PAO NOVATEK

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF AND FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2020

CONTENTS **Page**

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 June 2020 and the related consolidated interim condensed statements of income and comprehensive income for the three-month and six-month periods then ended, cash flows and changes in equity for the six-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

28 July 2020

Moscow, Russian Federation

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

Audited entity: PAO NOVATEK

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

Taxpayer Identification Number: 6316031581

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

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

Taxpayer Identification Number 7705051102

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

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

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

	Notes	At 30 June 2020	At 31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	4	644,873	556,798
Investments in joint ventures	5	517,926	585,340
Long-term loans and receivables	6	302,882	231,898
Other non-current assets	7	118,779	142,335
Total non-current assets		**1,584,460**	**1,516,371**
Current assets			
Inventories		9,708	12,263
Current income tax prepayments		6,915	3,819
Trade and other receivables	8	195,645	229,581
Prepayments and other current assets	9	104,839	113,841
Short-term bank deposits with original maturity more than three months		17,096	83,752
Cash and cash equivalents		46,090	53,240
Total current assets		**380,293**	**496,496**
Total assets		**1,964,753**	**2,012,867**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	10	118,499	139,852
Long-term lease liabilities	19	7,445	7,516
Deferred income tax liabilities		61,167	62,146
Asset retirement obligations		12,693	12,372
Other non-current liabilities		9,069	6,792
Total non-current liabilities		**208,873**	**228,678**
Current liabilities			
Current portion of long-term debt	10	50,314	12,246
Current portion of long-term lease liabilities	19	3,324	2,947
Trade payables and accrued liabilities	11	73,297	86,728
Current income tax payable		2,533	2,140
Other taxes payable		11,765	13,052
Total current liabilities		**141,233**	**117,113**
Total liabilities		**350,106**	**345,791**
Equity attributable to PAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(19,923)	(12,308)
Additional paid-in capital		31,297	31,297
Currency translation differences		3,729	3,814
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		1,574,712	1,618,696
Total equity attributable to PAO NOVATEK shareholders	12	**1,595,825**	**1,647,509**
Non-controlling interest		**18,822**	**19,567**
Total equity		**1,614,647**	**1,667,076**
Total liabilities and equity		**1,964,753**	**2,012,867**

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

L. Mikhelson
Chairman of the Management Committee

M. Gyetvay
Chief Financial Officer

28 July 2020

PAO NOVATEK
Consolidated Interim Condensed Statement of Income (unaudited)
(in millions of Russian roubles, except for share and per share amounts)

	Notes	Three months ended 30 June: 2020	Three months ended 30 June: 2019	Six months ended 30 June: 2020	Six months ended 30 June: 2019
Revenues					
Oil and gas sales	13	140,641	215,789	323,236	446,973
Other revenues		3,298	2,724	5,265	5,646
Total revenues		**143,939**	**218,513**	**328,501**	**452,619**
Operating expenses					
Purchases of natural gas and liquid hydrocarbons	14	(45,240)	(81,814)	(110,302)	(176,574)
Transportation expenses	15	(35,903)	(36,918)	(75,409)	(77,021)
Taxes other than income tax	16	(9,865)	(16,254)	(24,395)	(31,796)
Depreciation, depletion and amortization		(8,975)	(8,007)	(17,846)	(15,494)
Materials, services and other		(7,176)	(6,137)	(13,988)	(12,167)
General and administrative expenses		(4,326)	(4,765)	(9,990)	(9,798)
Exploration expenses		(3,345)	(2,530)	(6,133)	(5,907)
Impairment reversals, net		26	10	23	9
Changes in natural gas, liquid hydrocarbons and work-in-progress		(1,435)	(1,092)	(4,734)	(3,899)
Total operating expenses		**(116,239)**	**(157,507)**	**(262,774)**	**(332,647)**
Gain on disposal of interests in subsidiaries and joint ventures, net	3	-	-	-	308,578
Other operating loss, net	19	(14,077)	(247)	(47,313)	(1,161)
Profit from operations		**13,623**	**60,759**	**18,414**	**427,389**
Finance income (expense)					
Interest expense	17	(1,242)	(1,112)	(2,445)	(2,203)
Interest income	17	5,885	4,646	11,641	8,976
Change in fair value of non-commodity financial instruments	19	981	3,969	(4,926)	14,084
Foreign exchange gain (loss), net	17	(56,527)	(7,780)	86,280	(27,155)
Total finance income (expense)		**(50,903)**	**(277)**	**90,550**	**(6,298)**
Share of profit (loss) of joint ventures, net of income tax	5	72,007	23,282	(73,224)	94,255
Profit before income tax		**34,727**	**83,764**	**35,740**	**515,346**
Income tax benefit (expense)					
Current income tax benefit (expense)		3,552	(10,218)	(26,646)	(33,620)
Deferred income tax benefit (expense), net		4,617	352	6,190	(21,570)
Total income tax benefit (expense)	18	**8,169**	**(9,866)**	**(20,456)**	**(55,190)**
Profit		**42,896**	**73,898**	**15,284**	**460,156**
Profit attributable to:					
Non-controlling interest		1,332	4,723	4,400	9,185
Shareholders of PAO NOVATEK		41,564	69,175	10,884	450,971
Basic and diluted earnings per share (in Russian roubles)		13.84	22.97	3.62	149.73
Weighted average number of shares outstanding (in millions)		*3,003.2*	*3,011.2*	*3,005.8*	*3,011.9*

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

PAO NOVATEK
Consolidated Interim Condensed Statement of Comprehensive Income (unaudited)
(in millions of Russian roubles)

	Three months ended 30 June:		Six months ended 30 June:	
	2020	**2019**	**2020**	**2019**
Profit	**42,896**	**73,898**	**15,284**	**460,156**
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to profit (loss)				
Remeasurement of pension obligations	(816)	(256)	(1,244)	(321)
Share of remeasurement of pension obligations of joint ventures	(52)	(28)	(103)	(56)
	(868)	**(284)**	**(1,347)**	**(377)**
Items that may be reclassified subsequently to profit (loss)				
Currency translation differences	1,379	(1,318)	712	(2,507)
Share of currency translation differences of joint ventures	1,414	12	(797)	504
	2,793	**(1,306)**	**(85)**	**(2,003)**
Other comprehensive income (loss)	**1,925**	**(1,590)**	**(1,432)**	**(2,380)**
Total comprehensive income	**44,821**	**72,308**	**13,852**	**457,776**
Total comprehensive income attributable to:				
Non-controlling interest	1,332	4,723	4,400	9,185
Shareholders of PAO NOVATEK	43,489	67,585	9,452	448,591

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

(in millions of Russian roubles)

	Notes	Six months ended 30 June: 2020	2019
Profit before income tax		**35,740**	**515,346**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		17,846	15,494
Impairment expenses (reversals), net		(23)	(9)
Foreign exchange loss (gain), net		(86,280)	27,155
Gain on disposal of interests in subsidiaries and joint ventures, net	3	-	(308,578)
Interest expense		2,445	2,203
Interest income		(11,641)	(8,976)
Share of loss (profit) of joint ventures, net of income tax	5	73,224	(94,255)
Change in fair value of non-commodity financial instruments		4,926	(14,084)
Revaluation of commodity derivatives and contingent consideration through profit or loss		46,801	621
Other adjustments		185	(13)
Decrease (increase) in long-term advances given		3,007	2,912
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		18,795	(5,561)
Decrease (increase) in inventories		4,351	6,589
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		(21,352)	(8,581)
Increase (decrease) in taxes payable, other than income tax		(1,262)	5,681
Total effect of working capital changes		**532**	**(1,872)**
Dividends and cash received from joint ventures		660	38,500
Interest received		4,912	16,019
Income taxes paid excluding actual payments relating to disposal of subsidiaries		(28,950)	(17,548)
Net cash provided by operating activities		**63,384**	**172,915**
Cash flows from investing activities			
Purchases of property, plant and equipment	4	(90,142)	(65,979)
Payments for mineral licenses	4	(317)	(2,065)
Purchases of materials for construction		(9,223)	(4,716)
Purchases of intangible assets		(736)	(662)
Proceeds from disposal of interests in subsidiaries and joint ventures, net of cash disposed	3	46,021	23,453
Actual income tax payments relating to disposal of subsidiaries	3	-	(16,700)
Interest paid and capitalized	4	(3,118)	(2,984)
Net decrease (increase) in bank deposits with original maturity more than three months		78,796	(5,770)
Guarantee fees paid		(850)	(720)
Loans provided to joint ventures	6	(48,857)	(17,424)
Repayments of loans provided to joint ventures	6	14,095	530
Net cash used for investing activities		**(14,331)**	**(93,037)**

(in millions of Russian roubles)

	Notes	Six months ended 30 June: 2020	2019
Cash flows from financing activities			
Repayments of long-term debt		(3,407)	-
Proceeds from short-term debt with original maturity more than three months		441	1,000
Repayments of short-term debt with original maturity more than three months		(441)	-
Loan commitment fee		(534)	-
Interest on debt paid		(1,033)	(1,106)
Dividends paid to shareholders of PAO NOVATEK	12	(54,359)	(50,618)
Dividends paid to non-controlling interest		(4,802)	(9,751)
Payments of lease liabilities		(1,719)	(1,153)
Purchases of treasury shares	12	(7,806)	(1,865)
Net cash used for financing activities		**(73,660)**	**(63,493)**
Net effect of exchange rate changes on cash and cash equivalents		17,457	(6,143)
Net increase (decrease) in cash and cash equivalents		**(7,150)**	**10,242**
Cash and cash equivalents at the beginning of the period		53,240	41,472
Cash and cash equivalents at the end of the period		**46,090**	**51,714**

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

Consolidated Interim Condensed Statement of Changes in Equity (unaudited)

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

For the six months ended 30 June 2019	*Number of ordinary shares (in millions)*	Ordinary share capital	Treasury shares	Additional paid-in capital	Currency translation differences	Asset revaluation surplus on acquisitions	Retained earnings	Equity attributable to PAO NOVATEK shareholders	Non-controlling interest	Total equity
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	-	-	-	-	-	-	450,971	450,971	9,185	460,156
Other comprehensive loss	-	-	-	-	(2,003)	-	(377)	(2,380)	-	(2,380)
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(2,003)**	**-**	**450,594**	**448,591**	**9,185**	**457,776**
Dividends (Note 12)	-	-	-	-	-	-	(50,618)	(50,618)	(9,751)	(60,369)
Effect from other changes in joint ventures' net assets (Note 5)	-	-	-	-	-	-	(24)	(24)	-	(24)
Purchase of treasury shares (Note 12)	*(1.7)*	-	(1,863)	-	-	-	-	(1,863)	-	(1,863)
At 30 June 2019	***3,011.2***	**393**	**(12,308)**	**31,297**	**(3,705)**	**5,617**	**1,243,046**	**1,264,340**	**17,775**	**1,282,115**
For the six months ended 30 June 2020										
At 1 January 2020	***3,011.2***	**393**	**(12,308)**	**31,297**	**3,814**	**5,617**	**1,618,696**	**1,647,509**	**19,567**	**1,667,076**
Profit	-	-	-	-	-	-	10,884	10,884	4,400	15,284
Other comprehensive loss	-	-	-	-	(85)	-	(1,347)	(1,432)	-	(1,432)
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(85)**	**-**	**9,537**	**9,452**	**4,400**	**13,852**
Dividends (Note 12)	-	-	-	-	-	-	(54,359)	(54,359)	(5,145)	(59,504)
Effect from other changes in joint ventures' net assets (Note 5)	-	-	-	-	-	-	838	838	-	838
Purchase of treasury shares (Note 12)	*(8.0)*	-	(7,615)	-	-	-	-	(7,615)	-	(7,615)
At 30 June 2020	***3,003.2***	**393**	**(19,923)**	**31,297**	**3,729**	**5,617**	**1,574,712**	**1,595,825**	**18,822**	**1,614,647**

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

PAO NOVATEK (hereinafter referred to as "NOVATEK" or the "Company") and its subsidiaries (hereinafter jointly referred to as the "Group") is an independent oil and gas company engaged in the acquisition, exploration, development, production, processing, and marketing of hydrocarbons with its oil and gas operations located mainly in the Yamal-Nenets Autonomous District (hereinafter referred to as "YNAO") of the Russian Federation. The Group delivers its natural gas and its liquid hydrocarbons on both the Russian domestic and international markets.

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

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

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

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

2 BASIS OF PREPARATION

The consolidated interim condensed financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2019 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 2019. 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.

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

2 BASIS OF PREPARATION (CONTINUED)

Functional and presentation currency. The consolidated interim condensed financial statements are presented in Russian roubles, the Group's reporting (presentation) currency and the functional currency for the majority of the Group's entities. Exchange rates for foreign currencies in which the Group conducted significant transactions or had significant monetary assets and/or liabilities in the reporting period were as follows:

	Average rate for the three months ended 30 June:		Average rate for the six months ended 30 June:	
Russian roubles to one currency unit	2020	2019	2020	2019
US dollar (USD)	72.36	64.56	69.37	65.34
Euro (EUR)	79.65	72.52	76.44	73.84
Polish zloty (PLN)	17.68	16.93	17.31	17.20

	At 30 June:		At 31 December:	
Russian roubles to one currency unit	2020	2019	2019	2018
US dollar (USD)	69.95	63.08	61.91	69.47
Euro (EUR)	78.68	71.82	69.34	79.46
Polish zloty (PLN)	17.61	16.88	16.24	18.48

3 ACQUISITIONS AND DISPOSALS

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

In March 2019, the Group sold a 10 percent participation interest in OOO Arctic LNG 2 to TOTAL E&P Salmanov, a wholly owned subsidiary of TOTAL S.A.

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

- *cash payments to the Group* of USD 1,300 million equivalent, of which USD 600 million equivalent was paid upon the transaction closing date and the remaining amount was paid within twelve months from that date, in the first quarter of 2020;
- *contingent cash consideration to the Group* consisting of tranches in total of up to USD 800 million equivalent depending on average crude oil benchmark prices level for the year preceding each payment. The contingent payments dates are linked to the dates of launching the Project's LNG trains;
- *capital contributions to OOO Arctic LNG 2 (in the form of contributions to the assets)* ranging from USD 363 million to USD 863 million equivalent (these amounts are presented, in particular, taking into account revisions made upon the entry of the three additional participants to the Project in July 2019, see below) with the terms and payment amounts depending on the Project's capital expenditure program determined upon the results of the Final Investment Decision and the date of production launch at the Project's first LNG train.

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

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

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

3 ACQUISITIONS AND DISPOSALS (CONTINUED)

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.

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

In June 2019, the Group signed agreements with CNPC, CNOOC Limited, Mitsui & Co., Ltd. and JOGMEC on entering the Arctic LNG 2 project. In accordance with these agreements, 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.

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.

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

3 ACQUISITIONS AND DISPOSALS (CONTINUED)

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.

4 PROPERTY, PLANT AND EQUIPMENT

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

For the six months ended 30 June 2019	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	525,089	77,953	17,949	620,991
Accumulated depreciation, depletion and amortization	(208,179)	-	(4,611)	(212,790)
Net book value at 1 January 2019	**316,910**	**77,953**	**13,338**	**408,201**
Additions	3,310	81,769	-	85,079
Transfers	23,919	(24,843)	924	-
Change in asset retirement costs	769	-	-	769
Depreciation, depletion and amortization	(14,947)	-	(479)	(15,426)
Reclassification to assets held for sale (see Note 3)	-	(18,761)	(386)	(19,147)
Disposals, net	(2,563)	(272)	(67)	(2,902)
Currency translation differences	(929)	(17)	(23)	(969)
Cost	549,387	115,829	18,343	683,559
Accumulated depreciation, depletion and amortization	(222,918)	-	(5,036)	(227,954)
Net book value at 30 June 2019	**326,469**	**115,829**	**13,307**	**455,605**
For the six months ended 30 June 2020				
Cost	609,958	168,743	22,294	800,995
Accumulated depreciation, depletion and amortization	(238,633)	-	(5,564)	(244,197)
Net book value at 1 January 2020	**371,325**	**168,743**	**16,730**	**556,798**
Additions	1,457	103,014	-	104,471
Transfers	29,265	(33,758)	4,493	-
Change in asset retirement costs	28	-	-	28
Depreciation, depletion and amortization	(16,737)	-	(779)	(17,516)
Disposals, net	(87)	(195)	(89)	(371)
Currency translation differences	1,339	78	46	1,463
Cost	641,682	237,882	26,756	906,320
Accumulated depreciation, depletion and amortization	(255,092)	-	(6,355)	(261,447)
Net book value at 30 June 2020	**386,590**	**237,882**	**20,401**	**644,873**

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

4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in additions to property, plant and equipment for the six months ended 30 June 2019 are costs of RR 19,147 million related to the Arctic LNG 2 project and incurred until the date of the disposal of a 10 percent participation interest in OOO Arctic LNG 2 to TOTAL S.A. group (see Note 3).

Included in additions to property, plant and equipment for the six months ended 30 June 2020 and 2019 are capitalized interest and foreign exchange differences of RR 4,750 million and RR 2,984 million, respectively.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 60,501 million and RR 44,070 million at 30 June 2020 and 31 December 2019, respectively.

Included in property, plant and equipment at 30 June 2020 and 31 December 2019 are right-of-use assets with carrying value of RR 10,466 million and RR 10,211 million, respectively, primarily related to long-term agreements on time chartering of marine tankers. Depreciation charge for right-of-use assets for the six months ended 30 June 2020 and 2019 amounted to RR 1,457 million and RR 1,090 million, respectively.

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

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

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

	At 30 June 2020	At 31 December 2019
Proved properties acquisition costs	101,869	100,495
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(21,177)	(20,463)
Unproved properties acquisition costs	11,346	10,997
Total acquisition costs	**92,038**	**91,029**

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

No impairment was recognized in respect of oil and gas properties and equipment for the six months ended 30 June 2020 and 2019.

Capital commitments are disclosed in Note 20.

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

5 INVESTMENTS IN JOINT VENTURES

	At 30 June 2020	At 31 December 2019
Joint ventures:		
OOO Arctic LNG 2	249,353	247,450
AO Arcticgas	142,539	132,399
OAO Yamal LNG	77,278	150,943
ZAO Nortgas	43,834	44,372
ZAO Terneftegas	4,280	6,394
OOO Cryogas-Vysotsk	356	3,511
Rostock LNG GmbH	247	225
OOO SMART LNG	39	46
Total investments in joint ventures	**517,926**	**585,340**

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

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

In July 2019, the Group sold a 30 percent participation interest in OOO Arctic LNG 2 to CNPC, CNOOC Limited and Japan Arctic LNG B.V. (10 percent each) (see Note 3).

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.

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

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 a project on natural gas production, liquefaction and shipping based on the feedstock resources of the South-Tambeyskoye field located in YNAO (the "Yamal LNG project"). Annual nameplate capacity of the liquefaction plant after the launch of the first three LNG trains is 16.5 million tons of LNG (5.5 million tons each) and up to 1.2 million tons of stable gas condensate. In addition, the fourth train with an annual nameplate capacity of 0.9 million tons is currently in the final stage of construction.

At 30 June 2020 and 31 December 2019, the Group's 50.1 percent ownership in Yamal LNG was pledged in connection with credit line facility agreements signed by Yamal LNG with a number of Russian and foreign banks to obtain external project financing.

In accordance with the equity method of accounting, investment in Yamal LNG at 30 June 2020 was reduced for the Group's share of loss of the joint venture for the six months ended 30 June 2020 in the amount of RR 73,583 million. This loss was generated as a result of negative exchange rate differences of the joint venture, in which the Group's share amounted to RR 104,985 million.

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

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

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

5 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

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

At 30 June 2020 and 31 December 2019, the Group's 51 percent participation interest in Cryogas-Vysotsk was pledged in connection with credit line facility agreements signed by the joint venture with a Russian bank to obtain external project financing.

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

OOO SMART LNG. From October 2019, the Group holds a 50 percent participation interest in OOO SMART LNG, its joint venture with PAO Sovcomflot. SMART LNG will lease Arctic ice-class LNG tankers, ensuring transportation from the Arctic LNG 2 project.

At 30 June 2020, the Group's 50 percent participation interest in SMART LNG was pledged in connection with lease agreements for Arctic ice-class LNG tankers entered into by SMART LNG.

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

	Six months ended 30 June:	
	2020	**2019**
At 1 January	**585,340**	**244,500**
Share of profit from operations	50,802	65,948
Share of finance income (expense)	(145,374)	46,574
Share of total income tax benefit (expense)	21,348	(18,267)
Share of profit (loss) of joint ventures, net of income tax	**(73,224)**	**94,255**
Share of other comprehensive income (loss) of joint ventures	(899)	448
Group's costs capitalized in investments	805	737
Effect from initial measurement of loans provided by the Group to joint ventures (see Note 19) net of deferred income tax	7,017	2,125
Effect from other changes in joint ventures' net assets	838	(24)
Dividends and cash from joint ventures	(160)	(38,500)
Sale of interests in subsidiaries resulting in the recognition of investments in joint ventures (see Note 3)	-	147,366
Reorganization of joint ventures	-	2,163
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	(1,791)	(1,226)
At 30 June	**517,926**	**451,844**

For the six months ended 30 June 2020 and 2019, the Group recorded commission fees in the amount of RR 805 million and RR 737 million, respectively, for the guarantee received from the State Corporation VEB.RF (see Note 20) as an increase to the investment in Yamal LNG.

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

5 INVESTMENTS IN JOINT VENTURES (CONTINUED)

For the six months ended 30 June 2020, the capital of OOO Arctic LNG 2 was increased by RR 27,551 million through the cash contributions made by the other participants in the form of contributions to the assets representing a part of the consideration for the disposal of a 40 percent participation interest in OOO Arctic LNG 2 (see Note 3). 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 1,337 million and was recorded as a 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 six months ended 30 June 2020, the Group recorded an increase in equity in the amount of RR 578 million from initial measurement of the loans (net of deferred income tax) provided to OOO Arctic LNG 2 by the other participants.

For the six months ended 30 June 2020, Terneftegaz transferred cash in the amount of RR 160 million distributed in favor of the Group.

In April 2019, Arcticgas declared dividends in the total amount RR 77 billion, of which RR 38.5 billion were attributable to NOVATEK. The dividends were received by the Group in April and May 2019.

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.

For the six months ended 30 June 2020 and 2019, the summarized statements of income (loss) for the Group's principal joint ventures are as follows (100 percent base):

For the six months ended 30 June 2020	**Arctic LNG 2**	**Arcticgas**	**Yamal LNG**	**Nortgas**
Revenues	20	72,216	161,487	7,316
Profit (loss) from operations	**(1,343)**	**25,830**	**74,619**	**(778)**
Interest expense	(25)	(1,915)	(77,072)	(582)
Change in fair value of non-commodity financial instruments	(587)	-	23,951	-
Foreign exchange gain (loss), net	(10,307)	(11)	(209,665)	-
Profit (loss) before income tax	**(12,237)**	**24,115**	**(188,133)**	**(1,306)**
Income tax benefit (expense)	2,453	(3,792)	41,182	256
Profit (loss), net of income tax	**(9,784)**	**20,323**	**(146,951)**	**(1,050)**

For the six months ended 30 June 2019	**Arctic LNG 2**	**Arcticgas**	**Yamal LNG**	**Nortgas**
Revenues	5	99,419	150,480	10,817
Profit (loss) from operations	**(118)**	**53,418**	**71,178**	**2,134**
Interest expense	(31)	(2,548)	(59,469)	(919)
Change in fair value of non-commodity financial instruments	(1,345)	-	(15,142)	-
Foreign exchange gain (loss), net	2,911	32	163,185	-
Profit (loss) before income tax	**1,423**	**51,891**	**159,907**	**1,300**
Income tax benefit (expense)	(285)	(8,573)	(25,893)	(269)
Profit (loss), net of income tax	**1,138**	**43,318**	**134,014**	**1,031**

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

6 LONG-TERM LOANS AND RECEIVABLES

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

	At 30 June 2020	At 31 December 2019
Long-term loans receivable	346,244	282,310
Other long-term receivables	393	403
Total	**346,637**	**282,713**
Less: current portion of long-term loans receivable	(43,755)	(50,815)
Total long-term loans and receivables	**302,882**	**231,898**

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

	At 30 June 2020	At 31 December 2019
OAO Yamal LNG	209,900	199,623
OOO Arctic LNG 2	129,610	76,085
OOO Cryogas-Vysotsk	6,734	6,521
ZAO Terneftegas	-	81
Total long-term loans receivable	**346,244**	**282,310**

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

For the six months ended 30 June 2020 and 2019, Yamal LNG repaid to the Group a part of the loans and accrued interest in the total amount of RR 17,696 million and RR 14,949 million, respectively.

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

Subsequent to the balance sheet date, in July 2020, the Group provided RR 10,399 million to Arctic LNG 2 under these credit line facilities.

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

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

No provisions for impairment of long-term loans and receivables were recognized at 30 June 2020 and 2019. The carrying values of long-term loans and receivables approximate their respective fair values.

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

7 OTHER NON-CURRENT ASSETS

	At 30 June 2020	At 31 December 2019
Financial assets		
Contingent consideration (see Note 19)	71,705	101,391
Commodity derivatives	1,932	749
Other financial assets	9	8
Non-financial assets		
Deferred income tax assets	20,562	14,800
Materials for construction	14,330	12,552
Long-term advances	6,542	9,549
Intangible assets, net	2,897	2,644
Other non-financial assets	802	642
Total other non-current assets	**118,779**	**142,335**

At 30 June 2020 and 31 December 2019, 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.

8 TRADE AND OTHER RECEIVABLES

	At 30 June 2020	At 31 December 2019
Trade receivables (net of provision of RR 334 million and RR 362 million at 30 June 2020 and 31 December 2019, respectively)	40,359	48,539
Other receivables (net of provision of RR 312 million and RR 317 million at 30 June 2020 and 31 December 2019, respectively)	155,286	181,042
Total trade and other receivables	**195,645**	**229,581**

Trade receivables in the amount RR 9,417 million and RR 16,996 million at 30 June 2020 and 31 December 2019, respectively, are secured by letters of credit, issued by banks with investment grade ratings. The Group does not hold any other collateral as security for trade and other receivables (see Note 19 for credit risk disclosures).

At 30 June 2020 and 31 December 2019, other receivables included RR 146,898 million and RR 173,336 million of receivables in relation to the sale of a 40 percent participation interest in OOO Arctic LNG 2 (see Note 3).

The carrying values of trade and other receivables approximate their respective fair values. Trade and other receivables were categorized as Level 3 in the fair value measurement hierarchy described in Note 19.

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

9 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 30 June 2020	At 31 December 2019
Financial assets		
Current portion of long-term loans receivable (see Note 6)	43,755	50,815
Commodity derivatives	23,000	16,966
Other financial assets	2,674	622
Non-financial assets		
Value-added tax receivable	11,341	22,401
Recoverable value-added tax	10,380	6,026
Prepayments and advances to suppliers	8,319	9,879
Deferred transportation expenses for natural gas	1,563	2,064
Deferred transportation expenses for liquid hydrocarbons	1,478	1,784
Prepaid customs duties	326	530
Deferred export duties for liquid hydrocarbons	274	1,218
Other non-financial assets	1,729	1,536
Total prepayments and other current assets	**104,839**	**113,841**

10 LONG-TERM DEBT

	At 30 June 2020	At 31 December 2019
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	69,884	61,833
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	45,448	40,209
Loan from Silk Road Fund	45,613	42,115
Bank loans	7,868	7,941
Total	**168,813**	**152,098**
Less: current portion of long-term debt	(50,314)	(12,246)
Total long-term debt	**118,499**	**139,852**

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

In February 2011, the Group issued US dollar denominated Eurobonds in the amount of USD 650 million. The US dollar denominated Eurobonds were issued with an annual coupon rate of 6.604 percent, payable semi-annually. The Eurobonds have a ten-year tenor and 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 that is repayable until December 2030 by semi-annual equal installments starting from December 2019 and includes the maintenance of certain restrictive financial covenants.

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

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

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

10 LONG-TERM DEBT (CONTINUED)

The fair value of long-term debt including its current portion was RR 181,280 million and RR 164,310 million at 30 June 2020 and 31 December 2019, respectively. The fair value of the corporate bonds was determined based on market quote prices (Level 1 in the fair value measurement hierarchy described in Note 19). The fair value of other long-term loans was determined based on future cash flows discounted at the estimated risk-adjusted discount rate (Level 3 in the fair value measurement hierarchy described in Note 19).

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

Available credit line facilities. In addition to disclosed above, at 30 June 2020, the Group had available long-term bank credit line facilities with credit limits for the total amount of RR 227 billion, as well as a short-term bank credit line facility with credit limit of RR 20 billion. The facilities include the maintenance of certain restrictive financial covenants.

11 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 30 June 2020	At 31 December 2019
Financial liabilities		
Trade payables	36,986	50,048
Commodity derivatives	21,867	16,450
Interest payable	1,444	1,291
Dividends payable to non-controlling interest	343	-
Other payables	2,380	3,188
Non-financial liabilities		
Advances from customers	2,269	4,253
Salary payables	914	915
Other liabilities and accruals	7,094	10,583
Total trade payables and accrued liabilities	**73,297**	**86,728**

The carrying values of trade payables and accrued liabilities approximate their respective fair values. Trade and other payables were categorized as Level 3 in the fair value measurement hierarchy described in Note 19.

12 SHAREHOLDERS' EQUITY

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

During the six months ended 30 June 2020 and 2019, the Group purchased 8 million and 1.7 million ordinary shares at a total cost of RR 7,615 million and RR 1,863 million, respectively. At 30 June 2020 and 31 December 2019, the Group held in total 33.1 million and 25.1 million ordinary shares at total cost of RR 19,923 million and RR 12,308 million, respectively. The Group has decided that these shares do not vote.

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

12 SHAREHOLDERS' EQUITY (CONTINUED)

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

	Six months ended 30 June:	
	2020	**2019**
Dividends payable at 1 January	-	-
Dividends declared (*)	54,359	50,618
Dividends paid (*)	(54,359)	(50,618)
Dividends payable at 30 June	**-**	**-**
Dividends per share declared during the period (in Russian roubles)	18.10	16.81
Dividends per GDR declared during the period (in Russian roubles)	181.00	168.10

(*) – excluding treasury shares.

13 OIL AND GAS SALES

	Three months ended 30 June:		Six months ended 30 June:	
	2020	**2019**	**2020**	**2019**
Natural gas	76,372	99,987	175,166	224,969
Naphtha	27,337	40,106	52,823	77,390
Crude oil	13,326	30,238	34,894	57,289
Other gas and gas condensate refined products	10,976	22,483	28,448	45,428
Liquefied petroleum gas	6,509	12,573	17,059	23,349
Stable gas condensate	6,121	10,402	14,846	18,548
Total oil and gas sales	**140,641**	**215,789**	**323,236**	**446,973**

14 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Three months ended 30 June:		Six months ended 30 June:	
	2020	**2019**	**2020**	**2019**
Natural gas	28,115	41,254	67,691	99,417
Unstable gas condensate	14,225	37,299	38,421	72,343
Other liquid hydrocarbons	3,777	4,476	6,633	7,108
Reverse excise	(877)	(1,215)	(2,443)	(2,294)
Total purchases of natural gas and liquid hydrocarbons	**45,240**	**81,814**	**110,302**	**176,574**

The Group purchases not less than 50 percent of the natural gas volumes produced by its joint venture ZAO Nortgas, some volumes of natural gas produced by its joint venture AO Arcticgas, all volumes of natural gas produced by its joint venture ZAO Terneftegas and some volumes of liquefied natural gas produced by its joint ventures OAO Yamal LNG and OOO Cryogas-Vysotsk (see Note 21).

The Group purchases all volumes of unstable gas condensate produced by its joint ventures Nortgas, Arcticgas and Terneftegas at ex-field prices primarily based on benchmark reference crude oil prices, as well as some volumes of stable gas condensate produced by its joint venture Yamal LNG (see Note 21).

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

14 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS (CONTINUED)

In accordance with tax legislation, the Group accrues excise tax on raw oil (blend of hydrocarbons comprised of one or more components of crude oil, stable gas condensate, vacuum gasoil, tar, 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.

15 TRANSPORTATION EXPENSES

	Three months ended 30 June:		Six months ended 30 June:	
	2020	2019	2020	2019
Natural gas transportation by trunk and low-pressure pipelines	21,853	22,876	47,951	48,918
Stable gas condensate and liquefied petroleum gas transportation by rail	8,899	8,533	17,139	16,795
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	2,781	1,974	5,410	4,280
Crude oil transportation by trunk pipelines	1,994	2,335	4,195	4,501
Other	376	1,200	714	2,527
Total transportation expenses	**35,903**	**36,918**	**75,409**	**77,021**

16 TAXES OTHER THAN INCOME TAX

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

	Three months ended 30 June:		Six months ended 30 June:	
	2020	2019	2020	2019
Unified natural resources production tax	8,950	15,157	22,419	29,740
Property tax	834	952	1,801	1,819
Other taxes	81	145	175	237
Total taxes other than income tax	**9,865**	**16,254**	**24,395**	**31,796**

17 FINANCE INCOME (EXPENSE)

	Three months ended 30 June:		Six months ended 30 June:	
Interest expense (including transaction costs)	2020	2019	2020	2019
Interest expense on fixed rate debt	2,476	2,259	4,783	4,559
Interest expense on variable rate debt	-	28	-	28
Total	**2,476**	**2,287**	**4,783**	**4,587**
Less: capitalized interest	(1,618)	(1,486)	(3,118)	(2,984)
Interest expense on debt	**858**	**801**	**1,665**	**1,603**
Provisions for asset retirement obligations: effect of the present value discount unwinding	239	176	495	352
Interest expense on lease liabilities	145	135	285	248
Total interest expense	**1,242**	**1,112**	**2,445**	**2,203**

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

17 FINANCE INCOME (EXPENSE) (CONTINUED)

	Three months ended 30 June:		Six months ended 30 June:	
Interest income	**2020**	**2019**	**2020**	**2019**
Interest income on loans receivable classified as at amortised cost	230	238	472	466
Interest income on loans receivable classified as at fair value through profit or loss	4,689	3,568	8,700	7,144
Interest income on cash, cash equivalents, deposits and other assets	966	840	2,469	1,366
Total interest income	**5,885**	**4,646**	**11,641**	**8,976**

	Three months ended 30 June:		Six months ended 30 June:	
Foreign exchange gain (loss)	**2020**	**2019**	**2020**	**2019**
Gains	20,468	1,204	195,930	12,977
Losses	(76,995)	(8,984)	(109,650)	(40,132)
Total foreign exchange gain (loss), net	**(56,527)**	**(7,780)**	**86,280**	**(27,155)**

18 INCOME TAX

Effective income tax rate. The Group's Russian statutory income tax rate for 2020 and 2019 was 20 percent.

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

Without the effect of net profit (loss) from joint ventures and effects from disposal of interests in subsidiaries and joint ventures (initial recognition of gain on disposal and subsequent non-monetary revaluation of contingent consideration), the effective income tax rate for the three months ended 30 June 2020 and 2019 was 23.7 percent and 16.2 percent, respectively, and the effective income tax rate for the six months ended 30 June 2020 and 2019 was 18.9 percent and 15.7 percent, respectively.

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

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

	At 30 June 2020		At 31 December 2019	
Financial assets	**Non-current**	**Current**	**Non-current**	**Current**
At amortised cost				
Long-term loans receivable	13,093	2,669	11,408	2,878
Trade and other receivables	393	195,645	403	229,581
Short-term bank deposits with original maturity more than three months	-	17,096	-	83,752
Cash and cash equivalents	-	46,090	-	53,240
Other	9	2,674	8	622
At fair value through profit or loss				
Long-term loans receivable	289,396	41,086	220,087	47,937
Contingent consideration	71,705	-	101,391	-
Commodity derivatives	1,932	23,000	749	16,966
Total financial assets	**376,528**	**328,260**	**334,046**	**434,976**
Financial liabilities				
At amortised cost				
Long-term debt	118,499	50,314	139,852	12,246
Long-term lease liabilities	7,445	3,324	7,516	2,947
Interest payable	-	1,444	-	1,291
Trade and other payables	-	39,366	-	53,236
Dividends payable to non-controlling interest	-	343	-	-
At fair value through profit or loss				
Commodity derivatives	2,458	21,867	1,680	16,450
Total financial liabilities	**128,402**	**116,658**	**149,048**	**86,170**

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

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

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

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

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

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

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

Commodity derivatives	**At 30 June 2020**	**At 31 December 2019**
Within other non-current and current assets	24,932	17,715
Within other non-current and current liabilities	(24,325)	(18,130)

	Three months ended 30 June:		**Six months ended 30 June:**	
Included in other operating income (loss)	**2020**	**2019**	**2020**	**2019**
Operating realized income (loss)	907	227	(929)	(523)
Change in fair value	(1,370)	(928)	1,022	(621)

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

	Six months ended 30 June:	
Effect on the fair value	**2020**	**2019**
Increase by ten percent	(685)	(1,699)
Decrease by ten percent	685	1,699

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.

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

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

	Six months ended 30 June:	
	2020	**2019**
At 1 January	**268,024**	**263,345**
Loans provided	48,638	12,816
Repayment of loans and accrued interest	(17,780)	(15,505)
Initial measurement at fair value allocated to increase the Group's investments in joint ventures (see Note 5)	(8,019)	(2,125)
Recognition of loans, classified previously as intercompany, due to disposal of a subsidiary (see Note 3)	-	58,329
Subsequent remeasurement at fair value recognized in profit or loss as follows:		
– Interest income (using the effective interest rate method)	8,700	7,144
– Foreign exchange gain (loss), net	35,845	(31,317)
– Remaining effect from changes in fair value (attributable to free cash flows of the borrowers and interest rates)	(4,926)	14,084
At 30 June	**330,482**	**306,771**

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

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

	Six months ended 30 June:	
Effect on the fair value	**2020**	**2019**
Increase by one percent	(12,102)	(10,358)
Decrease by one percent	12,795	10,945

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 3). The contingent payments dates are linked to the dates of launching the Arctic LNG 2 project's LNG trains.

Under IFRS 9, *Financial Instruments*, this contingent consideration contains a commodity based embedded derivative and was classified as a financial asset measured at fair value through profit or loss. Interest income 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.

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

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

	Six months ended 30 June:	
	2020	**2019**
At 1 January	**101,391**	**-**
Initial recognition of the contingent consideration (see Note 3)	-	35,810
Subsequent remeasurement at fair value recognized in profit or loss as follows:		
– Interest income (using the effective interest rate method)	1,523	346
– Foreign exchange gain (loss), net	16,614	(1,629)
– Remaining effect from changes in fair value (attributable to crude oil benchmark prices forecast)	(47,823)	-
At 30 June	**71,705**	**34,527**

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:

	Six months ended 30 June:	
Effect on the fair value	**2020**	**2019**
Increase by one percent	4,705	1,139
Decrease by one percent	(4,959)	(1,147)

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

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

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

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

(a) Foreign exchange risk

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

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

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

At 30 June 2020	**Russian rouble**	**US dollar**	**Euro**	**Other**	**Total**
Financial assets					
Non-current					
Long-term loans receivable	6,734	31,194	264,561	-	302,489
Trade and other receivables	317	1	-	75	393
Contingent consideration	-	71,705	-	-	71,705
Commodity derivatives	-	-	1,932	-	1,932
Other	-	-	-	9	9
Current					
Trade and other receivables	22,270	164,471	7,989	915	195,645
Current portion of long-term loans receivable	-	41,079	2,676	-	43,755
Commodity derivatives	-	-	23,000	-	23,000
Short-term bank deposits with original maturity more than three months	-	17,096	-	-	17,096
Cash and cash equivalents	7,720	11,346	26,580	444	46,090
Other	862	-	1,812	-	2,674
Financial liabilities					
Non-current					
Long-term debt	-	(110,631)	(7,868)	-	(118,499)
Long-term lease liabilities	(336)	(4,456)	(2,470)	(183)	(7,445)
Commodity derivatives	-	-	(2,458)	-	(2,458)
Current					
Current portion of long-term debt	-	(50,314)	-	-	(50,314)
Current portion of long-term lease liabilities	(145)	(2,100)	(1,000)	(79)	(3,324)
Interest payable	-	(1,444)	-	-	(1,444)
Trade and other payables	(34,204)	(2,304)	(2,652)	(206)	(39,366)
Dividends payable to non-controlling interest	(343)	-	-	-	(343)
Commodity derivatives	-	-	(21,867)	-	(21,867)
Net exposure	**2,875**	**165,643**	**290,235**	**975**	**459,728**

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

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

(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 2019, wholesale natural gas prices for sales to all customer categories (excluding residential customers) on the domestic market were increased by the Regulator by 1.4 percent effective 1 July 2019 and remained unchanged until the end of the first half of 2020.

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

19 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.

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

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

(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 June 2020 and 31 December 2019, 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.

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

19 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:

At 30 June 2020	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
Debt					
Principal	50,335	12,734	84,550	26,764	174,383
Interest	8,450	5,200	6,338	3,631	23,619
Lease liabilities	3,518	3,475	4,798	-	11,791
Trade and other payables	39,366	-	-	-	39,366
Dividends payable to non-controlling interest	343	-	-	-	343
Total financial liabilities	**102,012**	**21,409**	**95,686**	**30,395**	**249,502**

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

19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Cash inflow	105,684	38,101	4,363	148,148
Cash outflow	(104,552)	(38,445)	(4,545)	(147,542)
Net cash flows	**1,132**	**(344)**	**(182)**	**606**
At 31 December 2019				
Cash inflow	113,918	43,034	15,146	172,098
Cash outflow	(113,402)	(43,649)	(15,462)	(172,513)
Net cash flows	**516**	**(615)**	**(316)**	**(415)**

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

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

The Group has a stated dividend policy that distributes not less than 30 percent of the Group's consolidated net profit determined according to IFRS, adjusted for one-off profits (losses). The dividend payment for a specific year is determined after taking into consideration future earnings, capital expenditure requirements, future business opportunities and the Group's current financial position. Dividends are recommended by the Board of Directors of NOVATEK and approved by the NOVATEK's shareholders.

The Group defines the term "capital" as equity attributable to PAO NOVATEK shareholders plus net debt (total debt less cash and cash equivalents and bank deposits with maturity more than three months). There were no changes to the Group's approach to capital management during the six months ended 30 June 2020. At 30 June 2020 and 31 December 2019, the Group's capital totalled RR 1,701 billion and RR 1,663 billion, respectively.

20 CONTINGENCIES AND COMMITMENTS

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

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

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

Sectoral sanctions imposed by the U.S. government. On 16 July 2014, the Office of Foreign Assets Control (OFAC) of the U.S. Treasury included PAO NOVATEK on the Sectoral Sanctions Identification List (the "List"), which prohibits U.S. persons or persons within the United States from providing new financing to the Group for longer than 60 days (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 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 June 2020, the Group had contractual capital expenditures commitments aggregating approximately RR 242 billion (at 31 December 2019: RR 223 billion) mainly for development of LNG projects (through 2024), and for development at the Kharbeyskoye (through 2023), the North-Russkoye (through 2021), the Gydanskoye (through 2021), the Yarudeyskoye (through 2022) and the Evo-Yakhinskoye (through 2023) fields all in accordance with duly signed agreements as well as for construction of a hydrocracker unit at the Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea (through 2021).

At 30 June 2020 and 31 December 2019, the Group was a participant of joint operations on exploration and production in Montenegro (50 percent participation interest) and in Republic of Lebanon (20 percent participation interest) under the agreements concluded with the State of Montenegro and the Ministry of Energy and Water of Republic of Lebanon, respectively. Jointly with other participants of these agreements, the Group committed to conduct mandatory work program exploration activities during the established periods, as stipulated by these agreements. The maximum amount to be paid by the Group in case of non-performance of work program exploration activities at 30 June 2020 is EUR 42.5 million to the State of Montenegro and EUR 6.4 million to the Republic of Lebanon (at 31 December 2019: EUR 42.5 million and EUR 12.7 million, respectively). 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.

20 CONTINGENCIES AND COMMITMENTS (CONTINUED)

The Group has entered into a number of agreements, relating to time chartering of marine tankers and bareboat chartering of floating gas storage units with service terms from 20 to 29 years under which provision of the services has not yet commenced. At 30 June 2020, the Group's future minimum payments under these time charter agreements amounted to RR 212 billion (at 31 December 2019: RR 110 billion).

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 8.4 billion at 30 June 2020 (at 31 December 2019: USD 1.4 billion and EUR 8.5 billion). The duration terms of these non-financial guarantees depend mostly on passing tests proving successful project completion. At 30 June 2020, these tests were successfully passed. At present, a technical process to withdraw the guarantees issued to banks in relation to project financing and to the Ministry of Finance of Russia is underway and is expected to be finalised in the near term. After the expiry of these guarantees, in accordance with the project financing agreements, the Group will issue 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 Development Corporation VEB.RF issued in favor of the banks a counter guarantee for the amount not exceeding the equivalent of USD 3 billion.

The aggregated amount of non-financial guarantees issued by the Group to a Russian bank in favor of the Group's joint venture Cryogas-Vysotsk totaled EUR 279 million at 30 June 2020 (at 31 December 2019: EUR 277 million).

The aggregated amount of non-financial guarantees issued by the Group in favor of its joint venture Arctic LNG 2 relating to LNG-tankers time charter agreements, under which provision of the services has not yet commenced, totaled USD 384 million at 30 June 2020.

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.

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

20 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 system of control and current legislation, management believes that there are no probable liabilities, which will have a material adverse effect on the Group's financial position, results of operations or cash flows.

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

21 RELATED PARTY TRANSACTIONS

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

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

	Three months ended 30 June:		Six months ended 30 June:	
Related parties – joint ventures	**2020**	**2019**	**2020**	**2019**
Transactions				
Revenue from oil and gas sales	810	1,059	1,660	1,263
Other revenues	1,693	1,554	2,695	3,176
Purchases of natural gas and liquid hydrocarbons	(40,415)	(75,779)	(98,734)	(158,371)
Transportation expenses	(45)	(42)	(56)	(48)
Materials, services and other	(54)	(45)	(95)	(74)
Materials, services and other (capitalized within property, plant and equipment)	(109)	-	(145)	-
Purchases of property, plant and equipment and materials for construction	(10)	-	(146)	-
Interest income	4,898	3,785	9,121	7,543
Dividends declared and cash received	-	38,500	160	38,500

Related parties – joint ventures	**At 30 June 2020**	**At 31 December 2019**
Balances		
Long-term loans receivable	302,489	231,495
Current portion of long-term loans receivable	43,755	50,815
Trade and other receivables	1,628	1,426
Trade payables and accrued liabilities	15,535	27,034

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

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

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

21 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – entities with significant influence and their subsidiaries	Three months ended 30 June: 2020	Three months ended 30 June: 2019	Six months ended 30 June: 2020	Six months ended 30 June: 2019
Transactions				
Revenue from oil and gas sales	3,922	13,661	12,725	22,915
Purchases of natural gas and liquid hydrocarbons	(443)	-	(443)	-
Gain on disposal of interests in subsidiaries and joint ventures, net	-	-	-	308,578
Other operating income (loss), net	(3,008)	471	(10,856)	194
Interest income	184	346	404	346

Related parties – entities with significant influence and their subsidiaries	At 30 June 2020	At 31 December 2019
Balances		
Trade and other receivables	15	43,910
Contingent consideration	20,016	26,513
Trade payables and accrued liabilities	541	359

Related parties – parties under control of key management personnel	Three months ended 30 June: 2020	Three months ended 30 June: 2019	Six months ended 30 June: 2020	Six months ended 30 June: 2019
Transactions				
Purchases of construction services (capitalized within property, plant and equipment)	(4,065)	(4,281)	(8,813)	(7,279)
Transportation expenses	(2,802)	(2,661)	(5,342)	(5,221)

Related parties – parties under control of key management personnel	At 30 June 2020	At 31 December 2019
Balances		
Advances for construction	5,558	4,773
Prepayments and other current assets	355	487
Trade payables and accrued liabilities	1,724	1,898

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

Related parties – members of the key management personnel	Three months ended 30 June: 2020	Three months ended 30 June: 2019	Six months ended 30 June: 2020	Six months ended 30 June: 2019
Board of Directors	91	91	129	121
Management Committee	1,568	1,544	3,305	2,747
Total compensation	**1,659**	**1,635**	**3,434**	**2,868**

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

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

22 SEGMENT INFORMATION

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

The Group's management reviews financial information on the results of operations of the reporting segment prepared based on IFRS. The CODM assesses reporting segment performance based on profit comprising among others revenues, depreciation, depletion and amortization, interest income and expense, income tax and other items as presented in the Group's consolidated statement of income. The CODM also reviews capital expenditures of the reporting segment for the period defined as additions to property, plant and equipment (see Note 4).

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

Geographical information of the Group's oil and gas sales for the three and six months ended 30 June 2020 and 2019 is as follows:

	Three months ended 30 June:		**Six months ended 30 June:**	
	2020	**2019**	**2020**	**2019**
Russia	76,965	99,586	179,848	204,996
Europe	37,374	84,047	92,007	179,549
Asia-Pacific region	24,607	22,481	48,584	53,928
North America	1,283	12,354	7,547	18,700
The Middle East	2,909	6,264	4,066	6,875
Less: export duties	(2,497)	(8,943)	(8,816)	(17,075)
Total outside Russia	63,676	116,203	143,388	241,977
Total oil and gas sales	**140,641**	**215,789**	**323,236**	**446,973**

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

Major customers. For the six months ended 30 June 2020 and 2019, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 15.6 percent (RR 51.2 billion) and 12.7 percent (RR 57.7 billion) of total external revenues, respectively. The Group's major customer resides within the Russian Federation.

23 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies and methods of computation followed by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2019, except for income tax expense and the effect of adopted revised standard as described below.

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

The Group adopted the following amendments to the standard starting from the annual period beginning on 1 January 2020:

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

24 NEW ACCOUNTING PRONOUNCEMENTS

The following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021, and which the Group has not early adopted:

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

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

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