,540)
Current portion of long-term lease liabilities	(180)	(2,188)	(1,099)	(151)	(3,618)
Interest payable	-	(1,572)	(1)	-	(1,573)
Trade and other payables	(59,977)	(14,987)	(17,117)	(345)	(92,426)
Dividends payable to shareholders of PAO NOVATEK	(83,046)	-	-	-	(83,046)
Dividends payable to non-controlling interest	(2,107)	-	-	-	(2,107)
Commodity derivatives	-	-	(217,929)	-	(217,929)
Net exposure	(87,535)	80,133	429,713	2,935	425,246

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19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

<i>At 31 December 2020</i>	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 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 second quarter 2021. Effective 1 July 2021, the wholesale prices were increased by 3 percent.

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.

19 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 30 September 2021		At 31 December 2020	
	RR million	Percentage	RR million	Percentage
At fixed rate	124,638	75%	176,623	80%
At variable rate	42,301	25%	45,517	20%
Total	166,939	100%	222,140	100%

19 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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19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

<i>At 30 September 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>	13,540	77,813	57,595	22,735	171,683
<i>Interest</i>	6,386	4,498	6,282	2,575	19,741
Lease liabilities	3,746	3,447	814	69	8,076
Trade and other payables	92,426	-	-	-	92,426
Dividends payable					
to shareholders of PAO NOVATEK	83,046	-	-	-	83,046
Dividends payable to non-controlling interest	2,107	-	-	-	2,107
Total financial liabilities	201,251	85,758	64,691	25,379	377,079
<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 30 September 2021</i>	Less than 1 year	Between 1 and 2 years	Total
Cash inflow	554,563	5,938	560,501
Cash outflow	(557,545)	(5,817)	(563,362)
Net cash flows	(2,982)	121	(2,861)
<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 30 September 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.

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

The Group defines the term "capital" as equity attributable to PAO NOVATEK shareholders plus net debt (total debt less cash and cash equivalents and bank deposits with maturity more than three months). There were no changes to the Group's approach to capital management during the nine months ended 30 September 2021. At 30 September 2021 and 31 December 2020, the Group's capital totaled RR 1,760 billion and RR 1,660 billion, respectively.

20 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 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. Starting from May 2021, OPEC+ began to gradually lift the restrictions on crude oil production targets due to the increased mobility of population, signs of renewed economic activities and crude oil demand recovery in the major consumer countries. In July 2021, the OPEC+ participants made a decision to further increase crude oil production volumes and extended the agreement on production restrictions until the end of 2022. Nevertheless, the crude oil supply still lagged behind global demand due to faster than expected economic recovery. Benchmark crude oil prices continued to increase in the second and third quarters 2021.

The European and Asian natural gas markets were impacted by demand recovery, weather factor (cold winter and hot summer, low wind speeds in Europe and droughts in South America) and supply disruptions that have led to low storage levels in key consuming regions and a strong price rally in benchmark prices in the third 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.

20 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 30 September 2021, the Group had contractual capital expenditures commitments aggregating approximately RR 231 billion (at 31 December 2020: RR 248 billion) mainly for development of LNG projects (through 2025), and for development at the Geofizicheskoye (through 2022) and Kharbeykskoye (through 2023) fields, the Yevo-Yakhinskiy (through 2024) and the North-Russkiy (through 2022) license areas all in accordance with duly signed agreements as well as for construction of a hydrocracker unit with related expansion of the Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea (through 2023).

At 30 September 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 30 September 2021 is EUR 42.5 million to the State of Montenegro and EUR 4.6 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 12 to 29 years, under which provision of the services has not yet commenced. At 30 September 2021, the Group's future minimum payments under these charter agreements amounted to RR 199 billion (at 31 December 2020: RR 135 billion).

At 31 December 2020, OOO Arctic Transshipment, which was a Group's subsidiary at that time and starting from July 2021 became a Group's joint venture (see Note 3), 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 two LNG transshipment terminals currently under construction in the Kamchatka and Murmansk regions. In the second quarter 2021, OOO Arctic Transshipment signed a long-term take-or-pay agreement with the Group's joint venture OOO Arctic LNG 2 on the usage of these LNG terminals. At 31 December 2020, future minimum payments of OOO Arctic Transshipment under these bareboat charter agreements amounted to RR 99 billion.

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 30 September 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 30 September 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 in respect of the Arctic LNG 2 project issued by the Group to a number of third parties (LNG-vessels owners, LNG-terminals operators and banks) in favor of the Group's joint venture OOO Arctic LNG 2 totaled EUR 1.8 billion and USD 2.1 billion at 30 September 2021 (at 31 December 2020: USD 2.0 billion). These non-financial guarantees have various terms depending mostly on the successful project completion (finalization of the LNG plant construction and achievement of its full production capacity).

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 252 million at 30 September 2021 (at 31 December 2020: EUR 276 million).

20 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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.

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.

PAO NOVATEK

Notes to the Consolidated Interim Condensed Financial Statements (unaudited)

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

21 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 30 September:		Nine months ended 30 September:	
	2021	2020	2021	2020
Transactions				
Revenues from oil and gas sales	1,326	1,054	3,959	2,714
Other revenues	6,107	1,830	12,306	4,525
Purchases of natural gas and liquid hydrocarbons	(112,142)	(48,216)	(302,629)	(146,950)
Transportation expenses	(24)	(213)	(52)	(269)
Materials, services and other	(47)	(74)	(118)	(169)
Materials, services and other (capitalized within property, plant and equipment)	(45)	(74)	(72)	(218)
Purchases of property, plant and equipment and materials for construction	(41)	(6)	(140)	(306)
Interest income on loans receivable	3,119	5,645	9,114	14,766
Dividends declared and cash received	17,140	3,227	84,926	3,387

<i>Related parties – joint ventures</i>	At 30 September 2021	At 31 December 2020
Balances		
Long-term loans receivable	329,450	390,627
Current portion of long-term loans receivable	143,468	41,253
Trade and other receivables	2,431	2,974
Trade payables and accrued liabilities	41,979	27,532

The terms and conditions of the loans receivable from the joint ventures are disclosed in Note 6.

The Group issued guarantees in favor of its joint ventures as described in Note 20.

<i>Related parties – entities with significant influence and their subsidiaries</i>	Three months ended 30 September:		Nine months ended 30 September:	
	2021	2020	2021	2020
Transactions				
Revenues from oil and gas sales	15,560	7,636	46,149	20,361
Other revenues	53	-	171	-
Purchases of natural gas and liquid hydrocarbons	(3,091)	-	(3,091)	(443)
Gain on disposal of interests in subsidiaries, net	662	-	662	-
Other operating income (loss), net	(372)	91	(526)	(10,765)
Interest income	170	165	503	569
Balances				
Contingent consideration			21,641	21,470
Trade and other receivables			248	8,943
Other current assets			737	-
Trade payables and accrued liabilities			3,339	114

PAO NOVATEK

Notes to the Consolidated Interim Condensed Financial Statements (unaudited)

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

21 RELATED PARTY TRANSACTIONS (CONTINUED)

<i>Related parties – parties under control of key management personnel</i>	Three months ended 30 September:		Nine months ended 30 September:	
	2021	2020	2021	2020
<i>Transactions</i>				
Transportation expenses	(2,742)	(2,371)	(8,532)	(7,713)
Purchases of construction services (capitalized within property, plant and equipment)	(1,666)	(4,479)	(8,266)	(13,292)
<i>Related parties – parties under control of key management personnel</i>	At 30 September 2021		At 31 December 2020	
<i>Balances</i>				
Advances for construction			5,260	4,768
Prepayments and other current assets			723	585
Trade payables and accrued liabilities			1,314	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 30 September:		Nine months ended 30 September:	
	2021	2020	2021	2020
Board of Directors	30	37	151	166
Management Committee	2,111	1,010	3,057	4,315
Total compensation	2,141	1,047	3,208	4,481

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.

22 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 4).

22 SEGMENT INFORMATION (CONTINUED)

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

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

Geographical information of the Group's oil and gas sales for the nine months ended 30 September 2021 and 2020 is as follows:

	Three months ended 30 September:		Nine months ended 30 September:	
	2021	2020	2021	2020
Russia	132,570	94,158	383,026	274,006
Europe	55,688	36,019	200,187	128,026
Asia-Pacific Region	70,064	27,175	155,558	75,759
North America	13,952	5,256	35,380	12,803
The Middle East	3,183	2,183	11,707	6,249
Other	6	-	22	-
Less: export duties	(5,586)	(3,580)	(14,702)	(12,396)
Total outside Russia	137,307	67,053	388,152	210,441
Total oil and gas sales	269,877	161,211	771,178	484,447

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 nine months ended 30 September 2021 and 2020, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 12.5 percent (RR 97.9 billion) and 16.2 percent (RR 79.9 billion) of total external revenues, respectively. The Group's major customer resides within the Russian Federation.

23 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.

24 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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