PAO NOVATEK

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF AND FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2018

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Report on Review of Interim 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 (the "Group") as of 30 June 2018 and the related consolidated interim condensed statements of income and comprehensive income for the three-month and six-month periods then ended, and cash flows and changes in equity for the six-month period then ended. 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 interim financial information 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

24 July 2018
Moscow, Russian Federation

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

Audited entity: PAO NOVATEK

State registration certificate №1461/94, issued by the administration of Oktyabrskiy district of Samara on 16 August 1994.

Certificate of inclusion in the Unified State Register of Legal Entities regarding the legal entity registered before 1 July 2002 No. 1026303117642 issued by the Inspectorate of the Russian Ministry of Taxes and Levies of Novokuybyshevsk, Samara Region on 20 August 2002.

Location of the Company according to the Charter: Russian Federation, Yamalo-Nenetski autonomous region, Purovsky region, Tarko-Sale.

Mailing address: 629850, Yamalo-Nenetski autonomous region, Purovsky region, Tarko-Sale, Pobedi str., 22 "a".

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992.

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431.

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association).

ORNZ 11603050547 in the register of auditors and audit organizations.

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

	Notes	At 30 June 2018	At 31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	5	415,612	360,051
Investments in joint ventures	6	267,081	285,326
Long-term loans and receivables	7	235,237	211,901
Other non-current assets	8	36,433	33,448
Total non-current assets		**954,363**	**890,726**
Current assets			
Inventories		12,738	11,084
Current income tax prepayments		108	43
Trade and other receivables	9	39,424	44,503
Prepayments and other current assets	10	39,498	31,863
Short-term bank deposits with original maturity more than three months		30,095	-
Cash and cash equivalents		35,553	65,943
Total current assets		**157,416**	**153,436**
Total assets		**1,111,779**	**1,044,162**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	11	155,318	141,448
Long-term lease liabilities	21	7,371	5,776
Deferred income tax liabilities		30,962	26,167
Asset retirement obligations		7,684	7,303
Other non-current liabilities		6,010	3,851
Total non-current liabilities		**207,345**	**184,545**
Current liabilities			
Short-term debt and current portion of long-term debt	12	1,022	14,302
Current portion of long-term lease liabilities	21	2,254	1,520
Trade payables and accrued liabilities	13	55,269	49,001
Current income tax payable		1,826	2,846
Other taxes payable		15,959	16,289
Total current liabilities		**76,330**	**83,958**
Total liabilities		**283,675**	**268,503**
Equity attributable to PAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(10,324)	(8,353)
Additional paid-in capital		31,297	31,297
Currency translation differences		(1,782)	(3,283)
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		783,098	732,168
Total equity attributable to PAO NOVATEK shareholders	14	**808,299**	**757,839**
Non-controlling interest		**19,805**	**17,820**
Total equity		**828,104**	**775,659**
Total liabilities and equity		**1,111,779**	**1,044,162**

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

L. Mikhelson
Chairman of the Management Committee

M. Gyetvay
Chief Financial Officer

24 July 2018

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 June: 2018	Three months ended 30 June: 2017	Six months ended 30 June: 2018	Six months ended 30 June: 2017
Revenues					
Oil and gas sales	15	194,818	128,030	373,303	282,031
Other revenues		1,004	800	1,922	1,427
Total revenues		**195,822**	**128,830**	**375,225**	**283,458**
Operating expenses					
Purchases of natural gas and liquid hydrocarbons	16	(63,585)	(30,990)	(125,400)	(72,960)
Transportation expenses	17	(34,554)	(32,567)	(72,348)	(69,349)
Taxes other than income tax	18	(14,871)	(11,531)	(28,293)	(23,872)
Depreciation, depletion and amortization		(8,655)	(8,572)	(16,752)	(17,060)
Materials, services and other		(5,826)	(5,084)	(11,389)	(9,884)
General and administrative expenses		(5,079)	(3,911)	(9,672)	(7,904)
Exploration expenses		(2,004)	(504)	(3,713)	(892)
Net impairment expenses		(89)	-	(85)	-
Changes in natural gas, liquid hydrocarbons and work-in-progress		(943)	(874)	1,009	(1,476)
Total operating expenses		**(135,606)**	**(94,033)**	**(266,643)**	**(203,397)**
Net gain on disposal of interests in joint ventures	4	-	-	1,645	-
Other operating income (loss), net		(621)	351	(519)	625
Profit from operations		**59,595**	**35,148**	**109,708**	**80,686**
Finance income (expense)					
Interest expense	19	(1,210)	(1,873)	(2,429)	(4,111)
Interest income	19	3,395	4,359	6,586	8,880
Change in fair value of non-commodity financial instruments	21	679	(2,841)	700	(9,951)
Foreign exchange gain (loss), net	19	4,516	13,769	7,925	9,994
Total finance income (expense)		**7,380**	**13,414**	**12,782**	**4,812**
Share of profit (loss) of joint ventures, net of income tax	6	(18,215)	(33,768)	(17,052)	9,858
Profit before income tax		**48,760**	**14,794**	**105,438**	**95,356**
Income tax expense					
Current income tax expense		(11,034)	(9,058)	(20,443)	(16,984)
Deferred income tax benefit (expense), net		(452)	(493)	(792)	78
Total income tax expense	20	**(11,486)**	**(9,551)**	**(21,235)**	**(16,906)**
Profit		**37,274**	**5,243**	**84,203**	**78,450**
Profit attributable to:					
Non-controlling interest		5,233	2,000	9,041	4,189
Shareholders of PAO NOVATEK		32,041	3,243	75,162	74,261
Basic and diluted earnings per share (in Russian roubles)		10.63	1.08	24.93	24.62
Weighted average number of shares outstanding (in millions)		*3,013.7*	*3,016.4*	*3,014.6*	*3,016.8*

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 June:		Six months ended 30 June:	
	2018	**2017**	**2018**	**2017**
Profit	**37,274**	**5,243**	**84,203**	**78,450**
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to profit (loss)				
Remeasurement of pension obligations	(38)	90	(56)	(8)
Share of remeasurement of pension obligations of joint ventures	(34)	(1)	(67)	(2)
	(72)	**89**	**(123)**	**(10)**
Items that may be reclassified subsequently to profit (loss)				
Currency translation differences	1,512	(872)	1,527	(1,399)
Share of currency translation differences of joint ventures	(21)	(7)	(26)	(1)
	1,491	**(879)**	**1,501**	**(1,400)**
Other comprehensive income (loss)	**1,419**	**(790)**	**1,378**	**(1,410)**
Total comprehensive income	**38,693**	**4,453**	**85,581**	**77,040**
Total comprehensive income attributable to:				
Non-controlling interest	5,233	2,000	9,041	4,189
Shareholders of PAO NOVATEK	33,460	2,453	76,540	72,851

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

(in millions of Russian roubles)

	Notes	Six months ended 30 June: 2018	2017
Profit before income tax		**105,438**	**95,356**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		16,752	17,060
Impairment expenses (reversals), net		85	-
Foreign exchange loss (gain), net		(7,925)	(9,994)
Loss (gain) on disposal of assets, net	4	(1,645)	-
Interest expense		2,429	4,111
Interest income		(6,586)	(8,880)
Share of loss (profit) in joint ventures, net of income tax	6	17,052	(9,858)
Change in fair value of non-commodity financial instruments		(700)	9,951
Revaluation of commodity derivatives through profit or loss		479	(133)
Decrease (increase) in long-term advances given		2,470	327
Other adjustments		232	105
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		3,383	11,799
Decrease (increase) in inventories		(1,722)	1,509
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		(2,552)	(10,177)
Increase (decrease) in taxes payable, other than income tax		(330)	(1,438)
Total effect of working capital changes		**(1,221)**	**1,693**
Dividends received from joint ventures		4,100	-
Interest received		653	3,494
Income taxes paid		(21,603)	(15,276)
Net cash provided by operating activities		**110,010**	**87,956**
Cash flows from investing activities			
Purchases of property, plant and equipment		(22,977)	(10,617)
Payments for mineral licenses		(292)	(2,116)
Purchases of materials for construction		(6,487)	(458)
Purchases of intangible assets		(179)	(384)
Payments for acquisition of subsidiaries net of cash acquired	4	(30,492)	-
Interest paid and capitalized		(2,300)	(1,786)
Net decrease (increase) in bank deposits with original maturity more than three months		(29,671)	-
Guarantee fees paid		(683)	(668)
Loans provided to joint ventures	7	(186)	-
Repayments of loans provided to joint ventures	7	671	2,470
Net cash used for investing activities		**(92,596)**	**(13,559)**

(in millions of Russian roubles)

	Notes	Six months ended 30 June: 2018	2017
Cash flows from financing activities			
Proceeds from long-term debt		7,928	-
Repayments of long-term debt		(20,894)	(33,363)
Proceeds from (repayments of) short-term debt with original maturity three months or less		(150)	(36)
Interest on debt paid		(1,596)	(3,793)
Dividends paid to shareholders of PAO NOVATEK	14	(24,109)	(21,111)
Dividends paid to non-controlling interest		(8,689)	-
Payments of lease liabilities		(906)	(69)
Purchases of treasury shares	14	(2,019)	(1,273)
Net cash used for financing activities		**(50,435)**	**(59,645)**
Net effect of exchange rate changes on cash and cash equivalents		2,631	826
Net increase (decrease) in cash and cash equivalents		**(30,390)**	**15,578**
Cash and cash equivalents at the beginning of the period		65,943	48,301
Cash and cash equivalents at the end of the period		**35,553**	**63,879**

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)

For the six months ended 30 June 2017	*Number of ordinary shares (in millions)*	Ordinary share capital	Treasury shares	Additional paid-in capital	Currency translation differences	Asset revaluation surplus on acquisitions	Retained earnings	Equity attributable to PAO NOVATEK shareholders	Non-controlling interest	Total equity
1 January 2017	***3,017.7***	**393**	**(6,913)**	**31,297**	**(724)**	**5,617**	**618,680**	**648,350**	**9,370**	**657,720**
Profit	-	-	-	-	-	-	74,261	74,261	4,189	78,450
Other comprehensive loss	-	-	-	-	(1,400)	-	(10)	(1,410)	-	(1,410)
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(1,400)**	**-**	**74,251**	**72,851**	**4,189**	**77,040**
Dividends (Note 14)	-	-	-	-	-	-	(21,111)	(21,111)	-	(21,111)
Purchase of treasury shares (Note 14)	*(1.9)*	-	(1,271)	-	-	-	-	(1,271)	-	(1,271)
30 June 2017	***3,015.8***	**393**	**(8,184)**	**31,297**	**(2,124)**	**5,617**	**671,820**	**698,819**	**13,559**	**712,378**
For the six months ended 30 June 2018										
1 January 2018	***3,015.6***	**393**	**(8,353)**	**31,297**	**(3,283)**	**5,617**	**732,168**	**757,839**	**17,820**	**775,659**
Profit	-	-	-	-	-	-	75,162	75,162	9,041	84,203
Other comprehensive income (loss)	-	-	-	-	1,501	-	(123)	1,378	-	1,378
Total comprehensive income	**-**	**-**	**-**	**-**	**1,501**	**-**	**75,039**	**76,540**	**9,041**	**85,581**
Dividends (Note 14)	-	-	-	-	-	-	(24,109)	(24,109)	(7,056)	(31,165)
Purchase of treasury shares (Note 14)	*(2.6)*	-	(1,971)	-	-	-	-	(1,971)	-	(1,971)
30 June 2018	***3,013.0***	**393**	**(10,324)**	**31,297**	**(1,782)**	**5,617**	**783,098**	**808,299**	**19,805**	**828,104**

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 Region ("YNAO") of the Russian Federation. The Group delivers its natural gas and its liquid hydrocarbons on both the Russian domestic and international markets.

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

In the fourth quarter of 2017, the Group's joint venture OAO Yamal LNG started production at the first train of its natural gas liquefaction plant (hereinafter referred to as the "LNG Plant") based on the resources of the South-Tambeyskoye field, located in the YNAO. Annual capacity of the LNG Plant after launching of the four trains will amount to 17.4 million tons of liquefied natural gas (5.5 million tons for each of the first three trains and 0.9 million tons for the fourth) and up to 1.2 million tons of stable gas condensate. The Group purchases a portion of produced liquefied natural gas ("LNG") and sells it on the international markets. The Group's LNG sales volumes are not subject to significant seasonal fluctuations.

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

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

In May 2018, NOVATEK and TOTAL S.A. signed a binding agreement on the terms to enter the Arctic LNG 2 project providing for the acquisition by TOTAL of a 10 percent participation interest in the project. The agreement stipulates that final transaction documents on the sale of a 10 percent participation interest in OOO Arctic LNG 2 to TOTAL will be signed in 2018 and the transaction will be closed no later than 31 March 2019. In July 2018, the NOVATEK's Board of Directors approved the sale of a 10 percent participation interest in Arctic LNG 2 to TOTAL.

In February 2018, upon the results of an auction held by AK ALROSA (PAO), the Group acquired 100 percent participation interests in Maretiom Investments Limited and Velarion Investments Limited for RR 30.3 billion. These companies are the owners of 100 percent participation interests in AO Geotransgas and OOO Urengoyskaya gasovaya companiya, the holders of the licenses for exploration and production of hydrocarbons within the Beregovoy and Ust-Yamsoveyskiy license areas located in YNAO, respectively.

In January 2018, the Group acquired a 100 percent participation interest in OOO Chernichnoye for RR 616 million. OOO Chernichnoye is a holder of the license for exploration and production of hydrocarbons within the Chernichniy license area located in YNAO.

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)

In January 2018, the Group, TOTAL S.A. and Eni S.p.A., through their subsidiaries NOVATEK Lebanon SAL, Total E&P Liban SAL and Eni Lebanon B.V. (hereinafter referred to as the "Right holders"), entered into Exploration and Production Agreements for Petroleum Activities with the Republic of Lebanon for the exploration and production of hydrocarbons on two offshore blocks located in the Eastern Mediterranean (hereinafter referred to as the "Exploration and Production Agreements"). The Exploration and Production Agreements stipulate that the Group is assigned a 20 percent participating interest and the Right holders are committed to undertake specified joint upstream activities during the exploration phase within five years. The Group considers that the Exploration and Production Agreements constitute a joint arrangement classified as a joint operation in accordance with IFRS 11, *Joint Arrangements*.

2 BASIS OF PREPARATION

The consolidated interim condensed financial statements have been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2017 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 2017. Estimates have principally been made in respect to fair values of assets and liabilities, deferred income taxes, estimation of oil and gas reserves, impairment provisions, pension obligations and asset retirement obligations.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experience and other factors considered as reasonable which form the basis for assessing the book values of assets and liabilities. Adjustments to accounting estimates and assumptions are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both are affected. Management also makes certain judgments, apart from those involving estimations, in the process of applying the Group's accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Functional and presentation currency. The consolidated interim condensed financial statements are presented in Russian roubles, the Group's reporting (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:

	Average rate for the three months ended 30 June:		Average rate for the six months ended 30 June:	
Russian roubles to one currency unit	**2018**	**2017**	**2018**	**2017**
US dollar (USD)	61.80	57.15	59.35	57.99
Euro (EUR)	73.75	62.79	71.82	62.72
Polish zloty (PLN)	17.33	14.89	17.03	14.68

	At 30 June:		At 31 December:	
Russian roubles to one currency unit	**2018**	**2017**	**2017**	**2016**
US dollar (USD)	62.76	59.09	57.60	60.66
Euro (EUR)	72.99	67.50	68.87	63.81
Polish zloty (PLN)	16.74	15.93	16.51	14.44

Exchange rates and restrictions. The Russian rouble is not a fully convertible currency outside the Russian Federation and accordingly, any remeasurement of Russian rouble amounts to US dollars or any other currency should not be construed as a representation that such Russian rouble amounts have been, could be, or will in the future be converted into other currencies at these exchange rates.

2 BASIS OF PREPARATION (CONTINUED)

Reclassifications. Certain reclassifications have been made to the comparative figures to conform to the current period presentation with no effect on profit for the period or shareholder's equity.

3 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 2017, except for income tax expense and the effect of adopted new 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 following new standard was adopted by the Group starting from the annual period beginning on 1 January 2018:

IFRS 9, Financial Instruments. The standard introduces new requirements for classification and measurement of financial instruments, impairment, and hedge accounting. As the Group does not apply hedge accounting, the main changes relevant to the Group impacted its accounting policies for classification and impairment of financial instruments.

According to IFRS 9, the financial assets are classified in the following measurement categories: those to be measured subsequently at amortised cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. If a hybrid contract contains a host that is a financial asset, the classification requirements apply to the entire hybrid contract.

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

Certain shareholders' loans provided by the Group to its joint ventures include embedded derivatives that modify cash flows of the loans based on financial (market interest rates) and non-financial (interest rate on borrowings of the lender and free cash flows of the borrower) variables. The risks relating to these variables are interrelated; therefore, terms and conditions of each of these loans related to those variables were defined as a single compound embedded derivative. The Group classified these loans as financial assets at fair value through profit or loss (see Note 21). Interest income and foreign exchanges differences (calculated using the effective interest method), and the remaining effect from fair value remeasurement of such loans are disclosed separately in the consolidated statement of income.

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

In accordance with IFRS 9, the Group's non-derivative financial liabilities are measured as at amortised cost. Derivatives are classified as at fair value through profit or loss.

In respect of impairment, IFRS 9 replaced the "incurred loss" model used in IAS 39, Financial instruments: Recognition and Measurement, with a new "expected credit loss" ("ECL") model that requires a more timely recognition of expected credit losses. An allowance for expected credit losses shall be recorded for financial assets classified as at amortised cost.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IFRS 9, loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument. For trade receivables and contract assets, the Group measures loss allowances applying a simplified approach at an amount equal to lifetime ECLs. For other financial assets classified as at amortised cost, including some shareholders' loans provided, loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

In accordance with the transition provisions in IFRS 9, the Group applied the new rules retrospectively, except for the items that have already been derecognized at the date of initial application, which is 1 January 2018. The Group also used an exemption in IFRS 9 allowing not to restate prior periods presented as a result of adoption of the new classification and measurement requirements, but rather recognize any differences in the opening retained earnings as at 1 January 2018. The initial application of the standard did not result in any reclassifications of the Group's financial instruments or any material changes in their measurement, therefore, the opening retained earnings were not restated.

4 ACQUISITIONS AND DISPOSALS

Acquisition of AO Geotransgas and OOO Urengoyskaya gasovaya companiya

In February 2018, upon the results of an auction held by AK ALROSA (PAO), the Group acquired 100 percent participation interests in Maretiom Investments Limited and Velarion Investments Limited for total cash consideration of RR 30.3 billion. These companies are the owners of 100 percent participation interests in AO Geotransgas and OOO Urengoyskaya gasovaya companiya, the holders of the licenses for exploration and production of hydrocarbons within the Beregovoy and Ust-Yamsoveyskiy license areas located in YNAO, respectively.

In accordance with IFRS 3, *Business Combinations*, the Group assessed fair values of the identified assets and liabilities of the acquired companies at the acquisition date.

The following table represents the net fair values comprising 100 percent of the assets and liabilities of the acquired companies:

	Fair values at the acquisition date
Property, plant and equipment	36,274
Other non-current assets	220
Other current assets	195
Cash and cash equivalents	424
Deferred income tax liabilities	(4,531)
Long-term debt	(1,007)
Other non-current liabilities	(417)
Trade payables and accrued liabilities	(858)
Total identifiable net assets	**30,300**
Purchase consideration	(30,300)
Goodwill	**-**

For the period from the date of acquisition to 30 June 2018, the acquired companies contributed RR 1.6 billion to the Group's revenues. The financial and operational activities of the acquired companies would have increased the Group's revenues by an additional RR 0.8 billion, if the acquisition had occurred in January 2018.

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

Acquisition of OOO Chernichnoye

In January 2018, the Group acquired a 100 percent participation interest in OOO Chernichnoye for RR 616 million. OOO Chernichnoye is a holder of the license for exploration and production of hydrocarbons within the Chernichniy license area located in YNAO. OOO Chernichnoye had no notable operating activities at and before the acquisition date and, accordingly, this acquisition is outside the definition of business as defined in IFRS 3, *Business Combinations*. The cost of the acquisition has been allocated to property, plant and equipment, primarily to the license cost.

Disposal of an ownership interest in AO Arcticgas

At 31 December 2017, the Group held an effective 53.3 percent participation interest in AO Arcticgas through two of the Group's other joint ventures, OOO SeverEnergia and OOO Yamal Development. SeverEnergia was owned by the Group (a 6.7 percent participation interest) and Yamal Development (a 93.3 percent participation interest). Yamal Development was a joint venture of the Group and PAO Gazprom Neft with a 50 percent participation interest held by each investor. Arcticgas was a wholly owned subsidiary of SeverEnergia.

In the first quarter of 2018, the Group and Gazprom Neft completed the final stage of the previously commenced restructuring procedures to achieve parity shareholdings in Arcticgas. In January 2018, Yamal Development and SeverEnergia were merged with Arcticgas. As a result, the Group and Gazprom Neft obtained direct participation interests in Arcticgas of 53.3 percent and 46.7 percent, respectively. Subsequently, in March 2018, Gazprom Neft subscribed to Arcticgas's additional share emission for a total cash consideration of RR 32,098 million. As a result of the aforementioned transactions, the Group's participation interest in Arcticgas decreased from 53.3 to 50 percent and the Group recognised a gain on the disposal of the 3.3 percent ownership interest in Arcticgas in the amount of RR 1,645 million.

The Group continues to exercise joint control over Arcticgas and recognizes it as a joint venture, and, accordingly, accounts for this investment under the equity method.

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

5 PROPERTY, PLANT AND EQUIPMENT

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

For the six months ended 30 June 2017	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	412,368	34,776	15,642	462,786
Accumulated depreciation, depletion and amortization	(127,635)	-	(3,100)	(130,735)
Net book value at 1 January 2017	**284,733**	**34,776**	**12,542**	**332,051**
Additions	1,007	16,933	8	17,948
Transfers	12,148	(12,261)	113	-
Change in asset retirement costs	1,315	-	-	1,315
Depreciation, depletion and amortization	(16,632)	-	(315)	(16,947)
Disposals, net	(67)	(12)	(22)	(101)
Currency translation differences	31	2	19	52
Cost	426,783	39,438	15,735	481,956
Accumulated depreciation, depletion and amortization	(144,248)	-	(3,390)	(147,638)
Net book value at 30 June 2017	**282,535**	**39,438**	**12,345**	**334,318**
For the six months ended 30 June 2018				
Cost	479,569	38,926	16,709	535,204
Accumulated depreciation, depletion and amortization	(171,325)	-	(3,828)	(175,153)
Net book value at 1 January 2018	**308,244**	**38,926**	**12,881**	**360,051**
Additions	1,663	33,463	10	35,136
Transfers	9,585	(10,564)	979	-
Acquisition of subsidiaries (see Note 4)	31,878	4,827	215	36,920
Change in asset retirement costs	(311)	-	-	(311)
Depreciation, depletion and amortization	(16,261)	-	(452)	(16,713)
Disposals, net	(196)	(76)	(21)	(293)
Currency translation differences	801	9	12	822
Cost	529,358	66,585	18,047	613,990
Accumulated depreciation, depletion and amortization	(193,955)	-	(4,423)	(198,378)
Net book value at 30 June 2018	**335,403**	**66,585**	**13,624**	**415,612**

Included in additions to property, plant and equipment for the six months ended 30 June 2018 and 2017 are capitalized interest and foreign exchange differences of RR 2,977 million and RR 2,222 million, respectively.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 16,237 million and RR 6,554 million at 30 June 2018 and 31 December 2017, respectively.

Included in property, plant and equipment at 30 June 2018 and 31 December 2017 are right-of-use assets with carrying value of RR 9,372 million and RR 7,245 million, respectively, primarily related to long-term agreements on time chartering of marine tankers. Depreciation charge for right-of-use assets for the six months ended 30 June 2018 and 2017 amounted to RR 882 million and RR 66 million, respectively.

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

5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In March 2018, the Group won an auction for an oil and gas exploration and production license for the Payutskiy license area located in Krasnoyarsk Territory for a payment of RR 66 million, which was included within oil and gas properties and equipment.

In June 2017, the Group won an auction for an oil and gas exploration and production license for the Gydanskiy license area located on the Gydan peninsula in the YNAO for the total amount of RR 2,262 million, of which RR 2,057 million was paid and included within assets under construction and advances for construction at 30 June 2017.

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 June 2018	At 31 December 2017
Proved properties acquisition costs	77,907	58,951
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(18,594)	(18,001)
Unproved properties acquisition costs	11,613	11,376
Total acquisition costs	**70,926**	**52,326**

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

Capital commitments are disclosed in Note 22.

6 INVESTMENTS IN JOINT VENTURES

	At 30 June 2018	At 31 December 2017
Joint ventures:		
AO Arcticgas (combined investments in OOO SeverEnergia and OOO Yamal Development at 31 December 2017)	123,045	101,539
OAO Yamal LNG	90,495	126,377
ZAO Nortgas	47,309	50,519
OOO Cryogas-Vysotsk	3,810	3,841
ZAO Terneftegas	2,422	3,050
Total investments in joint ventures	**267,081**	**285,326**

The Group considers that Arcticgas, Yamal LNG, Nortgas, Cryogas-Vysotsk and Terneftegas constitute jointly controlled entities on the basis of the existing contractual arrangements. The Charters and Shareholders' 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 shares in joint ventures under the equity method.

AO Arcticgas. Arcticgas operates the Samburgskoye, Urengoyskoye and Yaro-Yakhinskoye fields, located in the YNAO.

At 31 December 2017, the Group held an effective 53.3 percent participation interest in Arcticgas through SeverEnergia and Yamal Development, the Group's joint ventures with PAO Gazprom Neft. In the first quarter of the 2018, the Group and Gazprom Neft completed the final stage of the previously commenced restructuring procedures to achieve parity shareholdings in Arcticgas. As a result, Yamal Development and SeverEnergia were merged with Arcticgas, and the Group's participation ownership in Arcticgas was reduced to 50 percent (see Note 4).

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

6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

OAO Yamal LNG. The Group holds a 50.1 percent ownership in Yamal LNG, along with TOTAL S.A. (20 percent), China National Petroleum Corporation ("CNPC", 20 percent) and Silk Road Fund Co. Ltd. (9.9 percent). The joint venture is responsible for implementing the Yamal LNG project including the construction of production facilities for natural gas, gas condensate and liquefied natural gas ("LNG") based on the resources of the South-Tambeyskoye field, located on the Yamal peninsula in the YNAO. Yamal LNG is the holder of the LNG export license.

At 30 June 2018 and 31 December 2017, 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.

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

OOO Cryogas-Vysotsk. The Group holds a 51 percent ownership interest in Cryogas-Vysotsk, the Group's joint venture with AO Gazprombank group (49 percent). Cryogas-Vysotsk is undertaking a project for construction of the first line of a medium-scale LNG plant with annual capacity of 660 thousand tons, located at the port of Vysotsk on the Baltic Sea.

At 30 June 2018 and 31 December 2017, the Group's 51 percent ownership 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.

ZAO Terneftegas. The Group holds a 51 percent ownership in Terneftegas, its joint venture with TOTAL S.A. (49 percent). Terneftegas operates the Termokarstovoye field, located in the YNAO.

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

	Six months ended 30 June:	
	2018	**2017**
At 1 January	**285,326**	**259,650**
Share of profit from operations	40,151	17,798
Share of finance expense	(59,681)	(5,279)
Share of total income tax benefit (expense)	2,478	(2,661)
Share of profit (loss) of joint ventures, net of income tax	**(17,052)**	**9,858**
Share of other comprehensive loss of joint ventures	(93)	(3)
Group's costs capitalized in investments	646	660
Gain on disposal of interests in joint ventures (see Note 4)	1,645	-
Dividends from joint ventures	(4,100)	(771)
Elimination of the Group's share in profits of joint ventures from hydrocarbons balances purchased by the Group from joint ventures and not sold at the reporting date	709	(174)
At 30 June	**267,081**	**269,220**

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

6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

For the six months ended 30 June 2018 and 2017, the Group recorded commission fees in the amount of RR 646 million and RR 660 million, respectively, for the guarantee received from the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (see Note 22) as an increase to the investment in Yamal LNG.

In April 2018, Nortgas declared dividends in the amount of RR 8,201 million of which RR 4,100 million were attributable to NOVATEK. The dividends were received by the Group in April 2018.

In June 2017, Nortgas declared dividends in the amount of RR 1,542 million of which RR 771 million were attributable to NOVATEK. The dividends were received by the Group in July 2017.

The Group eliminates its share in profits of joint ventures from natural gas and liquid hydrocarbons balances purchased by the Group from its joint ventures and not sold at the reporting date.

7 LONG-TERM LOANS AND RECEIVABLES

	At 30 June 2018	At 31 December 2017
Long-term loans receivable	235,795	212,363
Other long-term receivables	413	429
Total	**236,208**	**212,792**
Less: current portion of long-term loans receivable	(971)	(891)
Total long-term loans and receivables	**235,237**	**211,901**

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

	At 30 June 2018	At 31 December 2017
OAO Yamal LNG	228,035	204,596
OOO Cryogas-Vysotsk	5,753	5,313
ZAO Terneftegas	2,007	2,454
Total long-term loans receivable	**235,795**	**212,363**

OAO Yamal LNG. In accordance with the Shareholders' agreement, the Group provided US dollar and Euro credit line facilities to Yamal LNG, the Group's joint venture. The loans interest rate is set based on market interest rates and interest rates on borrowings of shareholders. The repayment schedule is linked to free cash flows of the joint venture.

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

ZAO Terneftegas. In accordance with the Shareholders' agreement, the Group provided US dollar denominated loans to Terneftegas, the Group's joint venture. The loans interest rate is set based on market interest rates and interest rates on borrowings of shareholders. The repayment schedule is linked to free cash flows of the joint venture.

During the six months ended 30 June 2018, Terneftegas repaid to the Group a part of the loans and accrued interest in the total amount of RR 726 million.

No provisions for impairment of long-term loans and receivables were recognized at 30 June 2018 and 31 December 2017. The carrying values of long-term loans and receivables approximate their respective fair values.

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

8 OTHER NON-CURRENT ASSETS

	At 30 June 2018	At 31 December 2017
Financial assets		
Commodity derivatives	2,837	1,705
Other financial assets	9	10
Non-financial assets		
Long-term advances	17,758	20,228
Materials for construction	7,480	2,694
Deferred income tax assets	6,395	6,898
Intangible assets, net	1,535	1,665
Other non-financial assets	419	248
Total other non-current assets	**36,433**	**33,448**

At 30 June 2018 and 31 December 2017, the long-term advances represented advances to OAO Russian Railways. The advances were paid in accordance with the Strategic Partnership Agreement signed with Russian Railways in 2012.

9 TRADE AND OTHER RECEIVABLES

	At 30 June 2018	At 31 December 2017
Trade receivables (net of provision of RR 354 million and RR 284 million at 30 June 2018 and 31 December 2017, respectively)	38,403	43,387
Other receivables (net of provision of RR 151 million and RR 19 million at 30 June 2018 and 31 December 2017, respectively)	1,021	1,116
Total trade and other receivables	**39,424**	**44,503**

Trade receivables in the amount RR 9,364 million and RR 8,921 million at 30 June 2018 and 31 December 2017, respectively, are secured by letters of credit, issued by banks with investment grade rating. The Group does not hold any other collateral as security for trade and other receivables (see Note 21 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 21.

10 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 30 June 2018	At 31 December 2017
Financial assets		
Commodity derivatives	5,765	2,117
Current portion of long-term loans receivable (see Note 7)	971	891
Non-financial assets		
Value-added tax receivable	10,266	8,057
Recoverable value-added tax	8,531	7,284
Prepayments and advances to suppliers	7,279	6,326
Deferred transportation expenses for liquid hydrocarbons	1,974	2,140
Deferred transportation expenses for natural gas	1,814	1,965
Deferred export duties for liquid hydrocarbons	1,093	1,829
Prepaid customs duties	144	561
Other non-financial assets	1,661	693
Total prepayments and other current assets	**39,498**	**31,863**

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

11 LONG-TERM DEBT

	At 30 June 2018	At 31 December 2017
Corporate bonds		
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	62,641	57,481
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	40,722	37,364
Bank loans		
Syndicated term credit line facility	-	13,280
Other bank loans	8,306	6,887
Other borrowings		
Loan from Silk Road Fund	43,649	39,716
Other loans	1,022	1,022
Total	**156,340**	**155,750**
Less: current portion of long-term debt	(1,022)	(14,302)
Total long-term debt	**155,318**	**141,448**

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 are repayable in February 2021.

Syndicated term credit line facility. In June 2013, the Group obtained a USD 1.5 billion unsecured syndicated term credit line facility from a range of international banks and withdrew the full amount under the facility by June 2014. The loan was repayable until July 2018 by quarterly equal installments starting from June 2015. The facility included the maintenance of certain restrictive financial covenants. In February 2018, the credit line facility was fully repaid ahead of its maturity schedule.

Other 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 is repayable in April 2020 and includes the maintenance of certain restrictive financial covenants.

In February 2018, the Group purchased a 100 percent participation interest in AO Geotransgas (see Note 4) and consolidated RUR 2 billion credit line facility obtained by AO Geotransgas from a Russian bank available to withdraw until December 2018, of which RUR 1,007 million was withdrawn at the reporting date. The credit line facility is repayable in December 2020 and includes the maintenance of certain restrictive financial covenants. Subsequent to the balance sheet date, in July 2018, the facility was reduced to RUR 1,007 million.

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

Other loans. At 30 June 2018 and 31 December 2017, other loans represented Russian rouble denominated loans, which were provided to one of the Group's subsidiaries by its non-controlling shareholder. The loans were initially repayable until the end of 2017, which was subsequently extended to the end of 2018. Subsequent to the balance sheet date, in July 2018, the loans were fully repaid.

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

11 LONG-TERM DEBT (CONTINUED)

The fair value of long-term debt including its current portion was RR 162,191 million and RR 167,760 million at 30 June 2018 and 31 December 2017, 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 21). 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 21).

Scheduled maturities of long-term debt at the reporting date were as follows:

Maturity period:	**At 30 June 2018**
1 July 2019 to 30 June 2020	11,559
1 July 2020 to 30 June 2021	45,060
1 July 2021 to 30 June 2022	3,796
1 July 2022 to 30 June 2023	66,437
After 30 June 2023	28,466
Total long-term debt	**155,318**

Available credit line facilities. In addition to disclosed above, at 30 June 2018, the Group had available long-term credit line facilities from banks with credit limits in the amounts of RR 50 billion, the equivalent of USD 750 million, and EUR 50 million. The facilities include the maintenance of certain restrictive financial covenants.

12 SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

At 30 June 2018 and 31 December 2017, short-term debt and current portion of long-term debt were RR 1,022 million and RR 14,302 million, respectively.

Loans with original maturity three months or less. During the six months ended 30 June 2018 and 2017, the Group had available revolving credit line facilities under which the obtained loans with original maturities of three months or less to finance trade activities were secured by cash revenues from specifically determined liquid hydrocarbons export sales contracts. At 30 June 2018 and 31 December 2017, these loans were repaid.

Available credit line facilities. At 30 June 2018, the Group had available a short-term revolving credit line facilities from Russian banks, with a credit limits in the total amount of RR 70 billion.

13 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 30 June 2018	**At 31 December 2017**
Financial liabilities		
Trade payables	35,813	30,936
Commodity derivatives	6,397	3,333
Interest payable	1,305	1,221
Dividends payable to non-controlling interest	-	1,633
Other payables	1,409	775
Non-financial liabilities		
Advances from customers	3,709	4,474
Salary payables	907	472
Other liabilities and accruals	5,729	6,157
Total trade payables and accrued liabilities	**55,269**	**49,001**

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 21.

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

14 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 Depository Receipts (GDRs) on the London Stock Exchange (LSE) and ordinary shares on the Moscow Exchange through the use of independent brokers. NOVATEK also purchases its ordinary shares from shareholders where required by Russian legislation.

During the six months ended 30 June 2018 and 2017, the Group purchased 2.6 million and 1.9 million ordinary shares (in the form of GDRs) at a total cost of RR 1,971 million and RR 1,271 million, respectively. At 30 June 2018 and 31 December 2017, the Group held in total (both ordinary shares and GDRs) 23.3 million and 20.7 million ordinary shares at total cost of RR 10,324 million and RR 8,353 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):

	Six months ended 30 June:	
	2018	**2017**
Dividends payable at 1 January	1	1
Dividends declared (*)	24,109	21,111
Dividends paid (*)	(24,109)	(21,111)
Dividends payable at 30 June	**1**	**1**
Dividends per share declared during the period (in Russian roubles)	8.00	7.00
Dividends per GDR declared during the period (in Russian roubles)	80.00	70.00

(*) – excluding treasury shares.

15 OIL AND GAS SALES

	Three months ended 30 June:		Six months ended 30 June:	
	2018	**2017**	**2018**	**2017**
Natural gas	66,798	54,569	155,283	122,072
Naphtha	49,539	24,294	78,829	55,016
Crude oil	28,425	17,894	50,873	35,515
Other gas and gas condensate refined products	26,538	16,257	45,310	34,489
Liquefied petroleum gas	13,310	7,882	23,914	18,020
Stable gas condensate	10,208	7,134	19,094	16,919
Total oil and gas sales	**194,818**	**128,030**	**373,303**	**282,031**

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

16 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Three months ended 30 June:		Six months ended 30 June:	
	2018	2017	2018	2017
Unstable gas condensate	42,209	21,388	73,522	48,079
Natural gas	19,884	8,908	49,529	23,523
Other liquid hydrocarbons	1,492	694	2,349	1,358
Total purchases of natural gas and liquid hydrocarbons	**63,585**	**30,990**	**125,400**	**72,960**

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, commencing December 2017, some volumes of liquefied natural gas produced by its joint venture OAO Yamal LNG (see Note 23).

The Group purchases all volumes of unstable gas condensate produced by its joint ventures Nortgas, Arcticgas and Terneftegas at ex-field prices based on benchmark reference crude oil prices (see Note 23).

17 TRANSPORTATION EXPENSES

	Three months ended 30 June:		Six months ended 30 June:	
	2018	2017	2018	2017
Natural gas transportation by trunk and low-pressure pipelines	21,688	21,361	48,305	46,732
Stable gas condensate and liquefied petroleum gas transportation by rail	8,755	7,623	15,901	15,598
Crude oil transportation by trunk pipelines	2,194	2,080	4,280	3,716
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	1,867	1,488	3,791	3,273
Other	50	15	71	30
Total transportation expenses	**34,554**	**32,567**	**72,348**	**69,349**

18 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 June:		Six months ended 30 June:	
	2018	2017	2018	2017
Unified natural resources production tax	13,734	10,626	26,119	22,084
Property tax	978	847	1,927	1,672
Other taxes	159	58	247	116
Total taxes other than income tax	**14,871**	**11,531**	**28,293**	**23,872**

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

19 FINANCE INCOME (EXPENSE)

	Three months ended 30 June:		Six months ended 30 June:	
Interest expense (including transaction costs)	2018	2017	2018	2017
Interest expense on fixed rate debt	2,149	1,977	4,113	4,141
Interest expense on variable rate debt	23	605	87	1,399
Subtotal	**2,172**	**2,582**	**4,200**	**5,540**
Less: capitalized interest	(1,260)	(896)	(2,300)	(1,786)
Interest expense on debt	**912**	**1,686**	**1,900**	**3,754**
Provisions for asset retirement obligations: effect of the present value discount unwinding	157	183	300	348
Interest expense on lease liabilities	141	4	229	9
Total interest expense	**1,210**	**1,873**	**2,429**	**4,111**

	Three months ended 30 June:		Six months ended 30 June:	
Interest income	2018	2017	2018	2017
Interest income on loans receivable classified as at amortised cost	148	143	318	344
Interest income on loans receivable classified as at fair value through profit or loss	2,943	3,455	5,670	7,015
Interest income on cash, cash equivalents and deposits	304	761	598	1,521
Total interest income	**3,395**	**4,359**	**6,586**	**8,880**

	Three months ended 30 June:		Six months ended 30 June:	
Foreign exchange gain (loss)	2018	2017	2018	2017
Gains	24,527	29,086	32,259	39,199
Losses	(20,011)	(15,317)	(24,334)	(29,205)
Total foreign exchange gain (loss), net	**4,516**	**13,769**	**7,925**	**9,994**

20 INCOME TAX

Effective income tax rate. The Russian statutory income tax rate for 2018 and 2017 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 Group holds at least a 50 percent interest in each of its joint ventures, and dividend income from these joint ventures is subject to a zero withholding tax rate according to the Russian tax legislation.

Without the effect of net profit (loss) and dividends from joint ventures, the effective income tax rate for the three months ended 30 June 2018 and 2017 was 17.1 percent and 19.6 percent, respectively, and the effective income tax rate for the six months ended 30 June 2018 and 2017 was 17.4 percent and 19.7 percent, respectively.

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

	At 30 June 2018		At 31 December 2017	
Financial assets	Non-current	Current	Non-current	Current
At amortised cost				
Long-term loans receivable	5,753	-	5,313	-
Trade and other receivables	413	39,424	429	44,503
Short-term bank deposits with original maturity more than three months	-	30,095	-	-
Cash and cash equivalents	-	35,553	-	65,943
Other	9	-	10	-
At fair value through profit or loss				
Long-term loans receivable	229,071	971	206,159	891
Commodity derivatives	2,837	5,765	1,705	2,117
Total financial assets	**238,083**	**111,808**	**213,616**	**113,454**
Financial liabilities				
At amortised cost				
Long-term debt	155,318	1,022	141,448	14,302
Short-term debt	-	-	-	-
Long-term lease liabilities	7,371	2,254	5,776	1,520
Trade and other payables	-	38,527	-	32,932
Dividends payable to non-controlling interest	-	-	-	1,633
At fair value through profit or loss				
Commodity derivatives	2,600	6,397	649	3,333
Total financial liabilities	**165,289**	**48,200**	**147,873**	**53,720**

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);
iii. inputs that are not based on observable market data (unobservable inputs) (Level 3).

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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.

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 natural gas. 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 natural gas derivative contracts involving the physical delivery of natural gas 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 natural gas derivatives contracts are categorized as Level 3 in the fair value hierarchy, described above.

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

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

Commodity derivatives	At 30 June 2018	At 31 December 2017
Within other non-current and current assets	8,602	3,822
Within other non-current and current liabilities	(8,997)	(3,982)

	Three months ended 30 June:		Six months ended 30 June:	
Included in other operating income (loss)	2018	2017	2018	2017
Operating income (loss) from natural gas foreign trading	63	372	(207)	342
Change in fair value	(619)	(78)	(479)	133

The table below represents the effect on the fair value estimation of natural gas derivative contracts that would occur from price changes by ten percent by one megawatt-hour in 12 months after the reporting date:

	Six months ended 30 June:	
Effect on the fair value	2018	2017
Increase by ten percent	(1,971)	(1,463)
Decrease by ten percent	1,971	1,463

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

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The following table summarizes the movements in the carrying amounts of shareholders' loans provided to Yamal LNG and Terneftegas and related interest receivable:

	Six months ended 30 June:	
	2018	2017
At 1 January	**207,051**	**198,454**
Repayment of the loans and accrued interest	(726)	(377)
Subsequent remeasurement at fair value recognized in profit (loss) as follows:		
– Interest income (using the effective interest rate method)	5,670	7,015
– Foreign exchange gain (loss), net	17,347	3,909
– Remaining effect from changes in fair value (attributable to free cash flows of the borrowers and interest rates)	700	(9,951)
At 30 June	**230,042**	**199,050**

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.

	Six months ended 30 June:	
Effect on the fair value	2018	2017
Increase by one percent	(11,914)	(12,412)
Decrease by one percent	12,876	13,537

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, commodity prices 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.

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

(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.

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:

At 30 June 2018	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
Long-term loans receivable	5,753	109,566	119,505	-	234,824
Trade and other receivables	410	3	-	-	413
Commodity derivatives	-	-	2,837	-	2,837
Other	-	-	-	9	9
Current					
Trade and other receivables	19,458	15,032	3,606	1,328	39,424
Current portion of long-term loans receivable	-	971	-	-	971
Commodity derivatives	-	-	5,765	-	5,765
Short-term bank deposits with original maturity more than three months	-	30,095	-	-	30,095
Cash and cash equivalents	10,412	1,957	22,870	314	35,553
Financial liabilities					
Non-current					
Long-term debt	(1,007)	(147,012)	(7,299)	-	(155,318)
Long-term lease liabilities	(318)	(7,003)	(2)	(48)	(7,371)
Commodity derivatives	-	-	(2,600)	-	(2,600)
Current					
Short-term debt and current portion of long-term debt	(1,022)	-	-	-	(1,022)
Current portion of long-term lease liabilities	(70)	(2,132)	(2)	(50)	(2,254)
Trade and other payables	(31,131)	(2,437)	(4,758)	(201)	(38,527)
Commodity derivatives	-	-	(6,397)	-	(6,397)
Net exposure	**2,485**	**(960)**	**133,525**	**1,352**	**136,402**

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At 31 December 2017	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
Long-term loans receivable	5,313	96,686	109,473	-	211,472
Trade and other receivables	426	3	-	-	429
Commodity derivatives	-	-	1,705	-	1,705
Other	-	-	-	10	10
Current					
Trade and other receivables	21,822	16,360	3,730	2,591	44,503
Current portion of long-term loans receivable	-	891	-	-	891
Commodity derivatives	-	-	2,117	-	2,117
Cash and cash equivalents	16,392	36,449	12,745	357	65,943
Financial liabilities					
Non-current					
Long-term debt	-	(134,561)	(6,887)	-	(141,448)
Long-term lease liabilities	(340)	(5,360)	(3)	(73)	(5,776)
Commodity derivatives	-	-	(649)	-	(649)
Current					
Short-term debt and current portion of long-term debt	(1,022)	(13,280)	-	-	(14,302)
Current portion of long-term lease liabilities	(116)	(1,349)	(2)	(53)	(1,520)
Trade and other payables	(25,651)	(3,563)	(3,505)	(213)	(32,932)
Dividends payable to non-controlling interest	(1,633)	-	-	-	(1,633)
Commodity derivatives	-	-	(3,333)	-	(3,333)
Net exposure	**15,191**	**(7,724)**	**115,391**	**2,619**	**125,477**

(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. 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.

There were no changes in regulated wholesale natural gas prices on the domestic market (excluding residential customers) in the first half of 2017. From 1 July 2017, regulated wholesale natural gas prices were increased by 3.9 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 entered to meet supply requirements to fulfil contract obligations or for own consumption 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.

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

LNG supplies on international markets. During the six months ended 30 June 2018, the Group sold liquefied natural gas purchased from its joint venture Yamal LNG on international markets under short-term 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's purchase and sales contracts are entered to meet supply requirements to fulfil contract obligations and are not within the scope of *IFRS 9, Financial Instruments.*

LNG regasification activity in Poland. The Group purchases LNG in Poland at prices depending on natural gas prices quoted in Poland and sells regasified LNG as natural gas on the Polish market based on the prices regulated by the Energy Regulatory Office through Blue Gaz Sp. z o.o., the Group's wholly owned subsidiary. These purchase and sales contracts are entered by the Group to meet supply requirements and are not within the scope of *IFRS 9, Financial Instruments*.

Natural gas trading activities on the European and other foreign markets. The Group purchases and sells natural gas on the European and other foreign markets under long-term and short-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.

Natural gas foreign trading activities and respective foreign derivative instruments are executed by Novatek Gas & Power GmbH, the Group's wholly owned subsidiary, and are managed within the Group's integrated trading function.

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

As a result, the Group's revenues from the sales of liquid hydrocarbons are subject to fluctuations in the crude oil and gas condensate refined products benchmark prices. The Group's liquid hydrocarbons purchase and sales contracts are entered to meet supply requirements to fulfil contract obligations or for own consumption and are not within the scope of *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.

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

	At 30 June 2018		At 31 December 2017	
	RR million	Percentage	RR million	Percentage
At fixed rate	154,311	*99%*	141,448	*91%*
At variable rate	2,029	*1%*	14,302	*9%*
Total debt	**156,340**	***100%***	**155,750**	***100%***

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

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.

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

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

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

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

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
Principal	-	11,665	116,645	32,743	161,053
Interest	7,860	7,792	15,110	5,927	36,689
Debt at variable rate					
Principal	1,022	465	542	-	2,029
Interest	96	85	16	-	197
Lease liabilities	2,182	2,135	6,188	517	11,022
Trade and other payables	38,527	-	-	-	38,527
Total financial liabilities	**49,687**	**22,142**	**138,501**	**39,187**	**249,517**
At 31 December 2017					
Debt at fixed rate					
Principal	-	8,890	107,061	32,055	148,006
Interest	7,272	7,272	16,655	6,163	37,362
Debt at variable rate					
Principal	14,314	-	-	-	14,314
Interest	168	-	-	-	168
Lease liabilities	1,606	1,494	4,393	937	8,430
Trade and other payables	32,932	-	-	-	32,932
Dividends payable to non-controlling interest	1,633	-	-	-	1,633
Total financial liabilities	**57,925**	**17,656**	**128,109**	**39,155**	**242,845**

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

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Cash inflow	91,076	42,073	53,927	187,076
Cash outflow	(92,327)	(41,978)	(53,783)	(188,088)
Net cash flows	**(1,251)**	**95**	**144**	**(1,012)**
At 31 December 2017				
Cash inflow	45,120	29,028	54,785	128,933
Cash outflow	(46,422)	(28,182)	(54,572)	(129,176)
Net cash flows	**(1,302)**	**846**	**213**	**(243)**

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.

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At the reporting date, the Group had investment grade ratings of BBB- by Standard & Poor's, BBB by Fitch Ratings and Baa3 by Moody's Investors Service. The Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis to maintain its credit ratings.

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

The Group has a stated dividend policy that distributes not less than 30 percent of the Group's consolidated net profit determined according to IFRS, adjusted for one-off profits (losses). The dividend payment for a specific year is determined after taking into consideration future earnings, capital expenditure requirements, future business opportunities and the Group's current financial position. 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 six months ended 30 June 2018. At 30 June 2018 and 31 December 2017, the Group's capital totalled RR 898,991 million and RR 847,646 million, respectively.

22 CONTINGENCIES AND COMMITMENTS

Operating environment. The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation, and relatively high inflation. In addition, the Russian economy is particularly sensitive to world oil and gas prices; therefore, significant prolonged declines in world oil prices have a negative impact on the Russian economy. The tax, currency and customs legislation is subject to varying interpretations, frequent changes and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

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.

Developments in Ukraine during 2014 and the subsequent negative reaction of the world community have had and may continue to have a negative impact on the Russian economy, including difficulties in obtaining international funding, devaluation of national currency and high inflation. These and other events, in case of escalation, may have a significant negative impact on the operating environment in the Russian Federation.

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 (prior to 28 November 2017, this restriction applied to new financing with a maturity of more than 90 days). Whereas all other transactions, including financial, carried out by U.S. persons or within the United States with the Group are permitted. The inclusion on the List has not impacted the Group's business activities, in any jurisdiction, nor does it affect the Group's assets and debt.

Management has reviewed the Group's capital expenditure programs and existing debt portfolio and has concluded that the Group has sufficient liquidity, through internally generated (operating) cash flows, to adequately fund its core oil and gas business operations including finance of planned capital expenditure programs of its subsidiaries, as well as to repay and service all 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.

22 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Contractual commitments. At 30 June 2018, the Group had contractual capital expenditures commitments aggregating approximately RR 107 billion (at 31 December 2017: RR 49 billion) mainly for construction of infrastructure for future LNG projects (through 2023) and for development at the North-Russkoye (through 2021), the Yarudeyskoye (through 2020), the Salmanovskoye (Utrenneye) (through 2020), the East-Tarkosalinskoye (through 2020), the Gydanskoye (through 2021) and the Yurkharovskoye (through 2019) fields all in accordance with duly signed agreements.

In September 2016, the Group and Eni S.p.A. (hereinafter referred to as the "Concessionaries") formed a joint operation with a 50 percent participation interest held by each Concessionary under a Concession Contract with the State of Montenegro for the exploration and production of hydrocarbons on four offshore blocks located in the Adriatic Sea. The Group's commitments with regard to this joint operation relate to performance obligations of the Concessionaries to conduct mandatory work program exploration activities as stipulated by the Concession Contract. The maximum amount to be paid to the State of Montenegro by the Group in case of non-performance during the first exploration period of up to four years ending in 2020 is EUR 42.5 million. The outflow of resources embodying economic benefits required to settle this contingent liability is not probable; therefore, no provision for this liability was recognized in the consolidated interim condensed financial statements.

The Group's commitments with regard to its joint operation in Lebanon relate to performance obligations of the Right holders to conduct minimum work commitment exploration activities as stipulated by the Exploration and Production Agreements (see Note 1). The maximum amount to be paid to the Republic of Lebanon by the Group in case of non-performance during the first exploration period of up to three years ending in 2021 (may be extended for a period not exceeding one year) is EUR 13.5 million. The outflow of resources embodying economic benefits required to settle this contingent liability is not probable; therefore, no provision for this liability was recognized in the consolidated interim condensed financial statements.

Non-financial guarantees. The aggregated amount of non-financial guarantees in respect of the Yamal LNG project issued by the Group to a number of third parties (the Ministry of Finance of the Russian Federation, Russian and foreign banks, LNG-vessels owners, LNG-terminal owners) in favor of the Group's joint venture OAO Yamal LNG and its subsidiary totaled USD 2.8 billion and EUR 7.1 billion at 30 June 2018 (at 31 December 2017: USD 3.0 billion and EUR 6.6 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). For certain factors as stipulated in the project financing agreements, the Group plans to issue in the future non-financial guarantees covering the project post-completion period.

With regard to the Group's obligations under the non-financial guarantee issued to the banks providing project financing to Yamal LNG, the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" issued in favor of the banks a counter guarantee for the amount not exceeding the equivalent of USD 3 billion.

The aggregated amount of non-financial guarantees issued by the Group to a Russian bank in favor of the Group's joint venture Cryogas-Vysotsk totaled EUR 132 million at 30 June 2018 (at 31 December 2017: EUR 49 million).

The outflow of resources embodying economic benefits required to settle the obligations under these non-financial 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.

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

22 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

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

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

Environmental liabilities. The Group operates in the oil and gas industry in the Russian Federation and abroad. The enforcement of environmental regulation in the Russian Federation and other countries of operation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations and, as obligations are determined, they are recognized as an expense immediately if no future benefit is discernible. Potential liabilities arising as a result of a change in interpretation of existing regulations, civil litigation or changes in legislation cannot be estimated. Under existing 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.

23 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.

	Three months ended 30 June:		**Six months ended 30 June:**	
Related parties – joint ventures	**2018**	**2017**	**2018**	**2017**
Transactions				
Purchases of natural gas and liquid hydrocarbons	(57,832)	(25,673)	(114,456)	(62,520)
Interest income on loans issued	3,069	3,579	5,924	7,286
Dividends declared	4,100	771	4,100	771
Other revenues	430	364	739	665
Materials, services and other	(40)	(49)	(91)	(102)

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

23 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – joint ventures	At 30 June 2018	At 31 December 2017
Balances		
Long-term loans receivable	234,824	211,472
Trade payables and accrued liabilities	18,792	19,785
Current portion of long-term loans receivable	971	891
Trade receivables	559	246

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

The Group issued non-financial guarantees in favor of its joint ventures as described in Note 22.

Related parties – parties under control of key management personnel	Three months ended 30 June:		Six months ended 30 June:	
	2018	2017	2018	2017
Transactions				
Liquid hydrocarbons transportation by rail	(2,783)	(2,457)	(4,998)	(4,971)
Purchases of construction services (capitalized within property, plant and equipment)	(1,531)	-	(2,495)	(8)
Materials, services and other	(2)	-	(4)	-

Related parties – parties under control of key management personnel	At 30 June 2018	At 31 December 2017
Balances		
Prepayments and other current assets	440	565
Trade payables and accrued liabilities	752	504
Advances for construction	449	195

Transactions with related parties also included loans, which were provided to one of the Group's subsidiaries by its non-controlling shareholder (see Note 11).

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 the following amounts:

Related parties – members of the key management personnel	Three months ended 30 June:		Six months ended 30 June:	
	2018	2017	2018	2017
Board of Directors	83	58	103	83
Management Committee	1,371	673	2,082	1,420
Total compensation	**1,454**	**731**	**2,185**	**1,503**

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.

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

24 SEGMENT INFORMATION

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

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

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

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

Geographical information of oil and gas sales for the three and six months ended 30 June 2018 and 2017 is as follows:

	Three months ended 30 June:		Six months ended 30 June:	
	2018	**2017**	**2018**	**2017**
Russia	95,297	76,998	199,085	171,521
Europe	68,952	37,243	114,297	79,432
Asia-Pacific region	33,237	19,012	57,036	37,918
North America	1,500	1,773	14,954	6,914
The Middle East	6,665	-	6,665	-
Less: export duties	(10,833)	(6,996)	(18,734)	(13,754)
Total outside Russia	99,521	51,032	174,218	110,510
Total oil and gas sales	**194,818**	**128,030**	**373,303**	**282,031**

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 six months ended 30 June 2018 and 2017, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 15.3 percent (RR 57.4 billion) and 18.9 percent (RR 53.8 billion) of total external revenues. All of the Group's major customers reside within the Russian Federation.

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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