

PAO NOVATEK

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

**AS OF AND FOR THE THREE AND
NINE MONTHS ENDED 30 SEPTEMBER 2019**

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Report on Review of Consolidated Interim Condensed Financial Statements

To the Shareholders and Board of Directors of PAO NOVATEK:

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of PAO NOVATEK and its subsidiaries (together – the “Group”) as at 30 September 2019 and the related consolidated interim condensed statements of income and comprehensive income for the three-month and nine-month periods then ended, cash flows and changes in equity for the nine-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Accounting Standard 34, “Interim Financial Reporting”. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

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

Conclusion

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

AO PricewaterhouseCoopers Audit

29 October 2019

Moscow, Russian Federation

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

Audited entity: PAO NOVATEK

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

Address of the audited entity: Russian Federation, Yamalo-Nenetski state, Purovsky region, Tarko-Sale

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547

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

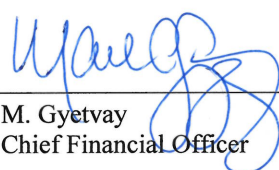
(in millions of Russian roubles)

	Notes	At 30 September 2019	At 31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	5	488,254	408,201
Investments in joint ventures	6	563,535	244,500
Long-term loans and receivables	7	269,058	232,922
Other non-current assets	8	172,888	37,427
Total non-current assets		1,493,735	923,050
Current assets			
Inventories		14,609	17,251
Current income tax prepayments		5,560	1,311
Trade and other receivables	9	232,286	54,433
Prepayments and other current assets	10	101,852	89,645
Short-term bank deposits			
with original maturity more than three months		111,555	27,788
Cash and cash equivalents		36,506	41,472
Assets held for sale	4	-	61,420
Total current assets		502,368	293,320
Total assets		1,996,103	1,216,370
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	11	147,830	170,043
Long-term lease liabilities	21	8,692	7,473
Deferred income tax liabilities		59,223	29,927
Asset retirement obligations		10,210	8,730
Other non-current liabilities		6,128	6,579
Total non-current liabilities		232,083	222,752
Current liabilities			
Short-term debt and current portion of long-term debt	12	12,210	2,120
Current portion of long-term lease liabilities	21	2,515	2,325
Trade payables and accrued liabilities	13	117,326	79,241
Current income tax payable		1,951	1,633
Other taxes payable		13,479	16,823
Liabilities associated with assets held for sale	4	-	4,881
Total current liabilities		147,481	107,023
Total liabilities		379,564	329,775
Equity attributable to PAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(12,308)	(10,445)
Additional paid-in capital		31,297	31,297
Currency translation differences		(1,246)	(1,702)
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		1,574,714	843,094
Total equity attributable to PAO NOVATEK shareholders	14	1,598,467	868,254
Non-controlling interest		18,072	18,341
Total equity		1,616,539	886,595
Total liabilities and equity		1,996,103	1,216,370

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


L. Mikhelson
Chairman of the Management Committee

29 October 2019


M. Gyetvay
Chief Financial Officer

PAO NOVATEK
Consolidated Interim Condensed Statement of Income (unaudited)

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

	Notes	Three months ended 30 September:		Nine months ended 30 September:	
		2019	2018	2019	2018
Revenues					
Oil and gas sales	15	187,258	217,934	634,231	591,237
Other revenues		1,904	1,432	7,550	3,354
Total revenues		189,162	219,366	641,781	594,591
Operating expenses					
Purchases of natural gas and liquid hydrocarbons	16	(72,181)	(94,158)	(248,755)	(219,558)
Transportation expenses	17	(34,376)	(33,672)	(111,397)	(106,020)
Taxes other than income tax	18	(15,098)	(15,440)	(46,894)	(43,733)
Depreciation, depletion and amortization		(8,183)	(8,511)	(23,677)	(25,263)
Materials, services and other		(6,331)	(5,474)	(18,498)	(16,863)
General and administrative expenses		(6,622)	(5,940)	(16,420)	(15,612)
Exploration expenses		(384)	(838)	(6,291)	(4,551)
Impairment (expenses) reversals, net		7	(30)	16	(115)
Changes in natural gas, liquid hydrocarbons and work-in-progress		2,564	7,160	(1,335)	8,169
Total operating expenses		(140,604)	(156,903)	(473,251)	(423,546)
Gain on disposal of interests in subsidiaries and joint ventures, net	4	366,390	-	674,968	1,645
Other operating income (loss), net		173	(485)	(988)	(1,004)
Profit from operations		415,121	61,978	842,510	171,686
Finance income (expense)					
Interest expense	19	(1,129)	(1,113)	(3,332)	(3,542)
Interest income	19	5,933	3,666	14,909	10,252
Change in fair value of non-commodity financial instruments	21	(1,451)	2,384	12,633	3,084
Foreign exchange gain (loss), net	19	2,387	9,623	(24,768)	17,548
Total finance income (expense)		5,740	14,560	(558)	27,342
Share of profit (loss) of joint ventures, net of income tax	6	18,714	(11,942)	112,969	(28,994)
Profit before income tax		439,575	64,596	954,921	170,034
Income tax expense					
Current income tax expense		(55,896)	(12,710)	(89,516)	(33,153)
Deferred income tax benefit (expense), net		(9,503)	(489)	(31,073)	(1,281)
Total income tax expense	20	(65,399)	(13,199)	(120,589)	(34,434)
Profit		374,176	51,397	834,332	135,600
Profit attributable to:					
Non-controlling interest		4,217	5,497	13,402	14,538
Shareholders of PAO NOVATEK		369,959	45,900	820,930	121,062
Basic and diluted earnings per share (in Russian roubles)		122.86	15.23	272.59	40.17
Weighted average number of shares outstanding (in millions)		3,011.2	3,013.0	3,011.6	3,014.1

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

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

(in millions of Russian roubles)

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
Profit	374,176	51,397	834,332	135,600
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to profit (loss)				
Remeasurement of pension obligations	(169)	(4)	(490)	(60)
Share of remeasurement of pension obligations of joint ventures	(28)	(33)	(84)	(100)
	(197)	(37)	(574)	(160)
Items that may be reclassified subsequently to profit (loss)				
Currency translation differences	2,513	(1,770)	6	(243)
Share of currency translation differences of joint ventures	(54)	(142)	450	(168)
	2,459	(1,912)	456	(411)
Other comprehensive income (loss)	2,262	(1,949)	(118)	(571)
Total comprehensive income	376,438	49,448	834,214	135,029
Total comprehensive income attributable to:				
Non-controlling interest	4,217	5,497	13,402	14,538
Shareholders of PAO NOVATEK	372,221	43,951	820,812	120,491

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

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

(in millions of Russian roubles)

	Notes	Nine months ended 30 September:	
		2019	2018
Profit before income tax		954,921	170,034
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		23,677	25,263
Impairment expenses (reversals), net		(16)	115
Foreign exchange loss (gain), net		24,768	(17,548)
Gain on disposal of interests			
in subsidiaries and joint ventures, net	4	(674,968)	(1,645)
Interest expense		3,332	3,542
Interest income		(14,909)	(10,252)
Share of loss (profit) of joint ventures, net of income tax	6	(112,969)	28,994
Change in fair value of non-commodity financial instruments		(12,633)	(3,084)
Revaluation of commodity derivatives through profit or loss		129	704
Other adjustments		333	461
Decrease (increase) in long-term advances given		4,326	3,704
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(13,354)	(20,316)
Decrease (increase) in inventories		3,933	(11,543)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		(2,760)	17,649
Increase (decrease) in taxes payable, other than income tax		(1,688)	397
Total effect of working capital changes		(13,869)	(13,813)
Dividends received from joint ventures		42,550	7,725
Interest received		31,180	832
Income taxes paid excluding payments relating to disposal of interests in subsidiaries and joint ventures	20	(28,661)	(34,651)
Net cash provided by operating activities		227,191	160,381
Cash flows from investing activities			
Purchases of property, plant and equipment	5	(98,486)	(42,515)
Payments for mineral licenses	5	(4,416)	(292)
Purchases of materials for construction		(7,259)	(10,402)
Purchases of intangible assets		(747)	(408)
Proceeds from disposals of property, plant and equipment and materials for construction		-	2,117
Capital contributions to joint ventures	6	(231)	-
Payments for acquisition of subsidiaries, net of cash acquired	4	-	(30,492)
Proceeds from disposal of interests in subsidiaries and joint ventures, net of cash disposed	4	136,541	-
Income tax payments relating to disposal of interests in subsidiaries and joint ventures	4, 20	(64,540)	-
Interest paid and capitalized	5	(4,453)	(3,630)
Net decrease (increase) in bank deposits with original maturity more than three months		(84,006)	(29,599)
Guarantee fees paid		(1,078)	(1,054)
Loans provided to joint ventures	7	(29,200)	(2,753)
Repayments of loans provided to joint ventures	7	733	1,104
Net cash used for investing activities		(157,142)	(117,924)

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

(in millions of Russian roubles)

	Notes	Nine months ended 30 September:	
		2019	2018
Cash flows from financing activities			
Proceeds from long-term debt		-	7,928
Repayments of long-term debt		-	(22,035)
Proceeds from short-term debt			
with original maturity more than three months		1,000	-
Repayments of short-term debt			
with original maturity more than three months		(1,000)	-
Proceeds from (repayments of) short-term debt			
with original maturity three months or less, net		-	(150)
Interest on debt paid		(1,106)	(1,673)
Dividends paid to shareholders of PAO NOVATEK	14	(50,618)	(24,109)
Dividends paid to non-controlling interest		(12,495)	(13,943)
Payments of lease liabilities		(1,568)	(1,475)
Purchases of treasury shares	14	(1,865)	(2,019)
Net cash used for financing activities		(67,652)	(57,476)
Net effect of exchange rate changes on cash and cash equivalents		(7,363)	2,555
Net increase (decrease) in cash and cash equivalents		(4,966)	(12,464)
Cash and cash equivalents at the beginning of the period		41,472	65,943
Cash and cash equivalents at the end of the period		36,506	53,479

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

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

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

<i>For the nine months ended 30 September 2018</i>	<i>Number of ordinary shares (in millions)</i>	<i>Ordinary share capital</i>	<i>Treasury shares</i>	<i>Additional paid-in capital</i>	<i>Currency translation differences</i>	<i>Asset revaluation surplus on acquisitions</i>	<i>Retained earnings</i>	<i>Equity attributable to PAO NOVATEK shareholders</i>	<i>Non- controlling interest</i>	<i>Total equity</i>
At 1 January 2018	3,015.6	393	(8,353)	31,297	(3,283)	5,617	732,168	757,839	17,820	775,659
Profit	-	-	-	-	-	-	121,062	121,062	14,538	135,600
Other comprehensive loss	-	-	-	-	(411)	-	(160)	(571)	-	(571)
Total comprehensive income (loss)	-	-	-	-	(411)	-	120,902	120,491	14,538	135,029
Dividends (Note 14)	-	-	-	-	-	-	(51,979)	(51,979)	(12,559)	(64,538)
Purchase of treasury shares (Note 14)	(2.6)	-	(1,971)	-	-	-	-	(1,971)	-	(1,971)
At 30 September 2018	3,013.0	393	(10,324)	31,297	(3,694)	5,617	801,091	824,380	19,799	844,179
<i>For the nine months ended 30 September 2019</i>										
At 1 January 2019	3,012.9	393	(10,445)	31,297	(1,702)	5,617	843,094	868,254	18,341	886,595
Profit	-	-	-	-	-	-	820,930	820,930	13,402	834,332
Other comprehensive income (loss)	-	-	-	-	456	-	(574)	(118)	-	(118)
Total comprehensive income (loss)	-	-	-	-	456	-	820,356	820,812	13,402	834,214
Dividends (Note 14)	-	-	-	-	-	-	(93,468)	(93,468)	(13,671)	(107,139)
Effect from other changes in joint ventures' net assets (Note 6)	-	-	-	-	-	-	4,732	4,732	-	4,732
Purchase of treasury shares (Note 14)	(1.7)	-	(1,863)	-	-	-	-	(1,863)	-	(1,863)
At 30 September 2019	3,011.2	393	(12,308)	31,297	(1,246)	5,617	1,574,714	1,598,467	18,072	1,616,539

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

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

In 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 hydrocarbon resources of the South-Tambeyskoye field, located in the YNAO. In 2018, the second and third LNG trains were launched. In 2019, the Group’s joint venture OOO Cryogas-Vysotsk commissioned its medium-scale natural gas liquefaction plant at the port of Vysotsk on the Baltic sea. The Group purchases a portion of the liquefied natural gas (“LNG”) produced by Yamal LNG and Cryogas-Vysotsk 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- and short-term supply contracts to carry out its foreign commercial trading activities, as well as conducts LNG regasification in Poland.

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

In March 2019, the Group disposed a 10 percent participation interest in OOO Arctic LNG 2 to a subsidiary of TOTAL S.A. (see Note 4). The Arctic LNG 2 project envisages the construction of three trains of an LNG plant at 6.6 million tons per annum each based on the feedstock resources of the Salmanovskoye (Utrenneye) field located on the Gydan peninsula.

In July 2019, the Group sold a 30% participation interest in OOO Arctic LNG 2 to three new participants (10% to each participant): to China National Petroleum Corporation (“CNPC”) and CNOOC Limited (through their respective subsidiaries), and to Japan Arctic LNG B.V., a joint venture of Mitsui & Co., Ltd and Japan Oil, Gas and Metals National Corporation (“JOGMEC”). The transactions were closed in July 2019 upon completion of the conditions precedent (see Note 4). As a result, the Group’s participation interest in OOO Arctic LNG 2 further decreased to 60%.

In 2019, the Group and PAO Gazprom Neft conducted transactions on reorganizing its joint venture AO Arcticgas aimed at obtaining by the Arcticgas’ shareholders the full ownership over certain assets (see Note 4).

2 BASIS OF PREPARATION

The consolidated interim condensed financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2018 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 2018. 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:

Russian roubles to one currency unit	Average rate for the three months ended 30 September:		Average rate for the nine months ended 30 September:	
	2019	2018	2019	2018
US dollar (USD)	64.57	65.53	65.08	61.44
Euro (EUR)	71.83	76.18	73.16	73.29
Polish zloty (PLN)	16.64	17.70	17.01	17.25

Russian roubles to one currency unit	At 30 September:		At 31 December:	
	2019	2018	2018	2017
US dollar (USD)	64.42	65.59	69.47	57.60
Euro (EUR)	70.32	76.23	79.46	68.87
Polish zloty (PLN)	16.05	17.85	18.48	16.51

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.

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 2018, except for income tax expense and the effect of a change in accounting policy regarding the contribution of a subsidiary to a joint venture, a joint operation or an associate 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effective 1 January 2019, the Group adopted a voluntary change to its accounting policy regarding the contribution of a subsidiary to a joint venture, a joint operation or an associate.

At present, IFRS 10, *Consolidated financial statements*, and IAS 28, *Investments in associates and joint ventures*, set inconsistent requirements when accounting for such transactions. In accordance with IAS 28, the amount of the unrealized gain or loss recognized resulting from the contribution of a non-monetary asset to an entity accounted for by the equity method, is restricted to the extent of the interests attributable to the unrelated investors in the entity. IFRS 10, however, requires full profit or loss recognition on the loss of control of a subsidiary.

Starting from 2019, the Group elected to follow IAS 28 whereas previously applied accounting policy was based on IFRS 10. The new accounting policy was applied to the transaction on the sale of a 10 percent participating interest in OOO Arctic LNG 2 (see Note 4).

The Group considers that the new accounting policy is more appropriate and provides more relevant information to the users of financial statements as compared to the previously applied accounting policy to recognize full unrealized gain immediately as this gain will eventually affect the Group's future share in profit or loss of the investee through the application of the equity method. Management has assessed, based on both qualitative and quantitative factors, that retrospective application of the new accounting policy would not have a material effect on these financial statements; therefore, comparative information was not restated.

4 ACQUISITIONS AND DISPOSALS***Disposal of a 10 percent participation interest in OOO Arctic LNG 2 in March 2019***

In May 2018, NOVATEK and TOTAL S.A. agreed in principle on the acquisition by TOTAL S.A. group of a 10 percent participation interest in OOO Arctic LNG 2 and joint control over the entity upon closing the transaction. Arctic LNG 2 undertakes a project to construct a new LNG plant on the Gydan peninsula based on the hydrocarbon resources of the Salmanovskoye (Utrenneye) field (the "Project"). In July 2018, the NOVATEK's Board of Directors approved the sale of a 10 percent participation interest in OOO Arctic LNG 2 to TOTAL S.A. group.

At 31 December 2018, in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*, assets and liabilities related to the Arctic LNG 2 project, excluding intercompany balances, have been classified as assets and liabilities held for sale:

	At 31 December 2018
Property, plant and equipment	53,955
Other non-current assets	3,829
Prepayments and other current assets	3,636
Total assets classified as held for sale	61,420
Non-current liabilities	3,539
Current liabilities	1,342
Total liabilities associated with assets held for sale	4,881

In March 2019, the Group entered into an agreement to sell a 10 percent participation interest in OOO Arctic LNG 2 (the "Sales Contract") to TOTAL E&P Salmanov, a wholly owned subsidiary of TOTAL S.A.

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

- i. *cash payments to the Group* of USD 1,300 million equivalent, of which USD 600 million equivalent was paid upon the transaction closing date and the remaining amount to be paid within twelve months from that date;
- ii. *contingent cash consideration to the Group* consisting of tranches in total of up to USD 800 million equivalent depending on average crude oil benchmark prices level for the year preceding each payment. The contingent payments dates are linked to the dates of launching the Project's LNG trains;
- iii. *capital contributions to OOO Arctic LNG 2 (in the form of contributions to the assets)* ranging from USD 363 million to USD 863 million equivalent (these amounts are presented, in particular, taking into account revisions made upon the entry of the three additional participants to the Project in July 2019, see below) with the terms and payment amounts depending on the Project's capital expenditure program determined upon the results of the Final Investment Decision ("FID") and the date of production launch at the Project's first LNG train.

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

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

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

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

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

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

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

- future LNG prices were based on benchmark natural gas prices at the major natural gas hubs and benchmark crude oil prices using forecasted growth rates. If these estimated future crude oil prices were to decrease by one percent for each year in the cash flow projection then, assuming that other parameters remain unchanged, the fair value of the retained interest in Arctic LNG 2 and the gain on the transaction would be reduced by RR 36,731 million and RR 3,673 million, respectively;
- future production was based on expected Project capacity. If production volumes were to be one percent lower in the cash flow projection then, assuming that other parameters remain unchanged, the fair value of the retained interest in Arctic LNG 2 and the gain on the transaction would be reduced by RR 17,719 million and RR 1,772 million, respectively;
- future capital expenditure over the project life has been estimated based on preliminary engineering and cost estimates. If the level of capital expenditure were to be one percent higher in the cash flow projection then, assuming that other parameters remain unchanged, the fair value of the retained interest in Arctic LNG 2 and the gain on the transaction would be reduced by RR 8,871 million and RR 887 million, respectively; and
- the discount rate was assumed to be 9.4 percent (in US dollar terms). If the discount rate was increased by half of one percent (to 9.9 percent) then, assuming that other parameters remain unchanged, the fair value of the retained interest in Arctic LNG 2 and the gain on the transaction would be reduced by RR 152,748 million and RR 15,275 million, respectively.

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

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

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

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

Reorganization of AO Arcticgas

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

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

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4 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

Reorganization transactions were completed in October 2019. These transactions are treated as interrelated, therefore, the financial result from the reorganization will be recognized in the fourth quarter of 2019.

Acquisition of AO Geotransgas and OOO Urengoyanskaya gasovaya kompaniya

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 owned 100 percent participation interests in AO Geotransgas (renamed to AO NOVATEK-Pur in November 2018) and OOO Urengoyanskaya gasovaya kompaniya (merged into OOO NOVATEK-Yurkharovneftegas in January 2019), which held the licenses for exploration and production of hydrocarbons within the Beregovoy and Ust-Yamsoveyskiy license areas located in the 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 31 December 2018, the acquired companies contributed RR 4.2 billion to the Group's revenues. The financial and operational activities of the acquired companies would have increased the Group's revenues for 2018 by an additional RR 0.8 billion, if the acquisition had occurred in January 2018.

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 the 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.

4 ACQUISITIONS AND DISPOSALS (CONTINUED)***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 SeverEnergiya and OOO Yamal Development. SeverEnergiya 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 SeverEnergiya.

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 SeverEnergiya 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.

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5 PROPERTY, PLANT AND EQUIPMENT

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

<i>For the nine months ended 30 September 2018</i>	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
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	2,625	56,791	12	59,428
Transfers	11,612	(12,739)	1,127	-
Acquisition of subsidiaries (see Note 4)	31,878	4,827	215	36,920
Change in asset retirement costs	(672)	-	-	(672)
Depreciation, depletion and amortization	(24,584)	-	(679)	(25,263)
Reclassification to assets held for sale (see Note 4)	(18,400)	(26,260)	(54)	(44,714)
Disposals, net	(200)	(1,840)	(425)	(2,465)
Currency translation differences	1,225	20	21	1,266
Cost	512,802	59,725	17,615	590,142
Accumulated depreciation, depletion and amortization	(201,074)	-	(4,517)	(205,591)
Net book value at 30 September 2018	311,728	59,725	13,098	384,551
<i>For the nine months ended 30 September 2019</i>				
Cost	525,089	77,953	17,949	620,991
Accumulated depreciation, depletion and amortization	(208,179)	-	(4,611)	(212,790)
Net book value at 1 January 2019	316,910	77,953	13,338	408,201
Additions	3,680	119,664	-	123,344
Transfers	31,570	(35,955)	4,385	-
Change in asset retirement costs	1,454	-	-	1,454
Depreciation, depletion and amortization	(22,787)	-	(795)	(23,582)
Reclassification to assets held for sale (see Note 4)	-	(18,761)	(386)	(19,147)
Disposals, net	(402)	(641)	(72)	(1,115)
Currency translation differences	(843)	(34)	(24)	(901)
Cost	560,272	142,226	21,781	724,279
Accumulated depreciation, depletion and amortization	(230,690)	-	(5,335)	(236,025)
Net book value at 30 September 2019	329,582	142,226	16,446	488,254

At 31 December 2018, property, plant and equipment in the amount of RR 53,955 million related to the Arctic LNG 2 project, were reclassified to assets held for sale. Included in additions to property, plant and equipment for the nine months ended 30 September 2019 are RR 19,147 million related to the Arctic LNG 2 project and incurred until the date of the disposal of a 10 percent participation interest in OOO Arctic LNG 2 to TOTAL S.A. group (see Note 4).

5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in additions to property, plant and equipment for the nine months ended 30 September 2019 and 2018 are capitalized interest and foreign exchange differences of RR 4,462 million and RR 5,048 million, respectively.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 31,783 million and RR 15,526 million at 30 September 2019 and 31 December 2018, respectively.

Included in property, plant and equipment at 30 September 2019 and 31 December 2018 are right-of-use assets with carrying value of RR 10,982 million and RR 9,570 million, respectively, primarily related to long-term agreements on time chartering of marine tankers. Depreciation charge for right-of-use assets for the nine months ended 30 September 2019 and 2018 amounted to RR 1,797 million and RR 1,386 million, respectively.

In August 2019, the Group won an auction for oil and gas exploration and production license for the Soletsko-Khanaveyskoye license area located on the Gydan peninsula in the YNAO for the total amount of RR 2,586 million, of which RR 2,351 million was paid during the nine months ended 30 September 2019 and included within assets under construction and advances for construction as at that date. The remaining amount of RR 235 million will be paid after the state registration of the license.

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

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.

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

	At 30 September 2019	At 31 December 2018
Proved properties acquisition costs	73,208	71,087
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(20,080)	(19,197)
Unproved properties acquisition costs	13,109	11,947
Total acquisition costs	66,237	63,837

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 September 2019	At 31 December 2018
<i>Joint ventures:</i>		
OOO Arctic LNG 2	246,834	-
AO Arcticgas	135,540	146,631
OAo Yamal LNG	128,569	48,378
ZAO Nortgas	44,105	44,064
ZAO Terneftegas	4,363	2,434
OOO Cryogas-Vysotsk	3,911	2,991
Rostock LNG GmbH	213	2
Total investments in joint ventures	563,535	244,500

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

OOO Arctic LNG 2. In March 2019, the Group sold a 10 percent participation interest in OOO Arctic LNG 2, a Group's subsidiary at that time, to TOTAL S.A. (see Note 4).

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

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

In the first quarter 2019, a part of the Group's participation interest in Arctic LNG 2 constituting 15 percent was pledged in connection with one of the credit line facility agreements opened for the Group. In the third quarter of 2019, this credit line facility was repaid and the pledge agreement was terminated.

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

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. As a result, Yamal Development and SeverEnergiya were merged with Arcticgas, and the Group's participation ownership in Arcticgas was reduced to 50 percent (see Note 4).

OAo Yamal LNG. The Group holds a 50.1 percent ownership in Yamal LNG, along with TOTAL S.A. (20 percent), CNPC (20 percent) and Silk Road Fund Co. Ltd. (9.9 percent). Yamal LNG undertakes the project to construct and operate LNG Plant based on the hydrocarbon resources of the South-Tambeyskoye field, located in the YNAO. Annual capacity of the LNG plant after launching the four LNG trains will aggregate 17.4 million tons of LNG (5.5 million tons for each of the first three LNG trains and 0.9 million tons for the fourth LNG train) and up to 1.2 million tons of stable gas condensate. The first LNG train began production in the fourth quarter of 2017, the second and the third trains – in July and November 2018, respectively.

At 30 September 2019 and 31 December 2018, 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-Urengoykoye field, located in the YNAO.

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6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

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

In March 2019, Cryogas-Vysotsk commenced initial LNG production at the first train of its medium-scale LNG plant and in April 2019 reached nameplate capacity.

At 30 September 2019 and 31 December 2018, the Group's 51 percent participation interest in Cryogas-Vysotsk was pledged in connection with credit line facility agreements signed by the joint venture with a Russian bank to obtain external project financing.

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

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

	Nine months ended 30 September:	
	2019	2018
At 1 January	244,500	285,326
Share of profit from operations	96,363	79,086
Share of finance income (expense)	38,634	(110,541)
Share of total income tax benefit (expense)	(22,028)	2,461
Share of profit (loss) of joint ventures, net of income tax	112,969	(28,994)
Share of other comprehensive income (loss) of joint ventures	366	(268)
Sale of interests in subsidiaries resulting in the recognition of investments in joint ventures (see Note 4)	147,366	-
Sale of interests in joint ventures (see Note 4)	93,053	1,645
Group's costs capitalized in investments	1,095	1,006
Effect from initial measurement of loans provided by the Group to joint ventures (see Note 21) net of deferred income tax	1,992	-
Effect from other changes in joint ventures' net assets	4,732	-
Capital contributions	231	-
Dividends from joint ventures	(42,550)	(7,725)
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	(219)	2,959
At 30 September	563,535	253,949

For the nine months ended 30 September 2019 and 2018, the Group recorded commission fees in the amount of RR 1,095 million and RR 1,006 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.

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6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

For the nine months ended 30 September 2019, the capital of OOO Arctic LNG 2 was increased by RR 101,437 million through the cash contributions made by other participants in the form of contributions to the assets representing a part of the consideration for the disposal of a 40 percent participation interest in OOO Arctic LNG 2. The difference between the Group's share in the contributions made and the amount previously recognized within the investment in OOO Arctic LNG 2 comprised RR 1,747 million and was recorded as an increase in the investment in OOO Arctic LNG 2, with the corresponding effect recognized in the consolidated statement of changes in equity in accordance with the Group's accounting policy. The Group's participation interest in OOO Arctic LNG 2 did not change as a result of these transactions.

For the nine months ended 30 September 2019, the Group recorded an increase in the amount of RR 2,985 million in equity from remeasurement of the loans (net of deferred income tax) provided to OOO Arctic LNG 2 by other participants.

In the third quarter of 2019, the capital of Rostock LNG GmbH was increased through proportional contributions by its participants totalling RR 472 million, of which RR 231 million were contributed by NOVATEK.

In April and August 2019, Arcticgas declared dividends in the total amount RR 84 billion, of which RR 42 billion were attributable to NOVATEK. The dividends were received by the Group in April, May and August 2019.

In September 2019, Nortgas declared and paid dividends in the amount of RR 1,100 million, of which RR 550 million were attributable to NOVATEK. In April and September 2018, Nortgas declared and paid dividends in the total amount of RR 15,451 million, of which RR 7,725 million were attributable to NOVATEK.

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

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

	At 30 September 2019	At 31 December 2018
Long-term loans receivable	317,747	272,901
Other long-term receivables	406	407
Total	318,153	273,308
Less: current portion of long-term loans receivable	(49,095)	(40,386)
Total long-term loans and receivables	269,058	232,922

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

	At 30 September 2019	At 31 December 2018
OAQ Yamal LNG	234,513	265,606
OOO Arctic LNG 2	76,369	-
OOO Cryogas-Vysotsk	6,402	6,012
ZAO Terneftegas	463	1,283
Total long-term loans receivable	317,747	272,901

OAQ Yamal LNG. In prior years the Group provided US dollar and Euro credit line facilities to Yamal LNG, the Group's joint venture. In 2018, the shareholders opened additional credit line facilities denominated in Euros to finance construction of the LNG Plant fourth train. The loans interest rates are set based on market interest rates, interest rates on borrowings of shareholders and/or combination thereof. The repayment schedules are linked to free cash flows of the joint venture.

7 LONG-TERM LOANS AND RECEIVABLES (CONTINUED)

For the nine months ended 30 September 2019, Yamal LNG repaid to the Group a part of the accrued interest in the amount of RR 29,732 million.

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

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

ZAO Terneftegas. The Group provided US dollar denominated loans to Terneftegas, the Group's joint venture. 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.

For the nine months ended 30 September 2019 and 2018, Terneftegas repaid to the Group a part of the loans and accrued interest in the total amount of RR 767 million and RR 1,184 million, respectively.

No provisions for impairment of long-term loans and receivables were recognized at 30 September 2019 and 31 December 2018. The carrying values of long-term loans and receivables approximate their respective fair values.

8 OTHER NON-CURRENT ASSETS

	At 30 September 2019	At 31 December 2018
Financial assets		
Contingent consideration (see Note 21)	140,511	-
Commodity derivatives	718	2,397
Other financial assets	6	7
Non-financial assets		
Long-term advances	10,963	15,289
Materials for construction	11,814	10,852
Deferred income tax assets	5,903	6,486
Intangible assets, net	2,443	2,119
Other non-financial assets	530	277
Total other non-current assets	172,888	37,427

At 30 September 2019 and 31 December 2018, 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.

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9 TRADE AND OTHER RECEIVABLES

	At 30 September 2019	At 31 December 2018
Trade receivables (net of provision of RR 270 million and RR 349 million at 30 September 2019 and 31 December 2018, respectively)	45,691	48,347
Other receivables (net of provision of RR 313 million and RR 323 million at 30 September 2019 and 31 December 2018, respectively)	186,595	6,086
Total trade and other receivables	232,286	54,433

Trade receivables in the amount RR 16,822 million and RR 12,413 million at 30 September 2019 and 31 December 2018, 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).

At 30 September 2019, other receivables included RR 180,364 million related to receivables in respect of the transactions on the sale of a 40 percent participation interest in OOO Arctic LNG 2 (see Note 4).

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 September 2019	At 31 December 2018
<i>Financial assets</i>		
Current portion of long-term loans receivable (see Note 7)	49,095	40,386
Commodity derivatives	6,842	9,313
Other financial assets	151	-
<i>Non-financial assets</i>		
Value-added tax receivable	21,059	12,646
Recoverable value-added tax	8,386	8,467
Prepayments and advances to suppliers	7,531	7,066
Deferred transportation expenses for natural gas	3,432	3,963
Deferred transportation expenses for liquid hydrocarbons	2,316	3,100
Deferred export duties for liquid hydrocarbons	1,181	3,210
Prepaid customs duties	559	604
Other non-financial assets	1,300	890
Total prepayments and other current assets	101,852	89,645

11 LONG-TERM DEBT

	At 30 September 2019	At 31 December 2018
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	64,334	69,359
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	41,833	45,094
Loan from Silk Road Fund	45,835	48,757
Bank loans	8,038	8,953
Total	160,040	172,163
Less: current portion of long-term debt	(12,210)	(2,120)
Total long-term debt	147,830	170,043

11 LONG-TERM DEBT (CONTINUED)

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.

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.

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.

At 30 September 2019 and 31 December 2018, bank loans also included a credit line facility obtained by a Group's subsidiary from a Russian bank in the amount of RR 1,007 million repayable until December 2020 by monthly equal installments starting from January 2020.

The fair value of long-term debt including its current portion was RR 172,955 million and RR 176,984 million at 30 September 2019 and 31 December 2018, 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 are disclosed in Note 21.

Available credit line facilities. In addition to disclosed above, at 30 September 2019, the Group had available long-term bank credit line facilities with credit limits in the amounts of RR 100 billion, and 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 September 2019 and 31 December 2018, short-term debt and current portion of long-term debt consisted only of current portion of long-term debt in the amount of RR 12,210 million and RR 2,120 million, respectively.

Loans with original maturity three months or less. During 2019 and 2018, 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 September 2019 and 31 December 2018, these loans were repaid.

Available credit line facilities. At 30 September 2019, the Group had available short-term revolving bank credit line facilities, with credit limits in the total amount of RR 20 billion.

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13 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 30 September 2019	At 31 December 2018
Financial liabilities		
Trade payables	50,055	46,692
Dividends payable to shareholders of PAO NOVATEK	42,850	-
Commodity derivatives	7,328	8,492
Interest payable	1,948	1,451
Dividends payable to non-controlling interest	1,176	-
Other payables	4,954	7,639
Non-financial liabilities		
Advances from customers	2,331	5,447
Salary payables	903	837
Other liabilities and accruals	5,781	8,683
Total trade payables and accrued liabilities	117,326	79,241

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.

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 nine months ended 30 September 2019 and 2018, the Group purchased 1.7 million and 2.6 million ordinary shares at a total cost of RR 1,863 million and RR 1,971 million, respectively. At 30 September 2019 and 31 December 2018, the Group held in total 25.1 million and 23.4 million ordinary shares at total cost of RR 12,308 million and RR 10,445 million, respectively. The Group has decided that these shares do not vote.

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

	Nine months ended 30 September:	
	2019	2018
Dividends payable at 1 January	-	1
Dividends declared ^(*)	93,468	51,979
Dividends paid ^(*)	(50,618)	(24,109)
Dividends payable at 30 September	42,850	27,871
Dividends per share declared during the period (in Russian roubles)	31.04	17.25
Dividends per GDR declared during the period (in Russian roubles)	310.40	172.50

^(*) – excluding treasury shares.

On 23 April 2019, the Annual General Meeting of Shareholders of PAO NOVATEK approved the final 2018 dividends of RR 16.81 per share or RR 168.10 per GDR totaling RR 51,040 million (including treasury shares).

On 30 September 2019, the Extraordinary General Meeting of Shareholders of PAO NOVATEK approved the interim dividends of RR 14.23 per share or RR 142.30 per GDR totaling RR 43,207 million (including treasury shares) based on the financial results for the six months ended 30 June 2019.

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15 OIL AND GAS SALES

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
Natural gas	87,791	91,488	312,760	246,771
Naphtha	29,275	39,513	106,665	118,342
Crude oil	28,625	29,479	85,914	80,352
Other gas and gas condensate refined products	20,001	22,817	65,429	68,127
Liquefied petroleum gas	9,963	18,036	33,312	41,950
Stable gas condensate	11,603	16,601	30,151	35,695
Total oil and gas sales	187,258	217,934	634,231	591,237

16 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
Natural gas	34,054	42,408	133,471	91,937
Unstable gas condensate	30,367	44,755	102,710	118,277
Other liquid hydrocarbons	8,611	6,995	15,719	9,344
Reverse excise	(851)	-	(3,145)	-
Total purchases of natural gas and liquid hydrocarbons	72,181	94,158	248,755	219,558

The Group purchases not less than 50 percent of the natural gas volumes produced by its joint venture ZAO Nortgas, some volumes of natural gas produced by its joint venture AO Arcticgas, all volumes of natural gas produced by its joint venture ZAO Terneftegas and some volumes of liquefied natural gas produced by its joint ventures OAO Yamal LNG and OOO Cryogas-Vysotsk (see Note 23).

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

Starting from January 2019, the Group accrues excise tax on raw oil (blend of hydrocarbons comprised of one or more components of crude oil, stable gas condensate, vacuum gasoil, tar, fuel oil sent by the owner for processing) and at the same time claims for deduction at a double rate. The net result from these operations is reported as a deduction to expense for purchases of natural gas and liquid hydrocarbons in the "Reverse excise" line item, as the Group obtains most of its raw oil from unstable gas condensate purchased from its joint ventures.

17 TRANSPORTATION EXPENSES

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
Natural gas transportation				
by trunk and low-pressure pipelines	21,590	20,955	70,508	69,260
Stable gas condensate and				
liquefied petroleum gas transportation by rail	7,711	7,503	24,506	23,404
Crude oil transportation by trunk pipelines	2,641	2,170	7,142	6,450
Stable gas condensate and refined products, crude oil				
and liquefied natural gas transportation by tankers	1,984	2,605	6,264	6,012
Other	450	439	2,977	894
Total transportation expenses	34,376	33,672	111,397	106,020

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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 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
Unified natural resources production tax	14,215	14,471	43,955	40,590
Property tax	840	909	2,659	2,836
Other taxes	43	60	280	307
Total taxes other than income tax	15,098	15,440	46,894	43,733

19 FINANCE INCOME (EXPENSE)

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
<i>Interest expense (including transaction costs)</i>				
Interest expense on fixed rate debt	2,271	2,164	6,830	6,277
Interest expense on variable rate debt	4	-	32	87
Total	2,275	2,164	6,862	6,364
Less: capitalized interest	(1,478)	(1,330)	(4,462)	(3,630)
Interest expense on debt	797	834	2,400	2,734
Provisions for asset retirement obligations:				
effect of the present value discount unwinding	190	153	542	453
Interest expense on lease liabilities	142	126	390	355
Total interest expense	1,129	1,113	3,332	3,542
	Three months ended 30 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
<i>Interest income</i>				
Interest income on loans receivable classified as at amortised cost	247	163	713	481
Interest income on loans receivable classified as at fair value through profit or loss	4,127	3,109	11,271	8,779
Interest income on cash, cash equivalents, deposits and other assets	1,559	394	2,925	992
Total interest income	5,933	3,666	14,909	10,252
	Three months ended 30 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
<i>Foreign exchange gain (loss)</i>				
Gains	13,552	16,990	26,529	49,249
Losses	(11,165)	(7,367)	(51,297)	(31,701)
Total foreign exchange gain (loss), net	2,387	9,623	(24,768)	17,548

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20 INCOME TAX

Effective income tax rate. The Group's Russian statutory income tax rate for 2019 and 2018 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) from joint ventures, and gain on disposal of interests in subsidiaries and joint ventures, the effective income tax rate for the three months ended 30 September 2019 and 2018 was 20.1 percent and 17.8 percent, respectively, and the effective income tax rate for the nine months ended 30 September 2019 and 2018 was 17.1 percent and 17.6 percent, respectively.

For the nine months ended 30 September 2019, the Group paid income tax in the amount of RR 93.2 billion, inclusive of a payment of RR 40 billion to a government controlled entity under an agreement to finance infrastructure facilities in federal ownership in YNAO, to which an investment tax credit was applied.

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

<i>Financial assets</i>	At 30 September 2019		At 31 December 2018	
	Non-current	Current	Non-current	Current
<i>At amortised cost</i>				
Long-term loans receivable	14,226	-	9,556	-
Trade and other receivables	406	232,286	407	54,433
Short-term bank deposits				
with original maturity more than three months	-	111,555	-	27,788
Cash and cash equivalents	-	36,506	-	41,472
Other	6	151	7	-
<i>At fair value through profit or loss</i>				
Long-term loans receivable	254,426	49,095	222,959	40,386
Contingent consideration	140,511	-	-	-
Commodity derivatives	718	6,842	2,397	9,313
Total financial assets	410,293	436,435	235,326	173,392
<i>Financial liabilities</i>				
<i>At amortised cost</i>				
Long-term debt	147,830	12,210	170,043	2,120
Long-term lease liabilities	8,692	2,515	7,473	2,325
Interest payable	-	1,948	-	1,451
Trade and other payables	-	55,009	-	54,331
Dividends payable				
to shareholders of PAO NOVATEK	-	42,850	-	-
Dividends payable to non-controlling interest	-	1,176	-	-
<i>At fair value through profit or loss</i>				
Commodity derivatives	1,178	7,328	2,403	8,492
Total financial liabilities	157,700	123,036	179,919	68,719

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

Commodity derivative instruments. The Group conducts natural gas foreign trading in active markets under long-term and short-term purchase and sales contracts, as well as purchases and sells various derivative instruments (with reference to the European natural gas hubs) for delivery optimization and to decrease exposure to the risk of negative changes in natural gas prices.

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:

<i>Commodity derivatives</i>	At 30 September 2019		At 31 December 2018	
Within other non-current and current assets	7,560		11,710	
Within other non-current and current liabilities	(8,506)		(10,895)	

<i>Included in other operating income (loss)</i>	Three months ended 30 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
Operating income (loss) from natural gas foreign trading	(56)	(466)	(579)	(673)
Change in fair value	328	(225)	(293)	(704)

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:

<i>Effect on the fair value</i>	Nine months ended 30 September:	
	2019	2018
Increase by ten percent	(1,626)	(1,874)
Decrease by ten percent	1,626	1,874

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

The following table summarizes the movements in the carrying amounts of shareholders' loans provided to Yamal LNG, Arctic LNG 2 and Terneftegas, which are accounted for at fair value through profit or loss:

	Nine months ended 30 September:	
	2019	2018
At 1 January	263,345	207,051
Loans provided	24,441	-
Repayment of loans and accrued interest	(30,498)	(1,184)
Recognition of loans, classified previously as intercompany, due to disposal of a subsidiary (see Note 4)	58,329	-
Initial measurement at fair value allocated to increase the Group's investments in joint ventures (see Note 6)	(3,803)	-
Subsequent remeasurement at fair value recognized in profit or loss as follows:		
– Interest income (using the effective interest rate method)	11,271	8,779
– Foreign exchange gain (loss), net	(32,197)	28,847
– Remaining effect from changes in fair value (attributable to free cash flows of the borrowers and interest rates)	12,633	3,084
At 30 September	303,521	246,577

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

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

<i>Effect on the fair value</i>	Nine months ended 30 September:	
	2019	2018
Increase by one percent	(10,087)	(11,244)
Decrease by one percent	10,651	12,095

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

Under IFRS 9, *Financial instruments*, this contingent consideration was classified as a financial asset measured at fair value through profit or loss. Interest income and foreign exchanges differences (calculated using the effective interest method), and the remaining effect from fair value remeasurement of the contingent consideration (included in "other operating income (loss)" line item) are disclosed separately in the consolidated statement of income.

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

<i>Effect on the fair value</i>	At 30 September 2019
Increase by one percent	5,081
Decrease by one percent	(4,907)

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.

(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.

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21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

<i>At 30 September 2019</i>	Russian rouble	US dollar	Euro	Other	Total
<i>Financial assets</i>					
<i>Non-current</i>					
Long-term loans receivable	6,402	63,213	199,037	-	268,652
Trade and other receivables	338	1	-	67	406
Contingent consideration	-	140,511	-	-	140,511
Commodity derivatives	-	-	718	-	718
Other	-	-	-	6	6
<i>Current</i>					
Trade and other receivables	20,990	203,207	7,181	908	232,286
Current portion of long-term loans receivable	-	35,101	13,994	-	49,095
Commodity derivatives	-	-	6,842	-	6,842
Short-term bank deposits with original maturity more than three months	-	111,555	-	-	111,555
Cash and cash equivalents	6,588	9,685	19,443	790	36,506
Other	151	-	-	-	151
<i>Financial liabilities</i>					
<i>Non-current</i>					
Long-term debt	(310)	(147,520)	-	-	(147,830)
Long-term lease liabilities	(286)	(5,593)	(2,758)	(55)	(8,692)
Commodity derivatives	-	-	(1,178)	-	(1,178)
<i>Current</i>					
Short-term debt and current portion of long-term debt	(697)	(4,481)	(7,032)	-	(12,210)
Current portion of long-term lease liabilities	(18)	(1,537)	(882)	(78)	(2,515)
Interest payable	(3)	(1,944)	(1)	-	(1,948)
Trade and other payables	(39,526)	(9,175)	(6,093)	(215)	(55,009)
Dividends payable to shareholders of PAO NOVATEK	(42,850)	-	-	-	(42,850)
Dividends payable to non-controlling interest	(1,176)	-	-	-	(1,176)
Commodity derivatives	-	-	(7,328)	-	(7,328)
Net exposure	(50,397)	393,023	221,943	1,423	565,992

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21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

<i>At 31 December 2018</i>	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
<i>Non-current</i>					
Long-term loans receivable	6,012	107,713	118,790	-	232,515
Trade and other receivables	342	2	-	63	407
Commodity derivatives	-	-	2,397	-	2,397
Other	-	-	-	7	7
<i>Current</i>					
Trade and other receivables	21,379	13,577	18,393	1,084	54,433
Current portion of long-term loans receivable	-	20,694	19,692	-	40,386
Commodity derivatives	-	-	9,313	-	9,313
Short-term bank deposits with original maturity more than three months	-	27,788	-	-	27,788
Cash and cash equivalents	6,804	11,194	22,588	886	41,472
Financial liabilities					
<i>Non-current</i>					
Long-term debt	(1,007)	(161,090)	(7,946)	-	(170,043)
Long-term lease liabilities	(337)	(7,043)	(1)	(92)	(7,473)
Commodity derivatives	-	-	(2,403)	-	(2,403)
<i>Current</i>					
Short-term debt and current portion of long-term debt	-	(2,120)	-	-	(2,120)
Current portion of long-term lease liabilities	(20)	(2,222)	(2)	(81)	(2,325)
Interest payable	(3)	(1,447)	(1)	-	(1,451)
Trade and other payables	(35,709)	(2,671)	(15,707)	(244)	(54,331)
Commodity derivatives	-	-	(8,492)	-	(8,492)
Net exposure	(2,539)	4,375	156,621	1,623	160,080

(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.

In 2018, wholesale natural gas prices for sales to all customer categories (excluding residential customers) on the domestic market were increased by the Regulator by 3.4 percent effective 21 August 2018, and remained unchanged until the end of the second quarter of 2019. From 1 July 2019, regulated wholesale natural gas prices were increased by 1.4 percent.

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

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

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 and Dubai and/or naphtha prices, mainly of Naphtha Japan and Naphtha CIF NWE or a combination thereof, plus a margin or discount, depending on current market situation. Other gas condensate refined products volumes sold mainly to the European market are based on benchmark jet fuel prices of Jet CIF NWE and gasoil prices of Gasoil 0.1 percent CIF NWE plus a margin or discount, depending on current market situation. Crude oil sold internationally is based on benchmark crude oil prices of Brent, or Dubai, plus a premium or a discount, and on a transaction-by-transaction basis or based on benchmark crude oil prices of Brent and Urals or a combination thereof for volumes sold domestically.

As a result, the Group's revenues from the sales of liquid hydrocarbons are subject to fluctuations in the crude oil and gas condensate refined products benchmark prices. The Group's liquid hydrocarbons purchase and sales contracts are concluded 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. At 30 September 2019 and 31 December 2018, the Group's debt bore fixed interest rates.

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.

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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.

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

<i>At 30 September 2019</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt					
<i>Principal</i>	12,210	46,661	77,859	29,127	165,857
<i>Interest</i>	8,020	6,312	9,292	4,611	28,235
Lease liabilities	3,215	3,068	6,414	-	12,697
Trade and other payables	55,009	-	-	-	55,009
Dividends payable					
to shareholders of PAO NOVATEK	42,850	-	-	-	42,850
Dividends payable					
to non-controlling interest	1,176	-	-	-	1,176
Total financial liabilities	122,480	56,041	93,565	33,738	305,824

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

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

<i>At 31 December 2018</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt					
<i>Principal</i>	2,416	13,786	129,124	33,831	179,157
<i>Interest</i>	8,775	8,494	13,371	5,739	36,379
Lease liabilities	2,408	2,396	6,294	-	11,098
Trade and other payables	54,331	-	-	-	54,331
Total financial liabilities	67,930	24,676	148,789	39,570	280,965

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

<i>At 30 September 2019</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Cash inflow	107,005	46,718	23,914	177,637
Cash outflow	(107,491)	(47,075)	(24,016)	(178,582)
Net cash flows	(486)	(357)	(102)	(945)

<i>At 31 December 2018</i>				
Cash inflow	133,167	47,403	42,251	222,821
Cash outflow	(132,409)	(47,367)	(42,292)	(222,068)
Net cash flows	758	36	(41)	753

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

At 30 September 2019, the Group had investment grade ratings of BBB by Standard & Poor's, BBB by Fitch Ratings and Baa2 by Moody's Investors Service. The Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis to maintain its credit ratings.

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

The Group has a stated dividend policy that distributes not less than 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 nine months ended 30 September 2019. At 30 September 2019 and 31 December 2018, the Group's capital totalled RR 1,610 billion and RR 971 billion, 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.

Contractual commitments. At 30 September 2019, the Group had contractual capital expenditures commitments aggregating approximately RR 150 billion (at 31 December 2018: RR 376 billion) mainly for construction of infrastructure for future LNG projects (through 2023) and for development at the North-Russkoye (through 2021), the East-Tarkosalinskoye (through 2021) and the Yurkharovskoye (through 2021) fields all in accordance with duly signed agreements. At 31 December 2018, contractual commitments included RR 266 billion related to OOO Arctic LNG 2, which became a Group's joint venture in March 2019 (see Note 4).

At 30 September 2019 and 31 December 2018, the Group was a participant of joint operations on exploration and production in Montenegro (50 percent participation interest) and in Republic of Lebanon (20 percent participation interest) under the agreements concluded with the State of Montenegro and the Ministry of Energy and Water of Republic of Lebanon, respectively. Jointly with other participants of these agreements, the Group committed to conduct mandatory work program exploration activities during the established periods, as stipulated by these agreements (until 2021). The maximum amount to be paid by the Group in case of non-performance of work program exploration activities is EUR 42.5 million to the State of Montenegro and EUR 12.7 million to the Republic of Lebanon. The outflow of resources embodying economic benefits required to settle these contingent liabilities is not probable; therefore, no provision for these liabilities was recognized in the consolidated interim condensed financial statements.

22 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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-terminal owners) in favor of the Group's joint venture OAO Yamal LNG and its subsidiary totaled USD 1.4 billion and EUR 8.2 billion at 30 September 2019 (at 31 December 2018: USD 1.4 billion and EUR 7.2 billion). These non-financial guarantees have various terms depending mostly on passing tests proving successful project completion that is expected in the near term. After the expiry of the aforementioned guarantees, in accordance with the project financing agreements, the Group will issue non-financial guarantees enforceable only in limited circumstances specified in these agreements.

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 OOO Cryogas-Vysotsk totaled EUR 277 million at 30 September 2019 (at 31 December 2018: EUR 232 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.

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.

22 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

Legal contingencies. The Group is subject of, or party to a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the consolidated 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 September:		Nine months ended 30 September:	
<i>Related parties – joint ventures</i>	2019	2018	2019	2018
Transactions				
Revenue from oil and gas sales	930	-	2,193	-
Other revenues	966	543	4,142	1,282
Purchases of natural gas and liquid hydrocarbons	(64,533)	(78,866)	(222,904)	(193,322)
Transportation expenses	(10)	-	(58)	-
Materials, services and other	(34)	(25)	(108)	(116)
Interest income	4,347	3,258	11,890	9,182
Dividends declared	4,050	3,625	42,550	7,725
Related parties – joint ventures				
	At 30 September 2019		At 31 December 2018	
Balances				
Long-term loans receivable			268,652	232,515
Current portion of long-term loans receivable			49,095	40,386
Trade receivables			658	330
Prepayments and other current assets			105	-
Trade payables and accrued liabilities			27,045	26,194

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.

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23 RELATED PARTY TRANSACTIONS (CONTINUED)

In September 2018, TOTAL S.A. acquired an additional shareholding in NOVATEK increasing their ownership interest in the Company to 19.4 percent. From there on, the Group considers TOTAL as a shareholder of significant influence, and starting from 1 October 2018, discloses balances and operations with TOTAL and its subsidiaries as related party transactions.

<i>Related parties – entities with significant influence and their subsidiaries</i>	Three months ended 30 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
Transactions				
Revenue from oil and gas sales	5,498	-	28,413	-
Gain on disposal of interests in subsidiaries and joint ventures, net	-	-	308,578	-
Other operating income (loss), net	170	-	364	-
Interest income	276	-	622	-

<i>Related parties – entities with significant influence and their subsidiaries</i>	At 30 September 2019	At 31 December 2018
Balances		
Trade and other receivables	45,235	2,271
Contingent consideration	35,700	-
Trade payables and accrued liabilities	257	350

<i>Related parties – parties under control of key management personnel</i>	Three months ended 30 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
Transactions				
Purchases of construction services (capitalized within property, plant and equipment)	(2,330)	(2,424)	(9,609)	(4,919)
Transportation expenses	(2,407)	(2,286)	(7,628)	(7,284)

<i>Related parties – parties under control of key management personnel</i>	At 30 September 2019	At 31 December 2018
Balances		
Advances for construction	5,036	3,704
Prepayments and other current assets	524	715
Trade payables and accrued liabilities	1,993	2,104

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

<i>Related parties – members of the key management personnel</i>	Three months ended 30 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
Board of Directors	8	-	129	103
Management Committee	1,133	807	3,880	2,889
Total compensation	1,141	807	4,009	2,992

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.

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, Denmark, France, Finland, Italy, the United Kingdom, Poland, Spain, Latvia, Lithuania, Norway and Montenegro)* – sales of naphtha, stable gas condensate, gas condensate refined products, crude oil, liquefied petroleum gas and natural gas and exploration activities within joint operations;
- *Countries of the Asia-Pacific region (primarily, China, Japan and Singapore)* – sales of naphtha, stable gas condensate, natural gas and crude oil;
- *Countries of the North America (primarily, the USA)* – sales of naphtha and crude oil;
- *Countries of the Middle East (primarily, Turkey, Oman, UAE and Lebanon)* – sales of naphtha, stable gas condensate, crude oil and exploration activities within joint operations.

Geographical information of oil and gas sales for the three and nine months ended 30 September 2019 and 2018 is as follows:

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
Russia	89,201	98,001	294,197	297,086
Europe	55,174	68,613	234,723	182,910
Asia-Pacific region	34,117	45,059	88,045	102,095
North America	14,502	11,915	33,202	26,869
The Middle East	2,696	3,376	9,571	10,041
Latin America	-	2,496	-	2,496
Less: export duties	(8,432)	(11,526)	(25,507)	(30,260)
Total outside Russia	98,057	119,933	340,034	294,151
Total oil and gas sales	187,258	217,934	634,231	591,237

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

Major customers. For the nine months ended 30 September 2019 and 2018, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 13.5 percent (RR 86.9 billion) and 14.5 percent (RR 86.2 billion) of total external revenues, respectively. The Group's major customer resides within the Russian Federation.

PAO NOVATEK
Contact Information

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

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