

25 years

Global Company –  
Global Future



Annual Report 2019



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# Letter to Shareholders

## DEAR SHAREHOLDERS,

**We celebrated our 25<sup>th</sup> anniversary in 2019.** It marked an incredible journey over the past quarter of a century, as we transformed from providing natural gas to the Russian domestic market to a global LNG player delivering natural gas to 28 countries. Over the years, we have built unique facilities for exploration, production, processing and marketing of natural gas and liquid hydrocarbons in the prolific Yamal-Nenets Autonomous Region, one of the largest natural gas basins in the world.

We have become the largest independent natural gas producer in Russia and 3<sup>rd</sup> largest globally public holder of proven natural gas reserves<sup>(1)</sup>, and, in late 2017, entered the global LNG market by successfully launching and ramping up the Yamal LNG project.

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**Our 25<sup>th</sup> anniversary marked an incredible journey over the past quarter of a century, as we transformed from providing natural gas to the Russian domestic market to a global LNG player delivering natural gas to 28 countries.**

“

We made incredible strides in our strategy to transform NOVATEK into a global gas player. We have built a natural gas platform both domestically and now internationally with our LNG project that is one of the most cost-competitive in the industry. Today, being a low-cost supplier means we can deliver one of the lowest landed costs to all consuming markets and generate sufficient cash flows, profitability and high project

**16.3** bln boe

Total proved hydrocarbon reserves (SEC) as of 31 December 2019

rates of returns. A high quality, long life resource base combined with a low cost operating model represents our biggest competitive advantage vis-à-vis our global industry competitors.

In 2019, all three liquefaction trains at Yamal LNG operated above the nameplate capacity of 16.5 million tons per annum, highlighting the exceptional performance of Yamal LNG relative to global LNG projects. The facility loaded and dispatched 253 cargos or 18.4 million tons of LNG, representing approximately 5% of the global LNG output, as well as 42 shipments of gas condensate totaling 1.2 mln tons. Yamal LNG has truly been a tremendous success story for us, and now represents the industry's gold standard for project execution and operational performance.

Historically, LNG consumption has doubled every decade since 1980's, and we believe this positive trend will remain in place for the foreseeable future. When we went public in 2005 there were 15 countries importing LNG. In 2019, 43 countries were now importing LNG and recent market forecasts predict this number will reach 57 by 2030. We have an outstanding opportunity to capture market share and emerge as one of the leading suppliers of global LNG. We want to be at the forefront of the next wave of global LNG projects.

1. Under the Security and Exchange Commission (SEC) reserves methodology.



By the end of 2019, Yamal LNG had all of the 15 Arc7 ice-class tankers in operation. Our ice-class tanker fleet can ship all of the LNG produced given the increased performance of three LNG trains and the planned launch of the fourth train. All our tankers use LNG as a fuel, which we believe

significantly reduces emissions during transport. The presence of all 15 ice-class tankers creates additional opportunities from 2020 for optimizing the project's logistics both westbound and eastbound, including the more extensive use of the Northern Sea Route.

**18.4** mmt  
of LNG

Yamal LNG loaded and dispatched in 2019

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**Alexander NATALENKO**

Chairman of the Board  
of Directors

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**Leonid MIKHELSON**

Chairman of the Management  
Board

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**Mark GYETVAY**

Deputy Chairman  
of the Management Board



# 15 tankers

By the end of 2019, Yamal LNG had all 15 Arc7 ice-class tankers in operation

# 863 RR bln

Total revenues in 2019

In 2019, we successfully launched Cryogas-Vysotsk, our first medium-scale LNG project in the port of Vysotsk on the Baltic Sea in the Leningrad Region. We see good prospects in using LNG as marine fuel with the introduction of IMO 2020, as well as motor fuel to substitute for fuel oil and diesel, which will contribute to decreasing emissions and improving the environment.

”

**In 2019, we made the final investment decision on our second major project, Arctic LNG 2, as well as closed the sale of participation interests in the project to TOTAL, CNPC, CNOOC, and the Mitsui and JOGMEC consortium, at 10% each.**

“

NOVATEK is creating an LNG platform on the Yamal and Gydan peninsulas, with the aim of becoming one of the largest LNG producers globally. In 2019, we made the final investment decision on our second major project, Arctic LNG 2, as well as closed the sale of participation interests in the project to TOTAL, CNPC, CNOOC, and the Mitsui and JOGMEC consortium, at 10% each. In 2019, the construction of a gravity-based platform for the first train of LNG plant of Arctic LNG 2 was commenced at our LNG construction center in Murmansk Region.

Our large, high quality, low-cost resource base in the hydrocarbon-rich Yamal and Gydan peninsulas underlies our ambitious growth strategy. In 2019, we successfully expanded our resource base through exploration works as well as obtaining new mineral licenses in YNAO. Large geological discoveries in reserves appraised under international reserve standards will contribute significant hydrocarbon resources to NOVATEK's future large-scale LNG projects in the Arctic zone and ensure the maintenance of natural gas production levels delivered into the domestic pipeline network.

NOVATEK's total SEC proved reserves aggregated 16,265 million boe, including 2,234 billion cubic meters (bcm) of natural gas and 193 million tons of liquid hydrocarbons as of 31 December 2019. The organic reserve replacement rate, excluding the effect from acquisitions and disposals, which mainly related to the disposal of the 40% participation interest in Arctic LNG 2 project, amounted to 252%, with the addition of 1,487 million boe, inclusive of 2019 production.

We had a very successful year operationally. Our hydrocarbon production totaled 589.9 million boe, including 74.7 bcm of natural gas and 12,148 thousand tons of liquids (gas condensate and crude oil), resulting in an increase in total hydrocarbons produced by 40.8 million boe, or by 7.4% as compared with 2018. The increase was mainly attributed to natural gas growth production from Yamal LNG and launch of new production wells at the Beregovoy license area.

We achieved record sales volumes this past year. Natural gas sales volumes, including volumes of LNG sold, aggregated 78.45 bcm in 2019, representing an increase of 8.8% as compared with the prior year period. Natural gas volumes sold in the Russian Federation were 65.65 bcm, whereas LNG volumes sold on international markets amounted to 12.80 bcm.

In 2019, our revenues increased by 3.7% to RR 863 bln and our normalized EBITDA increased by 11.0% to RR 461 bln, while our normalized profit<sup>(1)</sup> increased by 5.2% to RR 245 bln. Based on the Company's financial results, the Board of Directors recommended to the General Meeting of Shareholders to approve dividends for 2019 at RR 32.33 per share, exceeding the dividend paid out for the previous year by 24.1%.

1. Normalized profit attributable to shareholders of PAO NOVATEK excluding the effect of foreign exchange gains (losses).

We will develop the whole natural gas value chain to enhance the competitive advantages of our scalable low-cost LNG projects. NOVATEK's strategy as a natural gas and LNG producer implies greater involvement in further developing natural gas as a motor fuel both in Russia and abroad. In December 2019, NOVATEK Polska<sup>(2)</sup>, our wholly owned subsidiary, launched our first LNG filling station in Europe to provide clean-burning fuel for cargo

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**In 2019, we successfully launched Cryogas-Vysotsk, our first medium-scale LNG project in the port of Vysotsk on the Baltic Sea.**

“

trucks in Rostock, Germany. This market is quickly transforming. We believe this market segment represents significant growth potential in the context of increasingly stringent environmental standards. Compared to diesel, LNG significantly reduces the atmospheric emissions.

Climate change has emerged as the defining topic of this generation and we take this issue very seriously at the Company in our operational decisions. During 2019, we have achieved significant success in prioritizing NOVATEK's sustainable development goals and developing the respective targets which we plan to publicly present in 2020. The Company pays particular attention to greenhouse gas emissions, and we are preparing solutions to reduce the carbon footprint, including utilizing renewable energy sources at our fields. One of the main trends in reducing the carbon footprint of the oil and gas industry, along with emission reduction, is increasing the share of natural gas produced by global oil and gas majors. At NOVATEK, the share of our natural gas production is already 83% and it is projected to grow further with the development of our LNG projects.

We believe natural gas is an important contributor to achieve climate change goals. Our long-term goal to increase our LNG production up to 70 million tons per annum by 2030 is fully consistent with the Paris Climate Agreement, ratified by the Russian Federation in September 2019. We will deliver affordable, secure and clean-burning natural gas for many decades ahead. The energy transition is real. We will proactively do our part and positively contribute to this transition. Replacing coal with natural gas will reduce greenhouse gas emissions and almost exclude the harmful atmospheric emissions, including sulphur, hard particles and nitrogen oxides.

Over 25 years our team has grown to more than 15 thousand highly qualified and dedicated employees. We appreciate and respect the contribution of each employee to the development of NOVATEK. Human capital is our main asset. Every person is important to the success of our Company, regardless of profession, experience, gender or age.

These are truly exciting times for the Company. We have a tremendous future ahead at NOVATEK, as one of the largest natural gas companies in the world. We have emerged as a **GLOBAL COMPANY** to help define the **GLOBAL FUTURE** of the natural gas industry.

On behalf of the Board of Directors and Management Board, we are pleased to present to all our valued stakeholders the Company's 2019 Annual Report. We would like to thank everyone for your continued support of NOVATEK.

#### Alexander NATALENKO

Chairman of the Board of Directors

#### Leonid MIKHELSON

Chairman of the Management Board

#### Mark GYETVAY

Deputy Chairman of the Management Board

2. NOVATEK Polska was renamed to NOVATEK Green Energy on 3 February 2020.

# NOVATEK 25 years

**1994**



The Company's Foundation

**1998**



Natural gas production launched at the East-Tarkosalinskoye field

**2003**



Natural gas production launched at the Yurkharovskoye and Khancheyskoye fields

**2014**



Expanding the capacity of the Purovsky Plant from 5 to 11 million tons

**2013**



Launch of the stable gas condensate transshipment and fractionation complex at the all-seasonal Baltic port of Ust-Luga

**2012**



Start of construction at the Sabetta port, which is one of the key transport infrastructure of Yamal LNG

Final Investment Decision made on Yamal LNG

Closing of the sale of a 20% stake in the Yamal LNG to the Chinese National Petroleum Company (CNPC)

**2015**



Regular flights at the international airport of Sabetta started. The plant's first module was delivered by sea to the site

Launch of the Yaro-Yakhinskoye, Termokarstovoye and Yarudeyskoye fields

**2016**



Finalization of external financing package for the Yamal LNG for the total amount equivalent to \$19 bln with participation of Russian and international banks, the National Welfare Fund of Russia and international export credit agencies

Closing of the sale of a 99% equity stake in the Yamal LNG to China's Silk Road Fund

**2017**



Yamal LNG commenced liquefied natural gas production at the first LNG train with design capacity of 5.5 million tons per annum. Yamal LNG shipped first LNG cargo on the Arc7 ice-class tanker "Christophe de Margerie"

The Company's top management presented long-term Corporate Strategy up to 2030



**2005**

NOVATEK's shares were listed on the MICEX (Moscow Exchange) and a successful IPO was made on the London Stock Exchange

The first train of the Purovsky Plant was launched



**2006**

Release of the Company's first ever Sustainability Report in accordance with GRI standards



**2007**

Methanol production unit at the Yurkharovskoye field was launched



**2011**

Increased our equity interest in Yamal LNG to 100% and following closed the sale of a 20% participation interest in Yamal LNG to French oil and gas company TOTAL



**2010**

Acquired a 51% interest in SeverEnergiya

First successful delivery of a stable gas condensate to China via the Arctic Northern Sea Route was implemented



**2009**

Acquired a 51% interest in Yamal LNG, which holds the license for exploration and development of the South-Tambeyskoye field

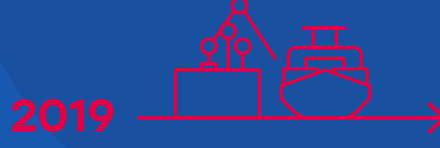


**2018**

The Yamal LNG reached its full design capacity of 16.5 million tons per annum from three LNG trains. Yamal LNG was launched in record time and on budget

We patented the Arctic Cascade proprietary natural gas liquefaction process

New gas condensate field within the North-Obskiy license area in the Ob Bay was discovered, one of the largest gas discoveries globally in 2018



**2019**

Cryogas-Vysotsk, our first medium-scale LNG production project in the Baltic region, was launched

We closed the sales of participation interests (10% each) in Arctic LNG 2 project to TOTAL, CNPC, CNOOC and the consortium of Mitsui and JOGMEC

Final Investment Decision made on the Arctic LNG 2 project

**The story continues**



# Hydrocarbon Reserves

## Our production and processing assets are located in the Russian Federation

NOVATEK through its subsidiaries and joint ventures holds 66 licenses for subsoil use within the Russian Federation.

In 2019, NOVATEK produced commercial hydrocarbons at 20 fields. Produced gas condensate is stabilized at the Purovsky Plant and stable gas condensate is delivered to the Ust-Luga complex for further processing.

# 16.3

bln boe

Total proved hydrocarbons reserves (SEC)

# 66

fields and license areas

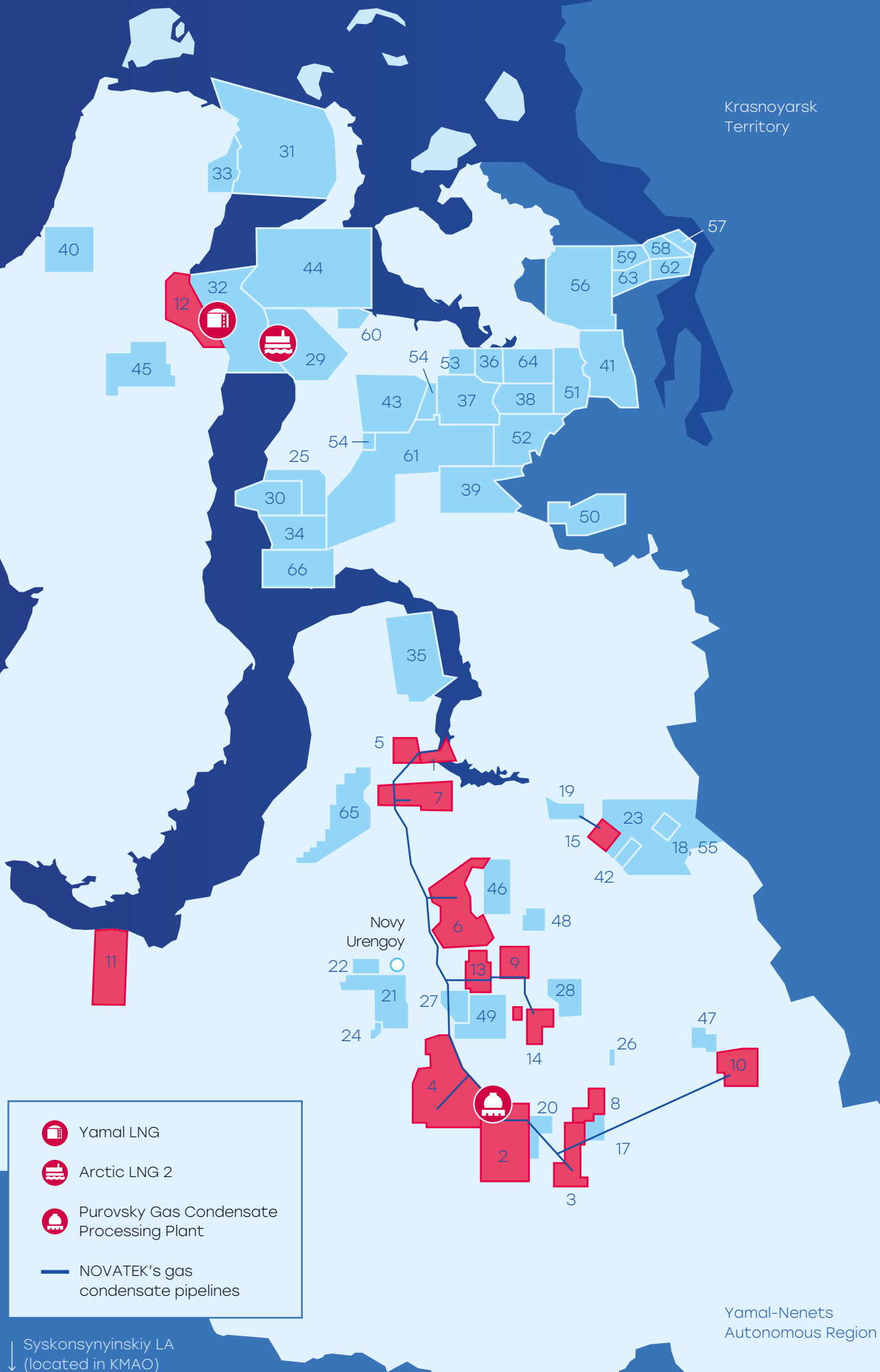


■ Producing fields and license areas

■ Prospective fields and license areas

- |   |                                   |  |
|---|-----------------------------------|--|
| 1. Yurkharovskoye field   | 17. South-Khadyryakhinskoye field | 43. Gydanskiy LA                               |
| 2. East-Tarkosalinskoye field   | 18. Dorogovskoye field            | 44. Shtormovoy LA                              |
| 3. Khancheyskoye field  | 19. East-Tazovskoye field         | 45. Verhnietiuteyskiy+<br>West-Seyakhinskiy LA |
| 4. Olimpiyskiy LA (Urengoyskoye,<br>Dobrovol'skoye, Sterkhovoye fields)                           | 20. Yumantil'skiy LA              | 46. Osenniy LA                                 |
| 5. West-Yurkharovskoye field  | 21. West-Urengoyskiy LA           | 47. Chernichnoye field                         |
| 6. Samburgskiy LA (Samburgskoye,<br>Urengoyskoye, East-Urengoyskoye+<br>North-Esetinskoye fields) | 22. North-Yubileynoye field       | 48. Raduzhnoye field                           |
| 7. North-Urengoyskoye field   | 23. North-Russkiy LA              | 49. Ust-Yamsoveyskiy LA                        |
| 8. North-Khancheyskoye field  | 24. Ukrainsko-Yubileynoye field   | 50. Payutskiy LA                               |
| 9. Yaro-Yakhinskiy LA   | 25. Geofizicheskiy 1 LA           | 51. Central-Nadoyakhskiy LA                    |
| 10. Termokarstovoye field   | 26. West-Chaselskoye field        | 52. Palkurtoiskiy LA                           |
| 11. Yarudeyskoye field  | 27. Yevo-Yakhinskoye field        | 53. Ladertoyskiy 1 LA                          |
| 12. South-Tambeyskoye field   | 28. North-Chaselskiy LA           | 54. Gydanskiy 1 LA                             |
| 13. West-Yaroyakhinskiy LA  | 29. Utrenneye field               | 55. Dorogovskiy 1 LA                           |
| 14. Beregovoy LA  | 30. Geofizicheskiy LA             | 56. South-Leskinskiy LA                        |
| 15. North-Russkoye field  | 31. North-Ob'skiy LA              | 57. Dorofeevskiy LA                            |
| 16. Syskonsyn'yinskiy LA<br>(located in KMAO)   | 32. East-Tambeyskiy LA            | 58. West-Dorofeevskiy LA                       |
|   | 33. North-Tasiyskiy LA            | 59. Khalmeriakhinskiy LA                       |
|   | 34. Trekhbugorniy LA              | 60. Shtormovoy 1 LA                            |
|   | 35. Nyakhartinskiy LA             | 61. Soletskoye+Khanoveiskoye fields            |
|   | 36. Ladertoyskiy LA               | 62. South-Dorofeevskiy LA                      |
|   | 37. Nyavuyahskiy LA               | 63. South-Khalmeriakhinskiy LA                 |
|   | 38. West-Solpatinskiy LA          | 64. East-Ladertoyskiy LA                       |
|   | 39. North-Tanamskiy LA            | 65. South-Yamburgskiy LA                       |
|   | 40. Syadorskiy LA                 | 66. Bukharinskiy LA                            |
|   | 41. Tanamskiy area                |  |
|   | 42. Kharbeyskoye field            |  |





# Key Events and Achievements

## Development of LNG business

### ARCTIC LNG 2

- NOVATEK closed the sales of participation interests (10% each) in **Arctic LNG 2** project to TOTAL, CNPC, CNOOC and the consortium of Mitsui and JOGMEC.
- Final Investment Decision made on **Arctic LNG 2** project.
- **Arctic LNG 2** and the consortium of TechnipFMC, SAIPEM, and NIPigas signed the contract on engineering, procurement, supply, construction and commissioning of an integrated liquefied natural gas facility.
- NOVATEK and Sovcomflot created SMART LNG, shipping joint venture to lease ice-class LNG tankers fleet for the Arctic LNG 2 project.

### YAMAL LNG

**18.4** mmt of LNG

The **Yamal LNG project** produced 18.4 million tons of LNG, exceeding the plant's design capacity by 11%.



All 15 ice-class Arc7 tankers for the Yamal LNG project were received.

**Yamal LNG** received a transshipment tank at the Zeebrugge LNG terminal (Belgium).

### CRYOGAS VYSOTSK



**Cryogas-Vysotsk, our first medium-scale LNG production project in Baltic region, was launched.**

NOVATEK, Mitsui O.S.K. Lines, Ltd. (MOL) and Japan Bank for International Cooperation (JBIC) **signed a cooperation agreement** for construction of marine LNG transshipment complexes in the territory of Kamchatka and Murmansk region.

NOVATEK opened the first **LNG filling station** in Europe to provide clean-burning fuel for cargo trucks in Rostock, Germany.



## Expanding the resource base



We acquired mineral licenses for the **Khalmeriakhinskiy, Dorofeevskiy, West-Dorofeevskiy, South-Khalmeriakhinskiy and South-Dorofeevskiy license areas in Krasnoyarsk region, and Soletsko+Khanaveiskoye field, East-Ladertoyskiy, South-Yamburgskiy and Bukharinskiy license areas in the YNAO.**



We **launched** our North-Russkoye, East-Urengoyskoye+North-Esetinskoye and West-Yurkharovskoye fields.

We **confirmed the Jurassic development prospects** at the West-Yurkharovskoye field by completing and testing horizontal wells and multi-stage hydro-fracturing.

## Cooperation



**We signed Heads of Agreement** with Sinopec and Gazprombank on establishing a joint venture to market LNG and natural gas to endcustomers in the People's Republic of China.

**We signed a Memorandum of Understanding (MOU)** with Saibu Gas on establishing a joint venture to develop bunkering and gas-fired power generation in Japan and the Asian region, as well as constructing and operating a new LNG storage tank at the Hibiki LNG terminal.



NOVATEK **signed cooperation agreement with the Government of Chukotka Autonomous Area** to provide LNG as a fuel for distributed power generation, as well as motor fuel for maritime, automotive transport and mining equipment in Chukotka.

NOVATEK **signed Memorandums on strategic partnership** and cooperation with TMK and Severgroup on materials and equipment supply.



**NOVATEK signed MOUs** with Ninh Thuan Province in Vietnam and TOTAL, Siemens and Zarubezhneft on developing of energy-generating project with the use of liquefied natural gas (LNG) **in Vietnam.**

**NOVATEK signed MOUs** with Indian companies H-Energy Global Ltd and Petronet LNG on LNG supplies, including developing a network of filling stations and a fleet of LNG-fueled trucks **in India.**



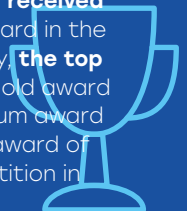
**NOVATEK signed Memorandums** on localizing the fabrication of compressors, pumps, and other equipment for NOVATEK's LNG projects with Atomenergomash and HMS Group.

## Sustainable development

**FTSE Russell**

NOVATEK remained a constituent in the FTSE4Good Emerging Index published by **FTSE Russell Ratings.**

**For its Sustainability Report, the Company received** the "Change Management. Visionaries." Award in the Corporate Governance disclosure category, **the top two positions** at the MarCom Awards – a gold award in the category "Best Writing" and a platinum award in the category "Best Design"; and a gold award of the International LACP INSPIRE 2019 competition in the category "Print".



As part of the charity project "**Health Territory**", **lead specialists of the Russian Children's Clinical Hospital visited children in 8 cities in Russia.** These visits allowed 668 children to get medical help and 162 children were taken to hospitals in Moscow.

# Yamal LNG

**YAMAL LNG**



South-Tambeyskoye field is the resource base of the project

Yamal LNG is an integrated project for production, liquefaction and sales of natural gas

**690**

bcm

of natural gas

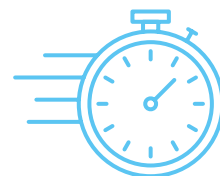
and 22 mmt of liquid hydrocarbons – proved reserves (SEC) of the field as of 31 December 2019

**16.5**

mmtpa

Total design capacity of the plant

Construction and start-up of three trains (5.5 mmtpa each) was finalized in 2018. **Yamal LNG was commissioned ahead of initial schedule and on budget.**



**2019**

the first full year of simultaneous operation of all three liquefaction trains

**18.4**

mmt of LNG

produced at the Yamal LNG in 2019, **exceeding the plant's design capacity by 11%.**



A fourth train with the name-plate capacity of **0.9 mmtpa** is currently under construction based on NOVATEK's patented proprietary **Arctic Cascade** gas liquefaction technology. The design of the fourth train provides for the use of equipment manufactured in Russia. To make the technology highly energy efficient, the liquefaction process will extract maximum benefits from the Arctic climate.



# Arc7

Unique ice class LNG carriers were specifically designed for the Yamal LNG project, capable of navigating the Northern Sea Route without icebreaker support

**15** tankers

By the end of 2019, Yamal LNG had all 15 Arc7 ice-class tankers in operation



## July

The Arc7 LNG carrier "Vladimir Rusanov" inaugurated the summer navigation along the NSR delivering a cargo of LNG from Sabetta to the port of Tianjin in China.

## December

Yamal LNG started using a dedicated tank at the Zeebrugge terminal for LNG transshipment. The LNG tank was built specifically for Yamal LNG with a capacity of 180 mcm, allowing the project to transship up to 8 mmt of LNG per annum.

**253**

LNG cargos (18.4 mmt) and 42 stable gas condensate cargos (1.2 mmt) were shipped in 2019 from Yamal LNG



# Arctic LNG 2



## ARCTIC LNG 2

Utrenneye field is the resource base of the project

**461** bcm

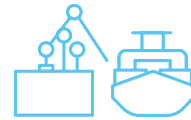
of gas and **18 mmt** of liquid hydrocarbons – proved reserves of the field (SEC) as of 31 December 2019

**19.8** mmtpa

Total design capacity of the three LNG trains



Innovative construction concept using gravity-based structures (GBS)

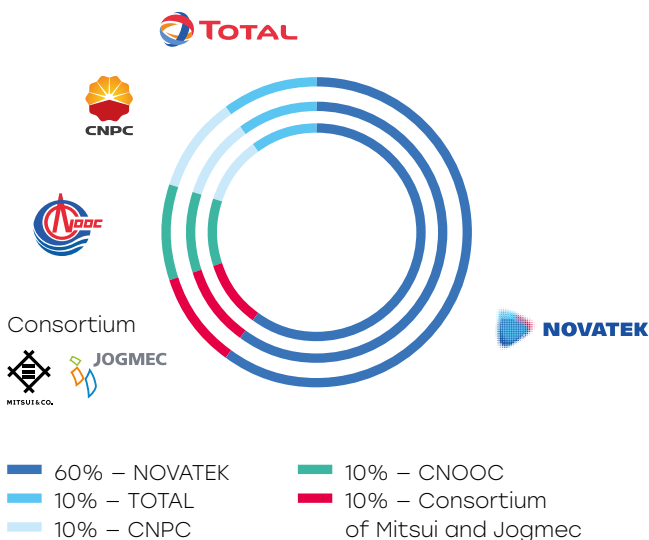


LNG trains will be fabricated at NOVATEK’s LNG Construction Center in the Murmansk region

### Key advantages

- Optimize and reduce CAPEX per ton of LNG liquefaction
- Low cost, onshore conventional natural gas
- Reduce construction and logistical costs as main LNG equipment is built and installed at the LNG construction center
- High local content
- Minimize scope of work in the Arctic area
- Minimize environmental impact

### Arctic LNG 2 participants, %



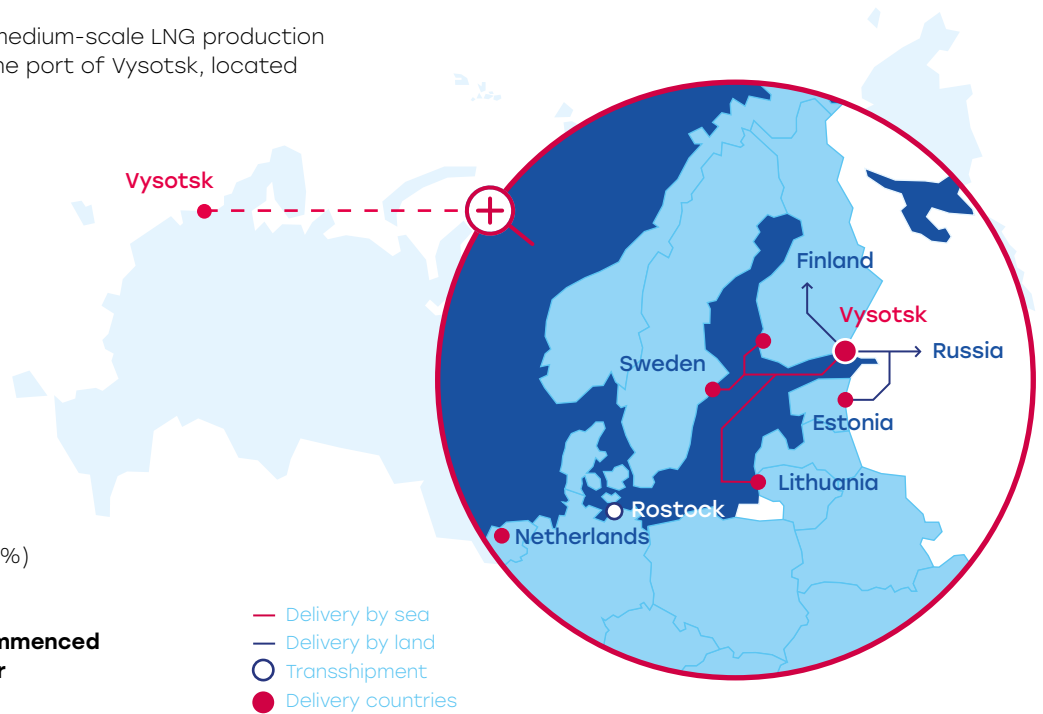
### Project status

- Front-end engineering design (FEED) was completed in October 2018
- Transactions closed for the sale of 40% participation interest in the project
- Final investment decision (FID) made in September 2019
- Arctic LNG 2 and the consortium of TechnipFMC SAIPEM, and NIPigas signed the contract on engineering, procurement, supply, construction and commissioning of an integrated liquefied natural gas facility
- More than 90% of equipment for the project was contracted



# Cryogas-Vysotsk

Cryogas-Vysotsk is our first medium-scale LNG production project on the Baltic Sea in the port of Vysotsk, located in the Leningrad Region



The Cryogas-Vysotsk shareholders are NOVATEK (51%) and Gazprombank (49%).

**In 2019, Cryogas-Vysotsk commenced operations and began regular shipments of LNG.**

## The project infrastructure



The plant of 660 mtpa, consisting of two gas liquefaction trains with the capacity of 330 mtpa each



42 mcm LNG storage tank



offloading terminal designed to handle LNG tankers of up to 30 mcm capacity

The project targets small- and medium-scale LNG deliveries to regional markets by LNG trucks and gas carriers. The growing bunkering segment in the Baltic region is another important sales market.

We see vast prospects in using LNG as marine fuel and motor fuel to substitute for diesel and fuel oil, which will contribute to decreasing emissions and improving the environment.

### Rostock LNG

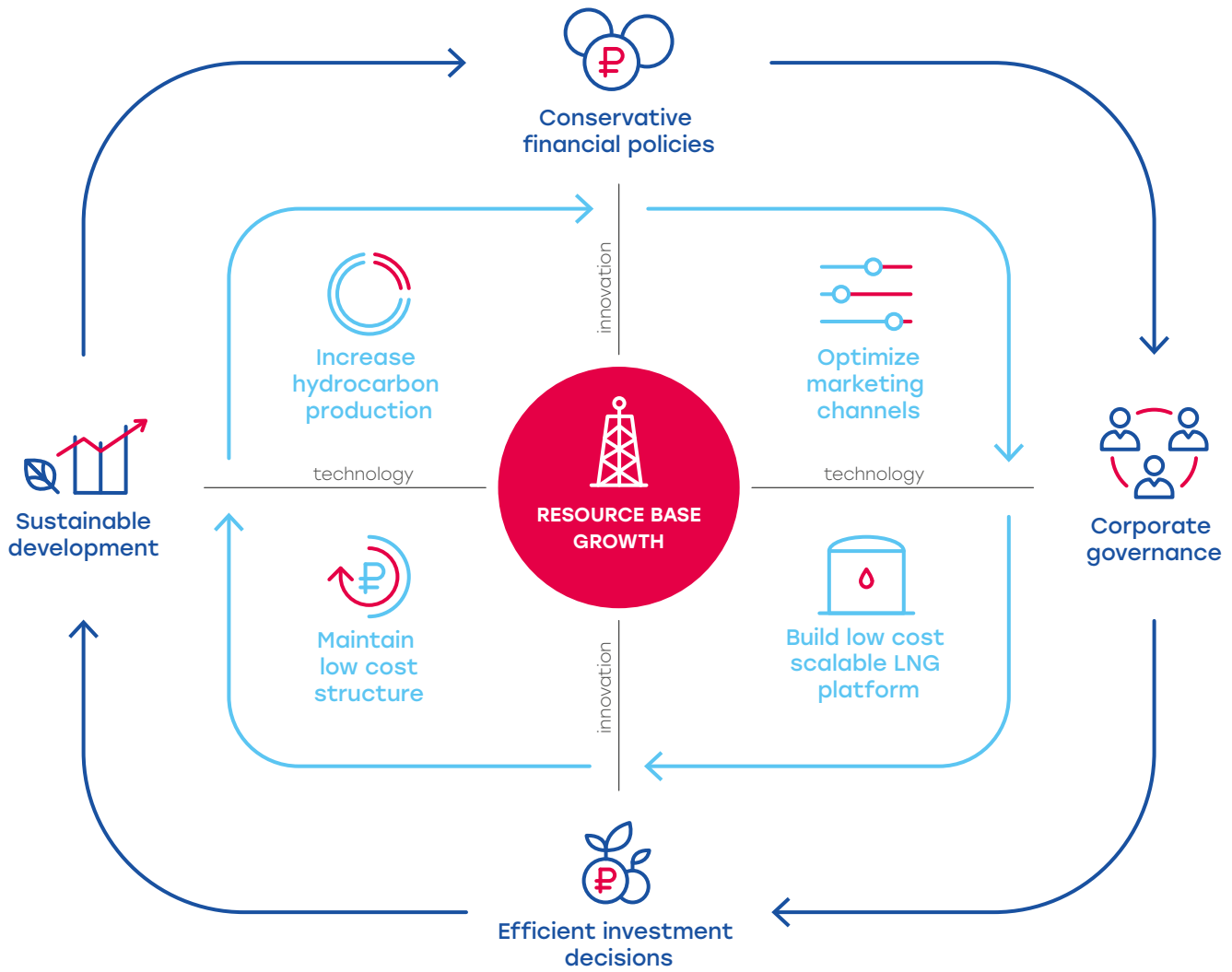
Rostock LNG is a joint venture of **NOVATEK** (49%) and **Fluys** (51%) created to operate a medium-scale LNG transshipment terminal in the port of Rostock, Germany.

**300** ktpa capacity of the project

#### In 2019:

- Front-end engineering and design (FEED) was completed.
- Package of documents for obtaining a construction permit has been submitted to the German state authorities

# Strategic Priorities



## Resource base growth

- Organic resource growth from exploration and development activities on the Yamal and Gydan peninsulas
- Strategic acquisitions and active participation in license tenders

## Increase hydrocarbon production

- Increase gas production through development of projects within the UGSS and LNG projects in the Arctic
- Development of deeper Jurassic and Achimov layers
- Fully utilize processing capacity of Ust-Luga complex

## Maintain low cost structure

- Remain one of the lowest cost hydrocarbon producers in the global oil & gas industry
- Optimize cost structure through strategic investment of capital
- Develop low cost LNG value chain

## Optimize marketing channels

- Maximize use of Northern Sea Route and develop key transshipment points
- Build diversified LNG trading portfolio
- Develop strategic partnerships with industry partners in key markets

## Build low cost scalable LNG platform

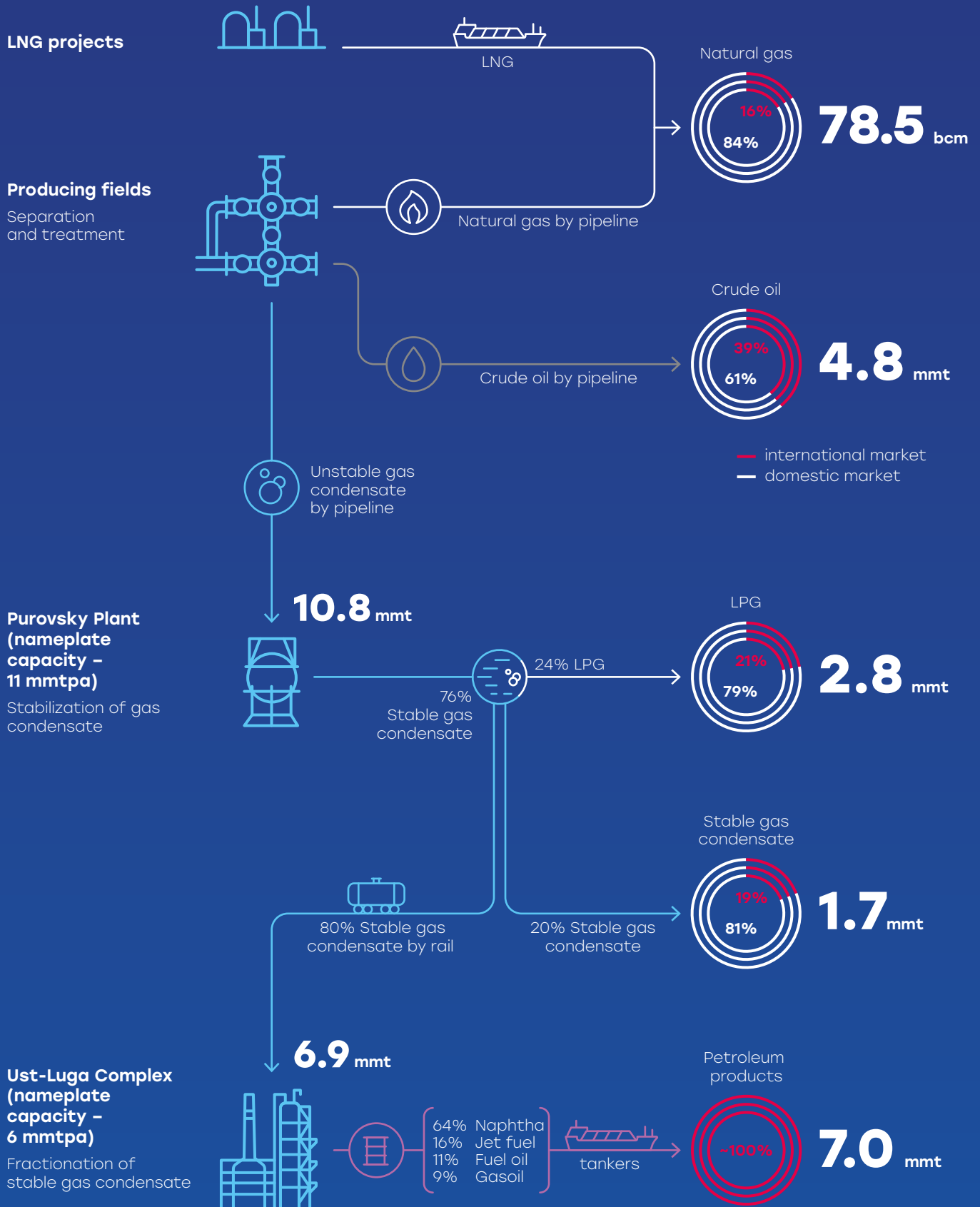
- Increase production through development of scalable LNG projects
- Development of proprietary LNG technologies
- Integrated projects for production and liquefaction of natural gas

## Sustainable development

- Reduce and prevent negative environmental impact
- Increase the efficiency and rational use of natural resources, energy efficiency

# Business Model

## Sales volume

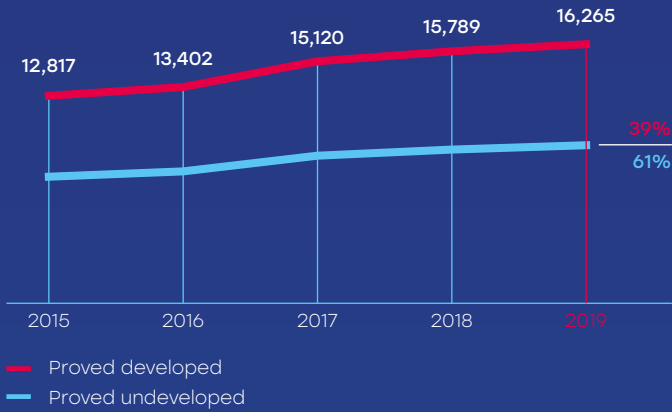


# Key Indicators

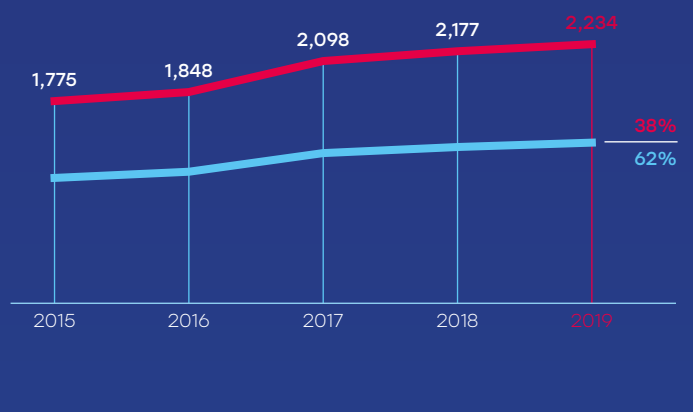
	Unit	2018	2019	Change
<b>Financial indicators</b>				
Total revenues <sup>(1)</sup>	RR mln	831,758	862,803	3.7%
Normalized profit from operations <sup>(2)</sup>	RR mln	225,539	221,398	(1.8%)
Normalized EBITDA (including share in EBITDA of JVs) <sup>(2)</sup>	RR mln	415,296	461,157	11.0%
Normalized profit attributable to shareholders of PAO NOVATEK <sup>(2)</sup> excluding the effect of foreign exchange gains (losses) <sup>(3)</sup>	RR mln	232,930	245,002	5.2%
Normalized earnings per share, basic and diluted <sup>(2)</sup> excluding the effect of foreign exchange gains (losses) <sup>(3)</sup>	RR	77.29	81.35	5.3%
Net cash provided by operating activities	RR mln	216,349	307,433	42.1%
Cash used for capital expenditures <sup>(4)</sup>	RR mln	94,038	162,502	72.8%
Free cash flow	RR mln	122,311	144,931	18.5%
<b>Operating indicators <sup>(5)</sup></b>				
Proved natural gas reserves (SEC)	bcm	2,177	2,234	2.6%
Proved liquid hydrocarbon reserves (SEC)	mmt	181	193	6.6%
Total hydrocarbon reserves (SEC)	mmboe	15,789	16,265	3.0%
Natural gas production	bcm	68.8	74.7	8.6%
Liquid hydrocarbons production	mt	11,800	12,148	2.9%
Proportionate share in LNG production of JVs	mt	5,152	11,228	117.9%
Total production	mmboe	549.1	589.9	7.4%
Daily production	mmboe/day	1.50	1.62	7.4%
<b>Positions in Russia</b>				
Share in natural gas production <sup>(6)</sup>	%	9.3%	10.1%	0.8 p.p.
Share in liquid hydrocarbons production <sup>(6)</sup>	%	2.1%	2.2%	0.1 p.p.

1. In Annual Report total revenues are given net of VAT, export duties, as well as excise and fuel taxes incurred on LPG sales in Poland.
2. Excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration).
3. Excluding the effect of foreign exchange gains (losses) of subsidiaries and our proportionate share in foreign exchange gains (losses) of our joint ventures.
4. Cash used for capital expenditures represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries.
5. Oil and gas production and reserves are calculated based on 100% of production and reserves of our subsidiaries and our proportionate share in the production and reserves of our joint ventures including fuel gas. Production and reserves of the South-Tambeyskoye field of Yamal LNG are reported at 60%.
6. According to CDU TEK information.

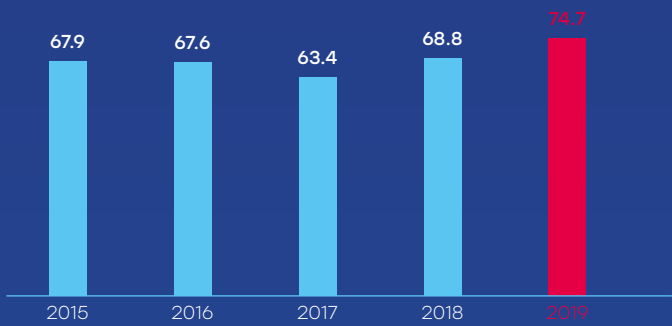
**Total proved hydrocarbon reserves (SEC), mmeob**



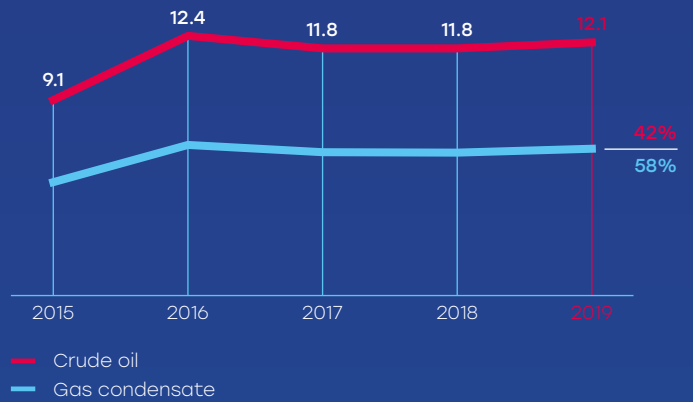
**Proved natural gas reserves (SEC), bcm**



**Natural gas production, bcm**



**Liquids production, mmt**



**Operating cash flow, RR bln**

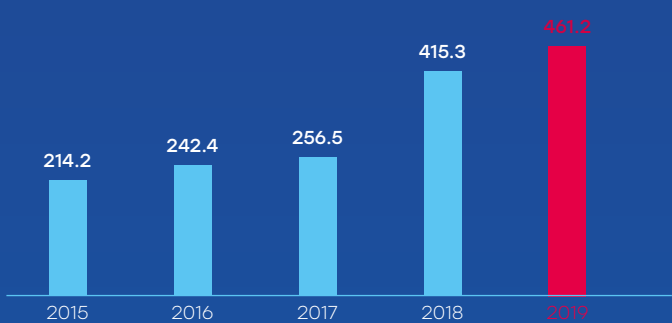


**Dividends per share, RR**

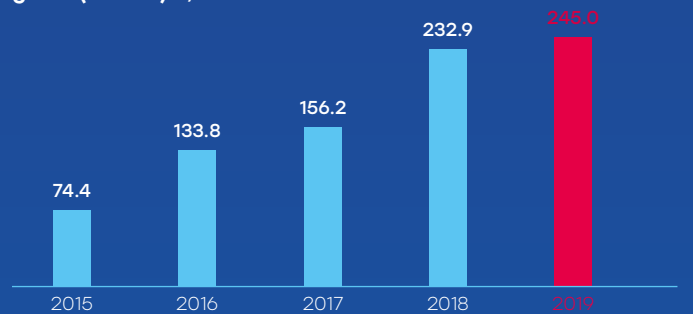


\* Recommendation of the Board of Directors

**Normalized EBITDA<sup>(2)</sup>, RR bln**



**Normalized profit attributable to shareholders of PAO NOVATEK<sup>(2)</sup> excluding the effect of foreign exchange gains (losses)<sup>(3)</sup>, RR bln**



# Geological Exploration and Production

We continued to achieve some of the lowest lifting costs in the industry. In 2019, NOVATEK produced commercial hydrocarbons at 20 fields



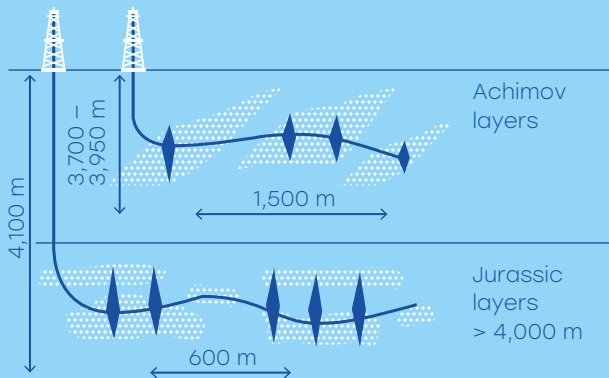
**22%** 1,000 m **Cenomanian layers**  
«Dry» gas not containing liquid hydrocarbons

**65%** 1,700 m **Valanginian layers**  
Gas containing liquid hydrocarbons – «wet» gas

**13%** 3,200 m **Achimov layers**  
«Wet» gas with high share of liquid hydrocarbons. The layers have low permeability and require special development techniques.

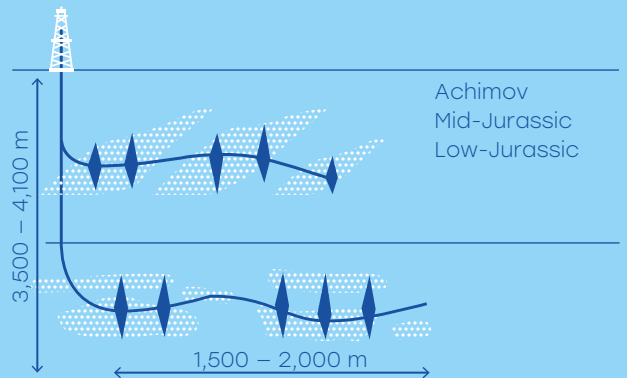
**Jurassic layers**  
«Wet» gas with the highest share of liquid hydrocarbons. The deposits are characterized with complex geology and difficult drilling conditions due to abnormally high formation pressure.

### Technologies to develop deep layers



◆ Hydrofracking

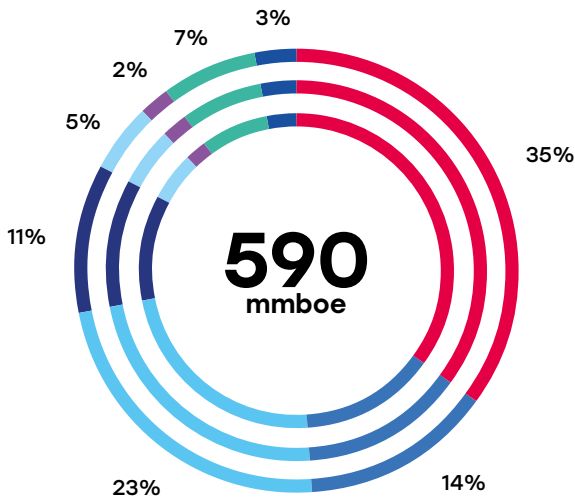
Technology previously used



Increase in wells productivity, including increase in low permeable formations

New technology





Hydrocarbon production breakdown including share in production by JVs, %

- NOVATEK Yurkharovneftegas' fields
- NOVATEK Tarkosaleneftegas' fields
- Arcticgas' fields
- South-Tambeyskoye
- North-Urengoyskoye
- Termokarstovoye
- Yarudeyskoye
- Others

## July

Successfully completed a **horizontal well targeting the lower Achimov formation at the Urengoyskoye field.**

An eight-stage hydro-fracturing program was successfully completed at well. A unique wireless inflow monitoring technology using marked proppant was implemented. Permanent downhole pressure and temperature gauges are also used in the production to monitor real-time data.

## September

Successfully completed **well targeting the Jurassic layers at the Yarudeyskoye field with record oil flow rate.** Initial daily well flow rate amounted to 1,010 tons, representing the field's best well flow rates since commissioning of the field in 2015. The flow rate was achieved without hydro-fracturing due to the well's unique design.

79.3 RR bln

Investments in resource base development

74.7 bcm

Total natural gas production

16.3 bln boe

Total proved hydrocarbon reserves (SEC)

1.1 USD per boe

2015-2019 reserve replacement cost

49 years

Proved and probable reserve to production ratio (PRMS)

12.1 mmt

Total liquid hydrocarbon production

# Processing of Gas Condensate

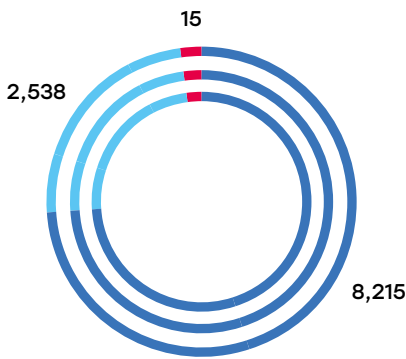
10,802<sup>mt</sup>

Processing of de-ethanized condensate

6,902<sup>mt</sup>

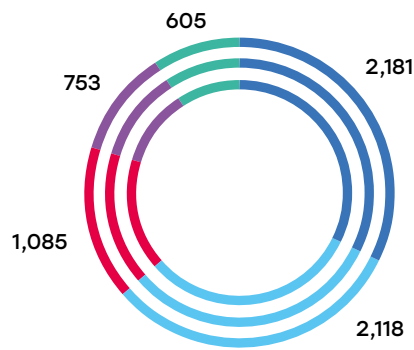
Processing of stable gas condensate

Total output of the Purovsky Plant in 2019, mt



- Regenerated methanol
- NGL and LPG
- Stable gas condensate

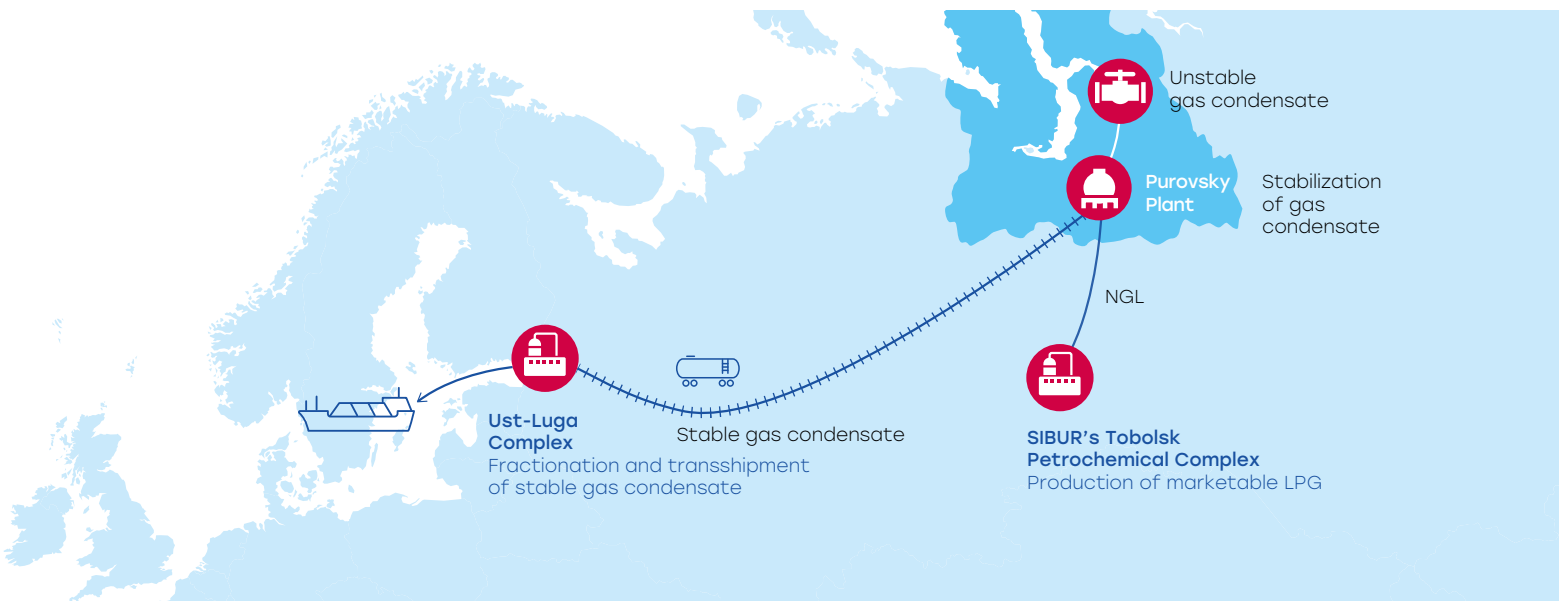
Total output of the Ust-Luga Complex in 2019, mt



- Jet fuel
- Light naphtha
- Heavy naphtha
- Gasoil
- Ship fuel component

After being separated and de-ethanized at the field the main part of unstable (de-ethanized) gas condensate is delivered via a system of condensate pipelines owned and operated by the Company for further stabilization at our Purovsky Plant. Most of the stable gas condensate volumes produced at the Purovsky Plant are delivered by rail to Ust-Luga for further processing or transshipment to exports, with the remaining volume of stable gas condensate

sold directly from the plant to the domestic market. All of the NGL volumes (feedstock for LPG production) produced at the plant are delivered by pipeline to SIBUR's Tobolsk Petrochemical Complex for further processing. The Ust-Luga Complex processes stable gas condensate into light and heavy naphtha, jet fuel, ship fuel component (fuel oil) and gasoil, and enables us to ship the value-added petroleum products to international markets.



# Natural Gas Sales

In 2019, natural gas sales volumes, including volumes of LNG sold, aggregated 78.5 bcm, representing an increase of 9% as compared with 2018



**15** Main regions of gas sales

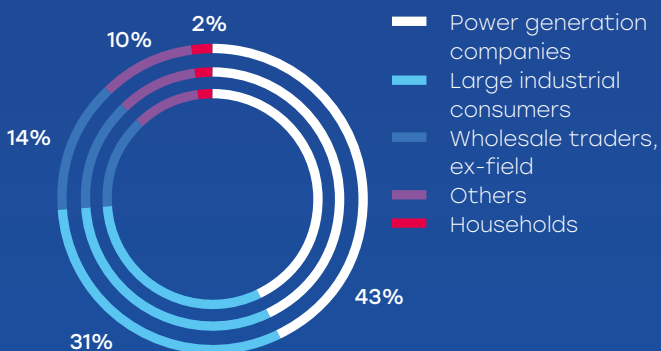
**25** Other regions of gas sales

**65.7** bcm

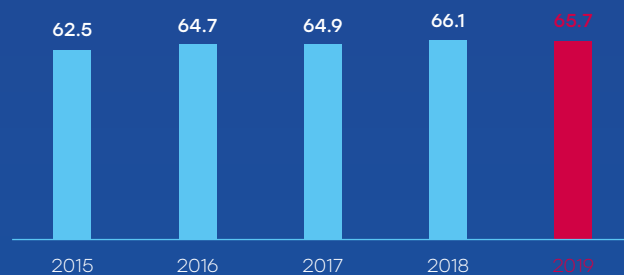
Total volume of natural gas sales in Russia

NOVATEK has a key role in ensuring supplies of natural gas to the domestic market. During 2019, the Company supplied natural gas to 40 regions within the Russian Federation.

Natural gas sales breakdown on the Russian domestic market by customers in 2019, %

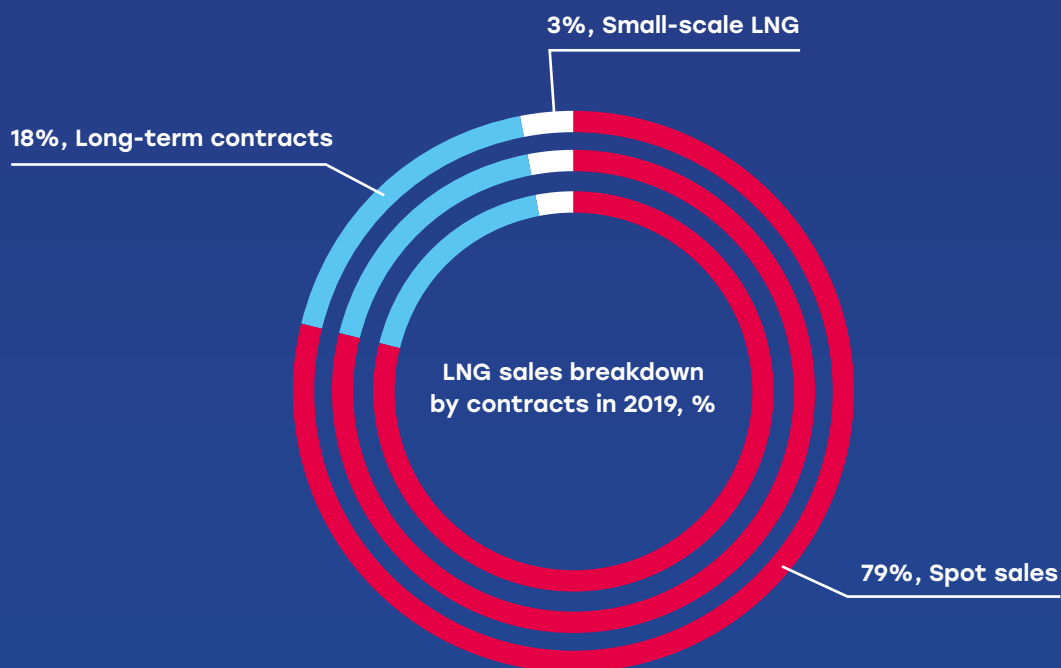


Natural gas sales in Russia, bcm



# LNG Sales

NOVATEK started exporting LNG in December 2017 when the first train at the Yamal LNG plant started production



# 04

## April

Cryogas-Vysotsk began regular shipments of LNG

# 07

## July

Arc7 LNG carrier “Vladimir Rusanov” inaugurated the summer navigation along the NSR delivering a cargo of LNG from Sabetta to the port of Tianjin in China

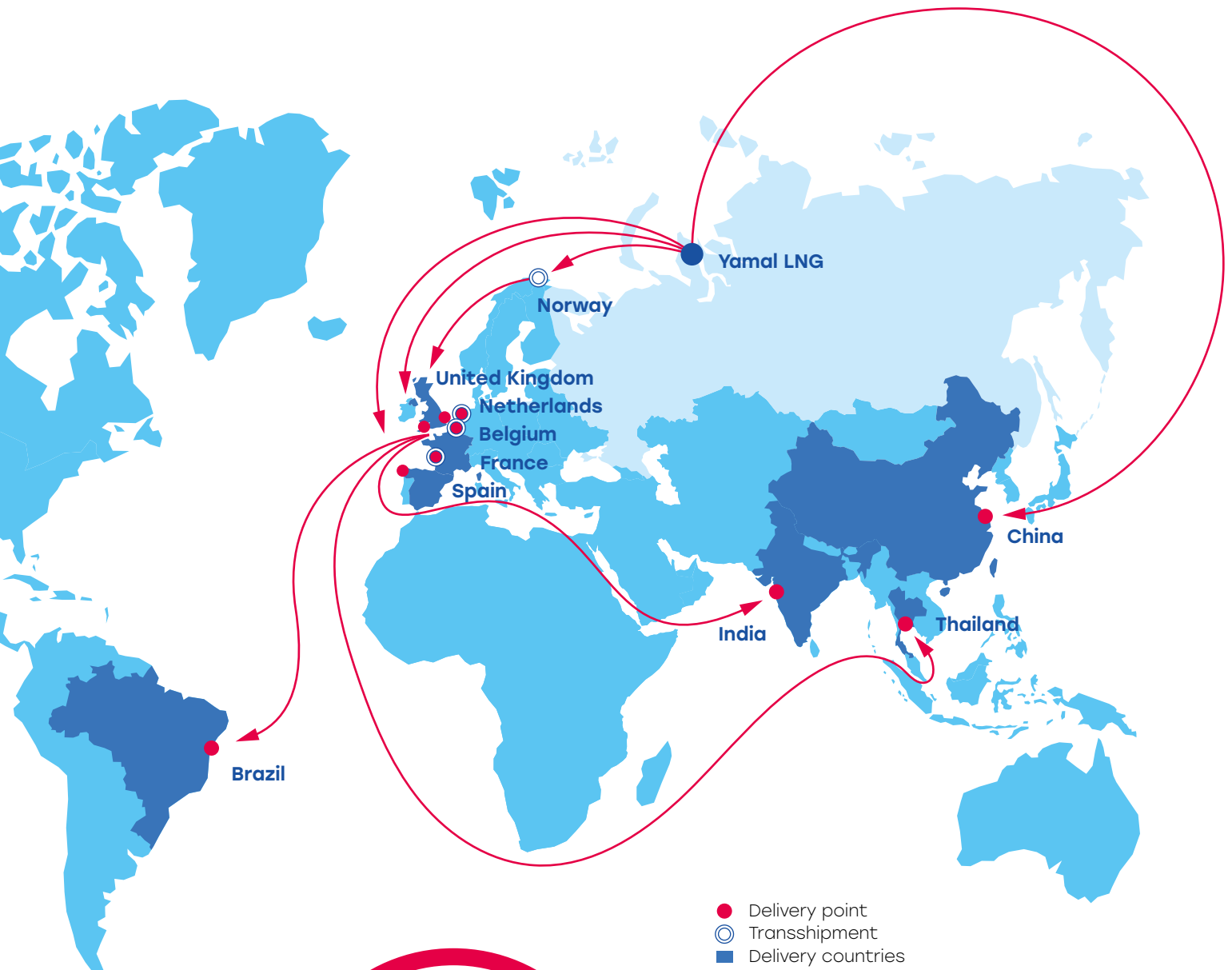
# 10

## October

Under a long-term agreement with Naturgy (formerly Gas Natural Fenosa), Yamal LNG delivered its first LNG cargo to the Sines Terminal, Portugal, where no Russian pipeline gas is supplied

The Company started exporting LNG in December 2017 when the first train at the Yamal LNG project started production. In addition, on the European market we sell regasified liquefied natural gas arising during the transshipment of LNG (boil-off gas), as well as during the regasification of purchased LNG at our own regasification stations in Poland.

During 2019, we sold 12.8 bcm (8.5 mmt) of LNG. We dispatched 119 large-scale LNG tanker shipments with a total volume of 12.4 bcm (8.3 mmt). In the small-scale LNG market we sold 0.4 bcm (0.3 mmt) of LNG, including 65 tanker shipments (of which 63 were delivered from Cryogas-Vysotsk) and more than 400 cargoes by trucks.



- Delivery point
- Transshipment
- Delivery countries

**253**  
 LNG cargoes were shipped from Yamal LNG in 2019

**28 countries consumed natural gas molecules from Yamal LNG\***

\* Taking into account all supplies from Yamal LNG since its launch

# Liquid Hydrocarbons Sales

NOVATEK sells liquid hydrocarbons (stable gas condensate, petroleum products, light hydrocarbons, LPG and crude oil) domestically and internationally



16.4 mmt

Liquid hydrocarbons sales volumes

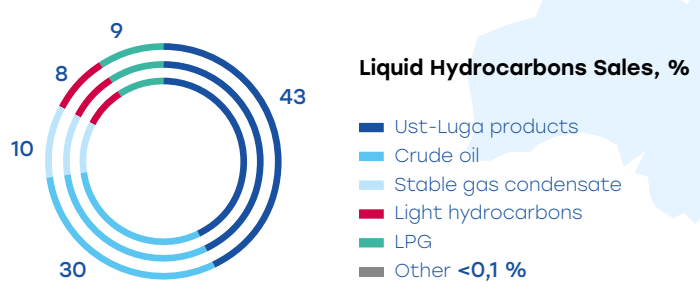
437 RR bln

Liquid hydrocarbons sales revenues



In 2019, NOVATEK's liquids sales volumes reached 16,355 mt, or 3% more than in 2018. In 2019, our export sales volumes increased by 6% to 9,571 mt.

- Stable gas condensate
- LPG
- ▲ Jet fuel
- Gasoil
- Heavy naphtha
- Light naphtha
- Crude oil
- Fuel oil
- Export markets



# Environmental and Social Responsibility

NOVATEK adheres to the principles of effective and responsible business conduct and considers the welfare of its employees and their families, environmental and industrial safety, the creation of a stable and beneficial social environment as well as contributing to Russia’s overall economic development as priorities and responsibilities of the Company

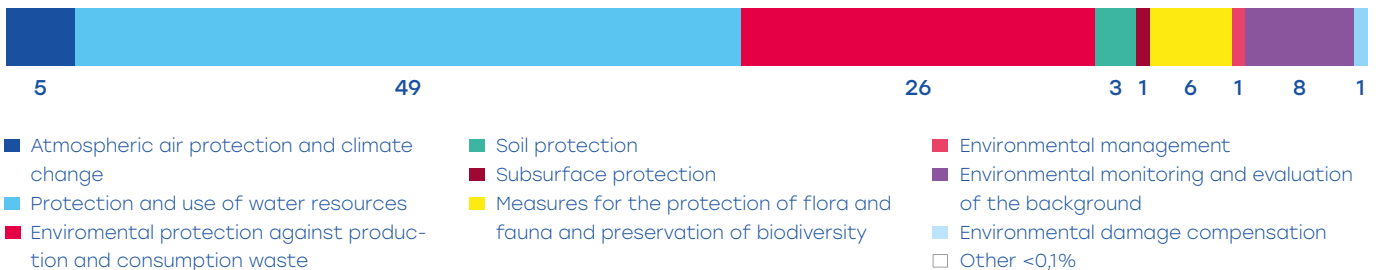
**2.20** RR bln

expenses on environment protection and sustainable nature management

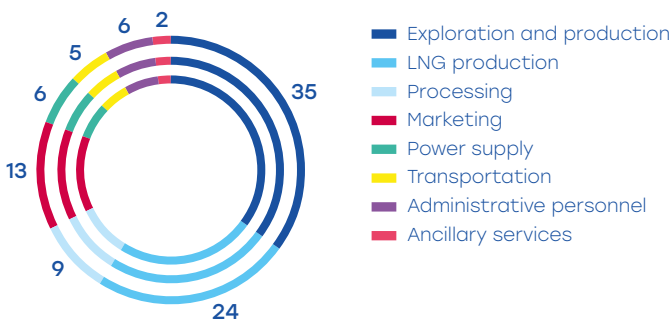
**1.2** tons/h

Capacity of a thermal waste (effluents) treatment complex built at the Cryogas-Vysotsk and equipped with automated controls of industrial emissions

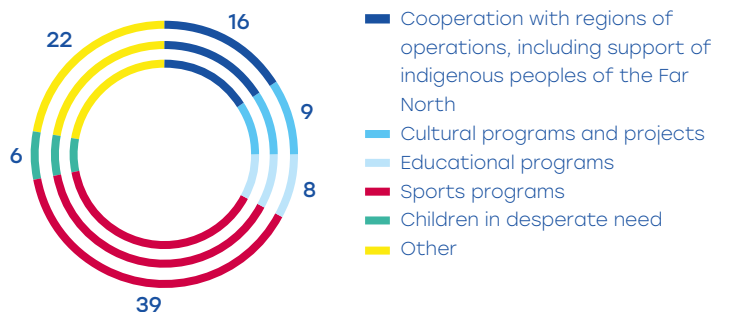
## Environmental expenses in 2019, %



## NOVATEK’s personnel structure as of 31 December 2019, %



## Projects and activities related to the support of indigenous peoples, charitable contributions, cultural and educational programs, %



**1,990** RR mln

Projects and activities related to the support of indigenous peoples, charitable contributions, cultural and educational programs

**1,760** RR mln

Social expenses for employees

**12,800**

employees completed OHS training and certification

**42%**

of workers upgraded their skills

**>1,100**

NOVATEK’s employees took part in the Russian national environmental campaign “Green Spring 2019”

**15,445**

employees at NOVATEK, its subsidiaries and joint ventures as of 31 December 2019

**Social expenses for employees, %**



**Charity project “Health Territory”**

As part of the project, lead specialists of the Russian Children’s Clinical Hospital visited children in Novy Urengoy, Tarko-Sale, Chelyabinsk, Magnitogorsk, Murmansk, Tyumen and Petropavlovsk-Kamchatsky. **These visits allowed 668 children to get medical help and 162 children were taken to hospitals in Moscow.** During these visits, research-to-practice conferences for regional medical professionals and case conferences took place. Targeted assistance was provided to children with severe conditions.

**Rehabilitation Center project for children with disabilities in YNAO**

Seven courses of rehabilitation were completed, 266 children with disabilities (musculoskeletal diseases and psychoneurological disorders) got medical help not leaving the region.

# Corporate Governance

The Company has established an effective and transparent system of corporate governance complying with both Russian and international standards. NOVATEK's supreme governing body is the General Meeting of Shareholders. The corporate governance system comprises the Board of Directors, the Board Committees, and the Management Board, as well as internal control and audit bodies and the Corporate Secretary

## Independent Board Members



**DR. BURCKHARD  
BERGMANN**

Born in 1943  
Independent Director  
Chairman of the Strategy Committee  
Member of the Audit Committee  
Member of the Remuneration  
and Nomination Committee



**MR. ROBERT  
CASTAIGNE**

Born in 1946  
Independent Director  
Chairman of the Audit Committee  
Member of the Remuneration  
and Nomination Committee



**MR. VICTOR  
P. ORLOV**

Born in 1940  
Independent Director  
Chairman of the Remuneration  
and Nomination Committee  
Member of the Audit  
Committee

## The Board of Directors Membership



**MR. ALEXANDER  
E. NATALENKO**

Born in 1946  
Chairman of the Board of Directors  
Member of the Strategy Committee



**MR. ANDREI  
I. AKIMOV**

Born in 1953  
Member of the Strategy Committee



**MR. ARNAUD  
LE FOLL**

(from 18.01.2019)  
Born in 1978  
Member of the Strategy Committee



**MR. Michael  
BORRELL**

Born in 1962  
Member of the Strategy Committee



**MR. LEONID  
V. MIKHELSON**

Born in 1955  
Chairman of the Management Board



**MR. GENNADY  
N. TIMCHENKO**

Born in 1952  
Member of the Strategy Committee

# Review of Operating Results

## Licenses

NOVATEK's core fields and license areas are located in the Yamal-Nenets Autonomous Region and on the Krasnoyarsk Territory. In 2019, we expanded the Company's operational footprint and obtained new licenses on Russia's Gydan peninsula and in Nadym region, YNAO, in close proximity to existing license areas of the Company.

The Yamal-Nenets Autonomous Region (YNAO) is one of the world's largest natural gas producing regions and accounts for approximately 80% of Russian natural gas production and 15% of global natural gas production. The concentration of the Company's fields in this prolific gas-producing region provides favorable opportunities for increasing NOVATEK's shareholder value with a minimum level of risks, low finding cost, and efficient replacement of reserves. With 25 years of operational experience in the region, NOVATEK is in a good position to efficiently monetize its resource base.

Exploration and production of hydrocarbons in Russia is subject to federal licensing regulations.

As of 31 December 2019, NOVATEK subsidiaries and joint ventures held 66 licenses for subsoil use in Russia. NOVATEK also has agreements on exploration and production of hydrocarbons on four offshore blocks in Montenegro and on two offshore blocks in Lebanon.

The duration of licenses for the Company's core fields exceeds 14 years. In particular, the license for the Utrenneye field is valid until 2120, for the East-Tarkosalinskoye field – until 2043, for the Yurkharovskoye field – until 2034, and for the Samburgskiy license area of Arcticgas – until 2034. We believe there is sufficient precedence to extend our licenses for the lifetime of the fields on the basis of project documents.

In the reporting year, NOVATEK significantly expanded its portfolio of licenses.

In May 2019, the Company's subsidiary NOVATEK-YURKHAROVNEFTEGAS was granted subsoil use rights for geological exploration of the Kholmeryakhskiy, Dorofeevskiy and West-Dorofeevskiy areas. The Company's subsidiary NOVATEK-TARKOSALENEFTEGAS was granted subsoil use rights for geological exploration of the South-Kholmeryakhskiy and South-Dorofeevskiy areas. All five new license areas are located in the Krasnoyarsk Territory in close proximity to NOVATEK's existing assets on the Gydan Peninsula.

In August and December 2019, the Company's subsidiary Arctic LNG 1 won auctions for the subsoil rights of hydrocarbons exploration and production for the Soletsko+Khanaveyskoye field and the Bukharinskiy license area, both of which are located on the Gydan Peninsula. The Soletsko+Khanaveyskoye field borders on the Trekhbugorniy, Gydanskiy, Geofizicheskiy 1 and Bukharinskiy license areas held by NOVATEK. The Bukharinskiy license area partially extends into the Ob and Taz bays of the Kara Sea, and the Yamal-Nenets Autonomous Region. It borders NOVATEK's Soletsko+Khanaveyskoye field and the Trekhbugorniy license area. Acquisition of new license areas will enable us to expand our hydrocarbon resource base for the future LNG projects similar in size and scale to Arctic LNG 2.

In December 2019, the Company's subsidiary NOVATEK-YURKHAROVNEFTEGAS won auctions for the subsoil rights of hydrocarbons exploration and production at the East-Ladertoiskiy and South-Yamburgskiy license areas. The East-Ladertoiskiy area is located on the Gydan Peninsula in YNAO and borders on the Ladertoiskiy, Nyavuyakhskiy, West-Solpatinskiy and Central-Nadoyakhskiy license areas of NOVATEK. The South-Yamburgskiy area is located in the Nadym District of YNAO in close proximity to the North-Urengoiszkoye field operated by Norgas, one of NOVATEK's joint venture. The licenses for geological exploration, exploration and production of hydrocarbons at the East-Ladertoiskiy and South-Yamburgskiy areas were obtained in February 2020.

In 2019, the Company's subsidiaries obtained licenses to explore field extension areas, including Shtormovoy 1 and Geofizicheskiy 1 subsoil license areas.

The new license acquisitions are estimated to hold total hydrocarbon resource potential of 32.9 bln boe under the Russian reserves classification methodology.

The Company already holds a vast resource base in the Gydan Peninsula, including the Utrenneye, Geofizicheskoye, and Gydanskoye fields and a number of other promising license areas. The new licenses allow NOVATEK to expand its resource base in the peninsula and, consider significant long-term projects to increase production output.

NOVATEK strives to strictly observe all of its license obligations and conducts continuous monitoring of license tenders in order to expand its resource base in strategically important regions.



# 16,265 <sup>mmboe</sup>

Total proved hydrocarbon reserves (SEC) including share in JVs reserves as of 31 December 2019

# 590 <sup>mmboe</sup>

Company's production including share in production by JVs

## Hydrocarbon Reserves

Most of the Company's reserves are located onshore or can be developed from onshore locations and are attributed to the conventional hydrocarbon categories (capable of being exploited using conventional technologies, in contrast to unconventional gas deposits such as shale gas or coal-bed methane).

DeGolyer and MacNaughton, an independent petroleum engineers firm, estimates the Company's reserves on an annual basis under both the SEC and PRMS reserves reporting standards.

As of 31 December 2019, NOVATEK's SEC proved reserves, including the Company's proportionate share in joint ventures, aggregated 16,265 million barrels of oil equivalent (mmboe), including 2,234 bcm of natural gas and 193 mmt of liquid hydrocarbons. The Company's proved reserves grew by 3% (excluding 2019 production), representing a reserve replacement rate of 181% for the year, with the addition of 1,065 million boe, inclusive of 2019 production. At year-end 2019, the Company's reserve to production ratio (or R/P ratio) was 28 years.

The organic reserve replacement rate (SEC), excluding the effect from acquisitions and disposals, which mainly related to the disposal of 40% participation interest in Arctic LNG 2 project, amounted to 252%, with the addition of 1,487 million boe, inclusive of 2019 production.

As of 31 December 2019, the Company's total PRMS proved and probable reserves, including the Company's proportionate share in joint ventures, aggregated 28,725 mmboe, including 3,901 bcm of natural gas and 373 mmt of liquid hydrocarbons, with a total R/P ratio of 49 years.

The organic proved plus probable reserves replacement rate under the PRMS standards, excluding the effect from acquisitions and disposals, which mainly related to the disposal of 40% participation interest in Arctic LNG 2 project, amounted to 200%, with the addition of 1,177 million boe, inclusive of 2019 production.

The Company's reserves were positively impacted by successful exploration at the Geofizicheskoye, Utrenneye and Kharbeyskoye fields, production drilling at the Urengoykoye, East-Urengoykoye+North-Esetinskoye (Samburgskiy license area), East-Tazovskoye, North-Russkoye and South-Tambeyskoye fields, as well as the discovery of the Nyakhartinskoye field and new Achimov deposits in the Gydanskiy license area. The Soletsko-Khanaveyskoye field acquired in 2019 was included into our reserves appraisal. The Company's reserves appraisal under PRMS standards also includes the new North-Obkskoye field discovered in 2018.

The Company significantly increased its exploration activities in 2019 as well as acquired new license areas on the Gydan Peninsula. The inclusion of large geological discoveries in reserves appraised under international reserve standards will contribute significant hydrocarbon resources to successfully implement future NOVATEK's large-scale LNG projects in the Arctic zone and ensure the maintenance of natural gas production levels into the domestic pipeline network.

The high quality of the reserve base enables NOVATEK to maintain its position as one of the lowest cost producers in the global oil and gas industry. Our average 2019 and five year (2015-2019) proved reserve replacement costs amounted to RR 69 (USD 1.1) per boe and RR 70 (USD 1.1) per boe, respectively.

**SEC proved reserves as of 31 December 2019 (based on the Company's equity ownership interest in joint ventures) and duration of licenses**

Field / license area	Ownership	Duration of license	Natural gas reserves, bcm	Liquids reserves, mmt
<b>Total reserves</b>	-	-	<b>2,234</b>	<b>193</b>
South-Tambeyskoye	50.1% (59.97% of reserves)	2045	414	13
Utrenneye	60%	2120	277	11
Urengoyskoye (Arcticgas)	50%	2034	207	48
Geofizicheskoye	100%	2034	176	1
Yurkharovskoye	100%	2034	165	6
Verkhnetiuteyskoye + West-Seyakhinskoye	100%	2044	159	5
North-Russkoe	100%	2031	74	5
East-Tarkosalinskoye	100%	2043	67	18
Yaro-Yakhinskoye	50%	2034	66	10
North-Urengoyskoye	50%	2038	63	4
Soletsko+Khanoveiskoye	100%	2046	61	0.3
Kharbeykoye	100%	2036	60	8
North-Chaselskoye	100%	lifetime of the field	57	2
Gydanskiy	100%	2044	51	4
Beregovoy	100%	2070	42	3
Urengoyskoye (Ust-Yamsoveyskiy)	100%	2198	42	5
East-Tazovskoye	100%	2033	41	6
Olimpiyskiy license area	100%	2059	27	2
East-Urengoyskoye+North-Esetinskoye (West-Yaroyakhinskiy)	100%	2025	23	2
Samburgskoye	50%	2034	21	2
Nyakhartinskoye	100%	2043	19	1
Termokarstovoye	51%	2097	18	5
Yarudeyskoye	51% (100% of reserves)	2029	13	20
Khancheykoye	100%	2044	7	1
Others	-	-	84	11

## Geological Exploration

NOVATEK aims to expand its resource base through geological exploration at fields and license areas not only in close proximity to existing transportation and production infrastructure, but also in new potentially prospective hydrocarbon areas. The Company ensures the efficiency of geological exploration work by deploying state-of-the-art technologies and relying on the experience and expertise of the specialists in its geology department, and the Company's Scientific and Technical Center located in Tyumen.

The Company uses a systematic and comprehensive approach to exploration and development of its fields and license areas, from the collection and interpretation of seismic data to the creation of dynamic field models for the placement of exploration and production wells. We employ modern geological and hydrodynamic modeling as well as new well drilling and completion techniques to maximize the ultimate recovery of hydrocarbons in a cost effective and environmentally prudent manner.

In 2019, NOVATEK continued exploration on the Yamal and Gydan Peninsulas to expand the resource base.



## Geological Exploration

	Units	2018	2019	Change
<b>2D seismic</b>	<b>linear km</b>	<b>2,926</b>	<b>-</b>	<b>n/a</b>
• Subsidiaries	linear km	2,926	-	n/a
• Joint ventures	linear km	-	-	n/a
<b>3D seismic</b>	<b>square km</b>	<b>4,759</b>	<b>4,643</b>	<b>(2.4%)</b>
• Subsidiaries	square km	4,412	4,555	3.2%
• Joint ventures	square km	347	88	(74.6%)
<b>Exploration drilling</b>	<b>'000 m</b>	<b>36.1</b>	<b>32.8</b>	<b>(9.1%)</b>
• Subsidiaries	'000 m	24.3	28.6	17.6%
• Joint ventures	'000 m	11.8	4.2	(64.4%)

A prospecting well discovered at the Nyakhartinskoye field with one gas and six gas condensate deposits. The well tested at a flow rate of up to 411 mcm/day of gas and 192 tons/day of stable condensate (1,663 barrels/day). The field borders next to the well-developed infrastructure of the Yurkharovskoye field and is an important discovery for the Company to maintain its production within the pipeline gas area. Aggregate natural gas and gas condensate reserves approved by the State Reserves Commission according to the Russian standards amounted to 59.7 bcm and 2.1 mmt, respectively.

Prospecting well tests at the Utrenneye field confirmed the productivity of two gas condensate deposits in the Middle Jurassic layers. Total Jurassic deposits reserves of the Utrenniy license area held by Arctic LNG 2 amount to 570.7 bcm of gas and 61.2 mmt of gas condensate. Taking into account new deposits, the field's total reserves under the Russian reserves classification methodology aggregated 2.14 tcm of gas and 126 mmt of liquid hydrocarbons. The reserves were approved by the State Reserves Commission. By adding new deposits we improve the field's resource potential and open up additional opportunities in the execution of Arctic LNG 2.

We actively developed the Gydanskoye field. With two prospecting wells drilled we discovered four new deposits, of which three are located in the Achimov deposits. The increase in reserves of new deposits amounted to 290 bcm of gas and 33.7 mmt of gas condensate.

An exploration well drilled in the Ob Bay at the Geofizicheskoye field achieved a significant increase in reserves 184.7 bcm of gas and 4.7 mmt of gas condensate. The Geofizicheskoye field's aggregate reserves under the Russian reserves classification methodology amount to 513 bcm of gas and 8.1 mmt of condensate.

The Samburgskiy license area continues to see additions of Achimov gas condensate reserves within the Urengoykoye field. In 2019, with exploration and production wells drilled reserves growth totaled 52 bcm of gas and 9.7 mmt of gas condensate.

In 2019, we continued 3D seismic exploration at the Gydanskiy, West-Solpatinskiy, Nyavuyakhskiy, Ladertoyskiy, West-Yurkharovskiy, North-Russkiy, and Nyakhartinskiy license areas as well as Verkhnetiuteyskoye and West-Seyakhinskoye fields.

In order to maintain pipeline gas production levels and unstable gas condensate volumes sent to the Purovsky Plant, we continued exploration in the fields and license areas within the Nadym-Pur-Taz area located in the YNAO.

In the Kharbeyskoye license area an exploration well was being drilled to confirm oil and gas reserves potential and to determine the field's productivity for future development.

Our successful exploration activities during 2019 contributed 657 bcm of gas and 40 mmt of liquids to NOVATEK's Russian hydrocarbon resource base, now amounting to 7,047 bcm of gas and 798 mmt of liquid hydrocarbons under the Russian reserves classification methodology.

”

**The organic reserve replacement rate (SEC), excluding the effect from acquisitions and disposals, which mainly related to the disposal of 40% participation interest in Arctic LNG 2, amounted to 252%.**

“

## Field Development

In 2019, NOVATEK continued development activities at our producing and prospective fields. In the reporting year, the Company's subsidiaries invested RR 79.3 bln in resource base development.

Production drilling in 2019, including production drilling at our joint ventures, reached 677 thousand meters, representing a 52% increase over 2018. Our drilling activities were mainly driven by the development of the Urengoyskoye, Yarudeyskoye, East-Tazovskoye, Beregovoye, Utrenneye, East-Urengoyskoye+North-Esetinskoye, Yaro-Yakhinskoye, Kharbeyskoye, West-Yurkharovskoye, South-Khadyryakhinskoye and Dorogovskoye fields.

A total of 102 production wells, including 60 natural gas and gas condensate and 42 oil wells, were completed and commissioned during the year.

### NEW FACILITIES COMMISSIONED AT PRODUCING FIELDS

In 2019, the North-Russkoye, East-Urengoyskoye+North-Esetinskoye and West-Yurkharovskoye fields were put into operation. The development of the East-Tazovskoye and Kharbeyskoye fields continued.

The Cenomanian gas booster compressor station was launched, and work continued on the construction of the Valanginian gas booster compressor station at the Beregovoye field. An inter-field condensate pipeline has been commissioned between two gas treatment facilities at the Beregovoye and Yaro-Yakhinskoye fields. A booster compressor station of the Yaro-Yakhinskoye field was put into operation. We also commissioned an administrative building in Novy Urengoy. A condensate pipeline link was launched from the West-Yaroyakhinskoye field to the Company's pipeline. A power center at the Utrenneye field was also launched.

## Hydrocarbon Production

In 2019, NOVATEK produced commercial hydrocarbons at 20 fields. The Company's production (including our attributable share in the production of JV's) amounted to 589.9 mmboe, up 7.4% compared with 2018. The main factor that had a positive impact on production growth was the launch of LNG production at the second and third trains of the Yamal LNG plant in the second half of 2018, and the launch of oil deposits of the Yaro-Yakhinskiy license area, owned by our joint venture Arcticgas, in December 2018.

### Hydrocarbon production (including share in production by joint ventures)

	Units	2018	2019	Change
<b>Total</b>	<b>mmboe</b>	<b>549.1</b>	<b>589.9</b>	<b>7.4%</b>
Gas	mmcm	68,806	74,700	8.6%
	mmboe	450.0	488.5	
Liquid hydrocarbons	th. tons	11,800	12,148	2.9%
	mmboe	99.1	101.4	

### Gross hydrocarbon production (including share in production by joint ventures)

	Gas, mmcm		Change	Liquids, mt		Change
	2018	2019		2018	2019	
<b>Total</b>	<b>68,806</b>	<b>74,700</b>	<b>8.6%</b>	<b>11,800</b>	<b>12,148</b>	<b>2.9%</b>
NOVATEK-Yurkharovneftegas' fields (100%)	27,745	26,247	(5.4%)	1,264	1,253	(0.9%)
NOVATEK-Tarkosaleneftegas' fields (100%)	10,069	9,036	(10.3%)	1,661	1,692	1.8%
Arcticgas' fields (50%)	13,698	13,787	0.6%	3,999	4,166	4.2%
South-Tambeyskoye (59.97%)	8,213	16,727	103.7%	542	826	52.3%
North-Urengoyskoye (50%)	3,790	3,529	(6.9%)	310	284	(8.4%)
Termokarstovoye (51%)	1,246	1,249	0.2%	403	392	(2.8%)
Yarudeyskoye (100%)	1,500	1,731	15.4%	3,439	3,311	(3.7%)
Others	2,545	2,394	(6.0%)	182	224	23.1%

The production volumes at mature fields of our subsidiaries and joint ventures decreased mainly due to natural declines in the reservoir pressure at the current gas producing horizons.

Total natural gas production including the Company's share in production of joint ventures aggregated 74.70 bcm, representing approximately 82.8% of our total hydrocarbon output. The share of gas produced from the gas condensate bearing layers (or "wet gas") in proportion to total gas production was 80.2%. Production of natural gas increased by 8.6% as compared to 2018 volumes.

Production of liquid hydrocarbons including the Company's share in production of joint ventures totaled 12,148 thousand tons, of which 58.1% was gas condensate and the remaining 41.9% consisted of crude oil. Production of liquid hydrocarbons increased by 2.9% as compared to 2018, with gas condensate production amounting to 7,055 thousand tons and crude oil production coming to 5,093 thousand tons.

In 2019, we continued to achieve some of the lowest lifting costs in the industry. The Company's lifting costs were RR 38.5 (USD 0.59) per boe in 2019.

## LNG Projects

### YAMAL LNG PROJECT

Yamal LNG is an integrated project including production, liquefaction and sales of natural gas and gas condensate. OAO Yamal LNG is the operator and the owner of all the assets. As of the end of 2019, the shareholder structure of Yamal LNG was as follows: NOVATEK – 50.1%, TOTAL – 20%, CNPC – 20%, and the Silk Road Fund – 9.9%.

The South-Tambeyskoye field located in the North-East of the Yamal Peninsula is the resource base of the Project.

As of 31 December 2019, the field's SEC proved reserves amounted to 690 bcm of natural gas and 22 mmt of liquid hydrocarbons. According to the PRMS standards, the proved and probable reserves of the South-Tambeyskoye field as of the end of 2019 amounted to 964 bcm of natural gas and 34 mmt of liquid hydrocarbons. The field is being developed with horizontal wells with total drilled lengths up to 5,000 meters and horizontal sections of up to 1,500 meters.



Exploration drilling at the Utrenneye field

# 253

LNG cargos (18.4 mmt) were shipped from Yamal LNG plant in 2019

Construction and start-up of three trains with the total design capacity of 16.5 mmtpa (5.5 mmtpa each) was finalized in 2018. Yamal LNG was commissioned ahead of initial schedule and on budget, which is an outstanding achievement in the global oil and gas industry. The second and third trains of the plant were started up six months and more than a year ahead of the initial schedule, respectively.

The first train started production in fourth quarter 2017, with the second and third trains became operational in July and November 2018, respectively. Yamal LNG reached its full capacity as early as in December 2018. In 2019, the first full year of simultaneous operation of all three liquefaction trains, Yamal LNG produced 18.4 mmt of LNG, exceeding the plant's design capacity by 11% or 1.9 mmt.

A fourth train with the nameplate capacity of 0.9 mmtpa is currently under construction based on NOVATEK's patented proprietary Arctic Cascade gas liquefaction technology. The design of the fourth train provides for the use of equipment manufactured in Russia. To make the technology highly energy efficient, the liquefaction process will extract maximum benefits from the Arctic climate.

Unique Arc7 ice class LNG carriers were specifically designed for the Yamal LNG project, capable of navigating the Northern Sea Route (NSR) without icebreaker support. As of year-end 2019, all 15 Arc7 carriers were received and in operations. In 2019, 253 LNG cargos (18.4 mmt) and 42 stable gas condensate cargos (1.2 mmt) were shipped.

In July 2019, our Arc7 LNG carrier "Vladimir Rusanov" inaugurated the summer navigation along the NSR delivering a cargo of LNG from Sabetta to the port of Tianjin in China.

In the reporting year, LNG was also delivered to the Asia Pacific markets during winter months by conventional LNG tankers, by LNG transshipped from ice class LNG carriers in Northern Norway and in the port of Zeebrugge, Belgium. In December 2019, Yamal LNG started using a dedicated tank at the Zeebrugge terminal for LNG transshipment as part of a 20-year agreement with Fluxys LNG NV/SA. The LNG tank was built specifically for Yamal LNG with a capacity of 180 mcm, allowing the project to transship up to 8 mmt of LNG per annum.

## ARCTIC LNG 2 PROJECT

Arctic LNG 2 is the second large-scale LNG project of NOVATEK. The Utrenneye field, the resource base for Arctic LNG 2, is located in the Gydan Peninsula in YNAO approximately 70 km across the Ob Bay from the Yamal LNG project.

# 461 <sup>bcm</sup>

of gas and 18 mmt of liquid hydrocarbons - Proved reserves (SEC) of the Arctic LNG 2' Utrenneye field

As of 31 December 2019, proved reserves of the field under the SEC reserves methodology totaled 461 bcm of gas and 18 mmt of liquid hydrocarbons. According to the PRMS reserve standards, the proved and probable reserves totaled 1,180 bcm of natural gas and 62 mmt of liquid hydrocarbons.

OOO Arctic LNG 2 is the project operator and owner of all of the assets and holds the LNG export license.

In March 2019, NOVATEK closed the sale of 10% participation interest in Arctic LNG 2 to TOTAL. In July 2019, we closed the deals for the sale of participation interests to new participants: subsidiaries of China National Petroleum Corporation (CNPC), CNOOC and Japan Arctic LNG, a consortium of Mitsui&Co and JOGMEC. As of the end of 2019, the project's participants are NOVATEK (60%), TOTAL (10%), CNPC (10%), CNOOC (10%), and Japan Arctic LNG (10%).

In September 2019, the project participants made the Final Investment Decision.

The Project involves the development of the field, construction of the Utrenny terminal and three natural gas liquefaction trains on gravity-based structures (GBS), with the capacity to produce 6.6 mmtpa of LNG each and cumulative stable gas condensate capacity up to 1.6 mmtpa. The total LNG capacity of the three trains will be 19.8 mmtpa. The GBS design concept as well as extensive localization of equipment and materials manufacturing in Russia will considerably reduce the capital expenditures per ton of LNG produced; thus, ensuring low liquefaction cost per ton of LNG produced.

NOVATEK is building an LNG Construction Center in Belokamenka near Murmansk to fabricate the GBSs, and assemble and install topside modules. The center's infrastructure will comprise two dry docks and production facilities to build GBSs and topside modules. The center will provide a state-of-the-art technical foundation for LNG technologies in Russia, create new jobs, and contribute to the economic development of the region.

The plant's first train is to be launched in 2023, trains 2 and 3 - in 2024 and 2026, respectively.

In May 2019, Arctic LNG 2 signed the EPC contract for engineering, supply of equipment, materials and accessories, construction and commissioning of an integrated natural gas treatment and liquefaction facility with the consortium of TechnipFMC, SAIPEM, and NIPigas. Topside modules fabrication started in November 2019.

In 2019, SAREN, a joint venture of SAIPEM and Renaissance Heavy Industries, started the first GBS fabrication at the NOVATEK-Murmansk yard (the LNG Construction Center).





**Signing of the Arctic LNG 2 Final Investment Decision**

Production drilling, construction of infrastructure and the Utrenniy terminal has already started for the project.

#### **OBSKIY LNG PROJECT**

The Company's strategic plans are to expand its LNG portfolio: in 2019, we started developing the Obskiy LNG project, which will use a modified version of NOVATEK's proprietary gas liquefaction technology. The plant's liquefaction capacity will be 5 mmtpa and its maximum stable gas condensate production capacity is 0.3 mmtpa.

The Verkhnetiuteyskoye and West-Seyakhinskoye fields located in the north-eastern part of the Yamal Peninsula are the project's resource base. As of 31 December 2019, proved reserves under the SEC reserves methodology totaled 159 bcm of gas and 5 mmt of gas condensate. According to the PRMS standards, the proved and probable reserves totaled 264 bcm of gas and 16 mmt of gas condensate.

In 2019, the front end engineering and design work (FEED) was completed; engineering and main equipment selection began with active involvement of Russian manufacturers.

#### **CRYOGAS-VYSOTSK PROJECT**

One of our LNG strategic initiatives is to develop small-to medium-scale projects. This approach allows us to build premium marketing channels to sell our products in different markets. We see vast prospects in using LNG as marine fuel and motor fuel to substitute for fuel oil and diesel, that will contribute to curbing emissions and improving the environment.

Cryogas-Vysotsk is our first medium-scale LNG project. The Cryogas-Vysotsk shareholders are NOVATEK (51%) and Gazprombank (49%).

In 2019, Cryogas-Vysotsk commenced operations and began regular shipments of LNG.

The project's core facility is the LNG production and trans-shipment terminal in the port of Vysotsk, located in the Leningrad Region. The 660 mmtpa plant, consisting of two gas liquefaction trains with the capacity of 330 mmtpa each, is located in the North-West of Russia near the Gulf of Finland, 140 km away from St. Petersburg.

The project infrastructure also includes a 42 mcm LNG storage tank and a loading terminal designed to receive LNG carriers with a capacity of up to 30 mcm. The project targets small- and medium-scale LNG deliveries to regional markets by LNG trucks and gas carriers. The growing bunkering segment in the Baltics region is another important sales market.

#### **ROSTOCK LNG PROJECT**

In 2018, NOVATEK (49%) and Fluxys (51%) created Rostock LNG, a joint venture to operate a medium-scale LNG trans-shipment terminal with a capacity of about 300 mmtpa in the port of Rostock, Germany. At the end of year 2019, the front end engineering and design work (FEED) was completed. The package of documents for obtaining a construction permit has been submitted to the German state authorities.

## Processing of Gas Condensate

### PUROVSKY PLANT

Our subsidiaries and joint ventures are producing natural gas with a significant content of liquid hydrocarbons (gas condensate). After being separated and de-ethanized at the field the main part of unstable (de-ethanized) gas condensate is delivered via a system of condensate pipelines owned and operated by the Company for further stabilization at our Purovsky Plant located in the YNAO in close proximity to the East-Tarkosalinskoye field.

The Purovsky Plant is the central element in our vertically integrated value chain that provides us complete operational control over our processing needs and access to higher yielding marketing channels for our stable gas condensate. The Purovsky Plant processes unstable gas condensate into stable gas condensate and natural gas liquids (NGL).

In the reporting period, the Purovsky Plant processed 10,802 mt of de-ethanized gas condensate, representing a 2.0% decrease compared to 2018. The processing capacity of the Purovsky Plant is in line with the total production capacity of NOVATEK and its joint ventures fields. The 2019 output mix included 8,215 mt of stable gas condensate, 2,538 mt of NGL and LPG and 14.8 mt of regenerated methanol.

The Purovsky Plant is connected via its own railway line to the Russian rail network at the Limbey rail station. Subsequent to the launch of the Ust-Luga Complex

in 2013, most of the stable gas condensate volumes produced at the Purovsky Plant are delivered by rail to Ust-Luga for further processing or transshipment to exports, with the remaining volume of stable gas condensate sold directly from the plant to the domestic market.

All of the NGL volumes (feedstock for LPG production) produced at the plant are delivered by pipeline to SIBUR's Tobolsk Petrochemical Complex for further processing.

### UST-LUGA COMPLEX

The Gas Condensate Fractionation and Transshipment Complex (the "Ust-Luga Complex") is located at the all-season port of Ust-Luga on the Baltic Sea. The Ust-Luga Complex processes stable gas condensate into light and heavy naphtha, jet fuel, ship fuel component (fuel oil) and gasoil, and enables us to ship the value-added petroleum products to international markets. The Ust-Luga Complex also allows for transshipment of stable gas condensate to the export markets. After launching in 2013, the complex improved our logistics and reduced transportation costs.

In the reporting year, the Ust-Luga Complex processed 6,902 mt of stable gas condensate into 6,742 mt of end products, including 4,299 mt of light and heavy naphtha, 1,085 mt of jet fuel and 1,358 mt of ship fuel component (fuel oil) and gasoil.

In 2019, the Ust-Luga Complex commenced constructing a hydrocracker unit. The launch will increase the depth of



In 2019, Cryogas-Vysotsk project was launched

processing of stable gas condensate into higher grade value-added petroleum products.

High value-added petroleum products produced at the Ust-Luga Complex have a significant positive impact on the profitability of our liquid hydrocarbons sales and the Company's cash flow generation.

As the Ust-Luga Complex reached full processing capacity we transshipped stable gas condensate to the export markets by sea.

## Natural Gas Sales

NOVATEK sells natural gas within the Russian Federation as well as exports natural gas in the form of LNG. The Company started exporting LNG in December 2017 when the first train at the Yamal LNG project started production. In addition, on the European market we sell regasified liquefied natural gas arising during the transshipment of LNG (boil-off gas), as well as during the regasification of purchased LNG at our own regasification stations in Poland.

In 2019, natural gas sales volumes, including volumes of LNG sold, aggregated 78.45 bcm, representing an increase of 8.8% as compared with 2018 mainly due to an increase in LNG sales volumes purchased from our joint ventures Yamal LNG and Cryogas-Vysotsk. Revenues from natural gas sales amounted to RR 415 billion, representing a 10.6% increase compared to 2018. The revenue increase was mainly driven by the increase of LNG volumes sold and an increase in sales prices in the Russian domestic market.

# 78.4<sup>bcm</sup>

Natural gas sales volumes, including LNG volumes

## SALES IN THE RUSSIAN FEDERATION

In 2019, the total volume of natural gas sold in the Russian Federation amounted to 65.65 bcm, decreasing by 0.6% compared to the previous year.

NOVATEK has a key role in ensuring supplies of natural gas to the domestic market. During 2019, the Company supplied natural gas to 40 regions within the Russian Federation. Our end customers and traders were located primarily in the following regions: the Chelyabinsk Region, the Khanty-Mansiysk Autonomous Region, Moscow and Moscow Region, Lipetsk Region, YNAO, Tyumen, Vologda, Stavropol, Nizhny Novgorod, Smolensk, Tula, Belgorod and Kostroma Regions and the Perm Territory. The above regions accounted for more than 92% of our total gas sales in the Russian Federation.

In order to manage seasonal gas demand, NOVATEK has entered into an agreement with Gazprom for underground

### Processing volumes and output of the Purovsky Plant, mt

	2018	2019	Change
Processing of de-ethanized condensate	11,017	10,802	(2.0%)
Output:			
• Stable gas condensate	8,501	8,215	(3.4%)
• NGL and LPG	2,452	2,538	3.5%
• Regenerated methanol	15.0	14.8	(1.3%)

### Processing volumes and output of the Ust-Luga Complex, thousand tons

	2018	2019	Change
Stable gas condensate processing	6,949	6,902	(0.7%)
Output:			
• Heavy naphtha	2,247	2,181	(2.9%)
• Light naphtha	1,997	2,118	6.1%
• Jet fuel	1,087	1,085	(0.2%)
• Ship fuel component (fuel oil)	843	753	(10.7%)
• Gasoil	633	605	(4.4%)



storage services. Natural gas inventories are accumulated during warmer periods when demand is lower and then used to meet increased demand during periods of colder weather. At year-end 2019, our inventories of natural gas, including LNG, amounted to 1.2 bcm.

NOVATEK, through its subsidiary NOVATEK-AZK, is implementing a pilot project for the sale of LNG as a motor fuel.

On the territory of Chelyabinsk, NOVATEK-AZK equipped an LNG refueling station to provide refueling for 33 municipal buses.

In September 2019, the first public multi-fuel station in the Russian Federation with liquefied and compressed natural gas was put into operation in the Chelyabinsk region. Together with industrial enterprises of the Chelyabinsk region, we implemented a project to convert a number of pilot automotive vehicles (haul trucks and highway trucks) to the dual-fuel mode (LNG + diesel), which are refueled at stations located on the territory of the enterprises.

During 2019, the construction of a small-scale LNG plant in Magnitogorsk with a capacity of 45 mmtpa was carried out by our subsidiary NOVATEK-Chelyabinsk.

#### SALES ON INTERNATIONAL MARKETS

Growth of LNG sales on the international market in 2019 demonstrated NOVATEK's transformation into a global gas company. Yamal LNG is now the largest LNG plant in Russia having an aggregate share of approximately five percent of the global LNG market.

During 2019, we sold 12.8 bcm (8.5 mmt) of LNG. We dispatched 119 large-scale LNG tanker shipments with a total volume of 12.4 bcm (8.3 mmt). In the small-scale LNG market we sold 0.4 bcm (0.3 mmt) of LNG, including 65 tanker shipments (of which 63 were delivered from Cryogas-Vysotsk) and more than 400 cargoes by trucks. In 2018, our LNG sales volume amounted to 6.1 bcm (4.0 mmt), with 57 large-scale LNG tanker shipments, including 50 cargoes from Yamal LNG.

One of our key priorities is to expand the geography of supplies and enhance our presence in main consumer markets. In the reporting year, Yamal LNG supplied its first LNG cargoes to Japan, South Korea, and Bangladesh.



**In September 2019, the first public multi-fuel station in the Russian Federation with liquefied and compressed natural gas was put into operation in the Chelyabinsk region.**



In October 2019, under a long-term agreement with Naturgy (formerly Gas Natural Fenosa), Yamal LNG delivered its first LNG cargo to the Sines Terminal, Portugal, where no Russian pipeline gas is supplied.

In the reporting year, we increased LNG deliveries to Asia-Pacific countries, including shipments via the Northern Sea Route (NSR). During the 2019 summer navigation period, 17 cargoes (1.2 mmt of LNG) were shipped from Yamal LNG along the NSR to the Asian Pacific market, which is more than four times higher than in the previous year. The use of the NSR eastbound enables the Company to reduce shipping times and costs, a key importance to develop our licenses and fields on the Yamal and Gydan peninsulas. LNG sales to the world's main consumer markets and the expansion of our supply geography confirm the high competitiveness of LNG deliveries from the Arctic all over the world.

In December 2019, Novatek Polska<sup>(1)</sup>, a wholly owned subsidiary, launched an LNG filling station to provide clean-burning fuel for cargo trucks in Rostock, Germany. The LNG filling station can refuel up to 120 vehicles per day.

This represents NOVATEK's first LNG filling station in Europe, as the Company plans to build a network of stations in Germany and Poland within the next few years at key transport connecting points. NOVATEK's broader strategy as a natural gas and LNG producer implies greater involvement in further development of natural gas as a motor fuel both in Russia and abroad. This market segment represents significant growth potential in the context of increasingly stringent environmental standards. Compared to diesel, LNG provides for a significant reduction of

#### Natural gas sales, mmcm

	2018	2019	Change
<b>Total gas sales</b>	<b>72,134</b>	<b>78,452</b>	<b>8.8%</b>
International sales	6,061	12,799	111.2%
Sales within the Russian Federation, including:	66,073	65,653	(0.6%)
• End customers	61,901	62,653	1.2%
• Traders	4,172	3,000	(28.1%)
Share of end customers in domestic gas sales	93.7%	95.4%	1.7 p. p.

1. Novatek Polska was renamed to Novatek Green Energy on 3 February 2020.



# 16.4 mmt

Liquids hydrocarbons sales volumes

# 437 RR bln

Liquids hydrocarbons sales revenues

emissions of nitrogen oxides, carbon dioxide and almost complete elimination of particulate matter emissions.

## Liquid Hydrocarbons Sales

NOVATEK sells liquid hydrocarbons (stable gas condensate, petroleum products, light hydrocarbons, LPG and crude oil) domestically and internationally. We strive to respond quickly to changing market conditions by optimizing our customer base and supply geography, as well as developing and maintaining an efficient and profitable logistics liquids infrastructure.

In 2019, NOVATEK's liquids sales volumes reached 16,355 mt, or 3.4% more than in 2018. In 2019, our export sales volumes increased by 6.4% as compared to 2018 and amounted to 9,571 mt.

In 2019, our liquids sales revenues decreased to RR 437 billion, or by 2.9% as compared to 2018, mainly driven by lower global benchmark prices.

High-value added petroleum products from the Ust-Luga Complex accounted for a 43% share of our overall liquids sales volumes. We sold a total of 6,981 mt of stable gas condensate products, including 4,511 mt of naphtha, 1,068 mt of jet fuel and 1,402 mt of fuel oil and gasoil. The majority of petroleum products (97%) were exported. Export volumes were distributed as follows: Europe – 55%, Asia-Pacific – 26%, North America – 16% and Middle East – 3%. Most of our heavy naphtha was exported to Asia Pacific markets, light naphtha – to Northwest Europe and North America, and jet fuel, gasoil and fuel oil – to Northwest Europe.

Export and domestic sales of stable gas condensate continued in 2019. Condensate volumes purchased from Yamal LNG, were exported. Total stable gas condensate sales volumes amounted to 1,739 mt.

A portion of light hydrocarbons produced at the Purovsky Plant is processed on tolling terms at SIBUR's Tobolsk Petrochemical Complex into marketable LPG, which is then delivered to NOVATEK's customer base, while the rest of the light hydrocarbons volumes are sold to SIBUR. We sold 1,332 mt of light hydrocarbons in 2019.

Marketable LPG sales volumes totaled 1,445 mt in 2019, representing a 1.2% increase compared to 2018. LPG export sales volumes amounted to 591 mt or 41% of the total LPG sales volumes. Novatek Polska<sup>(1)</sup>, our wholly owned LPG trading company in Poland, sold all of our LPG export volumes.

In the domestic market, our LPG is sold through large wholesale channels as well as through our retail network and small wholesale stations. In 2019, large wholesale supplies to the domestic market stood at 692 mt, representing 81% of our domestic LPG sales. We also sold 162 mt of LPG via our retail network and small wholesale stations located mainly in the Chelyabinsk, Volgograd, Rostov and Astrakhan regions. As of the end of the year, sales were made through 82 retail gas stations and 11 gas filling stations.

Sales of crude oil in 2019 totaled 4,834 mt, which is 6.4% higher compared with 2018. We sold 61% of our crude oil volumes in the domestic market, with the remaining volumes exported to international markets.

### Liquid hydrocarbons sales, mt

	2018	2019	Change
<b>Total</b>	<b>15,822</b>	<b>16,355</b>	<b>3.4%</b>
Petroleum products (Ust-Luga)	6,683	6,981	4.5%
Crude oil	4,542	4,834	6.4%
Stable gas condensate	1,908	1,739	(8.9%)
Light hydrocarbons	1,248	1,332	6.7%
LPG	1,428	1,445	1.2%
Other	13	24	84.6%

# Environmental and Social Responsibility

**NOVATEK adheres to the principles of effective and responsible business conduct and considers the welfare of its employees and their families, environmental and industrial safety, the creation of a stable and beneficial social environment as well as contributing to Russia's overall economic development as priorities and responsibilities of the Company.**

## Environmental Protection

NOVATEK's core producing assets are located in the Far North, a harsh Arctic climatic region with vast mineral resources and a fragile and vulnerable environment. The Company is committed to maintaining the highest standards of environmental protection in its operations. In 2019, the Company's overall expenses on environment protection and sustainable nature management amounted to RR 2.20 bln.

We would like to highlight the most significant actions in environmental protection and sustainable management in 2019.

As part of the Federal project "Implementation of the Best Available Technologies" of the National project "Ecology", two producing subsidiaries of NOVATEK were included in the list of companies who obtained a new type permit in 2019, setting new technological standards based on process parameters of the best available technologies.

In 2019, the Company decided to develop and implement a Comprehensive program for environmental monitoring of the Ob Bay in the Yamal LNG project's area of influence. The program is based on the applicable Russian and international requirements, as well as best practices of the Project's shareholders and lenders. The program is based on historical scientific data, studies of last decade and the project's own engineering and environmental surveys, and accounts for assessment of cumulative impacts in the Ob Bay in case of simultaneous works under the existing and perspective projects of the Company. The program is aimed at achieving the UN Sustainable Development Goals for conservation of marine ecosystems and biodiversity, as well as national interests of the Russian Federation with regards to the need to manage the identified environmental and social risks and potential impacts of the Yamal LNG project on ecosystems of the Ob Bay.

At the Cryogas-Vysotsk medium-scale LNG production project, launched in 2019, a thermal waste (effluents)

treatment complex with 1.2 t/h capacity was built. What makes the thermal complex and LNG plant so unique is that it is equipped with automated controls of industrial emissions. The system is implemented on the basis of the state-of-the-art special-purpose equipment and makes it possible to measure the following physical and chemical parameters: flow rate, pressure, temperature; carbon oxide, nitrogen oxide, nitrogen dioxide, sulphur dioxide and hydrogen chloride content, and suspended substances.

We drilled our second prospecting and appraisal well in the shallow waters at the Geofizicheskiy license area strictly adhering to the stringent environmental standards for activities within the Russian Federation inland seas. We developed accidental spill response plans and an environment monitoring program for the marine part of the Geofizicheskiy license area. Regular monitoring of water in the Ob Bay of the Kara Sea demonstrated that its hydro-chemical and organoleptic properties are in line with the established norms. Environmental safety was ensured by multi-purpose emergency response and rescue vessels. Drill cuttings were transported to the port of Sabetta to be further disposed in an environmentally friendly manner.

More than 1,100 NOVATEK's employees took part in the Russian national environmental campaign "Green Spring 2019".

The compliance audit conducted by Bureau Veritas Certification Rus demonstrated the compliance of the NOVATEK HSE Management System with OHSAS 18001 and the new version of international standard ISO 14001:2015 "Environmental Management Systems". The Company undertakes efforts to transfer from OHSAS 18001 Standard to ISO 45001:2018 "Occupational Health and Safety Management Systems" Standard.

Environmental monitoring was performed in 2019 at all of the license areas and production facilities of the Company. During the monitoring process, the condition of the environment components is studied; soil, ground,

snow cover, water and bed deposit samples are taken. Air contamination level is evaluated. The status of fish stock and forage resources in water areas is studied as are some hydrological and hydrochemical parameters. The samples taken are tested in certified laboratories, and based on the laboratory analysis the condition of the environment components is evaluated as well as its dynamic pattern over the year. In 2019, the monitoring revealed that the condition of the environment components in the Company's production facility locations is estimated as satisfactory.

In the reporting year, the Company continued its participation in the Carbon Disclosure Project (CDP), whereby information on greenhouse gas emissions and operations energy efficiency is disclosed, as well as in the CDP Water Disclosure Project to disclose data on the use of water resources. Taking part in these projects, the Company intends to achieve a balance between the climate change risks and efficiency of investment projects. The Company offers all stakeholders full access to its environmental information, including by publications in federal and local media, on its website, and by other disclosure means.

One of the Company's priorities is the rational usage of resources, including energy resources. The table below sets out the physical volumes and the Russian rouble equivalent of energy resources consumed by the Company in 2019.

# 2,20

RR bln

Expenses on environment protection and sustainable nature management

#### Energy Resource Consumption by NOVATEK in 2019 (including joint ventures)

	Units	Volume	RR mln, net of VAT
Natural gas	mmcm	2,576	3,466
Electricity	MW*h	2,723,293	13,143
Heating energy	Gcal	777,259	1,522
Oil	tons	619	5
Motor gasoline	tons	1,252	59
Diesel fuel	tons	11,134	587
Butane	tons	98,054	n/a
Other	tons	14,291	532

## Industrial Safety and Occupational Health

NOVATEK is fully committed to putting the life and health of its employees above operational results, and is aware of its responsibility for ensuring accident-free operations and safe labor conditions for its employees, as well as protecting the health of the population in the areas where we operate.

In its pursuit to reduce the injury rate in production activities, the Company continuously improves approaches to occupational and industrial safety management. This safety is achieved through continuous analysis of production process to prevent accidents and incidents that may lead to production emergencies.

Below are listed the main principles that each and every Company employee must accept:

1. Leadership of the Company management in HSE.
2. Involvement of personnel at all levels in efforts to reduce operation risks.
3. Personal responsibility of each Company employee for complying with the requirements to minimize operation risks that may cause personal injuries.
4. Personnel motivation to seek potential for occupational safety improvements.
5. Priority of prevention over reaction.

Pursuant to effective legislation, workplaces undergo special working conditions certification. As of 31 December 2019, 8,030 workplaces were covered by the assessments. The special workplace certification process found 6,816 (84.9%) workplaces to have permissible conditions. At workplaces with harmful working conditions a package of measures to eliminate or reduce harmful factors has been implemented. No workplaces with hazardous working conditions were identified.

To ensure continuous monitoring of employees' health, preliminary and periodic medical examinations are carried out. All remote accommodation camps have medical offices equipped with the most up-to-date equipment and medical supplies and staffed with appropriately qualified medical personnel. During the reporting period 10,553 employees underwent medical examination and 3,658 persons took mental health examination, which represents 100% of the plan figures.

Our controlled entities have in place an occupational health and safety management system, which is part of a wider NOVATEK's management system and ensures risk management based on the key principle of prioritizing prevention over incident containment and response.

The Company is engaged in exploration, production, processing and sales of natural gas and liquid hydrocarbons, which implies setting up complex technological processes for operating fire and explosion hazardous facilities. Operation of fire and explosion hazardous industrial facilities is carried out in compliance with industrial safety laws. Group entities

have obtained licenses to operate Hazard Class I, II and III fire, explosion and chemical hazardous industrial facilities.

As of 31 December 2019, 239 hazardous industrial facilities were registered in territorial bodies of the Russian Federal Environmental, Industrial and Nuclear Supervision Service (Rostekhnadzor), including:

- Class I (extremely high hazard) – 13 facilities;
- Class II (high hazard) – 49 facilities;
- Class III (medium hazard) – 161 facilities;
- Class IV (low hazard) – 16 facilities.

For Class I and II hazardous industrial facilities, industrial safety management systems and industrial safety declarations were developed providing estimates and specifying actions for:

- identifying, assessing and forecasting accident risks;
- planning and implementing accident risk mitigation measures;
- coordinating accident and incident prevention measures;
- establishing industrial control procedures;
- involving employees in the development and implementation of accident risk mitigation measures.

To compensate for the damage inflicted to third parties and the environment as a result of an accident at a hazardous industrial facility, all hazardous industrial facilities are insured in accordance with Federal Law No. 225-FZ On Mandatory Third Party Liability Insurance for Owners of Hazardous Facilities for Damages Inflicted by Accidents at Hazardous Facilities.

Executives and specialists of subsidiaries and affiliates that are subject to Rostekhnadzor supervision undergo routine certification on industrial safety rules performed by Rostekhnadzor's regional commissions. From among these employees, industrial safety assessment commissions are set up to evaluate staff and permit it to work independently at hazardous production facilities.

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**Occupational health training is mandatory for all categories of employees and is implemented in all subsidiaries and affiliates. Unit managers, including top executives, take courses at training centers.**

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Unit managers, including top executives, take courses at training centers. To offer in-house training to white-collar employees, the Company has developed training programs and set up certification commissions to assess trainees' knowledge of occupational health regulations. The in-house occupational health training and knowledge testing not only enable significant cost optimization but also save man-hours as such training and tests take place on the job.

In 2019, 12,800 employees received HSE training and were certified in industrial safety, which is in line with the established training plan.

In 2019, standing safety and occupational health control commissions carried out 444 compliance checks in controlled entities. The results were documented in relevant reports and special measures were elaborated to eliminate identified noncompliances. Employees in charge submit monthly remedial action reports to their respective health and safety units to further analyze the risks of hazardous situations.

In 2019, NOVATEK ran programs of integrated and targeted audits of controlled entities for compliance with occupational health, industrial, fire and environmental safety requirements by NOVATEK's committee. In the reporting year, the Company conducted integrated audits of four (4) entities, and targeted audits of seven (7) entities. Based on their findings, relevant reports were produced, and remedial measures were developed.

At the Company level, data are collected and analyzed regarding remediation of all findings of both scheduled and unscheduled audits carried out by the state supervisory authorities and integrated and targeted audits of the Company's committee.

To prevent accidents and incidents at hazardous operating facilities:

1. Each year the Company develops and consistently implements technical inspection, certification and test schedules for various types of technical equipment (external and internal inspection, hydro- and pneumatic tests, and industrial safety audits). In 2019, the Company performed industrial safety audits of 476 equipment items and extended their safe operating life.
2. The Company organizes drills and exercises on possible accident containment and response scenarios and actions for the personnel involved in the maintenance of equipment items, buildings, and structures within hazardous production facilities. In 2019, 4,382 training sessions were held.

In 2019, there were registered:

1. Two accidents, of which one accident was caused by a third party. A third party performing unauthorized earth works (drilling) in the protected zone of an inter-settlement gas pipeline (underground high-pressure gas pipeline, P=0.6 MPa, polyethylene, Dn 160 mm) pierced the pipeline, causing a short-time interruption in the feedstock (gas) supply for less than 24 hours.

2. Three incidents, of which two were due to short-term external grid power outages as a result of short circuit resulting from bad weather (storm front with sharp wind gusts).
3. Eleven operations-related incidents (excluding four cases not related to the Company's activities: attack of a fox, a snake, an air crash, unlawful acts by a third party), of which six related to movement of personnel and climate conditions (slipping and falling).

All incidents were investigated as required by law and in accordance with the Company's Incident Root Cause Analysis Standard. Immediate and system causes were identified; and a Mitigation Plan was developed.

#### **FIRE SAFETY, CIVIL DEFENCE AND EMERGENCIES**

Since the Group's business directly involves operation of facilities exposed to fire and explosion risks, fire safety is a top priority for NOVATEK. The Group's IMS includes a fire safety system compliant with the Russian law. The system's objective is to prevent fires and protect people and property in case of a fire or an emergency.

In 2019, eight controlled entities held active licenses to service firefighting equipment and five controlled entities to perform firefighting as well as emergency response and rescue operations, a large share of licensed fire safety services is carried out by contractors. There are 25 professional emergency response and rescue teams that ensure safety of the controlled entities operating hazardous production facilities that produce, collect, process and manufacture explosive and flammable substances. In addition, we have decided to build fire stations and establish emergency response and rescue teams within prospective field development and construction projects.

In 2019, the total headcount of fire and emergency brigades serving the facilities on a 24-hour basis stood at 851 certified rescue workers. There were 38 engineers in the controlled entities who directly monitored and supervised the fire safety and emergency response preparedness at our facilities.

Inspections are regularly carried out to assess the emergency response preparedness of the Company's subdivisions and personnel, and evaluate the capabilities of in-house and external professional emergency response and rescue teams. In 2019, there were 26,400 patrols and rounds of facility areas in order to continuously monitor safe operation conditions and 806 checks of outdoor fire water supply sources were carried out. Professional emergency response and rescue teams performed 22,300 control patrols for hot work, fire- and gas-hazardous operations. The controlled entities' facilities implement a full-scale program to respond to oil, oil product, and other hydrocarbon spills. Materials and equipment available to the emergency response and rescue teams comply with all existing requirements. The Company ensures timely re-equipment of both basic and specialized fire vehicle fleets.

Fire safety, civil defence and emergency response training, as well as fire and emergency drills, are an important element of the overall system of fire safety and preparedness to respond to fires and emergencies. In 2019, the

Company organized 47,979 fire safety briefings that featured guidance materials and visual aids, as well as hands-on presentations. Basic fire safety training was provided to 8,735 people, with 1,237 tactical fire exercises performed as part of the Oil Spill Response Plan, Emergency Containment and Response Action Plan as well as evacuation drills. The emergency response and rescue teams are made up of 620 certified rescue workers. Oil Spill Response Plan and Emergency Containment and Response Action Plan have been developed and implemented within the Company's production facilities.

A well-structured fire prevention system that implies the inclusion of fire prevention elements in operations resulted in zero fires or emergencies at the Group facilities in 2019.

NOVATEK fully complies with fire safety, civil defence, and emergency regulations as all of its facilities are equipped with automatic fire detection, alarm and extinguishing systems. NOVATEK Group's controlled entities are ready to contain, and respond to fires and emergencies.

## Human Resources

Employees are NOVATEK's most valuable resource, allowing the Company to grow rapidly and effectively. The Company's human resource management system is based on the principles of fairness, respect, equal opportunities for professional development, dialogue between management and employees, as well as continuous, comprehensive training and development opportunities for the Company's employees at all levels.

As of the end of 2019, NOVATEK and its subsidiaries had 15,445 employees, 35.4% of whom work in exploration and production, 23.7% in LNG production, 8.8% in processing, 13.2% in marketing, 4.5% in transportation, 6.4% in power supply, 6.2% are administrative personnel and 1.8% engaged in ancillary services. The predominant age of the personnel is between 30 and 50. The average age of the Company's employees is 40 years.

### PERSONNEL TRAINING AND DEVELOPMENT

Amid the rapid development of technologies and management systems, our multilevel training and professional development program enable our employees to contribute to raising the Company's competitiveness. In 2019, the primary activities of training and professional development included:

- implementing In-house Training program to improve the competences of the Company's employees;
- implementing the "Steps in Discovering Talents" program for young specialists targeted at training highly qualified personnel whose competence level fully meets business needs;
- developing and improving the Corporate System for the Evaluation of Technical Competencies; and
- engaging young specialists to take part in research and practice conferences.

NOVATEK Scientific and Technical Center (NOVATEK STC) has hosted an In-House Training Program since 2016. In 2019, NOVATEK STC experts developed and delivered training courses on the following subjects: "Fundamentals of hydraulic fracturing"; "Dynamic simulation of multiphase streams in pipelines and wells using OLGA software: principal tasks and examples of their solution. Practical modeling experience in the OLGA software environment"; "Complexing logging methods to address geological tasks. Basics of log interpretation and practical application (in NOVATEK Group projects)"; "Fundamentals of design and operation of gas and condensate treatment facilities"; "Basics of Intra- and Inter-field hydrocarbons transportation engineering and operation"; "Design of field development in conditions of low knowledge"; "Complex interpretation of seismic and GIS data", "Basics of hydrodynamic modeling", "General course of seismic exploration", "Interpretation and planning of GIS", "Practical aspects of creating the basis of models: theory and experience. Modeling base", "Application of Regulations for selection, storage, transportation, laboratory research and entering into the core database" and "Integrated design of gas condensate fields". A total of 88 of the Company's employees received training under this program in 2019.

In 2019, NOVATEK continued its efforts to advance the professional capabilities of its employees, improve working conditions and train its personnel on safe working practices at its production facilities. A total of 41.6% of white- and blue-collar workers upgraded their skills. In 2019, the Corporate System for the Evaluation of Technical Competencies tested 1,447 employees across the Group, including 63 persons who were tested at recruitment and 138 persons at promotion.

In 2019, 104 young specialists participated in the Steps in Discovering Talents Program. We held our seventh class and 26 specialists graduated from the on-the-job adaptation and professional development program, while 42 young specialists guided by 36 mentors completed the first step of the program. In autumn 2019, another 36 young specialists and 36 mentors assigned to them joined the program. Young specialists received the Mentoring Culture training courses together with their mentors. In total, 23 mentors attended the training. In 2019, the number of companies participating in the program increased to 11.

In September 2019, Moscow hosted the 14<sup>th</sup> Interregional Research-to-Practice Conference for the Company's young specialists attended by 96 employees. Based on the results of the competition, all the winners received cash prizes, while twelve (12) first place winners were also awarded a trip to visit oil and gas companies in Norway and the Netherlands.

In October 2019, the 5<sup>th</sup> Professional Skills Contest among field workers of the NOVATEK Group took place. A total of 103 participants from 10 subsidiaries took part in the event. The Contest was held in seven professions and hosted by NOVATEK-Yurkharovneftegas and included two stages, a theoretical and a practical part with results of both defining the winners.

In 2017, the Innovator Corporate Idea Management System, an automated framework to collect and process employees' proposals on improving and developing business



ideas including labor-saving proposals, was launched in NOVATEK and its 18 subsidiaries. More than 300 ideas on improving business operations, reduction of production costs and implementation of new work methods were submitted by the employees in 2019. More than 800 ideas have been submitted over the three years, of which 154 were approved for implementation and 64 ideas were implemented. They generated a positive economic effect of RUB 3,049 million.

## SOCIAL PROGRAMS

The focus in employee relations is on implementing social programs. According to the Core Concept of the Company's social policy, which was adopted in 2006, the social benefits package for employees includes the following programs:

### Voluntary medical insurance for employees

The program includes full outpatient care, dental care, and emergency and scheduled hospitalization.

### Therapeutic resort treatment

Employees and their families can purchase health resort vouchers at a discount. Under this program the NOVATEK employees may spend their vacations in 48 health resorts located in Russia's most picturesque settings.

### Repayable Financial Aid Program

The special-purpose loans program has two focus areas:

- short-term special-purpose loans intended for employees who experience economic hardship;
- special-purpose interest-free home loans to employees residing in Tarko-Sale, Novy Urengoy, Moscow, Nadym, Sosnovy Bor, Tyumen and Vyborg.

### Targeted compensation and social support payments

This program provides targeted free support to the Company's employees in specific life circumstances, including childbirth, to large families, the event of natural disasters or fire, compensation for care of a child up to three years of age, financial aid for care of disabled children, financial aid for burial, compensation for sports and recreation classes for employees, as well as on the occasion of the jubilee.

### Pension Program

Since 2007, NOVATEK has offered its retired employees supplementary benefits in line with the Regulations on Social Benefits for Retired NOVATEK Group Employees. Employees with an employment track record of at least five years with the Company who resign at the full retirement age are entitled to monthly benefit payments from the Company (suspendable in case the retiree gets a job). The benefit amount is subject to the employee's average salary, employment track record and geographical location.

Along with providing an optimum social benefits package, the Company is also committed to creating opportunities

# 15,445

employees at NOVATEK, its subsidiaries and JVs as of the end of 2019

for employees to play sports and get involved in sports and cultural events. In 2019, our employees and their family members visited exhibitions at Russia's national museums, classical music concerts, and attended sporting events like football (soccer) games and acrobatic rock and roll competitions with the Company's assistance.

## Social Policy and Charity

Social Policy and Charity make up an important part of NOVATEK's activities. In 2019, the Company continued to pay close attention to projects aimed at supporting the culture, preserving and revitalizing national values and spiritual legacy of Russia and developing amateur and professional sports. NOVATEK enters into agreements with regional governments across the Company's geographical footprint and implements programs to improve living standards and preserve the distinctive cultural identity of the indigenous peoples of the Far North.

In 2019, NOVATEK and its subsidiaries invested RR 2.0 billion in projects and activities related to the support of indigenous peoples, charitable contributions, cultural and educational programs.

## COOPERATION WITH THE REGIONS

Within the framework of agreements signed with various regions, the Company was investing in YNAO and KhMAO, the Tyumen, Chelyabinsk, Leningrad, Murmansk and Kostroma Regions throughout 2019.

The Company also financed the repairs and upgrades of social infrastructure facilities, construction of up-to-date playgrounds for children, rural development including renovation of a water treatment system in the Seyakha village, repairs of a sewage pumping station in Tarko-Sale, as well as purchase of equipment for people with limited mobility to develop accessible environment in YNAO, and equipment supply for nine medical and obstetric centers, ambulatory clinics and eight ambulance cars for the regional ambulance station in the Murmansk region. The Company was supporting low-income families, people with disabilities, the elderly, veterans and children with desperate need.

In 2019, NOVATEK provided funds to set up the Patriot military-patriotic park in Gadjevo, the Murmansk region.

Our contribution to the social and economic development creates better understanding and ensures preserving of the cultural heritage in the Company's core regions.

## COOPERATION WITH INDIGENOUS PEOPLES OF THE FAR NORTH

During the reporting year, NOVATEK provided financial support to the Yamal for Descendants Association of indigenous peoples and its district branches. We provided assistance in conducting the 30<sup>th</sup> report-and-election meeting of the regional social movement “YNAO Yamal for Descendants Association of the Indigenous Minorities of the North” that brought together more than 200 delegates and guests from various cities and districts of Yamal and other regions of the country. The meeting considered the issues of social development of the northern indigenous peoples along with preserving their traditional economic activities.

We assisted indigenous peoples through financing the purchase of mobile housing units and technical facilities and aids for clans, equipment and materials required for the work of fishermen and reindeer herders. NOVATEK financed fuel purchases for air delivery of the nomadic population and food to remote areas. One particular area of support is taking part in organizing and staging traditional ethnic festivals of indigenous peoples as well as provision of funding for environmental programs.

## EDUCATIONAL PROGRAMS

NOVATEK continued to develop the Company’s continuing education program, which provides opportunities to gifted students from the regions where we operate to further their education at top rated universities, participate in NOVATEK internships and, upon completion of their studies, possible employment with the Company.

Recruitment and career guidance for promising employees start with the “Gifted Children” program implemented at School No. 8 in Novokuybyshevsk, school No. 2 in Tarko-Sale, school No. 81 in Tyumen and in 2018, school No. 2 in Salekhard joined the program. Special classes are formed on a competitive basis from the most talented grade 10 and 11 students with above-average test scores. The Company has also implemented two Grants programs for schoolchildren and teachers living in Purovsky District of the YNAO.

In 2017, a resource center for industry-relevant student training – the Natural Science Center – was built and fully equipped in Tarko-Sale, Purovsky District, YNAO. The Center began to operate in 2018. The curriculum for pupils of 5<sup>th</sup>-11<sup>th</sup> grades includes: chemistry, biology, and physics. Subject specific classes include solving of school Olympiads and advanced level tasks, as well as training of pupils for national Olympiads and competitions.

The Grants program for schoolchildren is aimed at academic and creative development and encouraging a responsible attitude towards studies. Under the program, students in grades five (5) through eleven (11) are awarded grants from the Company. In 2019, the Company awarded 44 grants to students under this program. The Grants program for teachers is intended to raise the prestige of the teaching profession and create favorable conditions for developing new and talented teachers. In 2019, six teachers from the Purovsky District received grants under this program.



Indoor Football Cup “NOVATEK – Step to Bigger Football” among secondary school teams



In an effort to create conditions for more effective use of university and college resources in preparing students for future professional activities, the Company has developed and successfully implemented the NOVATEK-University program. The program is an action plan for focused, high-quality training for specialists with higher education in key areas of expertise in order to grow the Company's business and meet its needs for young specialists. The program is based at the Saint-Petersburg University of Mines, the Gubkin Russian State University of Oil and Gas in Moscow and the Tyumen Industrial University.

Students who have passed their exams with good and excellent results receive additional monthly payments. During their studies, the students are offered paid field, engineering and directed internships. This experience allows them to apply the knowledge obtained at lectures and seminars to real-life situations and gain experience in the professions they've chosen, while the Company receives an opportunity to meet potential employees.

### PRESERVING CULTURAL HERITAGE

In 2019, NOVATEK continued its cooperation with Russia's leading museums including the State Tretyakov Gallery, the Russian State Museum, and the Moscow Museum of Modern Art. The Company supported artistic and musical projects in Russia and abroad.

In 2019, the Company was involved in the implementation of the first project of the State Tretyakov Gallery in Samara "The Ship of Tolerance by Ilya and Emilia Kabakov". Problems of peace maintenance, tolerance and development of

modern society were discussed during open workshops in cultural and educational institutes of the region. To mark the completion of the campaign, a 18-meter wooden ship was built at the city's embankment. The ship's sails were made of canvas using the works of the project participants.

Supported by NOVATEK, the State Russian Museum hosted an exhibition "To the Shores of Antarctic and Arctica" dedicated to the 200<sup>th</sup> anniversary of the southernmost continent's discovery by Russian seafarers Thaddeus Bellingshausen and Mikhail Lazarev and the "Year of Antarctic" in Russia.

The Company also supported the Russian Museum's charity project "Museum for Children" aimed at adapting exhibition spaces for children with disabilities.

In the reporting year, the Company sponsored Ivan Gorshkov's solo exhibition at the Moscow Museum of Modern Art (MMMA). The artist is a prominent personality of Russian modern art famous for his reimagining of traditional arts media – painting and sculpture.

NOVATEK took part in the organization of the anniversary exhibition "MMMA 99/19. Thematic Exposition Dedicated to the Museum's 20<sup>th</sup> Anniversary". The project gathered 20 professionals from different fields of science and culture, from directors and musicians to health professionals, scientists and restorators.



Opening of the Ship of Tolerance at the city's embankment in Samara

As part of NOVATEK's 25<sup>th</sup> anniversary celebrations, a festival "PLAYMMOMA: play with modern art!" took place, which is a special educational program developed by MMMA. The museum team visited four cities of the Company's operations: Kostroma, Novy Urengoy, Murmansk, Chelyabinsk, and held a number of workshops for children and adults.

NOVATEK is a permanent partner of the international festival-school of contemporary art TERRITORIYA. In 2019, 14 performances from Russia, Belgium, Netherlands and other countries were given as part of the festival, a comprehensive educational program was implemented and Yoko Ono's exhibition took place. The play of the Theater of Nations "Our Everything... Turgenev. The Metaphysics of Love" was staged in Kostroma and Murmansk for the Company's partners and employees.

In 2019, NOVATEK continued to be General Partner of the Moscow Soloists Chamber Orchestra led by Yuri Bashmet and provided additional support to the Orchestra during its performance in Murmansk and Hamburg at the closing of international cultural project "Russian Seasons in Germany". The Company acted as General Partner of the tour of the Russian Youth Symphony Orchestra led by Yuri Bashmet in nine Russian cities. NOVATEK provided assistance in organizing the Russian Culture Festival in Japan. Concerts, exhibitions, tours of celebrated Russian bands took place as part of the festival.

In 2019, the Company supported the activities of the Gogol-center and the Film and Television School "Industry", provided assistance in making films about Arctic and Antarctic.

## SPORTS PROJECTS

NOVATEK attaches great importance to programs for the development of mass and high-performance sports. The Company, its subsidiaries and joint ventures regularly hold tournaments in the most popular and wide-spread sports: football, volleyball, swimming, ski, to name a few.

The Company supported the children and youth sports in the regions of its operations, supported a pilot federal innovative project "Become a Champion", intended to determine a predisposition to certain sports through testing.

In 2019, the "NOVATEK – Step to Bigger Football" Indoor Football Cup among secondary school teams expanded its geographical envelope. For the first time the Football cup was held in the Kamchatka Territory in addition to the Chelyabinsk and Kostroma Regions. Over 11 thousand boys and girls from more than six hundred educational institutions took part in the Indoor Football Cup in 2019 in three regions of the country.

The Company supported the Student Basketball Association with more than 800 teams and 10,000 boys and girls participating in competitions. With the support

of the Russian Federation of Dance Sports and Acrobatic Rock'n'Roll sport and acrobatic rock'n'roll clubs are active in the regions where the Company operates. In April 2019, NOVATEK teams participated in the 5<sup>th</sup> Russia-wide acrobatic rock'n'roll competition Rock'n'Roll & Co.

In the reporting year, NOVATEK continued cooperation with the Football Union of Russia as the General Partner of the Russian National Football Teams. The Company supported women's volleyball club Dinamo and the NOVA Volleyball Club (Novokuybishevsk).

## CHARITY

In 2017, NOVATEK adopted its Charity Policy, which provides for supporting children in desperate need of medical care residing in the regions where we operate.

In the reporting year, the Company continued implementation of the charity project "Health Territory". As part of the project, lead specialists of the Russian Children's Clinical Hospital visited children in Novy Urengoy, Tarko-Sale, Chelyabinsk, Magnitogorsk, Murmansk, Tyumen and Petropavlovsk-Kamchatsky. These visits allowed 668 children to get medical help and 162 children were taken to hospitals in Moscow. During these visits, research-to-practice conferences for regional medical professionals and case conferences took place. Targeted assistance was provided to children with severe conditions. In addition to charity policy, the Company implemented cultural programs for children with disabilities and children from low-income and large families.

The Company implements the new Telemedical Center project with the main objective to establish a single telemedical network to connect regional partner clinics in the Company's regions of operation and the Russian Children's Clinical Hospital. In 2019, the premises were repaired and the telemedical center in the Russian Children's Clinical Hospital was equipped, works started to equip the regional telemedical centers.

The Rehabilitation Center project for children with disabilities was implemented during the reporting period. Seven courses of rehabilitation were completed, 266 children with disabilities (musculoskeletal diseases and psychoneurological disorders) got medical help not leaving the region.

In 2019, the key activities of the "All Together" volunteer movement remained unchanged: support for orphans and children with various diseases, seniors and the World War II veterans, providing assistance to animals.

Throughout the year the Company has been supporting industry veterans and projects aimed at preserving and increasing rare animal populations: Siberian tiger and Amur leopard.

# Management and Corporate Governance

## Corporate Governance System

NOVATEK strives to commit to the highest standards of corporate governance. We believe that such standards are an essential prerequisite to business integrity and performance and provide a framework for socially responsible management of the Company's operations.

The Company has established an effective and transparent system of corporate governance complying with both Russian and international standards. NOVATEK's supreme governing body is the General Meeting of Shareholders. The corporate governance system comprises the Board of Directors, the Board Committees, and the Management Board, as well as internal control and audit bodies and the Corporate Secretary. The activity of all these bodies is governed by the applicable laws of the Russian Federation, NOVATEK's Articles of Association and internal documents available on our website ([www.novatek.ru](http://www.novatek.ru)).

NOVATEK strives to consider the principles of corporate governance outlined in the Corporate Governance Code recommended by the Central Bank of Russia (Letter № 06-52/2463 dated 10 April 2014). The Company follows the recommendations of the Code, as well as offering to our shareholders and investors other solutions that are intended to protect their rights and legitimate interests.

Since the Company's shares are listed on the London Stock Exchange in the form of depositary receipts, NOVATEK places great emphasis on the UK Corporate Governance Code and the Regulation of the European Parliament and of the Council on Market Abuse and follows their recommendations as far as practicable.

The Company also adheres to the internal Code of Business Ethics approved by the Board of Directors in 2011 (Minutes No. 133 of 24 March 2011). The Code establishes general norms and principles governing the conduct of members of the Board of Directors, the Management Board and the Revision Commission, as well as NOVATEK's management and employees, which were drafted on the basis of moral and ethical values and professional standards. The Code also determines the rules governing mutual relationships inside the Company and NOVATEK's relationships with its subsidiaries and joint ventures, shareholders, investors, the government and public, consumers, suppliers, and other stakeholders.

The Company monitors changes of the current legislature and the Listing Rules of PAO Moscow Exchange and harmonizes its internal documents according to the changes. NOVATEK's current regulations on the Company's corporate bodies, Internal Audit Policy, Regulations on Risk Management and Internal Control System, Regulations on the Corporate Secretary, and other regulations are up to date and don't require any amendments.

NOVATEK's corporate governance practices make it possible for its executive bodies to effectively manage ongoing operations in a reasonable and good faith manner and to the benefit of the Company and its stakeholders.

## General Meeting of Shareholders

The General Meeting of Shareholders is NOVATEK's supreme governing body. The activity of the General Meeting of Shareholders is governed by the laws of the Russian Federation, the Company's Articles of Association, and the Regulations on the General Meetings approved by NOVATEK's General Meeting of Shareholders in 2005 (Minutes No. 95 of 28 March 2005) with further alterations and amendments.

The General Meeting of Shareholders is responsible for the approval of annual reports, annual financial statements, the distribution of profit, including dividends payout, the election of the Board of Directors and the Revision Commission, approval of the Company's Auditor and other corporate and business matters.

On 23 April 2019, the Annual General Meeting of Shareholders approved the annual report, annual financial statements (in accordance with the Russian Accounting Standards), distribution of profit and the size of dividends based on the results of FY2018. The meeting also elected the Board of Directors and the Revision Commission, made amendments to the Regulations on Remuneration and Compensations payable to Members of Board of Directors, as well as approved remuneration to members of the Board of Directors, Revision Commission and the Company's external auditor for 2019.

On 30 September 2019, the Extraordinary General Meeting of Shareholders approved the amount of interim dividend for the first half of 2019 and made amendments to the Company's Articles of Association to bring it in line with current Russian legislation.

## Board of Directors

The Board of Directors (the Board) activity is governed by the laws of the Russian Federation, the Company's Articles of Association and the Regulations on the Board of Directors approved by NOVATEK's General Meeting of Shareholders in 2005 (Minutes No. 96 of 17 June 2005) with further alterations and amendments.

The Board carries out the overall strategic management of the Company's activity on behalf of and in the interests of all its stakeholders, and ensures the Company's efficient and effective performance with the aim to increase shareholder value in a prudent and responsible manner.

The Board determines the Company strategy and priority lines of business, endorses long-term and annual business plans, reviews financial performance, internal control, risk management and other matters within its competence, including optimization of corporate and capital structure, approval of major transactions, making decisions on investment projects and recommendations on the size of dividend per share and its payment procedure, and convening General Meeting of Shareholders. The General Meeting of Shareholders elects the members of the Board of Directors.

The current members of the Board of Directors were elected at the Annual General Meeting of Shareholders on 23 April 2019. The Board of Directors is comprised of nine (9) members, of which eight (8) are non-executive directors, including three (3) directors who are considered to be independent. The Board Chairman is Alexander Natalenko. The Chairman is responsible for leading the Board and ensuring its effectiveness.

The members of NOVATEK's Board have a wide range of expertise as well as significant experience in strategic, operational, financial, commercial and oil and gas activities.

The Board members hold regular meetings with NOVATEK's senior management to enable them to acquire a detailed understanding of NOVATEK's business activities and strategy and the key risks impacting the business. In addition to these formal processes, Directors have access to the Company's medium-level managers for both formal and informal discussions to ensure the regular exchange of information needed to participate in the Board meetings and make balanced decisions in a timely manner.

Efficient operation of the Board of Directors is supported by the Corporate Secretary, who has sufficient independence (appointed and dismissed by the Board of Directors) and endowed with the necessary powers and resources to carry out its tasks in accordance with the Regulations on the Corporate Secretary (Minutes No. 168 of 28 April 2014 with further alterations and amendments).

### The Board of Directors membership (elected at the Annual General Meeting of Shareholders on 23 April 2019):

- Alexander E. Natalenko – Chairman of the Board
- Andrei I. Akimov
- Burckhard Bergmann
- Michael Borrell
- Robert Castaigne
- Arnaud Le Foll
- Leonid V. Mikhelson
- Victor P. Orlov
- Gennady N. Timchenko

### Board and Committee Meetings Attendance in the 2019 Corporate Year

Member	Independence	Board of Directors	Audit Committee	Remuneration and Nomination Committee	Strategy Committee
Alexander E. Natalenko		10/10			4/4
Andrei I. Akimov		10/10			4/4
Burckhard Bergmann	independent	10/10	4/4	4/4	4/4
Michael Borrell		10/10			4/4
Robert Castaigne	independent	10/10	4/4	4/4	
Arnaud Le Foll		10/10			4/4
Leonid V. Mikhelson	executive	10/10			
Victor P. Orlov	independent	10/10	4/4	4/4	
Gennady N. Timchenko		10/10			4/4



## BOARD ACTIVITIES DURING THE 2019 CORPORATE YEAR <sup>(1)</sup>

To ensure the Company's efficient performance, the Board meetings are convened on a regular basis at least once every two months. During corporate year 2019, the Board of Directors (BoD) met 10 times, of which four meetings were held in the form of joint attendance. The following key issues were discussed and respective decisions made:

- reviewed and approved the Company's 2019 full year operating and financial results;
- recommended an interim dividend payment for first half 2019, based on interim financial results for the period, and a full year dividend payment for 2019, based on full year financial results;
- made decisions to convene an Extraordinary and Annual General Meetings of shareholders. During the meetings in 2019 telecommunications facilities were used to provide shareholders with remote access to participate and to fill out an electronic form of ballots;
- reviewed and approved NOVATEK's business plan for 2020;
- passed a resolution to acquire 100% interest in OOO NORDPORT for ensuring transport security and protecting NOVATEK group's the transport infrastructure facilities under construction and in operation;
- passed a resolution for NOVATEK to acquire 100% interest in OOO Arctic Transshipment to implement projects of LNG transshipment facilities;
- passed a resolution for NOVATEK to acquire 50% interest in OOO SMART LNG to lease ice-class LNG tankers fleet for the Arctic LNG 2 project;
- approved changes to the Regulations on the Remuneration and Nomination Committee of the Board of Directors of NOVATEK, which consider a number of requirements of various international standards and codes, as well as the best Russian and international practices of sustainable development, and reviewed and approved NOVATEK's Sustainability Report 2018;
- approved the plan of activity of the Internal audit Department of NOVATEK for 2020.

In order to improve efficiency of corporate governance the Company carried out an external assessment of the BoD and the BoD Committees activities by engaging an external independent consultant once every three years and self assessment annually.

During corporate year 2019, a self assessment of the BoD activities was performed in accordance with the recommendations of the Russian Corporate Governance Code. Self-assessment of the BoD performance based on the results of the corporate year is carried out by filling out a questionnaire for each member of the Board of Directors.

During the appraisal process the key areas of the BoD and the Committees activities were analyzed, including the formation of strategy, supervisory and control functions, effectiveness of interaction with the top management, risk management, remuneration, succession and development of key managers.

Based on the evaluation we determined directions for increasing the Board of Directors performance efficiency.

## Board Committees

The Company has three (3) Board Committees: the Audit Committee, the Remuneration and Nomination Committee and the Strategy Committee. The Committees' activities are governed by the specific Committee Regulations approved by the Board of Directors and are available on our website.

The Committees play a vital role in ensuring that the high standards of corporate governance are maintained throughout the Company and that specific decisions are analyzed and the necessary recommendations are issued prior to general Board discussions. The minutes of the Committees meetings are circulated to the Board members and are accompanied by necessary materials and explanatory notes.

In order to carry out their duties, the Committees may request information or documents from members of the Company's executive bodies or heads of the Company's relevant departments. For the purpose of considering any issues being within their competence, the Committees may engage experts and advisers having necessary professional knowledge and skills.

### AUDIT COMMITTEE

The primary function of the Audit Committee is control over financial and operating activities of the Company. In order to assist the Board in performing control functions the Committee is responsible for but not limited to evaluating accuracy and completeness of the Company's full year financial statements, the candidature of the Company's external auditor and the auditor's report, and the efficiency of the Company's internal control procedures and risk management system.

The Audit Committee works actively with the Revision Commission, the external auditor and the Company's executive bodies, inviting NOVATEK's managers responsible for the preparation of the financial statements to attend the Committee meetings.

In corporate year 2019, the Audit Committee met four (4) times, including two meetings in presentia, where:

- held two meetings with the Company's external Auditor to discuss the Audit Plan and review an audit report of the Company's activities for the year end;

1. From the Annual General Meeting of Shareholders on 23 April 2019 until the Annual General Meeting of Shareholders on 24 April 2020.

- reviewed the risk register of NOVATEK group and determined the acceptable and maximum permissible amount of risks;
- reviewed the reports on compliance with the Information policy and Anti-corruption policy;
- reviewed quarterly financial indicators of the Company;
- approved the reports on the activities of the Company's Internal Audit Department for the first six months and full year;
- made recommendations to the Board of Directors on approval of the Company's Annual report and Internal Audit Plan;
- made recommendations on the Company's Auditor nominee and amount of remuneration;
- considered the conclusion of the Internal Audit Department on assessing the reliability and effectiveness of the risk management system, internal control system, and corporate governance; and
- considered other issues within the competence of the Audit Committee.

#### REMUNERATION AND NOMINATION COMMITTEE

The primary functions of the Remuneration and Nomination Committee is the development of an efficient and transparent compensation practice of members of the Company's management, enhancement of the professional expertise and improvement of the Board of Directors' effectiveness.

In order to assist the Board, the Committee performs the following functions:

- develop and regularly review the Company's policy on remuneration of the members of the Board of Directors, members of the collective executive body and the sole executive body of the Company, oversee its implementation and realization;
- preliminarily assess the work of the executive body of the Company for the year in accordance with the Company's remuneration policy;
- annual detailed and formalized performance self-appraisal or external appraisal of the Board of Directors and its members, as well as of BoD Committees, determination of the priority areas for reinforcing the Board of Director's composition;
- interaction with shareholders, which shall not be limited to major shareholders only, with a view to generate recommendations to the shareholders with respect to voting on the election of nominees to the Company's Board of Directors;
- plan appointments of members of the executive body and the sole executive body on the base of continuity principles;
- supervision over disclosure of information on the Company's shares owned by the members of the Board of Directors and Management Board, and other key management employees; and
- annual review reports on industrial safety, environmental protection, climate impact, corporate governance and social activities, as well as review the Company's Sustainability Reports.

In corporate year 2019, the Remuneration and Nomination Committee met four (4) times, including two meetings in presentia, where:

- the BoD was advised to introduce amendments to the Regulation on NOVATEK Board of Directors Remuneration and Nomination Committee in terms of expanding the Committee's functions related to sustainable development;
- reviewed NOVATEK's 2018 Sustainability Report and recommended for approval by the BoD;
- reviewed NOVATEK Group's 2018 HSE performance report;
- made recommendations on approval of NOVATEK Group's Executive Bodies and Other Key Employees Remuneration and Expense Reimbursement Policy;
- reviewed NOVATEK's HR management policy performance report in 2019;

#### Committees membership

	Audit Committee	Strategy Committee	Remuneration and Nomination Committee
<b>Chairman</b>	Robert Castaigne	Burckhard Bergmann	Victor P. Orlov
<b>Members</b>	Burckhard Bergmann Victor P. Orlov	Andrei I. Akimov Arnaud Le Foll Michael Borrell Alexander E. Natalenko Gennady N. Timchenko	Burckhard Bergmann Robert Castaigne

- reviewed the report on NOVATEK's social performance in the regions where the Company operated in 2019;
- made recommendations to the BoD to form the BoD's Committees in accordance with recommendations of the Corporate Governance Code as well as information about members of the BoD;
- made recommendations to the General Meeting of Shareholders on remuneration to the BoD members;
- reviewed the report on self-appraisal of NOVATEK's Board of Directors and BoD Committees' Performance; and
- considered other issues within the competence of the Committee.

### STRATEGY COMMITTEE

The primary functions of the Strategy Committee are the determination of strategic objectives of the operations and control over the implementation of the strategy, as well as recommendations on the dividend policy.

In carrying out its responsibilities and assisting the members of the Board in discharging their duties, the Strategy Committee is responsible for but not limited to:

- evaluating the effectiveness of the Company's operations in the long-term;
- preliminarily reviewing and making recommendations on the Company's participation in other organizations;
- assessing voluntary and mandatory offers to acquire the Company's securities;
- considering the financial model and business valuation of the Company and its business segments in order to make recommendations to the Board of Directors in making decisions on the definition of business priorities of the Company;
- providing recommendations to the Board of Directors on transactions subject to approval by the Board of Directors; and
- providing recommendations to the Board of Directors with respect to the Company's policy on the use of its non-core assets.

In corporate year 2019, the Committee met four (4) times, including three meetings in presentia, where:

- made recommendations regarding the amount and form of dividend payment for the first half and full year 2019;
- reviewed implementation progress of NOVATEK's Corporate Strategy up to 2030 approved in 2017;
- reviewed the status and implementation progress of NOVATEK's key projects and alignment between such projects and NOVATEK's Corporate Strategy up to 2030 implementation pace;

- preliminarily reviewed and made recommendations on approval of basic parameters of the NOVATEK (consolidated) business plan for 2020.
- and considered other issues within the competence of the Committee.

### Management Board

NOVATEK's Management Board is a collegial executive body responsible for the day-to-day management of the Company's operations. The Management Board is governed by the laws of the Russian Federation, NOVATEK's Articles of Association, resolutions of the General Meetings of Shareholders and the Board of Directors and by other internal documents. More information regarding the Management Board's competence is provided in NOVATEK's Articles of Association.

Members of the Management Board are elected by the Board of Directors from among the Company's key employees. The Management Board is subordinated to the Board of Directors and the General Meeting of Shareholders. The Chairman of the Management Board is responsible for leading the Board and ensuring its effectiveness as well as organizing the Management Board meetings and implementing decisions of the General Meeting of Shareholders and the Board of Directors. The Management Board was elected by the Board of Directors on 25 August 2017 (Minutes No. 198 of 25 August 2017) with further amendments by resolution of the Board of Directors on 12 July 2018, 21 September 2018, 14 November 2018, 14 December 2018, 19 March 2019, including with regard to the quantitative composition (increased up to thirteen members).

#### Management Board Members from 1<sup>st</sup> January 2019 to 31 December 2019:

- Leonid V. Mikhelson – Chairman
- Lev V. Feodosyev – First Deputy Chairman
- Alexander M. Fridman – First Deputy Chairman
- Vladimir A. Baskov – Deputy Chairman
- Viktor N. Belyakov – Deputy Chairman of the Management Board for Economics and Finance
- Eduard S. Gudkov – Deputy Chairman
- Mark A. Gyetvay – Deputy Chairman
- Evgeny A. Kot – Deputy Chairman of the Management Board – LNG Director (elected on 14 December 2018 and started acting from 14 January 2019)
- Tatyana S. Kuznetsova – Deputy Chairman – Director of Legal Department
- Denis B. Solovyov – Deputy Chairman of the Management Board – Director of Communications Development Department

- Sergey G. Solovyov – Deputy Chairman of the Management Board – Director for Geology (elected on 19 March 2019 and started acting from 1<sup>st</sup> April 2019)
- Ilya V. Tafintsev – Deputy Chairman of the Management Board
- Sergey V. Vasyunin – Deputy Chairman of the Management Board – Operations Director.

## Remuneration to Members of the Board of Directors and Management Board

The procedure for calculating the remuneration and compensations to members of NOVATEK's Board of Directors is governed by the Regulations on Remuneration and Compensations payable to members of NOVATEK's Board of Directors approved by the Annual General Meeting of Shareholders (Minutes No. 122 of 24 April 2015) with subsequent changes made by the decision of the Annual General meeting of shareholders on 23 April 2019. According to the Regulations the remuneration consists of the following types:

- fixed part of remuneration;
- remuneration for attending the Board of Directors meetings; and
- remuneration for attending the meetings of the committees of the Board of Directors.

The fixed part of remuneration to a Board member constitutes RR 15 million per corporate year. The Chairman of the Board of Directors is paid a fixed remuneration for the performance of its functions in the amount of RR 30 million per corporate year. Members of the Board of Directors are also paid remuneration for attending the meetings of the Board of Directors in the maximum amount of RR 4.5 million per corporate year and remuneration for attending the meetings of the committees of the Board of Directors in the maximum amount of RR 3 million per corporate year. The Board members are also compensated for travel and lodging expenses related to implementation of their functions as NOVATEK's Board of Directors' members.

The procedure for and criteria of calculating remuneration to the Chairman and members of NOVATEK's Management

Board, as well as the compensation of their expenses, are prescribed in the Regulations for the Management Board, the NOVATEK group Executive Bodies and other Key Employees Remuneration And Expense Reimbursement Policy (approved by the BoD on 17 December 2019, Minutes No. 226 of 17 December 2019) and the employment contracts they sign with the Company.

## Internal Control and Audit

NOVATEK has a system of internal controls over financial and business operations organized taking into account the applicable requirements of the Russian Federation legislation and best international practices. The internal control system is an integral part of the risk management system and is in line with the relevant risks and strategic objectives of NOVATEK.

The primary objectives of internal control system are ensuring the implementation of the NOVATEK strategy, protecting the interests of the shareholders, safeguarding the assets, ensuring the efficiency of the financial and business operations, and compliance with the applicable requirements of the law and the Group internal regulations.

The internal control system is implemented on a constant basis and covers all areas of activities of the Company and business processes at all management levels.

Defining the principles and approaches to organizing the internal control system is vested in the Board of Directors. Chairman of the Management Board ensures the efficient functioning of the internal control system. The Internal Audit Division evaluates the risk management, internal control and corporate governance system efficiency.

The system of internal control consists of the Board of Directors, the Audit Committee, the Chairman of the Management Board, the Management Board, the Revision Commission and the Internal Audit Division.

The primary objects of internal control are PAO NOVATEK, its subsidiaries and affiliates, their subdivisions, as well as their ongoing business processes.

In order to combat corruption, mitigate compliance, operational and reputation risks, the Company adopted the

### Information on remuneration of members of NOVATEK's Board of Directors and Management Board in 2019, RR mln

	Board of Directors <sup>(1)</sup>	Management Board
Total paid, including:	167.8	4,239.4
Salaries	-	1,105.3
Bonuses	-	3,028.6
Fees	165.8	-
Other property advancements	2.0	105.5

1. Some members of NOVATEK's Board of Directors are simultaneously members of the Management Board. Payments to such members in relation to their activities as members of the Management Board are included in the total payments to members of the Management Board.



Anti-Corruption Policy approved by the Board of Directors on 1 September, 2014 (Minutes No. 170 of 1 September, 2014) and the Regulation on NOVATEK Risk Management and Internal Audit System approved by the Board of Directors on 1 September, 2014 (Minutes No. 170 of 1 September 2014) with further alterations and amendments.

In order to comply with the Code of Business Conduct and Ethics, any interested person can report known violations to the following address: **ethics@novatek.ru**, which is stated in the Contacts section of the Company's website. All applications are submitted to the Internal Audit department.

## REVISION COMMISSION

The Revision Commission consisting of four members is elected at the Annual General Meeting of Shareholders for a period of one year. The competence of the Revision Commission is governed by the Russian Federation Law On Joint Stock Companies No. 208-FZ dated 26 December 1995 as well as the PAO NOVATEK Articles of Association and the Regulations on the Revision Commission Procedures approved by the General Meeting of Shareholders in 2005 (Minutes No. 95 of 25 March 2005) for the matters which are not set out in the aforementioned law.

The Revision Commission is an internal control body responsible for oversight of the Company's financial and business activities. The Revision Commission performs audits of the Company's financial and business performance for the year, as well as any other period as may be decided by its members or other persons authorized in accordance with Russian Federation law and the Company's Articles of Association. The results are presented in the form of findings by the Revision Commission.

In March 2020, the Revision Commission completed the on-site audit revision of financial and business activities of the Company for the year 2019. As a result, the conclusions about the reliability of the data contained in the Company's 2019 Financial Statements (under the Russian accounting standards), 2019 Annual Report and Report on interested-party transactions were prepared and submitted to the Annual General Meeting of Shareholders.

## INTERNAL AUDIT DIVISION

In order to conduct a systematic, independent evaluation of the reliability and effectiveness of the risk management and internal control system as well as corporate governance practices the Company and its

subsidiaries and affiliates perform internal audits of their operations.

Performing audits in subsidiaries and affiliates is centralized and performed by the NOVATEK Internal Audit Division. The Internal Audit Division is functionally subordinated to the Board of Directors and administratively subordinated to the Chairman of the Management Board.

In its activity the Internal Audit Division is guided by International Standards for the Professional Practice of Internal Auditing. The NOVATEK Internal Audit Policy is approved by the Board of Directors (Minutes No. 192 dated 26 August 2016) as amended and supplemented, approved by the Board of Directors (Minutes No. 212 dated 17 December 2018).

The Division carries out its activities on the basis of an annual plan of inspections prepared with the use of a risk-oriented approach mainly. According to the results of audit inspections it develops measures to eliminate identified risks and optimize financial and business activities. Implementation of the measures is monitored on a regular basis.

The Quality Assurance and Improvement Program is developed and implemented in the Internal Audit Division. In accordance with this program, the Internal Audit Division Self-Assessment is carried out annually and the results are reported to the Audit Committee. In 2018, the Division initiated the external assessment recommended by the International Institute of Internal Auditors to be carried out every five years. The assessment identified the compliance of the NOVATEK Internal Audit Division activities with International Standards for the Professional Practice of Internal Auditing.

The Internal Audit Division interacts with an external auditor: in sharing information related to working plans, inspection results and other matters of relevance to the parties.

To improve the efficiency and optimize the costs, the Internal Audit Division employees serve on the revision commissions of the Company affiliates.

## EXTERNAL AUDITOR

The Annual General Meeting of Shareholders approved an external auditor to conduct independent review of NOVATEK's financial statements. The Audit Committee gives recommendations to the Company's Board of Directors regarding the candidatures of external auditors and the price of their services. Based on the Committee's

## Auditor's fees in 2019, RR mln

	RR mln
Audits of PAO NOVATEK (audit of the Group's consolidated financial statements and audit of statutory financial statements of PAO NOVATEK)	37
Other services	12
Total auditor's fees and services	49

recommendations, the Board proposes the auditor's candidature for the consideration and for approval by the Annual General Meeting of Shareholders.

AO PricewaterhouseCoopers Audit (an internationally recognized audit firm) was chosen as the Company's external auditor to conduct the audit of the annual financial statements for 2019 under RAS, as well as independent reviews of the Company's quarterly financial statements and audit of the annual financial statements under IFRS.

In selecting the auditor's candidature, attention is paid to the level of their professional qualifications, independence, possible risk of any conflict of interest, terms of the contract, and the amount of remuneration requested by the candidates.

The Audit Committee oversees the external auditor's independence and objectivity as well as the quality of the audit conducted. The Committee annually provides to the Board of Directors the results of review and evaluation of the audit opinion regarding the Company's financial statements. The Audit Committee meets with the auditor's representatives at least twice per year.

NOVATEK's management is aware of and accepts recommendations on the independence of the external auditor by restricting such auditor's involvement in providing non-audit services. Remuneration paid to the principle auditors for auditing and other services is specified in Note 24 to the consolidated financial statements prepared in accordance with IFRS standards for 2019.

In accordance with auditing standards, in order to maintain independence, the Company's External Auditor regularly rotates its key audit partner, at least once every seven years. Last time the Auditor's partner was rotated in 2018.

## Share Capital

Our share capital is RR 303,630,600 and consists of 3,036,306,000 ordinary shares, each with a nominal value of RR 0.1. As of 31 December 2019, NOVATEK did not have preference shares.

Our shares are traded in Russian roubles on the Moscow Exchange and have a first grade listing (symbol: NVTK).

The Federal Financial Market Service issued to NOVATEK a permit for circulation of shares beyond the Russian Federation of 910,589,000 ordinary shares comprising 29.99% of the Company's share capital.

Our Global Depository Receipts (GDR) are listed on the London Stock Exchange (symbol: NVTK), with each GDR representing 10 ordinary shares. As of 31 December 2019, NOVATEK's GDRs were issued on 586,183,910 ordinary shares comprising 19.31% of the Company's share capital.

In 2019, Leonid V. Mikhelson, member of NOVATEK's Board of Directors, made transactions with NOVATEK's shares:

1. acquisition of 16,000 GDRs under a securities sales and purchase agreement (8 March 2019);

2. acquisition of 1,553 GDRs under a securities sales and purchase agreement (11 March 2019);
3. acquisition of 90,830 shares under a securities sales and purchase agreement (11 March 2019).

## Dividends

The Company's Dividend Policy is regulated by the Regulations on Dividend Policy of PAO NOVATEK approved by the Board of Directors on 28 April 2014 (Minutes No. 168 of 28 April 2014). According to the regulations, consolidated net income under IFRS is applied for calculation of the dividend size.

NOVATEK's dividend policy is based on keeping the balance between the Company's business goals and shareholder's interests. A decision to pay dividends as well as the amount of the dividend, the payment deadline and form of the dividend is passed by the Annual General Meeting of Shareholders according to the recommendation of the Board of Directors. Dividends are paid twice a year. In determining the recommended amount of dividend payments to be distributed the Board of Directors consider the current competitive and financial position of the Company, as well as its development prospects, including operating cash flow and capital expenditure forecasts, financing requirements, debt servicing and other such factors as it may deem relevant to maintaining financial stability and flexible capital structure of the Company. NOVATEK is strongly committed to its dividend policy.

On 19 March 2020, the Board of Directors of PAO NOVATEK recommended to the Annual General Meeting of Shareholders to pay dividends for FY 2019 in the amount of RR 18.1 per ordinary share or RR 181.0 per one Global Depository Receipt (GDR), exclusive of RR 14.23 of interim dividends per ordinary share or RR 142.3 per one GDR paid for the first six months of 2019.

Thus, should the General Meeting of Shareholders approve the recommended dividend, the dividends for 2019 will total RR 32.33 per ordinary share (RR 323.3 per one GDR), and the total amount of dividends payable for 2019 will be RR 98,163,772,980. This will represent a 24.1% increase in dividend per share compared to 2018.

The amount of paid dividends accrued for the years 2014 to 2018, and for the first six months 2019 is reported as of 31 December 2019. Partial payment of the accrued dividends was made due to provision by shareholders of incorrect postal and/or banking details and insufficient information regarding banking or postal details of shareholders.

## Information Transparency

NOVATEK complies with the best practices for information disclosure while adhering to a maximum level of information transparency. The Regulations on Information Policy approved by the Board of Directors as amended and restated in 2017 (Minutes No. 198 of 25 August, 2017), define main principles for disclosing information and increasing information transparency.

**Equity stakes in NOVATEK's share capital and the number of shares owned by members of the Board of Directors and Management Board <sup>(1)</sup>**

	As of	Equity stake	Number of ordinary shares, including GDRs certifying rights of ordinary shares
<b>Board of Directors</b>			
Alexander E. Natalenko	31.12.2019	-	-
Andrei I. Akimov	31.12.2019	-	-
Burckhard Bergmann	31.12.2019	-	-
Michael Borrell	31.12.2019	-	-
Robert Castaigne	31.12.2019	-	-
Leonid V. Mikhelson	31.12.2019	0.7375	22,393,392
Victor P. Orlov	31.12.2019	-	-
Gennady N. Timchenko	31.12.2019	-	-
Arnaud Le Foll	31.12.2019	-	-
<b>Management Board</b>			
Vladimir A. Baskov	31.12.2019	0.0288	874,408
Viktor N. Belyakov	31.12.2019	-	-
Lev V. Feodosyev	31.12.2019	-	-
Alexander M. Fridman	31.12.2019	0.0817	2,481,049
Mark A. Gyetvay	31.12.2019	-	-
Eduard S. Gudkov	31.12.2019	-	-
Evgeny A. Kot	31.12.2019	-	-
Tatyana S. Kuznetsova	31.12.2019	0.1944	5,903,035
Denis B. Solovyov	31.12.2019	-	-
Sergey G. Solovyov	31.12.2019	0.0003	9,390
Ilya V. Tafintsev	31.12.2019	-	-
Sergey V. Vasyunin	31.12.2019	0.0003	9,320

**Accrued and paid dividends on NOVATEK shares for the period 2014 to 2019**

Dividend Accrual Period	Amount of dividends, RR per share	Total amount of dividends accrued, RR	Total amount of dividends paid, RR
2014	10.30	31,273,951,800	31,273,942,156
2015	13.50	40,990,131,000	40,990,062,832
2016	13.90	42,204,653,400	42,204,606,695
2017	14.95	45,392,774,700	45,392,719,439
2018	26.06	79,126,134,360	78,746,541,458
First half 2019	14.23	43,206,634,380	42,849,313,169

1. The equity stakes are given based on the records in the register of NOVATEK's shareholders and notification received from members of the Board of Directors and Management Board, in accordance with the Russian Federation laws.

Material information about the Company is disclosed in a timely manner in the form of press releases and material facts notifications through authorized disclosure services as well as posting information on the Company's website in accordance with the Russian and foreign applicable laws. The Company discloses quarterly financial statements in accordance with the Russian ("RAS") and International Financial Reporting Standards ("IFRS"), Management's Discussion and Analysis of Financial Condition and Results of Operations as well as presentations for investors.

The Company's website provides detailed information on all aspects of its activities, including our Sustainability Report. The Company regularly participates in information disclosure on greenhouse gas emissions and energy efficiency of production – the Carbon Disclosure Project (CDP), and on the use of water resources – the CDP Water Disclosure Project, as well as other industry's publications and studies.

The Company maintains an ongoing dialog with shareholders and investors in order to ensure full awareness of investment community about its activities. The main channels of communication with the investment community are through the Chairman of the Management Board, Deputy Chairman and the Investor Relations department. The Company's representatives meet on a regular base with key financial audiences to discuss issues of interest to them.

In 2019, the efficient implementation of the Regulations on NOVATEK Information Policy contributed to building a sustainable reputation of NOVATEK as Russia's largest independent natural gas producer and one of the global leaders in LNG production.

Qualitative indicators that characterize the efficiency of the Company's positioning in the external environment demonstrated growth in the reporting period: In particular, the number of positive publications about the Company increased and the number of negative publications decreased by 10%. Among fuel and energy companies NOVATEK is the leader as to the share of positive publications.

Pursuant to the uniform information policy principles, NOVATEK is actively involved in relations with national, foreign and regional media. In 2019 the Public Relations Department hosted 25 meetings between the Company management and journalists of federal and foreign periodicals and organized 19 trips to visit the Company's regional production facilities involved in the implementation of the NOVATEK projects.

At the end of the reporting year, there were more than 80 thousand publications about the Company. Among the topics covered were successful launch of the Cryogas-Vysotsk plant, making the final investment decision under the Arctic LNG 2 Project, construction of Train 4 of the Yamal LNG plant, entering new sales markets, the Company's prospective projects (Obskiy LNG, Arctic LNG 1), local

manufacturing content and supporting Russian manufacturers of LNG plant equipment, active involvement of the Company in development of the Arctic and implementation of the May Russian President decree on increasing the cargo traffic via NSR to 80 mln tons until 2024.

The number of publications in 2019 in foreign media exceeded 10 thousand, thus it increased by 10% compared with the year 2018. The main focus has been on foreign partners who entered the Arctic LNG 2 Project and the Final Investment Decision for the Project, the Company's forward-looking business plans, increase in supply volumes and new sales markets.

In 2019, we saw an increase in the number of TV spots as compared to 2018, which is due to the information campaign on the use of Russian-made equipment in NOVATEK projects.

NOVATEK takes active part in industrial exhibitions and conferences. In 2019 NOVATEK's managers and employees participated in more than 20 industry exhibitions, conferences and round tables, including with speeches and reports. The Company participated in the World Economic Forum in Davos, the International Arctic Forum, the St. Petersburg International Economic Forum, the Eastern Economic Forum, the Russian Energy Week, LNG forums in Shanghai and Tokyo etc.

The corporate periodicals are published to inform the Company employees, their family members, and third parties of the Company activities. The newsletter "NOVATEK" covers process activities, social and sports events, charity programs of NOVATEK and its subsidiaries, informs on important trends in Russian and global energy, innovations and technologies, publishes recent interviews. The corporate magazine "NOVATEK Plus" tells about life and people not related to the core operational activity of the Company. Its targeted audience generally consists of people with dynamic lifestyle, interested in arts, literature, science, history and travels.

The main events of NOVATEK are published on the Company's official website and intranet portal. For interaction with public, NOVATEK makes use of up-to-date channels of information dissemination through social media. The Company keeps its accounts in English and Russian on Facebook, VKontakte, Twitter, Instagram, and Youtube, where the channel subscribers stay updated on the Company's activities. There were 630 publications in the Company's social media in 2019. Thanks to the intensification of work in social media and content diversification, the number of subscribers increased by a factor of 4.5 compared with 2018 and amounted to more than 27 thousand people.

# Additional Information

## Risk Management System

The Company's activities are subject to risks inherent only to the Company or associated with the Company's core business.

A multilevel system of risk management has been implemented at the Company. Powers, duties and responsibilities for specific risk management procedures are delegated to different governance levels of the Company depending on the assessment of financial impact of risk. The Company's risk management policy is laid out in the Regulations on OAO NOVATEK Risk Management and Internal Control System approved by the Board of Directors on 1 September 2014 (Minutes No. 170 of 1 September 2014) with amendments.

The Board of Directors' Audit Committee is responsible for the supervision over the reliability and efficiency of the risk management framework and review of the risk management policy. In the reporting year, the Audit Committee paid great attention to risk management in the Company and during the meetings after careful review

and analysis of the information provided, it recognized NOVATEK's risk management activities as compliant with the risk management policy of the Company.

Below is the list of risks and approaches to risk management applied by the Company. The risks described herein are not exhaustive and reflect the opinion on the most material risks based on the estimates of the Company's management.

The Company undertakes all possible actions to monitor and prevent such risks. However, it cannot fully guarantee that the measures aimed at risk management will bring the probability of risk realization down to zero. In this context, since 2018 the Company has been developing business continuity plans in the event of emergencies and incidents risks. The plans define the most efficient measures to restart production as soon as possible and a procedure for the NOVATEK Group divisions and employees to interact between each other and with external stakeholders with the view to maintaining critical operations at an acceptable level and reducing possible costs in case of risk realization. The first plans were approved in 2019.

Risk	Risk description	Risk management approaches used by the Company
<b>Operational risks</b>		
Risks of emergencies and incidents	The Company's subsidiaries and joint ventures are subject to the risks of emergencies and incidents at hazardous production facilities that may entail business interruption, hazardous emissions or spills, which in turn may have a negative effect on the Company's business reputation and financial performance.	<p>The Company performs continuous monitoring of industrial safety compliance, develops and implements organizational and technical measures aimed at mitigating the risks of emergencies and incidents and reducing potential losses as part of its existing integrated industrial safety management system that is certified under the OHSAS 18001:2007 standard. The Company holds property and business interruption insurance policies.</p> <p>The Company adheres to the principle of responsible investments which implies that new design solutions, technologies and equipment installed help significantly mitigate accident risks.</p> <p>The Central Dispatch Office (CDO) operates in the Company, one of its function is to ensure prompt response to production incidents. The functionality of the CDO was expanded by adding centralized control of well construction and workover on top of the control of production, treatment and transportation processes.</p>
Monopoly risks	The Company depends on monopoly suppliers of transport services (such as Gazprom, RZD, and Transneft). The Company has no influence on the capacity of transport facilities of the above monopolies and rates established by a Federal body.	<p>The Company enters into long-term agreements and in a timely manner arranges for interaction with monopolies regarding hydrocarbon transportation by pipeline and railway transport.</p> <p>To reduce its dependency, the Company concludes agreements enabling it to use alternative methods of product transportation (an agreement with SIBUR for the supply of light hydrocarbons to Tobolsk Petrochemical Complex).</p>

Risk	Risk description	Risk management approaches used by the Company
Competitive risks	<p>The Company operates in an environment of tough competition with Russian and international oil and gas companies in the following areas:</p> <ul style="list-style-type: none"> <li>• obtaining of subsoil licenses and acquisition of companies holding subsoil licenses</li> <li>• selling gas in the Russian and global markets</li> <li>• selling liquid hydrocarbons in the Russian and global markets</li> <li>• access to transportation infrastructure, which has technological limitations</li> <li>• employment of highly qualified specialists to work for the Company, its subsidiaries and joint ventures.</li> </ul>	<p>The Company monitors commercially available assets with regard to the objectives of its long-term development strategy, enabling the Company to make an objective assessment of its competitive positions and to take the maximum benefit of its competitive advantages that include extensive regional work experience and synergy with the existing producing, transport, processing and distribution infrastructure.</p> <p>The Company pursues an active marketing policy and takes efforts to monitor, expand and balance its customer base, and strives to enter into long-term agreements with buyers.</p> <p>The Company pursues an active marketing policy and takes efforts to expand its customer base, and to enter into long-term agreements with buyers. To diversify its natural gas marketing portfolio, throughout the reporting period the Company was engaged in trading in the Natural Gas Section of the St. Petersburg International Mercantile Exchange.</p> <p>The Company expands its footprint in the global LNG market, increases its customer base and makes spot, mid-term and long-term sale and purchase agreements, which enables mitigating risks associated with a specific market or counterparty.</p> <p>By participating in the development of integrated LNG projects in the global markets NOVATEK is able to secure guaranteed access to LNG infrastructure and develop gas consumption markets, ensuring direct access to the premium end consumer segment. The ability to control the entire value chain of integrated LNG projects helps mitigate competitive risks.</p> <p>The Company implements an active HR policy and applies efficient mechanisms to recruit and develop highly qualified employees.</p>
Risks in Procurement of Materials, Works and Services	Failure to perform their obligations by the counterparties (quality and timeline of procurement, works and services).	<p>The Company has introduced a procedure to qualify counterparties and control performance of obligations. The Company has put in place and is keeping up to date a Certified Potential Counterparties Database, developing relevant mitigation plans if necessary in order to systemically develop the suppliers' markets as a whole.</p> <p>The Company encourages its counterparties to improve their production capabilities, while making long-term agreements with strategic counterparties.</p> <p>Whenever appropriate, we use bank guarantee as an additional security under contracts.</p>
	Procurement of materials, works and services at prices higher than the market	<p>In 2018, the Company introduced a set of measures to optimize procurement activities, aiming to enhance control over the efficiency of spending on investment and operations, as well as to shorten counterparty selection procedures, and to ensure completeness and quality of procurement documentation, enabling prompt and efficient decisions.</p> <p>Counterparties are as far as possible selected on a competitive basis. The company implements a strategic approach to the most critical and expensive procurement items, which includes long-term contracting strategies that ensure maximum procurement efficiency and timely satisfaction of needs.</p> <p>By consolidating the demands of its subsidiaries and affiliates, the Company is able to obtain the most cost-effective procurement terms and conditions.</p> <p>The Company has developed and implemented technical specifications for critical and high-cost procurement items in order to harmonize technical requirements for products and parts applied under investment projects and in production activities, shorten the delivery time, speed up procurement and ensure transparent pricing.</p>



Risk	Risk description	Risk management approaches used by the Company
	<p>Reputational risks deriving from competition restriction and malpractice by employees</p>	<p>Procedures are developed within the Company that provide for an objective, timely and transparent process of counterparty certification and selection. There is no discrimination and unwarranted restriction of competition in the Company when developing certification and technical requirements to counterparties and to the subject of procurement as part of design and certification as well as at the stage of counterparty selection. The internal regulations in place provide for a maximum transparency procedure of counterparty selection with an adequate system of control over the actions of employees. Open ways to select counterparties are mostly used.</p> <p>Given the volatility in international relations with the countries providing sophisticated oil &amp; gas equipment, the Company pursues import replacement policies where it is appropriate.</p>
Commodity price risks	<p>As an independent natural gas producer, NOVATEK is not subject to state regulation of natural gas prices. Nevertheless, the Company's prices are strongly influenced by the prices established by a federal body.</p> <p>Moreover, the Company is exposed to the current pricing environment on the Russian and international liquid hydrocarbon and LNG markets as it has no power over the contracts' base prices. Reduction of prices for liquid hydrocarbons and LNG may have a negative effect on the Company's financial performance.</p>	<p>State regulation of gas prices significantly reduces the risk of price volatility on the Russian gas market.</p> <p>The Company monitors changes in the global gas and LNG price environments and negotiates with LNG buyers striving to make efficient sale and purchase agreements.</p> <p>In view of the vertically integrated production chain for liquid hydrocarbons and LNG, the Company does not use commodity derivative financial instruments to reduce the risk of price changes for such type of products.</p> <p>The Company strives to maximize the output of high value added products by using its hydrocarbon deeper conversion capacities (the Purovsky Plant and Ust-Luga Complex).</p>
Geological risks	<p>Exploration drilling is associated with multiple risks, including the risk of non-discovery of commercial reserves. Information on the Company's reserves depends on a number of factors and assumptions. Actual production volumes at the fields, along with the cost-effectiveness of reserve development may deviate from estimates.</p>	<p>To minimize geological risks, the Company relies on geological modeling and engages major contractors that apply state-of-the-art technology and methods, uses an in-house research and technical center (NOVATEK-NTC) and retains foreign and Russian experts in promising areas. In 2019, seismic and hydrodynamic computing clusters were launched at NOVATEK-NTC to improve the volumes and accuracy of forecasts.</p> <p>The Company implements individual employee training programs based on regular test results.</p> <p>The Company makes annual assessment and evaluation of its reserves based on the results of exploration and production drilling and other research information. An independent international adviser evaluates the Company's reserves according to international standards on annual basis.</p>
Risk of early termination, suspension or restriction of the right to use subsurface mineral resources	<p>Exploration and production of hydrocarbons in Russia is subject to licensing.</p> <p>The Company is thus exposed to the risk of early termination, suspension or restriction of its right to use subsurface mineral resources.</p>	<p>The Company strives to comply, and maintains a continuous monitoring of its compliance with the license agreements and the subsoil use laws, and submits timely requests for adjusting the terms of its license agreements.</p>
Environmental risks	<p>The Company is subject to the probability of events having adverse consequences for the environment and caused by a negative impact of its industrial and other activities, as well as natural and technology-related emergencies.</p>	<p>The Company has an environmental management system according to ISO 14001 standard to ensure rational use of resources and to minimize the adverse effect the Company's operation may have on the environment.</p> <p>The Company adheres to the principle of responsible investment in operations, which implies that new design solutions, technologies and equipment installed help minimize environmental impact.</p> <p>As part of the Russian Federation Climate Doctrine, the Company developed a corporate Greenhouse Gas Emission Management System (to account for, and plan actions to reduce, greenhouse gas emissions, inter alia by introducing innovative technologies to curb greenhouse gas emissions).</p>

Risk	Risk description	Risk management approaches used by the Company
Project risks	<p>Volatile exchange rates of the national currency and unstable lending conditions, drop in hydrocarbon prices, precarious financial position of contractors and oil and gas equipment suppliers may affect the Company's Investment Program leading to delays in project execution and/or rising project costs.</p>	<p>The Company implements expert review of projects at the project development stage. Investments are only channeled into the projects that are most likely to help the Company achieve its strategic objectives.</p> <p>The Regulation on Investment Projects Preparation, Coordination, Approval, Monitoring and Updating has been in place in the Company since 2016. The project risks are evaluated at every stage of its implementation.</p> <p>Strict requirements are applied to the selection of contractors and suppliers of oil and gas equipment, including thorough desktop and on-site audits. There is ongoing monitoring of their performance, including on-site visits to the oil and gas equipment plants involved in production and testing of equipment, as well as offloading control and incoming inspection.</p>
Strategic risks	<p>There is a risk that the Company will fail to meet its strategic goals and objectives due to significant changes in external environment, realization of individual, or a group of, operational, financial and legal risks.</p>	<p>The Company strives to prudently accomplish strategic goals and objectives and applies the approaches described in this section to manage each of the risks. In order to efficiently manage its project portfolio and to ensure sustainable development, the Company regularly monitors market trends as well as takes into account risks and opportunities of the current and anticipated external environment.</p> <p>The Company applies a scenario-based approach to financial and economic forecasting to assess the possibility of achieving strategic and operational goals and adherence to credit covenants. The decision-making process in strategic management includes, inter alia, an assessment of project execution risks and evaluation of resources required for their successful execution, including an analysis if financial, material and human resources employed are sufficient and/or if use of additional resources is justified.</p>
Ethical risks	<p>The Company is exposed to the risks of disturbed relationships within the Company and with its subsidiaries and joint ventures, shareholders, investors, the government, the public, consumers or suppliers or other corporate entities or individuals, including the risk of fraud, corruption, and conflict of interest.</p>	<p>In 2011, in order to minimize ethical risks, the Company introduced a Code of Business Conduct and Ethics.</p> <p>The Company is governed by the provisions of the internal Code Ethics, as well as the applicable Russian and English law in terms of public company regulation. This mitigates ethical risk to stakeholders and investors.</p> <p>To exclude ethical risks in its relations with third parties, the Company carries out tender procedures to select counterparties and has a well-established internal control and audit system.</p> <p>An Anti-Corruption Policy has been in place since 2014, which established key principles and standards of anti-corruption practices for employees and includes a set of corruption prevention measures.</p> <p>As part of the Anti-Corruption Policy implementation a Security Hotline is in a 24/7 operation.</p> <p>Since 2016, the Company has had a procedure for notification and management of conflicts of interest that employees may come across in performing their job duties.</p>
Social risks	<p>The Company is subject to the following risks of a social nature:</p> <p>internal risks associated with a possible incompliance of social programs implemented by the Company with the industry's average level that may lead to a higher labor turnover;</p> <p>external risks associated with potential impediments in normal production activities caused by the public living in proximity to the production facilities</p>	<p>The Company strives to ensure compliance of its social programs with the industry's average level and uses the up-to-date mechanisms for attracting and retaining highly professional employees.</p> <p>The Company's production facilities are located outside densely populated territories, and the Company monitors compliance with the rules and regulations while operating its facilities. The risks related to possible military conflicts, announcement of a state of emergency, or strikes, are insignificant, as the Company operates in economically and socially stable regions.</p>

Risk	Risk description	Risk management approaches used by the Company
Terrorism risks	The Company is subject to risks of unlawful interference acts and terrorist threat concerning operation of fuel and energy facilities, transport and other facilities (areas).	<p>The Company implements all necessary measures to fully comply with legislative requirements in the area of security and counter-terrorism measures at fuel and energy facilities, transport and other facilities (areas).</p> <p>A complex of organizational and practical measures is constantly in place to ensure security of facilities, including linear ones.</p>
Country risk	NOVATEK is a Russian company operating in a number of Russian regions. Country risk is defined by the fact that Russia is still an emerging economy, the economic environment of which is not sufficiently stable and is subject to external macro-economic impacts.	<p>Active marketing and financial policy enable the Company to mitigate the country risk.</p> <p>Moreover, the Company's management continuously analyzes the macro-economic environment and makes prompt decisions to mitigate potential risks.</p>
	The Company is involved in foreign projects related to LNG transportation and sales, and in projects aimed at enlarging its geographic footprint in hydrocarbon exploration, production and transportation. Legislative and political changes in the countries where the Company operates may affect financial performance and the cost of such projects.	The Company continuously monitors legislative changes in the countries where it operates, analyzes political situation, takes part in negotiations and builds up long-term partner relations with state authorities and various stakeholders.
Regional risk	The Company produces and processes hydrocarbons within Western Siberia, a region with a challenging climate.	The Company's vulnerability to region-specific impacts is insignificant and is taken into account by the Company's management at the onshore production and processing facilities design and operation stage.
	The Company uses the Northern Sea Route (NSR) for LNG and gas condensate shipping. Severe weather and ice conditions in vessel voyage areas, ports, and cargo transshipment points may lead to longer vessel return voyages, a disruption of marketable products offtake, and tank tops, as well as may result in default on timely delivery obligations to buyers.	<p>To mitigate such risks, the Company implements the following measures:</p> <ul style="list-style-type: none"> <li>• coordinates day-to-day tanker management with structural units in charge of fleet planning and positioning, operations and sales, and adjusts production and supply schedules where necessary;</li> <li>• cooperates with Atomflot, Rosmorport, Northern Sea Route Administration and government authorities to ensure necessary icebreaker support along the NSR;</li> <li>• incorporates requirements in all time charter parties that the vessel's officers have necessary experience in ice navigation and that the crews take special training courses and programs with regards to ice navigation;</li> <li>• engages ice pilots and representatives of special institutions and companies when passing difficult ice areas.</li> </ul>
Risks of information technology and information security (cyber-risks)	<p>The Company is exposed to the risks in the area of information technology and information security, such as</p> <p>the risk of confidential information leaks;</p> <p>the risk of business interruption and the risk of an emergency situation as a result of computer-generated incidents.</p>	<p>The Company pursues a policy aimed at continuous improvement of the information security processes and ensuring their compliance with law, international standards and best practices in order to improve information protection and enhance the trust of contractors, partners, and investors. One of the priorities is to maintain confidentiality, security and reliability when handling confidential information, including personal data, trade secret, insider information, confidential information of partners and other organizations that the Company has lawfully become aware of. Pursuant to Federal Law No. 187-FZ dated 26 July 2017, facilities of the Company's critical information infrastructure have been categorized.</p> <p>The NOVATEK Group information technology development strategy was developed and approved to ensure the Group's sustainable development.</p>

Risk	Risk description	Risk management approaches used by the Company
<b>Financial risks</b>		
Credit risk	The Company is exposed to a risk of losses related to a failure by counterparties to perform their contractual financial obligations when due, and in particular depends on the reliability of banks in which the Company deposits its available cash.	<p>When selling natural gas on the domestic market, the Company continuously monitors the financial soundness of its consumers and takes actions in case there are overdue payments.</p> <p>Most of NOVATEK's international liquid sales are made to major customers with independent ratings. Almost all domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis.</p> <p>All long-, mid- and short-term LNG SPAs made in the international markets include the provision of buyer credit support. Credit support is usually provided in the form a parent company guarantee, letter of credit and/or bank guarantee to be issued by a bank with an acceptable credit rating. All new counterparties undergo a mandatory Know Your Customer procedure and credit-worthiness assessment.</p> <p>When selecting banks, the Company is governed by the bank's reliability confirmed by international ratings.</p>
Reinvestment risk	The Company's business requires substantial investments into field exploration and development, followed by the production, transportation, and processing of natural gas, oil, gas condensate and petroleum products. Insufficient funding for these and other expenditures may affect the Company's financial standing and performance.	The Company's capital investment plans are defined in its long-term development strategy, are revised on an annual basis and are generally in line with the Company's ability to generate cash flow from operations taking into account the need to pay dividend and service its debt.
Interest risks	As a major borrower, the Company is subject to risks associated with an increase in interest rates. Interest rates on some of the Company's loans may be linked to floating international and Russian base rates which dynamics are hard to predict. Volatile interest rates may restrict the use of borrowed capital as a financing source for the Company's investment activity and may increase interest rate expenses.	The Company pursues a balanced debt policy and strives to maximize the share of long-term liabilities with fixed rates in its debt portfolio. The Company strives to maintain flexibility in its investment program.
Currency risks	Part of the Company's liabilities is denominated in foreign currencies, which may lead to losses in the event of Russian rouble depreciation. On the other hand, part of the Company's proceeds is also denominated in foreign currencies, which may lead to losses in the event of Russian rouble appreciation.	<p>The liabilities expressed in foreign currency on the one hand, and export proceeds on the other generally offset each other and serve as a natural mechanism to hedge currency risks.</p> <p>As part of the currency risk assessment, scenario analysis is run.</p>
Liquidity risk	Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.	<p>The Company's approach to managing liquidity risk 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 Company's reputation. In managing its liquidity risk, NOVATEK maintains an adequate ratio between cash reserves and debt, monitors forecast and actual cash flows and matches the financial assets and liabilities maturity profiles.</p> <p>The Company uses various short-term borrowings. The Company may use credit facilities and bank overdrafts to satisfy its short-term finance needs. To satisfy its needs for cash on a more permanent basis, the Company will normally raise long-term loans in the available markets.</p>

Risk	Risk description	Risk management approaches used by the Company
Inflation risk	Changes in the consumer price index have an impact on NOVATEK's profitability and, as a consequence, its financial standing. The significant currency depreciation can cause a surge in inflation rates, which are impossible to accurately predict.	NOVATEK may not be able to predict the inflation level, since, apart from the consumer price level, it is necessary to take into account the change in the real purchasing power of the Russian rouble, the pricing conditions in liquid hydrocarbon and LNG export markets, and government policy in relation to tariffs for natural gas.  NOVATEK monitors the consumer price index and accordingly acts to mitigate its costs.  As part of the inflation risk assessment, scenario analysis is run.
<b>Legal risks</b>		
Risk of law changes	The Company is subject to a risk of facing consequences of changes in Russian laws in the following areas:  currency laws (in areas concerning export/import and borrowing operations)  tax laws (in areas regulating taxation systems and rates applicable to companies in general, and to companies producing and marketing natural gas and liquid hydrocarbons, specifically)  customs laws (in areas concerning the export of liquid hydrocarbons, including petroleum products); and  licensing requirements for natural resource extraction.  competition laws (in areas regulating natural gas sales market);  laws in fuel and energy complex regulation;  laws in corporate governance;  laws in respect of business operations in the Arctic and greenhouse gas emissions in the Russian Federation.	The Company is constantly monitoring changes in legislation, elaborates its proposals and takes part in the drafting of laws and incorporation of provisions that are in line with the Company interests, all enabling it to evaluate the consequences of such changes and to take them into account in its plans.
Litigation risks	The Company may be involved as a defendant or plaintiff in a number of proceedings arising in the normal course of its business.	When conducting its business, the Company adheres to the principle of prudence. Due to this fact, as of the approval date of the Annual Report, the Company was not involved in any material litigation and the associated risks are insignificant.
Risk of sanctions	In 2014, the Company was included into the US sectoral sanctions list whereby the US persons are prohibited to participate in providing financing to the Company for more than 60 days. The sanctions imposed restrict the Company's ability to refinance its debt.  Furthermore, there is a risk of tougher US sanctions and risk of including the Company into other countries' sanctions lists, which may undermine the Company performance.	The Company follows a balanced financial policy enabling it to minimize its fundraising needs. Moreover, the Company still has a full access to the Russian capital market and a limited access to the international market.  In case the US sanctions are toughened and the Company is included in other countries' sanctions lists, the Company management will make every possible effort to minimize the negative impact on the Company's business operations and financial standing.  The Company also implements an import substitution program (first and foremost in the field of LNG) and invests in the development of its own technology and localizing equipment fabrication in Russia. These programs focus on large-scale LNG production as a priority.  The Company invests in setting up its own production facilities to build liquefaction trains and in developing its proprietary liquefaction technologies as well as works systematically with Russian and foreign manufacturers to ensure transfer of technology and the mastering of equipment and materials fabrication for LNG projects.

## Risk Insurance

Risk insurance is an integral part of NOVATEK's risk management system. In 2019, the insurance coverage guaranteed adequate protection against the risks of damage to the business of the Company or its subsidiaries and joint ventures. Insurance is provided by reputable insurance companies that have high ratings by the leading rating agencies (Standard & Poor's, Fitch Ratings, Expert RA, A. M. Best,) with partial reinsurance of risks by major international insurance and reinsurance companies.

### OBLIGATORY RISK INSURANCE

The Company and its subsidiaries and joint ventures fully meet the requirements of the applicable laws in the Russian Federation for maintaining obligatory insurance, such as civil liability insurance of:

- owners of hazardous production facilities; and
- owners of transport vehicles.

The Group also fully complies with legislated insurance requirements in the countries where it operates.

### OPTIONAL RISK INSURANCE

To reduce the risk of financial losses, the Company and its subsidiaries and affiliates maintain the following types of optional insurance:

- Insurance of the risk of property damage/loss, including the risk of mechanical failures;
- Insurance of the risk of damage from business interruption;
- Construction risk insurance;
- Insurance of risks related to prospecting, exploration and production (risk of loss of control over a well);
- Transport insurance;
- Cargo insurance;
- Directors', officers' and companies' liability insurance (D&O insurance);
- Charterers' liability insurance;
- Employees voluntary health insurance as a part of the social benefits package.

Since 2013, the Company implemented a comprehensive program of property and business risk insurance with respect to its and its subsidiaries' and joint venture's key assets. The cumulative insured amount for the risks of property damage and business interruption as at the end 2019 was RR 910 billion. The implemented program is viewed by the Company's management as an efficient measure for mitigating the consequences of potential accidents and provides additional guarantees for the attainment of the

expected net profit and key indicators of the Company's performance. Beyond the scope of the comprehensive program, given the project's scale, Yamal LNG is insured against property damage and business interruption.

In the reporting year, no insured major accidents or incidents occurred.

For more than 14 years the Company has maintained the directors', officers' and companies' liability insurance (D&O insurance) covering the Group, top management of the Company and its subsidiaries against possible third-party claims for any losses incurred through any wrong action (or decision) made by its governance bodies as well as in connection with claims against the Company under its securities. The overall insurance coverage limit is EUR 120 million. The existing insurance coverage is in line with international insurance standards in terms of the scope of risk cover and limits of indemnity.

## Information on Members of NOVATEK's Board of Directors

### MR. ALEXANDER E. NATALENKO

Born in 1946

**Chairman of NOVATEK's Board of Directors  
Member of NOVATEK's Strategy Committee**

Mr. Natalenko completed his studies at the Irkutsk State University in 1969 with a primary focus in Geological Engineering. Subsequently, he worked with the Yagodinskaya, Bagdarinskaya, Berelekhskaya, Anadirskaya and East-Chukotskaya geological expeditions. In 1986, Mr. Natalenko headed the North-East Industrial and Geological Association and, in 1992, he was elected president of ZAO "Magadan Gold & Silver Company". He subsequently held various executive positions in Russian and foreign geological organizations. From 1996 to 2001, Mr. Natalenko held the position of Deputy Minister of Natural Resources of the Russian Federation. From 2013 to 2015 he was a member of the Board of Directors of AO Rosgeologia. From 2004 to present he is the Chairman of NOVATEK's Board of Directors.

Mr. Natalenko is the recipient of the State Prize of the Russian Federation and an Honored Geologist of Russia.

### MR. ANDREI I. AKIMOV

Born in 1953

**Member of NOVATEK's Board of Directors  
Member of NOVATEK's Strategy Committee**

Mr. Akimov graduated from the Moscow Financial Institute in 1975 where he specialized in international economics. Between 1974 and 1987, Mr. Akimov held various executive positions in the Bank for Foreign Trade of the USSR. From 1985 to 1987 he served as Deputy Chief General Manager of the Bank for Foreign Trade branch in Zurich (Switzerland) and between 1987 and 1990, Mr. Akimov was the Chairman of the Management Board of Donau Bank in Vienna (Austria). From 1991 to 2002 he was Managing Director of financial company, IMAG Investment Management & Advisory Group



AG (Austria). Since 2003, Mr. Akimov has been the Chairman of the Management Board, the Deputy Chairman of the Board of Directors of Gazprombank (OAO). He is a member of Board of Directors of PAO Gazprom, AO Rosneftegaz.

#### **DR. BURCKHARD BERGMANN**

Born in 1943

**Independent member of NOVATEK's Board of Directors**  
**Chairman of NOVATEK's Strategy Committee**  
**Member of NOVATEK's Audit Committee**  
**Member of NOVATEK's Remuneration and Nomination Committee**

Mr. Bergmann, born in Sendenhorst (Germany), studied physics at Freiburg and Aachen Universities from 1962 to 1968 and was awarded a doctorate in engineering by Aachen University of Technology in 1970. From 1968 to 1969, he worked at the German Federal Ministry for Research and Technology and from 1969 to 1972 at the Jülich Nuclear Research Centre. In 1972, Mr. Bergmann joined Ruhrgas AG (from 1 July 2004 – E. ON Ruhrgas AG), heading the LNG Purchasing Department. In 1978, he became Head of the Gas Purchasing Division responsible for gas purchasing, commercial aspects of gas transmission and storage, as well as gas billing. In January 1980, he was elected as a member of the Management Board of E. ON Ruhrgas AG, serving from June 1996 as its Vice-Chairman and from June 2001 to February 2008 as its Chairman. From March 2003 to February 2008 he was also a member of the Board of Management of E. ON AG.

Mr. Bergmann is a Chairman of the Supervisory Board of Accumulatoren-Werke Hoppecke GmbH and a member of the Advisory Boards for Dana Gas, Dubai. Since October 2012, he is a member of the board of trustees of RAG Stiftung. Between 1998 and 2000, Mr. Bergmann held the position of President of Eurogas (the European Union of the Natural Gas Industry) and between 2000 and 2010 he was Vice-Chairman of the Board of the German East-West Trade Committee. Mr. Bergmann was a member of the Board of OAO Gazprom from 2000 to 2011.

Mr. Bergmann holds the following distinctions: Commander of the Royal Norwegian Order of Merit (1997), Foreign Member of the Academy of Technological Sciences of the Russian Federation (2003), Order of Merit of the State of North Rhine-Westphalia (2004), Director of the Year, Moscow (2007), Officer's Cross of the Order of Merit of the Federal Republic of Germany (2008) and the Russian Order of Friendship (2011).

#### **MR. MICHAEL BORRELL**

Born in 1962

**Member of NOVATEK's Board of Directors**  
**Member of NOVATEK's Strategy Committee**

Mr. Borrell graduated from the University of Cambridge with a degree in Chemical and Mechanical Engineering (Master of Science – 1993, Bachelor – 1984). He joined TOTAL in 1985. Mr. Borrell worked with the affiliated companies of the concern; from 1995 he held a number of senior management positions in TOTAL. From 2003, he worked at the position of Vice-President for Corporate Planning and Business Development in Total E&P Indonesia. In July 2006,

he was appointed President and CEO of TOTAL E&P Canada in Calgary. From September 2009 to June 2010, he was Vice President of the Caspian Area and Central Asia for TOTAL Exploration and Production. From July 2010, he served as First Vice President of Continental Europe and Central Asia. From January 2015 to September 2017, he worked as Senior Vice-President of Europe and Central Asia. From September 2017, he has been appointed Senior Vice President North Sea and Russia, which comprises the United Kingdom, Norway, Denmark, the Netherlands and Russia.

#### **MR. ROBERT CASTAIGNE**

Born in 1946

**Independent member of NOVATEK's Board of Directors**  
**Chairman of NOVATEK's Audit Committee**  
**Member of NOVATEK's Remuneration and Nomination Committee**

Mr Castaigne graduated from the Ecole Centrale de Lille in 1968 and the Ecole nationale supérieure du pétrole et des moteurs, he holds a doctorate in economics. He has spent his whole career at TOTAL SA, first as an engineer, then in various positions. From 1994 to 2008, he was Member of the Executive Committee, Executive Vice-President and Chief Financial Officer of TOTAL SA. From 2000 to 2018, he was Member of the Board of Directors of Sanofi and from 2009 to 2018 – Member of the Board of Directors of Societe General. He is Member of VINCI's Board of Directors. He is Chevalier of the National Order of the Legion of Honour.

#### **MR. ARNAUD LE FOLL**

Born in 1978

**Member of NOVATEK's Board of Directors**  
**Member of NOVATEK's Strategy Committee**

Graduate of 'École polytechnique' and 'École des mines de Paris' (France) Arnaud Le Foll began his professional career in French ministries and administrations. Between 2003 and 2006 he was Head of Regional Industrial Environment Inspectorate, Rhône-Alpes (Lyons, France), then he moved to a position of Auditor at General Inspectorate of Finance, Ministry of Finance, where he served from 2006 to 2007. In 2007 he became an Advisor on matters related to environment, energy and industry in the offices of C. Lagarde, Minister of Economy, and L. Chatel, Secretary of State in charge of Industry.

Arnaud Le Foll joined Total in 2010 as Analyst Strategy, Total Holding. In 2010 he was promoted to a position of Vice-president strategy and business development Asia-Pacific, Total Marketing & Services (Singapore). From 2013 to 2016 he headed Total Maroc affiliate as Managing Director.

In 2016 Arnaud Le Foll moved from Marketing & Services branch of Total to Exploration & Production, and was appointed Strategy and Portfolio Management Director, Total E&P Angola.

On January 1, 2018 Arnaud Le Fall became General Director, Total E&P Russie.

**MR. LEONID V. MIKHELSON**

Born in 1955

**Member of NOVATEK's Board of Directors**  
**Chairman of NOVATEK's Management Board**

Mr. Mikhelson received his primary degree from the Samara Institute of Civil Engineering in 1977, where he specialized in Industrial Civil Engineering. That same year, Mr. Mikhelson began his career as foreman of a construction and assembling company in Surgut, Tyumen region, where he worked on the construction of the first section of Urengoi-Chelyabinsk gas pipeline. In 1985, Mr. Mikhelson was appointed Chief Engineer of Ryazantruboprovodstroy. In 1987, he became General Director of Kuibishevtruboprovodstroy, which in 1991, was the first company in the region to sell its shares and became private company, AO SNP NOVA. Mr. Mikhelson remained AO SNP NOVA's Managing Director from 1987 through 1994. Subsequently, he became a General Director of the management company "Novafininvest".

Since 2003, Mr. Mikhelson has served as a member of the Board of Directors and Chairman of the Management Board of NOVATEK. From March 2008 to December 2010, he has been a member of the Board of Directors and the Chairman of the Board of Directors of AO Stroytransgas. From 2009 to 2010 he was the Chairman of the Board of Directors of OAO Yamal LNG and from 2008 to 2011 he was a member of the Board of Directors of OOO Art Finance. From 2011 he is the Chairman of the Board of Directors of PAO SIBUR Holding and from 2011 to 2013 he was a member of the Supervisory Board of the OAO Russian Regional Development Bank. Mr. Mikhelson is the recipient of the Russian Federation's Order of the Badge of Honor, the 2 Degree Order of Merit for the Fatherland and the title of honor "Honored man of the gas industry", Medal "for the Arctic preservation" and the First Degree "for development of the energy sector".

**MR. VICTOR P. ORLOV**

Born in 1940

**Independent member of NOVATEK's Board of Directors**  
**Chairman of NOVATEK's Remuneration and Nomination Committee**  
**Member of NOVATEK's Audit Committee**

In 1968, Mr. Orlov graduated from the Tomsk State University as a geological engineer with a degree in "Geological survey and exploration of mineral deposits", and in 1986 from the Academy of National Economy under the USSR Council of Ministers, with a specialty in "Economics and Management of a National Economy".

From 1957 to 1963, he worked at coal mine and served in the Soviet Army. From 1968 to 1975, he was head of a geological survey, prospecting and exploration works in the geological organizations of Western Siberia, held positions of the geologist, chief geologist, chief of geological exploration crew. 1975-1978 – Consultant on geological exploration works in Iran. 1979-1981 – Deputy Head of the Geological Division of the Production Geological Association of central areas of Russia (Tsentrgeologiya). 1981-1986 – Deputy Head of Geology and Production departments of the Ministry of Geology of the RSFSR. 1986-1990 – CEO of Tsentrgeologiya. 1990-1992 – Deputy Minister of Geology of the USSR, First Deputy Chairman of the RSFSR State Committee for Geology and Use of Energy and Mineral

Resources. 1992-1996 – Chairman of the Russian Federation Committee on Geology and Mineral Resources. 1996-1999 – Minister of Natural Resources of the Russian Federation. 2001-2012 – Member of the Federation Council of the Federal Assembly of the Russian Federation. 2001-2004 – First Deputy Chairman of the Federation Council Committee on Natural Resources and Environmental Protection. 2004-2011 – Chairman of the Federation Council Committee on Natural Resources and Environmental Protection. From 1998 to present – President of "Russian Geological Society" public organization. Author and co-author of over 300 scientific publications.

Professor, Doctor of Economics (1991), Candidate of geological-mineralogical sciences (1974), an Honored Geologist of Russia. Laureate of the State Prize of the Russian Federation in the field of science and technology. He was awarded the Order of Merit for the Fatherland 4 degree (2001), the Order of Honor (2015), 18 non-governmental awards, including 3 appreciation letters of the President of the Russian Federation, 2 Certificates of Merit of the Government of the Russian Federation.

**MR. GENNADY N. TIMCHENKO**

Born in 1952

**Member of NOVATEK's Board of Directors**  
**Member of NOVATEK's Strategy Committee**

In 1976, Mr. Timchenko graduated with a Master's of Science from the Mechanical University in Leningrad. He began his career at the Izjorskii Factory in Leningrad, an industrial plant which made components for the energy industry. Between 1982 and 1988, he was a Senior Engineer at the Ministry of Foreign Trade. Mr. Timchenko has more than 20 years of experience in Russian and International energy sectors and he has built interests in trading, logistics and transportation related companies.

In 1988, Mr. Timchenko became a Vice President of Kirishineftekhimexport, the export and trading arm of the Kirishi refinery. In 1991, he worked for Urals Finland which specialized in oil and petrochemical trading. Between 1994 and 2001, Mr. Timchenko was Managing Director of IPP OY Finland and IPP AB Sweden. Between 1997 and 2014, he co-founded Gunvor, a leading independent oil-trading company. Mr. Timchenko was a member of the Board of Directors of OOO Transoil and OOO BalttransService, and Airfix Aviation OY. Since 2009, he is a member of the Board of Directors of PAO NOVATEK. He is a member of the Board of Directors of PAO SIBUR Holding, the Chairman of the Board of Directors, President of the Ice Hockey Club SKA St-Petersburg, as well as the Chairman of the Board of Directors of OOO Kontinental Hockey League, a member of the Board of Trustees of the All-Russian public organization Russian Geographical Society, the Chairman of the Russian Council of the NPO Russian Chinese Business Council, the Chairman of the Board to promote OCD, Vice-President of the Olympic Committee of the Russian Federation, the Chairman of the Economic Council of the Franco-Russian Chamber of Commerce (CCIFR).

**ZULMIRA A. RAZAKOVA**

**NOVATEK's Corporate Secretary**

Ms. Razakova holds a higher legal education degree and began working for NOVATEK in 2004. Between 2007 and

2012, Ms. Razakova held the position of lead specialist of the Management Board and Board of Directors staff. In April 2012, Ms. Razakova was elected as Secretary of the Board of Directors. Since 2014, Ms. Razakova has been NOVATEK's Corporate Secretary.

## Information on Members of NOVATEK's Management Board

### MR. LEONID V. MIKHELSON

Born in 1955

**Chairman of NOVATEK's Management Board  
Member of NOVATEK's Board of Directors**

Details on Mr. Leonid V. Mikhelson are available in the "Information on Members of NOVATEK's Board of Directors" section.

### MR. VLADIMIR A. BASKOV

Born in 1960

**Deputy Chairman of NOVATEK's Management Board**

In 1986, Mr. Baskov graduated from the Moscow Higher Police School of the USSR. In 2000, he completed courses at the Management Academy at the Russian Ministry for Internal Affairs. From 1981 to 2003, he served in various departments within the Russian Ministry for Internal Affairs. From 1991 to 2003, Mr. Baskov held managerial positions within the aforementioned Ministry's organizational structures.

In 2003, he was appointed Director of the Business Support Department for NOVATEK. In 2005, Mr. Baskov was appointed Deputy Chairman of NOVATEK's Management Board and in 2007, he became a member of NOVATEK's Management Board.

Mr. Baskov is Ph. D. in Law. He was awarded the Order For Personal Courage, the Russian Federation's Order of the Badge of Honor and other state and departmental awards: Honorary Diplomas of the President of the Russian Federation, the Minister of Internal Affairs, the Governor of the Moscow Region. Mr. Baskov also has the awards of the Russian Orthodox Church (Order of Holy Prince Daniel of Moscow, Order of Saint Seraphim of Sarov and a medal of St. Sergius).

### MR. VIKTOR N. BELYAKOV

Born in 1973

**Deputy Chairman of NOVATEK's Management Board for Economics and Finance**

Mr. Belyakov graduated from Tver State Technical University majoring in Automated Data Processing and Management Systems (1995) and in Information Systems in Economics (1997). In 2000, he completed an MBA degree program with Kingstone University (UK). A holder of CMA (Certified Management Accountant).

From 2004 until 2014 Mr. Belyakov worked for PAO Uralkali, where he successively held the positions of Head of Division, Deputy Chief Financial Officer, Chief Financial Officer, Vice President for Finance, Deputy General Director, Executive Director. In 2015, he was appointed Vice President for Economics and Finance of PAO Far East Shipping Company

(FESCO group). In February 2016, Viktor Belyakov joined PAO NOVATEK in the position of Deputy Chairman of the Management Board for Economics and Finance.

### MR. MARK A. GYETVAY

Born in 1957

**Deputy Chairman of NOVATEK's Management Board**

Mr. Gyetvay studied at Arizona State University (Bachelor of Science, Accounting, 1981) and later at Pace University, New York (Graduate Studies in Strategic Management, 1995). After graduation, Mr. Gyetvay worked in various capacities at a number of U. S. independent oil and gas companies where he specialized in financial and economic analysis for both upstream and downstream segments of the petroleum industry.

In 1994, Mr. Gyetvay began his work at Coopers and Lybrand, as Director, Strategic Energy Advisory Services. He subsequently moved to Moscow in 1995 with Coopers & Lybrand to lead the oil and gas practice. He was admitted as a partner of PricewaterhouseCoopers Global Energy where he assumed the role of client service engagement partner, Utilities and Mining practice, based in Russia (Moscow office). Mr. Gyetvay was an engagement partner on various energy and mining clients providing overall project management, financial and operational expertise, maintaining and supporting client service relationships as well as serving as concurring partner on transaction services to the petroleum sector.

Mr. Gyetvay is a Certified Public Accountant (inactive status), a member of the American Institute of Certified Public Accountants and an associate member of the Society of Petroleum Engineers. He is a recognized expert in the oil and gas industry, a frequent speaker at various industry and investor conferences, has published numerous articles on various oil and gas industry topics and was a former member of PwC's Petroleum Thought Leadership team. He has been recognized by Investor Relations Magazine as one of the best CFO's in Russia and the CIS, and by Institutional Investor magazine as one of the Top Five CFO's in Europe's Oil and Gas sector. Institutional Investor voted him as the Best CFO in the EMEA Oil and Gas category for 2017 and 2018. Finance Monthly magazine named Mark Gyetvay the Best CFO in Russia for the consecutive years of 2015 to 2019, and he received the Game Changer 2017 and 2018 Award for Russia.

From 2003 to 2014, Mr. Gyetvay was a member of NOVATEK's Board of Directors and served on the Investment and Strategy Committee. From 2003 to 2014, he has been Chief Financial Officer and, in August 2007, Mr. Gyetvay was elected to NOVATEK's Management Board. In July 2010, he became Deputy Chairman of NOVATEK's Management Board.

### MR. SERGEY V. VASYUNIN

Born in 1967

**Deputy Chairman of NOVATEK's Management Board – Operations Director**

In 1993, Sergey Vasyunin graduated from the Ufa Oil Institute, specializing in the Development and Operation of Oil and Gas Fields. Between 1993 and 1997, Mr. Vasyunin was employed with Condor as deputy director, Stroykomplekt

as head of sales department, and with OAO Spetsneftee nergomontazhavtomatika – as marketing engineer. From 1998, he worked in the Urengoygazprom industrial association of OAO Gazprom where he served in the capacity of an oil, gas and condensate production foreman. Between 2002 and 2017, Mr. Vasyunin was employed in the positions of Gas Condensate Production Shop Manager, Deputy General Director for operations, and First Deputy General Director – Chief Engineer of OOO NOVATEK-YURKHAROVNEFTEGAS. In April 2017, he was appointed Deputy Chairman of the Management Board – Director for Operations of NOVATEK.

In 2005, the Russian Ministry of Industry and Energy issued a commendation to Sergey Vasyunin. He holds the Honored Employee of NOVATEK title.

#### **EDUARD S. GUDKOV**

Born in: 1980

##### **Deputy Chairman of NOVATEK’s Management Board**

In 2002, Mr. Gudkov graduated from the Penza State University where he specialized in law. In 2006, he received PhD in Law.

Between 1999 and 2003, Mr. Gudkov worked in the Russian Ministry for Antitrust Policy and Support of Entrepreneurship. In 2003, he joined the Russian Supreme Arbitrazh Court where he held the position of Assistant to the First Deputy Chairman. From 2012, Mr. Gudkov worked at the Executive Office of the Russian Federation Government. In 2013, he was appointed Assistant to Deputy Prime Minister of the Russian Federation – Head of the Executive Office of the Russian Federation Government.

Since September 2018, Mr. Gudkov has been Deputy Chairman of NOVATEK’s Management Board. In 2018, Mr. Gudkov was awarded the Medal of the II Degree Order for Merits and Dedicated Service to the Country.

#### **EVGENY A. KOT**

Born in: 1974

##### **Deputy Chairman of NOVATEK’s Management Board – Director for LNG**

Mr. Kot graduated from the Tyumen State Academy of Architecture and Civil Engineering where he specialized in Economics and Company Management. He received PhD in Economics from the Saint Petersburg State University of Engineering and Economics.

Between 1997 and 2001, Mr. Kot worked in the Tyumen branch of Gazprombank. From 2001 to 2002, he was employed by OAO SNP NOVA and OAO Oil and Gas Company ITERA.

In 2002, Mr. Kot joined NOVATEK. Between 2009 and 2011, he held the position of Deputy Chairman of the Management Board – Director of LNG Business Development of NOVATEK. Between 2010 and 2014, he was Chairman of the Board of Directors of Yamal LNG. From 2014 to 2018, Mr. Kot was General Director of Yamal LNG.

In December 2018, he was appointed Deputy Chairman of the Management Board – Director for LNG of NOVATEK.

#### **MS. TATYANA S. KUZNETSOVA**

Born in 1960

##### **Deputy Chairman of NOVATEK’s Management Board Director of NOVATEK’s Legal Department**

Ms. Kuznetsova graduated from the Far East State University with a degree in Law. From 1986, she was Senior Legal Advisor for a legal bureau. In 1993, Ms. Kuznetsova became Deputy General Director for Legal Issues and from 1996, Marketing Director for OAO Purneftegasgeologiya. In 1998, she was appointed Deputy General Director of OAO Nordpipes. Since 2002, she has been Director of the Legal Department at NOVATEK. Since 2005, she has been the Deputy Chairman of NOVATEK’s Management Board – Director of NOVATEK’s Legal Department and in August 2007, she became a member of NOVATEK’s Management Board. Ms. Kuznetsova has the title “Honored employee of PAO NOVATEK”, and is awarded the 2 Degree Order of Merit for the Fatherland.

#### **DENIS B. SOLOVYOV**

Born in: 1977

##### **Deputy Chairman of NOVATEK’s Management Board – Director of Corporate Communications Department**

In 2000, Mr. Solovyev graduated from the Lomonosov Moscow State University (Philosophy faculty) with a degree in Political Science. In 2003, he completed postgraduate studies at the Lomonosov Moscow State University with a degree in History. In 2000, he was appointed Deputy General Director of Senat PR LLC. In 2004, Denis Solovyov assumed the role of an adviser to the Krasnoyarsk Territory Deputy Governor and Assistant First Deputy Governor at the Krasnoyarsk Territory Board of Administration. Between 2006 and 2008, he headed an election projects group of the United Russia Central Electoral Commission Directorate.

Mr. Solovyev has been working for NOVATEK since 2008: in the capacity of Public Relations Director (until 2014), and Communications Director – Director of Public Relations Department (from January 2014.).

Since September 2018, Mr. Solovyev was appointed Deputy Chairman of NOVATEK’s Management Board and Director of Corporate Communications Department.

Mr. Solovyev has received several letters of recognition, honorable mentions from the Russian Ministry of Natural Resources and the Environment as well as from the Parliament of the Khanty-Mansy Autonomous Region. In 2018, he received an award from the Russian Ministry of Energy and an honorable mention from the Governor of the Yamal Nenets Autonomous Region.

#### **SERGEY GENNADYEVICH SOLOVYOV**

Born in: 1977

##### **Deputy Chairman of the Management Board – Director for Geology**

Graduated from the Gubkin Russian State University of Oil and Gas in 2001 with a degree in Oil and Gas Fields Development and Operation, in 2003 – with a degree in Economics and Management in Oil and Gas Industry. From 2002 to 2004, worked in Nortgas as well diagnostics operator and well diagnostics foreman. From 2004 to 2005, worked in Yurkharovneftegas as engineer and lead



engineer in the Field Development Group. In 2005, he was employed by NOVATEK where he worked as chief specialist and head of Field Development Analysis Group. In 2007, he was transferred to NOVATEK-YURKHAROVNEFTEGAS to the position of Deputy General Director – Chief Geologist. Since 2009, he held the position of managing director of OOO NEU, in 2010 he became the general director of ZAO Investgeoservis. In 2011, he was elected General Director of NOVATEK-YURKHAROVNEFTEGAS. In 2014, he was elected General Director of Arctic LNG 2. In 2017, he became the General Director of Cryogas-Vysotsk.

In April 2019, Sergey Solovyov was appointed NOVATEK's Deputy Chairman of the Management Board – Director for Geology.

#### **MR. ILYA V. TAFINTSEV**

Born in 1985

##### **Deputy Chairman of the NOVATEK's Management Board**

In 2006, Mr. Tafintsev obtained a BA in Economics from the Higher School of Economics in Moscow. In 2007, he graduated from the University of London (UK), where he majored in investment and finance.

From 2007 to 2011, Mr. Tafintsev held the position of Deputy Director of NOVATEK's Representative Office in London. Between 2011 and 2014, he was a Finance and Investment Advisor with United Bureau of Consultants Limited.

From 2013 to 2015, he served as Strategic Projects Director of NOVATEK. From 2013 to 2018, Mr. Tafintsev was Member of the Board of Directors of SIBUR Holding. Between 2014 and 2016, he held the position of Chairman of the Board of Directors of Yamal LNG. In December 2015, Mr. Tafintsev was appointed Member of the Management Board – Director for Strategic Projects of NOVATEK.

Since September 2018, he has been Deputy Chairman of NOVATEK's Management Board.

#### **MR. LEV V. FEODOSYEV**

Born in 1979

##### **First Deputy Chairman of NOVATEK's Management Board**

In 2002, Mr. Feodosyev graduated from the Bauman Moscow State Technical University with a degree in Machinery and Foundry Engineering Technologies. In 2002, Mr. Feodosyev was appointed lead specialist at the Ministry of Energy of the Russian Federation. From 2003, he has served as lead specialist, senior specialist, adviser, deputy head of section, Deputy Director of Department at the Ministry of Economic Development and Trade of the Russian Federation. Since October 2007, Lev Feodosyev has worked for NOVATEK. Before 2011, he worked in NOVATEK as Director of the Strategic Planning and Development Department. From 2011, he was appointed as Deputy Commercial Director, Director of the Marketing and Gas Sales Department of NOVATEK. Since February 2015, Mr. Feodosyev has been appointed Deputy Chairman of the Management Board, Commercial Director of NOVATEK.

From February 2018, he was appointed First Deputy Chairman of NOVATEK's Management Board. In 2014, Mr. Feodosyev was awarded NOVATEK's Honorary Certificate.

#### **MR. ALEXANDER M. FRIDMAN**

Born in 1951

##### **First Deputy Chairman of NOVATEK's Management Board**

In 1973, Mr. Fridman graduated from the Gubkin Institute of Oil and Gas in Moscow, with a degree in Oil and Gas Fields Development and Exploitation. Since 1973, he was employed by various Gazprom companies: as Chief Engineer of Nadymgazprom, Head of the Production and Technical Department of the Industrial Association, and Chief Engineer of Mostransgaz's Kaluga Department for Gas Transportation and Underground Storage. From 1992 to 2003, he was Technical Director and First Deputy General Director of a joint venture established by PAO Gazprom and DKG-EAST (Hungary). Since 2003, Mr. Fridman was the Deputy General Director of Novafininvest. In 2004, Alexander Fridman was elected Deputy Chairman of the Management Board of NOVATEK. In August 2007, he was elected a member of NOVATEK's Management Board. From February 2015, he has been First Deputy Chairman of the Management Board of NOVATEK. Mr. Fridman is the recipient of the title of honor "Honored Man of the Oil and Gas Industry".

## **Report on major, and interested-party transactions that the Company did in the reporting year**

In 2019, NOVATEK (hereinafter – the "Company") performed no transactions recognized under the Federal Law On Joint-Stock Companies as major transactions.

In 2019, the Company made the following related-party transactions with Gazprombank (Joint Stock Company):

1. Foreign currency sale and purchase agreements on the following terms:
  - amount of foreign currency purchased/sold in each transaction: not to exceed RUB 20 billion or equivalent in foreign currency at the Russian Central Bank exchange rate set on the date of the respective transaction;
  - currency purchased/sold: rubles and foreign currency;
  - conversion rate: as agreed between the Parties;
2. Bank deposit agreements on the following terms:
  - deposit currency: rubles and foreign currency;
  - deposit maturity: 1 to 1,095 days inclusively;
  - amount of each deposit: not to exceed RUB 20 billion or equivalent in foreign currency at the Russian Central Bank exchange rate set on the date of the respective transaction;
  - interest rate: for RUB deposits – at least 0.1% per annum, for deposits in foreign currency – at least 0.01% per annum;
3. Agreements to maintain minimum permanent balance in the Client's bank accounts in GPB (AO) Bank on the following terms:

- currency: rubles and foreign currency;
- minimum permanent balance maturity: 1 to 1,095 days inclusively;
- amount of each minimum permanent balance: not to exceed RUB 20 billion or equivalent in foreign currency at the Russian Central Bank exchange rate set on the date of the respective transaction;
- interest rate: for RUB minimum permanent balances – at least 0.1% per annum, for minimum permanent balances in foreign currency – at least 0.01% per annum.

No decisions on consent for closing or subsequent approval of the said transactions have been made by the NOVATEK management bodies.

The related party to the said transactions: Mr. Andrei I. Akimov The grounds on which the party is deemed related to the transactions: Member of NOVATEK's Board of Directors Andrei Akimov is also Chairman of the Management Board and member of the Board of Directors of Gazprombank (joint-stock company), a party to the aforementioned transactions.

In 2019, Andrei Akimov held no shares in NOVATEK and Bank GPB.

## Corporate Governance Code Compliance Report

This Corporate Governance Code Compliance Report (hereinafter "the Report") was reviewed at the meeting of PAO NOVATEK's Board of Directors on 19 March 2020 (Minutes No. 229).

The Board of Directors certifies that data in this Report contain full and reliable information on compliance by the Company with the principles and recommendations of the Corporate Governance Code for 2019.

When assessing our compliance with corporate governance principles as set out in the Code we were guided by the Guidelines for Reporting on Compliance with the Corporate Governance Code recommended by the Bank of Russia in its Letter No. IN-06-52/8 dated 17 February 2016.

An overview of the most relevant aspects of the corporate governance model and practices in the Company is presented in the Corporate Governance section of this Annual Report.

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>1.1</b>	<b>The Company should ensure equitable and fair treatment of every shareholder exercising their right to take part in managing the Company.</b>			
1.1.1	The Company ensures the most favorable conditions for its shareholders to participate in the general meeting, develop an informed position on agenda items of the general meeting, coordinate their actions, and voice their opinions on items considered.	<p>1. The Company's internal document approved by the general meeting of shareholders and governing the procedures for holding the general meeting is publicly available.</p> <p>2. The Company provides accessible means of communication via hotline, e-mail or an online forum for shareholders to voice their opinions and submit questions on the agenda in preparing for the general meeting. The Company performed the above actions in advance of each general meeting held in the reporting period.</p>	This principle is complied with.	-
1.1.2	The procedure for giving notice of, and providing relevant materials for, the general meeting enables shareholders to properly prepare for attending the general meeting.	<p>1. The notice of an upcoming general meeting of shareholders is posted (published) online at least 30 days prior to the date of the general meeting.</p> <p>2. The notice of an upcoming meeting specifies the meeting venue and documents required for admission.</p> <p>3. Shareholders were given access to the information on who proposed the agenda items and who proposed nominees to the company's board of directors and the revision commission.</p>	This principle is complied with.	-



Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1.3	In preparing for, and holding of, the general meeting, shareholders were able to receive clear and timely information on the meeting and related materials, put questions to the company's executive bodies and the board of directors, and to communicate with each other.	1. In the reporting period, shareholders were able to put questions to members of executive bodies and members of the board of directors before and during the annual general meeting.	This principle is complied with.	-
		2. The position of the board of directors (including dissenting opinions entered into the minutes) on each agenda item of general meetings held in the reporting period was included in the materials to the general meeting of shareholders.	This principle is not fully complied with.	When convening General Meetings of Shareholders, the Board of Directors reviews all agenda items of the relevant meeting and presents them to the Meeting for consideration or provides necessary advice.  Materials to the General Meeting of Shareholders include recommendations of the board of directors as required by law.  In accordance with paragraph 1 of Art. 54 of the Russian Federal Law "On Joint Stock Companies", the list of information (materials) provided to shareholders in preparation for the General Meeting of Shareholders is determined by the Board of Directors. Accordingly, the Board of Directors, if it deems it necessary, may include its position on the issues on the agenda of the general meeting of shareholders, if it deems it necessary.  The Company considers the established procedure to be balanced, not bearing any risks for the Company and its shareholders, and does not plan to change the existing approach.
		3. The Company gave duly authorized shareholders access to the list of persons entitled to attend the General Meeting, as from the date of its receipt by the Company, for all general meetings held in the reporting period.	This principle is complied with.	-
1.1.4	There were no unjustified difficulties preventing shareholders from exercising their right to request that a General Meeting be convened, to propose nominees to the Company's governing bodies, and to make proposals for the agenda of the General Meeting.	1. In the reporting period, shareholders were able to submit, within at least 60 days after the end of the relevant calendar year, proposals for the agenda of the Annual General Meeting.  2. In the reporting period, the Company did not reject any proposals for the agenda or nominees to the company's governing bodies due to misprints or other insignificant flaws in the shareholder's proposal.	This principle is complied with.	-

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1.5	Each shareholder was able to freely exercise their voting right in the simplest and most convenient way.	1. An internal document (internal policy) of the Company provides that each participant of the General Meeting may request a copy of the ballot filled out by them and certified by the counting commission before the end of the relevant meeting.	This principle is complied with.	-
1.1.6	The procedure for holding a General Meeting set by the Company provides equal opportunities for all persons attending the Meeting to voice their opinions and ask questions.	1. General Meetings of Shareholders held in the reporting period in the form of a meeting (i. e. joint presence of shareholders) provided for sufficient time for making reports on and for discussing agenda items.	This principle is complied with.	-
		2. Nominees to the Company's governing and control bodies were available to answer questions of shareholders at the Meeting at which their nominations were put to vote.	This principle is complied with.	-
		3. When passing resolutions on preparing and holding General Meetings of Shareholders, the board of directors considered using telecommunication means for remote access of shareholders to General Meetings in the reporting period.	This principle is complied with.	-
<b>1.2</b>	<b>Shareholders are given equal and fair opportunities to share profits of the Company in the form of dividends.</b>			
1.2.1	The Company has designed and put in place a transparent and clear mechanism to determine the dividend amount and payout procedure.	1. The Company has drafted and disclosed a dividend policy approved by the board of directors.  2. If the Company's dividend policy uses reporting figures to determine the dividend amount, then relevant provisions of the dividend policy take into account the consolidated financial statements.	This principle is complied with.	-
1.2.2	The Company does not resolve to pay out dividends if such payout, while formally compliant with law, is economically unjustified and may lead to a false representation of the Company's performance.	1. The Company's dividend policy clearly identifies financial / economic circumstances under which the Company shall not pay out dividends.	This principle is complied with.	-
1.2.3	The Company does not allow for dividend rights of its existing shareholders to be impaired.	1. In the reporting period, the Company did not take any actions that would lead to the impairment of the dividend rights of its existing shareholders.	This principle is complied with.	-
1.2.4	The Company makes every effort to prevent its shareholders from using other means to profit (gain) from the Company other than dividends and liquidation value.	1. To prevent shareholders from using other means to profit (gain) from the Company other than dividends and liquidation value, the Company's internal documents provide for controls to timely identify and approve deals with affiliates (associates) of the Company's substantial shareholders (persons entitled to use votes attached to voting shares) where the law does not formally recognize such deals as related-party transactions.	This principle is not complied with.	This principle is not complied with as the Company believes that statutory controls are sufficient for relevant purposes. The Company does not transact with persons under control by substantial shareholders, which prevents substantial shareholders from profiting (gaining) from the Company.  The Company does not see any risks in the established practice, as the system of procurement procedures introduced in the Company ensures the conclusion of contracts on market terms.

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>1.3</b>	<b>Corporate governance framework and practices should ensure equality for the shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equitable treatment by the Company.</b>			
1.3.1	The Company has created conditions for fair treatment of each shareholder by the Company's governing and control bodies, including conditions that rule out abuse by major shareholders against minority shareholders.	1. In the reporting period, procedures for management of potential conflicts of interest among substantial shareholders were efficient, while the board of directors paid due attention to conflicts, if any, between shareholders.	This principle is complied with.	-
1.3.2	The Company does not take any actions that lead or may lead to artificial redistribution of corporate control.	1. No quasi-treasury shares were issued or used to vote in the reporting period.	This principle is complied with.	-
<b>1.4</b>	<b>Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.</b>			
1.4.1	Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.	1. The Company's registrar maintains the share register in an efficient and reliable way that meets the needs of the Company and its shareholders.	This principle is complied with.	-
<b>2.1</b>	<b>The board of directors provides strategic management of the Company, determines key principles of, and approaches to, setting up a corporate risk management and internal control framework, monitors performance by the Company's executive bodies, and performs other key functions.</b>			
2.1.1	The board of directors is responsible for appointing and dismissing executive bodies, including for improper performance of their duties. The board of directors also ensures that the Company's executive bodies act in accordance with the Company's approved development strategy and core lines of business.	1. The board of directors has the authority stipulated in the Articles of Association to appoint and remove members of executive bodies and to set out the terms and conditions of their contracts.	This principle is not fully complied with.	<p>The issue of determining the amount of remuneration paid to the Chairman of the Management Board based on the results of the work for the year, falls within the authority of the Board of Directors.</p> <p>In accordance with the Company's Articles of Association, the members of the Management Board are elected by the Board of Directors from among the Company's employees, solely on the recommendation of the Chairman of the Management Board. The amounts of official salaries and other terms of employment contracts with the Company's employees, including members of the Management Board, are determined by the Chairman of the Management Board taking into account the parameters of the Company's business plan approved by the Board of Directors in accordance with the NOVATEK Group Executive Bodies and other Key Employees Remuneration and Expense Reimbursement Policy approved by the Board of Directors.</p> <p>The Company considers the established procedure to be effective, balanced, not bearing any risks for the Company and its shareholders, and does not plan to change the existing approach.</p>

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
		2. The board of directors reviewed the report (s) by the sole executive body or members of the collective executive body on the implementation of the company's strategy.	This principle is complied with.	-
2.1.2	The board of directors sets key long-term targets for the company, assesses and approves its key performance indicators and key business goals, as well as the strategy and business plans for the company's core lines of business.	At its meetings in the reporting period, the board of directors reviewed strategy implementation and updates, approval of the company's financial and business plan (budget), and criteria and performance (including interim) of the company's strategy and business plans.	This principle is complied with.	-
2.1.3	The Board of Directors defines the Company's risk management and internal control principles and approaches.	1. The Board of Directors defined the Company's risk management and internal control principles and approaches.  2. The Board of Directors assessed the company's risk management and internal control system in the reporting period.	This principle is complied with.	-
2.1.4	The board of directors determines the company's remuneration and reimbursement (compensation) policy for its directors, members of executive bodies and other key executives.	1. The company developed and put in place a remuneration and reimbursement (compensation) policy (policies), approved by the board of directors, for its directors, members of executive bodies and other key executives.  2. At its meetings in the reporting period, the Board of Directors discussed matters related to such policy (policies).	This principle is complied with.	
2.1.5	The board of directors plays a key role in preventing, identifying and resolving internal conflicts between the company's bodies, shareholders and employees.	1. The board of directors plays a key role in preventing, identifying and resolving internal conflicts.  2. The company set up mechanisms to identify transactions leading to a conflict of interest and to resolve such conflicts.	This principle is complied with.	-
2.1.6	The board of directors plays a key role in ensuring that the company is transparent, timely and fully discloses its information, and provides its shareholders with unhindered access to the company's documents.	1. The board of directors approved the company's information policy regulations.  2. The company identified persons responsible for implementing the information policy.	This principle is complied with.	-
2.1.7	The board of directors controls the company's corporate governance practices and plays a key role in material corporate events of the company.	1. In the reporting period, the board of directors reviewed the company's corporate governance practices.	This principle is complied with.	-

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>2.2 The board of directors is accountable to the company's shareholders.</b>				
2.2.1	Performance of the board of directors is disclosed and made available to the shareholders.	<p>1. The company's annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings.</p> <p>2. The annual report discloses key performance assessment results of the board of directors in the reporting period.</p>	This principle is complied with.	-
2.2.2	The chairman of the board of directors is available to communicate with the company's shareholders.	1. The company has in place a transparent procedure enabling shareholders to forward questions and express their position on such questions to the chairman of the board of directors.	This principle is complied with.	-
<b>2.3 The board of directors manages the company in an efficient and competent manner and make fair and independent judgments and decisions in line with the best interests of the company and its shareholders.</b>				
2.3.1	Only persons of impeccable business and personal reputation who have knowledge, expertise and experience required to make decisions within the authority of the board of directors and essential to perform its functions in an efficient way are elected to the board of directors.	<p>1. The procedure for assessing the board of directors' performance established in the company includes, inter alia, assessment of professional qualifications of the board members.</p> <p>2. In the reporting period, the board of directors (or its nomination committee) assessed nominees to the board of directors for required experience, knowledge, business reputation, absence of conflicts of interest, etc.</p>	This principle is complied with.	-
2.3.2	The company's directors are elected via a transparent procedure that enables shareholders to obtain information on nominees sufficient to judge on their personal and professional qualities.	1. Whenever the agenda of the general meeting of shareholders included election of the board of directors, the company provided to shareholders the biographical details of all nominees to the board of directors, the results of their assessment carried out by the board of directors (or its nomination committee), and the information on whether the nominee meets the independence criteria set forth in Recommendations 102-107 of the Code, as well as the nominees' written consent to be elected to the board of directors.	This principle is complied with.	-
2.3.3	The board of directors has a balanced membership, including in terms of directors' qualifications, experience, expertise and business qualities, and enjoys its shareholders' trust.	1. As part of assessment of the board of directors' performance run in the reporting period, the board of directors reviewed its requirements to professional qualifications, experience and business skills.	This principle is complied with.	-

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.3.4	The company has a sufficient number of directors to organize the board of directors' activities in the most efficient way, including ability to set up committees of the board of directors and enable the company's substantial minority shareholders to elect a nominee to the board of directors for whom they vote.	1. As part of assessment of the board of directors' performance run in the reporting period, the board of directors considered whether the number of directors met the company's needs and shareholders' interests.	This principle is complied with.	-
<b>2.4 The board of directors includes a sufficient number of independent directors.</b>				
2.4.1	An independent director is a person who is sufficiently professional, experienced and independent to develop their own position, and capable of making unbiased judgements in good faith, free of influence by the company's executive bodies, individual groups of shareholders or other stakeholders. It should be noted that a nominee (elected director) who is related to the company, its substantial shareholder, substantial counterparty or competitor of the company, or related to the government, may not be considered as independent under normal circumstances.	1. In the reporting period, all independent directors met all independence criteria set out in Recommendations 102-107 of the Code or were deemed independent by the board of directors.	This principle is complied with.	-
2.4.2	The company assesses compliance of nominees to the board of directors and reviews compliance of independent directors with independence criteria on a regular basis. In such assessment, substance should prevail over form.	<p>1. In the reporting period, the board of directors (or its nomination committee) made a judgement on independence of each nominee to the board of directors and provided its opinion to shareholders.</p> <p>2. In the reporting period, the board of directors (or its nomination committee) reviewed, at least once, the independence of incumbent directors listed by the company as independent directors in its annual report.</p> <p>3. The company has in place procedures defining the actions to be taken by a member of the board of directors if they cease to be independent, including the obligation to timely notify the board of directors thereof.</p>	This principle is complied with.	-
2.4.3	Independent directors make up at least one third of the elected board members.	1. Independent directors make up at least one third of the board members.	This principle is complied with.	-



Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.4.4	Independent directors play a key role in preventing internal conflicts in the company and in ensuring that the company performs material corporate actions.	1. Independent directors (with no conflicts of interest) run a preliminary assessment of material corporate actions implying a potential conflict of interests and submit the results to the board of directors.	This principle is not fully complied with.	<p>In accordance with the Company's Articles of Association, the Regulations on the Board of Directors and the Regulations on the Committees of the Board of Directors, a large block of issues related to significant corporate actions is preliminarily considered by the Audit Committee and the Remuneration Committee consisting of independent directors. In addition, most of such decisions shall be approved by the Board of Directors, if 8 out of 9 directors voted for the corresponding decision. Thus, any two independent directors may block the adoption of an undesirable decision in their opinion.</p> <p>The Company believes that independent directors have sufficient capacity to assess significant corporate actions.</p>
<b>2.5 The chairperson of the board ensures that the board of directors discharges its duties in the most effective and efficient way.</b>				
2.5.1	The board of directors is chaired by an independent director, or a senior independent director supervising the activities of other independent directors and interacting with the chairman of the board of directors is chosen from among the elected independent directors.	<p>1. The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors.</p> <p>2. The role, rights and duties of the chairman of the board of directors (and, if applicable, of the senior independent director) are duly set out in the company's internal documents.</p>	This principle is not fully complied with.	<p>The role of independent directors on the Company's Board of Directors is very important, since the Audit Committee and the Remuneration and Nomination Committee of the Board of Directors are comprised of independent directors only. Formally, the Chairman of the Board of Directors is not an Independent Director. However, the Chairman of the Board of Directors meets all independence criteria, except for his tenure on the Board of Directors. For chairmanship purposes, the directors elected the most experienced of the Board members who is not an independent director.</p> <p>The Company considers the established procedure to be balanced and does not plan to change the existing approach.</p>
2.5.2	The chairman of the board of directors maintains a constructive environment at meetings, enables free discussion of agenda items, and supervises the execution of resolutions passed by the board of directors.	1. Performance of the chairman of the board of directors was assessed as part of assessment of the board of directors' performance in the reporting period.	This principle is complied with.	-

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.5.3	The chairman of the board of directors takes all steps necessary for the timely provision to members of the board of directors of information required to pass resolutions on agenda items.	1. The company's internal documents set out the duty of the chairman of the board of directors to take all steps necessary for the timely provision to members of the board of directors with materials on agenda items of the board meeting.	This principle is complied with.	-
<b>2.6</b>	<b>Directors act reasonably and in good faith in the best interests of the company and its shareholders, on a fully informed basis and with due care and diligence.</b>			
2.6.1	Directors pass resolutions on a fully informed basis, with no conflict of interest, subject to equal treatment of the company's shareholders, and assuming normal business risks.	<p>1. The company's internal documents provide that a director should notify the board of directors of any existing conflict of interest as to any agenda item of the meeting of the board of directors or its committee, prior to discussion of the relevant agenda item.</p> <p>2. The company's internal documents provide that a director should abstain from voting on any item in connection with which they have a conflict of interest.</p> <p>3. The company has in place a procedure enabling the board of directors to get professional advice on matters within its remit at the expense of the company.</p>	This principle is complied with.	-
2.6.2	The rights and duties of directors are clearly stated and incorporated in the company's internal documents.	1. The company adopted and published an internal document that clearly defines the rights and duties of directors.	This principle is complied with.	-
2.6.3	Directors have sufficient time to perform their duties.	<p>1. Individual attendance at board and committee meetings, as well as time devoted to preparation for attending meetings, was recorded as part of the procedure for assessing the board of directors in the reporting period.</p> <p>2. Under the company's internal documents, directors notify the board of directors of their intentions to be elected to governing bodies in other entities (apart from the entities controlled by, or affiliated to, the company), and of their election to such bodies.</p>	This principle is complied with.	-
2.6.4	All directors shall have equal access to the company's documents and information. Newly elected directors are furnished with sufficient information about the company and performance of the board of directors as soon as possible.	<p>1. Under the company's internal documents, directors are entitled to access documents and make requests on the company and its controlled entities, while executive bodies of the company should furnish all relevant information and documents.</p> <p>2. The Company has in place a formalized onboarding program for newly elected Directors.</p>	This principle is complied with.	-

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>2.7</b>	<b>Meetings of the board of directors, preparation for such meetings and participation of board members therein ensure efficient performance by the board of directors.</b>			
2.7.1	Board meetings are held as needed, taking into account the scale of operations and goals of the company at a particular time.	1. The board of directors held at least six meetings in the reporting year.	This principle is complied with.	-
2.7.2	The company's internal regulations stipulate the procedure to prepare for and hold the board's meetings, enabling the directors to make proper preparations for them:	1. The company has an approved internal document that describes the procedure for arranging and holding meetings of the board of directors and sets out, in particular, that the notice of the meeting shall be given, as a rule, at least five days prior to such meeting.	This principle is complied with.	-
2.7.3	The format of the meeting of the board of directors is determined taking into account the importance of items on the agenda. The most important matters are dealt with at meetings of the board of directors held in person.	1. The company's charter or internal document provides for the most important matters (as per the list set out in Recommendation 168 of the Code) to be passed at in-person meetings of the board of directors.	This principle is complied with.	-
2.7.4	Resolutions on most important matters relating to the company's operations are passed at a meeting of the board of directors by a qualified majority or by a majority of all elected board members.	1. The company's charter provides for the most important matters set out in Recommendation 170 of the Code to be passed at a meeting of the board of directors by a qualified majority of at least three quarters or by a majority of all elected board members.	This principle is not fully complied with.	<p>The Company's Articles of Association do not provide for resolutions of the Board to be passed by qualified majority on the following matters:</p> <ul style="list-style-type: none"> <li>- submission to the General Meeting of matters relating to the Company's liquidation</li> <li>- submission to the General Meeting of matters relating to amendments to the Company's Articles of association</li> <li>- review of material issues relating to operations of legal entities controlled by the Company.</li> </ul> <p>The Company deems sufficient the existing norm stipulated in the legislation and the Articles of Association according to which decisions on amendments and additions in the Company's Articles of Association, including approval of the latter in a new wording, as well as on Company's liquidation, appointment of a winding up commission and approval of the interim and final liquidation balance shall be made by the general shareholders meeting by the three-fourths majority of the votes of shareholders holding the voting shares and taking part in the general shareholders meeting.</p> <p>The Company considers the established procedure to be balanced, not bearing any risks, and does not plan to change the existing approach.</p>

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>2.8</b>	<b>The board of directors sets up committees for preliminary consideration of the most important issues related to the business of the company.</b>			
2.8.1	To preview matters related to controlling the company's financial and business activities, it is recommended to set up an audit committee comprised of independent directors.	<p>1. The board of directors has set up an audit committee comprised solely of independent directors.</p> <p>2. The company's internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code.</p> <p>3. At least one member of the audit committee represented by an independent director has experience and knowledge of preparing, analyzing, assessing and auditing accounting (financial) statements.</p> <p>4. Meetings of the audit committee were held at least once a quarter during the reporting period.</p>	This principle is complied with.	-
2.8.2	To preview matters related to adopting an efficient and transparent remuneration scheme, a remuneration committee is set up, comprised of independent directors and headed by an independent director who is not the chairman of the board of directors.	<p>1. The board of directors has set up a remuneration committee comprised solely of independent directors.</p> <p>2. The remuneration committee is headed by an independent director who is not the chairman of the board of directors.</p> <p>3. The company's internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.</p>	This principle is complied with.	-
2.8.3	To preview matters related to talent management (succession planning), professional composition and efficiency of the board of directors, a nomination (HR) committee is set up, predominantly comprised of independent directors.	<p>1. The board of directors has set up a nomination committee (its tasks listed in Recommendation 186 of the Code are fulfilled by another committee, the Remuneration and Nomination Committee) predominantly comprised of independent directors.</p> <p>2. The company's internal documents set out the tasks of the nomination committee (or the tasks of the committee with combined functions), including those listed in Recommendation 186 of the Code.</p>	This principle is complied with.	-
2.8.4	Taking into account the company's scope of business and level of risks, the company's board of directors made sure that the composition of its committees is fully in line with company's business goals. Additional committees were either set up or not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.).	1. In the reporting period, the board of directors considered whether the composition of its committees was in line with the board's tasks and the company's business goals. Additional committees were either set up or not deemed necessary.	This principle is complied with.	-

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.8.5	Committees are composed so as to enable comprehensive discussions of matters under preview, taking into account the diversity of opinions.	<p>1. Committees of the board of directors are headed by independent directors.</p> <p>2. The company's internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee and the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee.</p>	This principle is not fully complied with.	<p>The Board of Directors' Audit Committee and Remuneration and Nomination Committee are not only headed by but also fully consist of independent directors.</p> <p>Formally, the director heading an additional committee, the Strategy Committee, is not an independent director. However, he meets all independence criteria, except for his tenure on the Board of Directors.</p> <p>The Company does not see any risks in this.</p>
2.8.6	Committee chairmen inform the board of directors and its chairman on the work of their committees on a regular basis.	1. During the reporting period, committee chairmen reported to the board of directors on the work of committees on a regular basis.	This principle is complied with.	-
<b>2.9 The board of directors ensures performance assessment of the board of directors, its committees and members of the board of directors.</b>				
2.9.1	The board of directors' performance assessment is aimed at determining the efficiency of the board of directors, its committees and members, consistency of their work with the company's development requirements, as well as bolstering the work of the board of directors and identifying areas for improvement.	<p>1. Self-assessment or external assessment of the board of directors' performance carried out in the reporting period included performance assessment of the committees, individual members of the board of directors and the board of directors in general.</p> <p>2. Results of self-assessment or external assessment of the board of directors' performance carried out in the reporting period were reviewed at the in-person meeting of the board.</p>	This principle is complied with.	-
2.9.2	Performance of the board of directors, its committees and directors is assessed on a regular basis at least once a year. An external organization (advisor) is engaged at least once in three years to conduct an independent assessment of the board of directors' performance.	1. The company engaged an external advisor to conduct an independent assessment of the board of directors' performance at least once over the last three reporting periods.	This principle is complied with.	-
<b>3.1 The company's corporate secretary ensures efficient ongoing interaction with shareholders, coordinates the company's efforts to protect shareholder rights and interests and supports the activities of the board of directors.</b>				
3.1.1	The corporate secretary has the knowledge, experience and qualifications sufficient to perform his/her duties, as well as an impeccable reputation and the trust of shareholders.	<p>1. The company has adopted and published an internal document – regulations on the corporate secretary.</p> <p>2. The biographical data of the corporate secretary are published on the corporate website and in the company's annual report with the same level of detail as for members of the board of directors and the company's executives.</p>	This principle is complied with.	-
3.1.2	The corporate secretary is sufficiently independent of the company's executive bodies and has the powers and resources required to perform his/her tasks.	The board of directors approves the appointment, removal and additional remuneration of the corporate secretary.	This principle is complied with.	-

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>4.1</b>	<b>Remuneration paid by the company is sufficient to attract, motivate and retain persons who have competencies and qualifications required by the company. Directors, executive body members and other key managers are remunerated as per the company's remuneration policy.</b>			
4.1.1	The amount of remuneration paid by the company to members of the board of directors, executive bodies and other key executives creates sufficient incentives for them to work efficiently, while enabling the company to engage and retain competent and qualified specialists. At the same time, the company avoids unnecessarily high remuneration, as well as unjustifiably large gaps between remunerations of the above persons and the company's employees.	1. The company has in place an internal document (internal documents) – the policy (policies) on remuneration of members of the board of directors, executive bodies and other key executives, which clearly defines (define) the approaches to remuneration of the above persons.	This principle is complied with.	-
4.1.2	The company's remuneration policy is developed by the remuneration committee and approved by the board of directors. The board of directors, assisted by the remuneration committee, ensures control over the introduction and implementation of the company's remuneration policy, revising and amending it as required.	1. During the reporting period, the remuneration committee considered the remuneration policy (policies) and the practical aspects of its (their) introduction and presented relevant recommendation to the board of directors as required.	This principle is complied with.	-
4.1.3	The company's remuneration policy includes transparent mechanisms for determining the amount of remuneration due to members of the board of directors, executive bodies and other key executives of the company, and regulates all types of expenses, benefits and privileges provided to such persons.	1. The company's remuneration policy (policies) includes (include) transparent mechanisms for determining the amount of remuneration due to members of the board of directors, executive bodies and other key executives of the company, and regulates (regulate) all types of expenses, benefits and privileges provided to such persons.	This principle is complied with.	-
4.1.4	The company defines a policy on reimbursement (compensation) of costs detailing a list of reimbursable expenses and specifying service levels that members of the board of directors, executive bodies and other key executives of the company can claim. Such policy can make part of the company's remuneration policy.	1. The remuneration policy (policies) defines (define) the rules for reimbursement of costs incurred by members of the board of directors, executive bodies and other key executives of the company.	This principle is complied with.	-
<b>4.2</b>	<b>Directors' remuneration ensures that their financial interests are aligned with long-term financial interests of shareholders.</b>			
4.2.1	The company pays fixed annual remuneration to members of the board of directors.  The company does not pay remuneration for attending particular meetings of the board of directors or its committees.  The company does not apply any form of short-term motivation or additional financial incentive for members of the board of directors.	1. Fixed annual remuneration was the only form of monetary remuneration payable to members of the board of directors for their service on the board of directors during the reporting period.	This principle is complied with.	-



Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.2.2	Long-term ownership of the company's shares helps align the financial interests of members of the board of directors with long-term interests of shareholders to the utmost. At the same time, the company does not link the right to dispose of shares to performance targets, and members of the board of directors do not participate in stock option plans.	1. If the company's internal document (s) – the remuneration policy (policies) stipulates (stipulate) provision of the company's shares to members of the board of directors, clear rules for share ownership by board members are defined and disclosed, aimed at stimulating long-term ownership of such shares.	This principle is complied with.	Not applicable, since the Regulations on Remuneration and Compensations Payable to Members of PAO NOVATEK board of directors does not provide for remuneration of the directors with company shares.
4.2.3	The company does not provide for any extra payments or compensations in the event of early termination of office of members of the board of directors resulting from the change of control or any other reasons whatsoever.	1. The company does not provide for any extra payments or compensations in the event of early termination of office of members of the board of directors resulting from the change of control or any other reasons whatsoever.	This principle is complied with.	-
<b>4.3 Remuneration of executive body members and other key managers is linked to the company's results and their personal contribution thereto.</b>				
4.3.1	Remuneration due to members of executive bodies and other key executives of the company is determined in a manner providing for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's performance and the employee's personal contribution.	<p>1. In the reporting period, annual performance results approved by the board of directors were used to determine the amount of the variable part of remuneration due to members of executive bodies and other key executives of the company.</p> <p>2. During the latest assessment of the system of remuneration for members of executive bodies and other key executives of the company, the board of directors (remuneration committee) made sure that the company applies efficient ratio of the fixed and variable parts of remuneration.</p> <p>3. The company has in place a procedure that guarantees return to the company of bonus payments illegally received by members of executive bodies and other key executives of the company.</p>	This principle is not fully complied with.	The procedure for defining and payment of bonuses to members of the Management Board and other key executives existing in the Company does not allow illegal receipt of bonus payments by the persons named. The Company believes the executive bodies' members' civil liability norms set out in the applicable law to be sufficient.
4.3.2	The company put in place a long-term incentive programme for members of executive bodies and other key executives of the company with the use of the company's shares (options and other derivative instruments where the company's shares are the underlying asset).	<p>1. The company has in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company's shares (financial instruments based on the company's shares).</p> <p>2. The long-term incentive program for members of executive bodies and other key executives of the company implies that the right to dispose of shares and other financial instruments used in this program takes effect at least three years after such shares or other financial instruments are granted. The right to dispose of such shares or other financial instruments is linked to the company's performance targets.</p>	This principle is not complied with.	Currently, The Company does not consider necessary implementing a long-term incentive program for members of executive bodies and other key executives of the company with the use of the Company's shares (financial instruments based on the Company's shares).

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.3.3	The compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, does not exceed the double amount of the fixed part of their annual remuneration.	1. In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of the powers of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed part of their annual remuneration.	This principle is complied with.	-
<b>5.1 The company put in place an effective risk management and internal control system to guarantee, in a reasonable manner, fulfillment of the company's goals.</b>				
5.1.1	The board of directors of the Company has defined the Company's risk management and internal control principles and approaches.	1. Functions of different management bodies and divisions of the company in the risk management and internal controls are clearly defined in the company's internal documents / relevant policy approved by the board of directors.	This principle is complied with.	-
5.1.2	The company's executive bodies ensure establishment and continuous operation of efficient risk management and internal controls in the company.	1. The company's executive bodies ensured the distribution of functions and powers related to risk management and internal controls between the heads (managers) of divisions and departments accountable to them.	This principle is complied with.	-
5.1.3	The company's risk management and internal controls ensure an objective, fair and clear view of the current state and future prospects of the company, the integrity and transparency of the company's reporting, as well as reasonable and acceptable risk exposure.	1. The company has in place an approved anti-corruption policy.  2. The company established an accessible method of notifying the board of directors or the board's audit committee of breaches of any violations of the law, the company's internal procedures and code of ethics.	This principle is complied with.	-
5.1.4	The company's board of directors shall take necessary measures to make sure that the company's risk management and internal controls are consistent with the principles of, and approaches to, its setup determined by the board of directors, and that the system is functioning efficiently.	1. In the reporting period, the board of directors or the Board's audit committee assessed the efficiency of the company's risk management and internal controls. Key results of this assessment are included in the company's annual report.	This principle is complied with.	-
<b>5.2 The company arranges for an internal audit, to assess reliability and performance of the risk management and internal control system on a regular and independent basis.</b>				
5.2.1	The company set up a separate business unit or engaged an independent external organization to carry out internal audits.  Functional and administrative reporting lines of the internal audit department are delineated. The internal audit unit functionally reports to the board of directors.	1. To perform internal audits, the company set up a separate business unit – internal audit division, functionally reporting to the board of directors or to the audit committee, or engaged an independent external organization with the same line of reporting.	This principle is complied with.	-
5.2.2	The internal audit division assesses the performance of the internal controls, risk management, and corporate governance. The company applies generally accepted standards of internal audit.	1. In the reporting period, the performance of the internal controls and risk management was assessed as part of the internal audit procedure.  2. The company applies generally accepted approaches to internal audit and risk management.	This principle is complied with.	-

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
<b>6.1 The company and its operations are transparent for its shareholders, investors and other stakeholders.</b>				
6.1.1	The company has developed and implemented an information policy ensuring an efficient exchange of information by the company, its shareholders, investors, and other stakeholders.	<p>1. The company's board of directors approved an information policy developed in accordance with the Code's recommendations.</p> <p>2. The board of directors (or its committee) reviewed the company's compliance with its information policy at least once in the reporting period.</p>	This principle is complied with.	-
6.1.2	The company discloses information on its corporate governance and practice, including detailed information on compliance with the principles and recommendations of the Code.	<p>1. The company discloses information on its corporate governance and general principles of corporate governance, including disclosure on its website.</p> <p>2. The company discloses information on the membership of its executive bodies and board of directors, independence of the directors and their membership in the board's committees (as defined by the Code).</p> <p>3. If the company has a controlling person, the company publishes a memorandum of the controlling person setting out this person's plans for the company's corporate governance.</p>	This principle is complied with.	-
<b>6.2 The company discloses up-to-date, complete and reliable information on its operations in due time, to enable its shareholders and investors to make informed decisions.</b>				
6.2.1	The company discloses information based on the principles of regularity, consistency and promptness, as well as availability, reliability, completeness and comparability of disclosed data.	<p>1. The company's information policy sets out approaches to, and criteria for, identifying information that can have a material impact on the company's evaluation and the price of its securities, as well as procedures ensuring timely disclosure of such information.</p> <p>2. If the company's securities are traded on foreign organized markets, the company ensured concerted and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting year.</p> <p>3. If foreign shareholders hold a material portion of the company's shares, information was disclosed both in the Russian language and one of the most widely used foreign languages in the reporting period.</p>	This principle is complied with.	-
6.2.2	The company avoids a formalistic approach to information disclosure and discloses material information on its operations, even if disclosure of such information is not required by law.	<p>1. In the reporting period, the company disclosed annual and 6M financial statements prepared under the IFRS. The company's annual report for the reporting period included annual financial statements prepared under the IFRS, along with the auditor's report.</p> <p>2. The company discloses full information on its capital structure in accordance with Recommendation 290 of the Code both in the annual report and on the company's website.</p>	This principle is not fully complied with.	The Company discloses its capital structure to the extent required by the applicable laws.

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.2.3	The company's annual report, as one of the most important tools of its information exchange with shareholders and other interested parties, contains information enabling assessment of the company's annual performance results.	<p>1. The company's annual report contains information on the key aspects of its operating and financial performance.</p> <p>2. The company's annual report contains information on the environmental and social aspects of the company's operations.</p>	This principle is complied with.	-
<b>6.3 The company provides information and documents requested by its shareholders in accordance with principles of fairness and ease of access.</b>				
6.3.1	The company provides information and documents requested by its shareholders in accordance with principles of fairness and ease of access.	1. The company's information policy establishes the procedure for providing shareholders with easy access to information, including information on legal entities controlled by the company, as requested by shareholders.	This principle is not fully complied with.	The Company's Information Policy determines an easy procedure for providing shareholders with access to information, with the exception of information on legal entities controlled by the Company, the provision of which is not prescribed for by law.
6.3.2	When providing information to shareholders, the company shall ensure reasonable balance between the interests of particular shareholders and its own interests consisting in preserving the confidentiality of important commercial information which may materially affect its competitiveness.	<p>1. In the reporting period, the company did not refuse any shareholder requests for information, or such refusals were justified.</p> <p>2. In cases defined by the information policy, shareholders are warned of the confidential nature of the information and undertake to maintain its confidentiality.</p>	This principle is complied with.	-
<b>7.1 Actions which will or may materially affect the company's share capital structure and its financial position and accordingly the position of its shareholders ("material corporate actions") are taken on fair terms ensuring that the rights and interests of the shareholders and other stakeholders are observed.</b>				
7.1.1	Material corporate actions include restructuring of the company, acquisition of 30% or more of the company's voting shares (takeover), execution by the company of major transactions, increase or decrease of the company's authorised capital, listing or de-listing of the company's shares, as well as other actions which may lead to material changes in the rights of shareholders or violation of their interests. The company's charter provides a list (criteria) of transactions or other actions classified as material corporate actions within the authority of the company's board of directors.	<p>1. The company's charter includes a list of transactions or other actions deemed to be material corporate actions, and their identification criteria. Resolutions on material corporate actions are referred to the jurisdiction of the board of directors. When execution of such corporate actions is expressly referred by law to the jurisdiction of the general shareholders meeting, the board of directors presents relevant recommendations to shareholders.</p> <p>2. According to the company's charter, material corporate actions include at least: company reorganization, acquisition of 30% or more of the company's voting shares (in case of takeover), entering in major transactions, increase or decrease of the company's charter capital, listing or de-listing of the company's shares.</p>	This principle is not fully complied with.	<p>The Company's Articles of Association does not contain a separate section with a list of significant corporate actions. At the same time, decision-making on issues related to significant corporate actions falls within the authority of the Board of Directors.</p> <p>The Company does not see any risks in this.</p>
7.1.2	The board of directors plays a key role in passing resolutions or making recommendations on material corporate actions, relying on the opinions of the company's independent directors.	1. The company has in place a procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof.	This principle is not fully complied with.	Relevant comments are provided in items 2.4.4. and 2.5.1 hereof.

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
7.1.3	When taking material corporate actions which would affect rights or legitimate interests of shareholders, equal terms and conditions are guaranteed for all shareholders; if the statutory procedure designed to protect shareholders' rights proves insufficient, additional measures are taken to protect their rights and legitimate interests. In doing so, the company is guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements.	<p>1. Due to specifics of the company's operations, the company's charter contains less stringent criteria for material corporate actions than required by law.</p> <p>2. All material corporate actions in the reporting period were duly approved before they were taken.</p>	This principle is complied with.	-
<b>7.2</b>	<b>The company provides a procedure for taking material corporate actions that would enable its shareholders to receive full information about such actions in due time and influence them, and also guarantee that the shareholder rights are observed and duly protected when such actions are taken.</b>			
7.2.1	Information about material corporate actions is disclosed with explanations of the grounds, circumstances and consequences.	1. In the reporting period, the company disclosed information about its material corporate actions in due time and in detail, including the grounds for, and timelines of, such actions.	This principle is complied with.	-
7.2.2	Rules and procedures related to material corporate actions taken by the company are set out in the company's internal documents.	<p>1. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of assets either disposed of or acquired in a major transaction or a related-party transaction</p> <p>2. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of shares acquired and redeemed by the company.</p> <p>3. The company's internal documents provide for an expanded list of grounds on which the company's directors and other persons as per the applicable law are deemed to be related parties to the company's transactions.</p>	This principle is not complied with.	The need to involve an appraiser for the valuation of the purchase price of the Company's shares is provided by the current legislation. There is no need to duplicate this requirement in the internal documents of the Company.

## Forward – looking Statements

This Annual Review includes ‘forward-looking information’ within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the US Securities Exchange Act of 1934, as amended. Certain statements included in this Annual Report and Accounts, including, without limitation, statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “expect,” “anticipate,” “intends,” “estimate,” “forecast,” “project,” “will,” “may,” “should” and similar expressions identify forward-looking statements. Forward-looking statements include statements regarding: strategies, outlook and growth prospects; future plans and potential for future growth; liquidity, capital resources and capital expenditures; growth in demand for our products; economic outlook and industry trends; developments of our markets; the impact of regulatory initiatives; and the strength of our competitors. The forward-looking statements in this Annual Review are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies, which are difficult or impossible to predict and are beyond our control. As a result, we may not achieve or accomplish these expectations, beliefs or projections. In addition, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in the balance of oil and gas supply and demand in Russia and Europe;
- the effects of domestic and international oil and gas price volatility and changes in regulatory conditions, including prices and taxes;
- the effects of competition in the domestic and export oil and gas markets;
- our ability to successfully implement any of our business strategies;
- the impact of our expansion on our revenue potential, cost basis and margins;

- our ability to produce target volumes in the event, among other factors, of restrictions on our access to transportation infrastructure;
- the effects of changes to our capital expenditure projections on the growth of our production;
- potentially lower production levels in the future than currently estimated by our management and/or independent petroleum reservoir engineers;
- inherent uncertainties in interpreting geophysical data;
- changes to project schedules and estimated completion dates;
- our success in identifying and managing risks to our businesses;
- the effects of changes to the Russian legal framework concerning currently held and any newly acquired oil and gas production licenses;
- changes in political, social, legal or economic conditions in Russia and the CIS;
- the effects of technological changes;
- the effects of changes in accounting standards or practices.

This list of important factors is not exhaustive. When relying on forward-looking statements, one should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. The information and opinions contained in this document are provided as at the date of this review and are subject to change without notice.



## Terms and Abbreviations

Mentions in this Annual Report of “PAO NOVATEK”, “NOVATEK”, “the Company”, “we” and “our” refer to PAO NOVATEK and/or its subsidiaries (according to IFRS methodology) and/or joint ventures (accounted for on an equity basis according to IFRS standards), depending upon the context, in which the terms are used.

barrel	one stock tank barrel, or 42 US gallons of liquid volume
bcm	billion cubic meters
boe	barrels of oil equivalent
km	kilometer (s)
mboe	thousand boe
mcm	thousand cubic meters
mt	thousand metric tons
mmboe	million boe
mmcm	million cubic meters
mm	million metric tons
mmtpa	million metric tons per annum
mtpa	thousand metric tons per annum
ton	metric ton
SEC	United States Securities and Exchange Commission
PRMS	Petroleum Resources Management System
NSR	Northern Sea Route
YNAO	Yamal-Nenets Autonomous Region
RR	Russian rouble
LPG	liquified petroleum gases
LNG	liquified natural gas
ТЭК	топливно-энергетический комплекс

## Conversion Factors

1000 cubic meters of gas = 6.54 boe.

To convert crude oil and gas condensate reserves from tons to barrels we used various coefficients depending on the liquids density at each field.

**PAO NOVATEK**

**IFRS Consolidated  
Financial Statements  
for the Year Ended  
31 December 2019**

**and Independent  
Auditor's Report**

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## Independent Auditor's Report

To the Shareholders and Board of Directors of PAO NOVATEK:

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### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PAO NOVATEK and its subsidiaries (together – the “Group”) as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

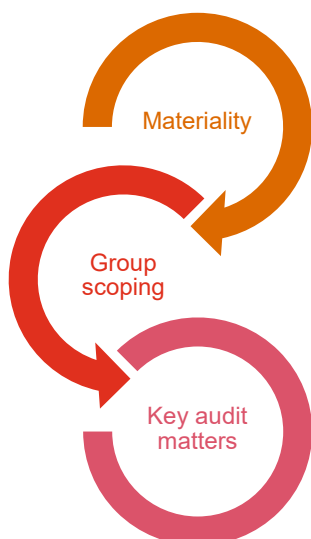
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

## Our audit approach

### Overview



- Overall group materiality: Russian Roubles (“RUB”) 11,000 million which represents 4% of adjusted profit before tax excluding currency exchange differences, net gain on disposal of interests in subsidiaries and joint ventures and the Group’s share of joint ventures’ currency exchange differences net of income tax.
- We conducted audit work covering all significant components in Russia, Switzerland, Singapore and Republic of Cyprus.
- The Group engagement team visited all significant locations in Russia, Switzerland and Singapore.
- Our audit scope addressed more than 99% of the Group’s revenues and more than 99% of absolute value of income and expenses, forming the Group’s underlying profit before tax.
- Disposal of a 40% participation interest in OOO Arctic LNG 2.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.



<b>Overall Group materiality</b>	RUB 11,000 million
<b>How we determined it</b>	4% of adjusted profit before tax excluding currency differences, net gain on disposal of interests in subsidiaries and joint ventures and share of joint ventures' currency differences net of income tax.
<b>Rationale for the materiality benchmark applied</b>	<p>We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. The use of adjusted profit before tax mitigates the effect of volatility (that could be material) caused by non-recurring factors such as gains on disposals of assets and foreign exchange differences and provides a more stable basis for determining materiality, focusing on the underlying profitability of the Group.</p> <p>We chose 4% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector and prior year approach.</p>

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Disposal of a 40% participation interest in OOO Arctic LNG 2</b></p> <p>In 2019, the Group disposed a 40% participation interest in OOO Arctic LNG 2 as disclosed in note 4 to the consolidated financial statements. The disposal was executed in two stages:</p> <ul style="list-style-type: none"> <li>In March 2019, the Group disposed a 10% participation interest in OOO Arctic LNG 2 to a subsidiary of TOTAL S.A. 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 this transaction, the Group ceased to exercise control and obtained joint control over OOO Arctic LNG 2. The Group determined OOO Arctic LNG 2 to be a joint venture and started to account for the retained investment under the equity method.</li> </ul>	<p>Our audit procedures included, among others, assessment of justification for voluntary change of accounting policy regarding the contribution of a subsidiary to a joint venture and assessment of the effect of its application.</p> <p>We also performed reconciliation of cash receipts with corresponding contracts and payment documents.</p> <p>We performed audit procedures to make sure that the assumptions used by management in determining the amount of total consideration were consistent with the terms of the contracts and the project implementation plans of the Group.</p> <p>We reconciled the reported value of the Group's</p>





Key audit matter	How our audit addressed the key audit matter
<p>As at the closing date of the transaction in March 2019, a 30% participation interest in OOO Arctic LNG 2 was classified as an asset held for sale as IFRS 5 criteria were met.</p> <ul style="list-style-type: none"><li>• In July 2019, the Group sold a 30% participation interest in OOO Arctic LNG 2 to (by 10% each): 1) China National Petroleum Corporation and 2) CNOOC Limited (through their subsidiaries) and 3) Japan Arctic LNG B.V., a joint venture of Mitsui &amp; Co., Ltd and Japan Oil, Gas and Metals National Corporation. These transactions were closed on terms similar to those on which TOTAL S.A. Group entered this project.</li></ul> <p>Upon completion of the above transactions, the Group's interest in OOO Arctic LNG 2 decreased from 100% to 60%.</p> <p>We focused on this area during our audit due to the significance of judgements and assessments used by management in accounting for the disposal of the above participation interests and because of a voluntary change of the accounting policy effective 1 January 2019 regarding the contribution of a subsidiary to a joint venture, which was applied to the transaction on disposal of 10% interest in OOO Arctic LNG 2. Key judgements related to assessment of the fair value of the Group's interest in OOO Arctic LNG 2 at the date of disposal of 10% interest in OOO Arctic LNG 2, of fair value of the contingent consideration and of fair value of expected contributions to property of the joint venture to be received as a result of the arrangement to sell participation interest.</p>	<p>10% interest in net assets of OOO Arctic LNG 2 as at the disposal date with the accounting data.</p> <p>We assessed the fair value of the disposed and retained interests in OOO Arctic LNG 2 at the date of disposal of a 10% participation interest for the appropriateness of assumptions and methodology used by the Group management for this assessment. For this purpose we engaged internal valuation experts.</p> <p>We recalculated gain on disposal of a 10% and a 30% participation interests in OOO Arctic LNG 2.</p> <p>We evaluated the completeness of the disclosures in Note 4 of the consolidated financial statements to comply with IFRS requirements.</p>

### How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the reporting units by the group engagement team and by the component auditors from other PwC network firms. For each reporting unit we issued specific instructions to the component auditors within our audit scope. We determined the level of involvement for component auditors whom we need to engage in the audit process at those reporting units so as to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion



on the consolidated financial statements as a whole. We determined whether we required an audit of full scope of financial information or whether a defined scope of specified procedures was sufficient.

The Group's consolidated financial statements disclosures and a number of complex items are audited directly by the PAO NOVATEK audit engagement team. Our procedures included the assessment of accounting estimates performed by management in respect of fair values and classification of financial assets and liabilities, deferred income tax asset recognition, estimation of oil and gas reserves, impairment of financial and non-financial assets, impairment provision for trade receivables, pension obligations, asset retirement obligations and assessment of joint arrangements.

By performing the procedures described above at the individual component level, combined with the additional procedures performed at the group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group to provide a basis for our opinion on the consolidated financial statements.

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### Other information

Management is responsible for the other information. The other information comprises report "Management's discussion and analysis of financial condition and results of operations of PAO NOVATEK for the years ended 31 December 2019 and 2018" (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and "Quarterly Issuer's Report of PAO NOVATEK for the first quarter of 2020" as well as "Annual Report Review of PAO NOVATEK for 2019", which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read "Annual Report Review of PAO NOVATEK for 2019" and "Quarterly Issuer's Report of PAO NOVATEK for the first quarter of 2020", if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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### Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.



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## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Maxim E. Timchenko.

*AO PricewaterhouseCoopers Audit*

18 February 2020  
Moscow, Russian Federation

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

Audited entity: PAO NOVATEK

Record made in the United States Register of Legal Entities on  
20 August 2002 under State Registration Number 1026303117842

Taxpayer Identification Number: 6316031581

Location of the Company: Russian Federation, Yamalo-Nenetski' state,  
Purovsky region, Tarko-Sale.

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on  
26 February 1992 under No. 008.600

Record made in the United 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 Statement of Financial Position**  
(in millions of Russian roubles)

	Notes	At 31 December 2019	At 31 December 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	556,798	408,201
Investments in joint ventures	6	585,340	244,500
Long-term loans and receivables	7	231,898	232,922
Other non-current assets	8	142,335	37,427
<b>Total non-current assets</b>		<b>1,516,371</b>	<b>923,050</b>
<b>Current assets</b>			
Inventories	9	12,263	17,251
Current income tax prepayments		3,819	1,311
Trade and other receivables	10	229,581	54,433
Prepayments and other current assets	11	113,841	89,645
Short-term bank deposits with original maturity more than three months		83,752	27,788
Cash and cash equivalents	12	53,240	41,472
Assets held for sale	4	-	61,420
<b>Total current assets</b>		<b>496,496</b>	<b>293,320</b>
<b>Total assets</b>		<b>2,012,867</b>	<b>1,216,370</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Non-current liabilities</b>			
Long-term debt	13	139,852	170,043
Long-term lease liabilities	26	7,516	7,473
Deferred income tax liabilities	25	62,146	29,927
Asset retirement obligations		12,372	8,730
Other non-current liabilities		6,792	6,579
<b>Total non-current liabilities</b>		<b>228,678</b>	<b>222,752</b>
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	14	12,246	2,120
Current portion of long-term lease liabilities	26	2,947	2,325
Trade payables and accrued liabilities	16	86,728	79,241
Current income tax payable		2,140	1,633
Other taxes payable		13,052	16,823
Liabilities associated with assets held for sale	4	-	4,881
<b>Total current liabilities</b>		<b>117,113</b>	<b>107,023</b>
<b>Total liabilities</b>		<b>345,791</b>	<b>329,775</b>
<b>Equity attributable to PAO NOVATEK shareholders</b>			
Ordinary share capital		393	393
Treasury shares		(12,308)	(10,445)
Additional paid-in capital		31,297	31,297
Currency translation differences		3,814	(1,702)
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		1,618,696	843,094
<b>Total equity attributable to PAO NOVATEK shareholders</b>	17	<b>1,647,509</b>	<b>868,254</b>
<b>Non-controlling interest</b>		<b>19,567</b>	<b>18,341</b>
<b>Total equity</b>		<b>1,667,076</b>	<b>886,595</b>
<b>Total liabilities and equity</b>		<b>2,012,867</b>	<b>1,216,370</b>

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

  
L. Mikhelson  
Chairman of the Management Committee

  
M. Gyetvay  
Chief Financial Officer

18 February 2020

**PAO NOVATEK**

**Consolidated Statement of Income**

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

	Notes	Year ended 31 December:	
		2019	2018
<b>Revenues</b>			
Oil and gas sales	18	852,232	825,761
Other revenues		10,571	5,997
<b>Total revenues</b>		<b>862,803</b>	<b>831,758</b>
<b>Operating expenses</b>			
Purchases of natural gas and liquid hydrocarbons	19	(330,818)	(319,990)
Transportation expenses	20	(151,651)	(145,664)
Taxes other than income tax	21	(61,981)	(58,768)
Depreciation, depletion and amortization	5	(32,230)	(33,094)
Materials, services and other	22	(25,183)	(22,675)
General and administrative expenses	23	(24,568)	(22,282)
Exploration expenses	5	(8,386)	(7,012)
Impairment (expenses) reversals, net		(162)	(287)
Changes in natural gas, liquid hydrocarbons and work-in-progress		(5,484)	5,860
<b>Total operating expenses</b>		<b>(640,463)</b>	<b>(603,912)</b>
Gain on disposal of interests in subsidiaries and joint ventures, net	4	682,733	1,645
Other operating income (loss), net	26	(35,484)	(2,307)
<b>Profit from operations</b>		<b>869,589</b>	<b>227,184</b>
<b>Finance income (expense)</b>			
Interest expense	24	(4,491)	(4,746)
Interest income	24	20,699	14,003
Change in fair value of non-commodity financial instruments	26	12,827	3,492
Foreign exchange gain (loss), net	24	(44,747)	25,859
<b>Total finance income (expense)</b>		<b>(15,712)</b>	<b>38,608</b>
Share of profit (loss) of joint ventures, net of income tax	6	149,238	(37,258)
<b>Profit before income tax</b>		<b>1,003,115</b>	<b>228,534</b>
<b>Income tax expense</b>			
Current income tax expense		(97,832)	(44,543)
Deferred income tax benefit (expense), net		(21,822)	(1,044)
<b>Total income tax expense</b>	25	<b>(119,654)</b>	<b>(45,587)</b>
<b>Profit</b>		<b>883,461</b>	<b>182,947</b>
Profit attributable to:			
Non-controlling interest		17,984	19,205
Shareholders of PAO NOVATEK		865,477	163,742
Basic and diluted earnings per share (in Russian roubles)		287.39	54.33
<i>Weighted average number of shares outstanding (in millions)</i>		<i>3,011.5</i>	<i>3,013.8</i>

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



**PAO NOVATEK**  
**Consolidated Statement of Comprehensive Income**  
(in millions of Russian roubles)

	Notes	Year ended 31 December:	
		2019	2018
<b>Profit</b>		<b>883,461</b>	<b>182,947</b>
<b>Other comprehensive income (loss)</b>			
<b>Items that will not be reclassified subsequently to profit (loss)</b>			
Remeasurement of pension obligations	15	(976)	(725)
Share of remeasurement of pension obligations of joint ventures		(205)	(112)
		<b>(1,181)</b>	<b>(837)</b>
<b>Items that may be reclassified subsequently to profit (loss)</b>			
Currency translation differences		4,860	1,934
Share of currency translation differences of joint ventures		656	(353)
		<b>5,516</b>	<b>1,581</b>
<b>Other comprehensive income (loss)</b>		<b>4,335</b>	<b>744</b>
<b>Total comprehensive income</b>		<b>887,796</b>	<b>183,691</b>
Total comprehensive income attributable to:			
Non-controlling interest		17,984	19,205
Shareholders of PAO NOVATEK		869,812	164,486

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

**PAO NOVATEK**

**Consolidated Statement of Cash Flows**

(in millions of Russian roubles)

	Notes	Year ended 31 December:	
		2019	2018
<b>Profit before income tax</b>		<b>1,003,115</b>	<b>228,534</b>
<b>Adjustments to profit before income tax:</b>			
Depreciation, depletion and amortization		32,230	33,094
Impairment expenses (reversals), net		162	287
Foreign exchange loss (gain), net		44,747	(25,859)
Gain on disposal of interests in subsidiaries and joint ventures, net	4	(682,733)	(1,645)
Interest expense		4,491	4,746
Interest income		(20,699)	(14,003)
Share of loss (profit) of joint ventures, net of income tax	6	(149,238)	37,258
Change in fair value of non-commodity financial instruments		(12,827)	(3,492)
Revaluation of commodity derivatives and contingent consideration through profit or loss	26	34,304	450
Other adjustments		(294)	749
Decrease (increase) in long-term advances given		5,740	4,939
<b>Working capital changes</b>			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(21,498)	(13,598)
Decrease (increase) in inventories		7,560	(9,137)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		6,086	10,750
Increase (decrease) in taxes payable, other than income tax		(2,115)	592
<b>Total effect of working capital changes</b>		<b>(9,967)</b>	<b>(11,393)</b>
Dividends received from joint ventures		46,050	8,500
Interest received		47,413	1,311
Income taxes paid excluding payments relating to disposal of interests in subsidiaries and joint ventures	25	(35,061)	(47,127)
<b>Net cash provided by operating activities</b>		<b>307,433</b>	<b>216,349</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	5	(144,186)	(73,564)
Payments for mineral licenses	5	(7,827)	(327)
Purchases of materials for construction		(12,413)	(15,442)
Purchases of intangible assets		(1,146)	(872)
Proceeds from disposals of property, plant and equipment and materials for construction		-	2,133
Acquisition of joint ventures	4	-	(2)
Capital contributions to joint ventures	6	(298)	-
Payments for acquisition of subsidiaries, net of cash acquired	4	-	(30,492)
Proceeds from disposal of interests in subsidiaries and joint ventures, net of cash disposed	4	136,541	-
Income tax payments relating to disposal of interests in subsidiaries and joint ventures	4, 25	(64,540)	-
Interest paid and capitalized	5	(5,903)	(5,032)
Net decrease (increase) in bank deposits with original maturity more than three months		(58,945)	(26,161)
Guarantee fees paid		(1,427)	(1,431)
Loans provided to joint ventures	7	(29,664)	(3,429)
Repayments of loans provided to joint ventures	7	20,764	1,573
<b>Net cash used for investing activities</b>		<b>(169,044)</b>	<b>(153,046)</b>

**PAO NOVATEK**  
**Consolidated Statement of Cash Flows**  
(in millions of Russian roubles)

	Notes	Year ended 31 December:	
		2019	2018
<b>Cash flows from financing activities</b>			
Proceeds from long-term debt		-	7,928
Repayments of long-term debt		(2,176)	(22,035)
Proceeds from short-term debt			
with original maturity more than three months		1,000	-
Repayments of short-term debt			
with original maturity more than three months		(1,000)	-
Proceeds from (repayments of) short-term debt			
with original maturity three months or less, net		-	(150)
Interest on debt paid		(2,237)	(3,024)
Dividends paid to shareholders of PAO NOVATEK	17	(93,468)	(51,980)
Dividends paid to non-controlling interest		(16,758)	(20,068)
Payments of lease liabilities		(2,944)	(2,192)
Purchases of treasury shares	17	(1,865)	(2,137)
<b>Net cash used for financing activities</b>		<b>(119,448)</b>	<b>(93,658)</b>
Net effect of exchange rate changes on cash and cash equivalents		(7,173)	5,884
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>11,768</b>	<b>(24,471)</b>
Cash and cash equivalents at the beginning of the period		41,472	65,943
<b>Cash and cash equivalents at the end of the period</b>		<b>53,240</b>	<b>41,472</b>

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

**PAO NOVA TEK**

**Consolidated Statement of Changes in Equity**

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

	<i>Number of ordinary shares (in millions)</i>	Ordinary share capital	Treasury shares	Additional paid-in capital	Currency translation differences	Asset revaluation surplus on acquisitions	Retained earnings	Equity attributable to PAO NOVA TEK shareholders	Non- controlling interest	Total equity
<b>At 1 January 2018</b>	<b>3,015.6</b>	<b>393</b>	<b>(8,353)</b>	<b>31,297</b>	<b>(3,283)</b>	<b>5,617</b>	<b>732,168</b>	<b>757,839</b>	<b>17,820</b>	<b>775,659</b>
Profit	-	-	-	-	-	-	163,742	163,742	19,205	182,947
Other comprehensive income (loss)	-	-	-	-	1,581	-	(837)	744	-	744
<b>Total comprehensive income (loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,581</b>	<b>-</b>	<b>162,905</b>	<b>164,486</b>	<b>19,205</b>	<b>183,691</b>
Dividends (Note 17)	-	-	-	-	-	-	(51,979)	(51,979)	(18,684)	(70,663)
Purchase of treasury shares (Note 17)	(2.7)	-	(2,092)	-	-	-	-	(2,092)	-	(2,092)
<b>At 31 December 2018</b>	<b>3,012.9</b>	<b>393</b>	<b>(10,445)</b>	<b>31,297</b>	<b>(1,702)</b>	<b>5,617</b>	<b>843,094</b>	<b>868,254</b>	<b>18,341</b>	<b>886,595</b>
Profit	-	-	-	-	-	-	865,477	865,477	17,984	883,461
Other comprehensive income (loss)	-	-	-	-	5,516	-	(1,181)	4,335	-	4,335
<b>Total comprehensive income (loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,516</b>	<b>-</b>	<b>864,296</b>	<b>869,812</b>	<b>17,984</b>	<b>887,796</b>
Dividends (Note 17)	-	-	-	-	-	-	(93,468)	(93,468)	(16,758)	(110,226)
Effect from other changes in joint ventures' net assets (Note 6)	-	-	-	-	-	-	4,774	4,774	-	4,774
Purchase of treasury shares (Note 17)	(1.7)	-	(1,863)	-	-	-	-	(1,863)	-	(1,863)
<b>At 31 December 2019</b>	<b>3,011.2</b>	<b>393</b>	<b>(12,308)</b>	<b>31,297</b>	<b>3,814</b>	<b>5,617</b>	<b>1,618,696</b>	<b>1,647,509</b>	<b>19,567</b>	<b>1,667,076</b>

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

## PAO NOVATEK

### Notes to the Consolidated Financial Statements

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

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## 1 ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

In 2017, the Group’s joint venture OAO Yamal LNG started production at the first train of its natural gas liquefaction plant (hereinafter referred to as the “LNG Plant”) based on the hydrocarbon resources of the South-Tambeyskoye field, located in the YNAO. In 2018, the second and third LNG trains were launched. In 2019, the Group’s joint venture OOO Cryogas-Vysotsk commissioned its medium-scale natural gas liquefaction plant at the port of Vysotsk on the Baltic sea. The Group purchases a portion of the liquefied natural gas (“LNG”) produced by Yamal LNG and Cryogas-Vysotsk and sells it on the international markets. The Group’s LNG sales volumes are not subject to significant seasonal fluctuations.

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

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

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

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

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

## PAO NOVATEK

### Notes to the Consolidated Financial Statements

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

## 2 BASIS OF PREPARATION

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss or other comprehensive income. In the absence of specific IFRS guidance for oil and gas producing companies, the Group has developed accounting policies in accordance with other generally accepted accounting principles for oil and gas producing companies, mainly US GAAP, insofar as they do not conflict with IFRS principles.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

**Functional and presentation currency.** The consolidated financial statements are presented in Russian roubles, the Group’s reporting (presentation) currency and the functional currency for the Company and the majority of the Group’s subsidiaries.

Transactions denominated in foreign currencies are converted into the functional currency of each entity at the exchange rates prevailing on the date of transactions. Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency of each entity by applying the year end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies valued at cost are converted into the functional currency of each entity at the historical exchange rate. Non-monetary assets that are remeasured to fair value, recoverable amount or realizable value, are converted at the exchange rate applicable to the date of remeasurement. Exchange gains and losses resulting from foreign currency remeasurement into the functional currency are included in profit (loss) for the reporting period.

On consolidation the assets and liabilities (both monetary and non-monetary) of the Group entities whose functional currency is not the Russian rouble are translated into Russian roubles at the closing exchange rate at each balance sheet date. All items included in the shareholders’ equity, other than profit or loss, are translated at historical exchange rates. The financial results of these entities are translated into Russian roubles using exchange rates at the dates of the transactions or the average exchange rate for the period when this is a reasonable approximation. Exchange adjustments arising on the opening net assets and the profits for the reporting period are taken to other comprehensive income and reported as currency translation differences in the consolidated statement of changes in equity and the consolidated statement of comprehensive income.

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

<i>Russian roubles to one currency unit</i>	At 31 December 2019	At 31 December 2018	Average rate for the year ended 31 December:	
			2019	2018
US dollar (USD)	61.91	69.47	64.74	62.71
Euro (EUR)	69.34	79.46	72.50	73.95
Polish zloty (PLN)	16.24	18.48	16.87	17.36

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

**Significant accounting policies.** The principal accounting policies are disclosed in Note 31. In 2019, the Group adopted all IFRS, amendments and interpretations which are effective 1 January 2019 and relevant to its operations. None of them had material impact on the Group’s consolidated financial statements. The Group early adopted IFRS 16, *Leases*, starting from the annual period beginning on 1 January 2017.

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



**2 BASIS OF PREPARATION (CONTINUED)**

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

Starting from 2019, the Group elected to follow IAS 28 whereas previously applied accounting policy was based on IFRS 10. The new accounting policy was applied to the transaction on the sale of a 10 percent participating interest in OOO Arctic LNG 2 (see Note 3).

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

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

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

Consolidated financial statements prepared in accordance with IFRS require management to make estimates which the Group's management reviews on a continuous basis, by reference to past experience and other factors considered as reasonable. 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.

Judgments and estimates that have the most significant effect on the amounts reported in these consolidated financial statements are described below.

**Fair value of financial instruments.** The fair value of financial assets and liabilities, other than financial instruments that are traded in active markets, is determined by applying various valuation methodologies. The Group's management uses its judgment to make assumptions primarily based on market conditions existing at each reporting date.

For commodity derivative contracts where observable information is not available, fair value estimations are determined using mark-to-market analysis and other acceptable valuation methods, for which the key inputs include future prices, volatility, price correlation, counterparty credit risk and market liquidity. Fair values of the Group's commodity derivative contracts and sensitivities are presented in Note 26.

In some cases, judgment is required to determine whether contracts to buy or sell commodities meet the definition of a derivative. Contracts to buy or sell LNG are not considered to meet the definition of a derivative, as they are not considered capable of being net settled. Therefore, such contracts are not within the scope of IFRS 9, *Financial Instruments*, and are accounted for on an accruals basis.

Fair value estimation of shareholders' loans to joint ventures is determined using benchmark interest rates adjusted for the borrower credit risk and free cash flows from the borrower's strategic plans approved by the shareholders of the joint ventures. Fair values of the shareholders' loans to joint ventures and sensitivities are presented in Note 26.

Discounted cash flow analysis is used for loans and receivables as well as debt instruments that are not traded in active markets. The effective interest rate is determined by reference to the interest rates of financial instruments available to the Group in active markets. In the absence of such instruments, the effective interest rate is determined by reference to the interest rates of active market financial instruments available adjusted for the Group's specific risk premium estimated by management.

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

**Deferred income tax asset recognition.** Management assesses deferred income tax assets at each reporting date and determines the amount recorded to the extent that realization of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimations based on prior years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

**Estimation of oil and gas reserves.** Oil and gas reserves have a direct impact on certain amounts reported in the consolidated financial statements, most notably depreciation, depletion and amortization, as well as impairment expenses and asset retirement obligations. The Group's principal oil and gas reserves have been independently estimated by internationally recognized petroleum engineers whereas other oil and gas reserves of the Group have been determined based on estimates of hydrocarbon reserves prepared by the Group's management in accordance with internationally recognized definitions.

Depreciation rates on oil and gas assets using the unit-of-production method are based on proved developed reserves and total proved reserves estimated by the Group in accordance with rules promulgated by the Securities and Exchange Commission (SEC) for proved reserves. The Group also uses estimated probable and possible reserves to calculate future cash flows from oil and gas properties, which serve as an indicator in determining their economic lives and whether or not property impairment is present.

A portion of the reserves estimated by the Group includes reserves expected to be produced beyond license expiry dates. The Group's management believes that there is requisite legislation and past experience to extend mineral licenses at the initiative of the Group and, as such, intends to extend its licenses for properties expected to produce beyond the current license expiry dates.

Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. As those fields are further developed, new information may lead to further revisions in reserve estimates.

**Impairment of investments in joint ventures and property, plant and equipment.** Management assesses whether there are any indicators of possible impairment of investments in joint ventures and property, plant and equipment at each reporting date based on events or circumstances that indicate that the carrying value of assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes, and for oil and gas properties, significant downward revisions of estimated proved reserves. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

**Pension obligations.** The costs of defined benefit pension plans and related current service costs are determined using actuarial valuations. The actuarial valuations involve making demographic assumptions (mortality rates, age of retirement, employee turnover and disability) as well as financial assumptions (discount rates, expected rates of return on assets, future salary and pension increases). Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

**Asset retirement obligations.** The Group's exploration, development and production activities involve the use of wells, related equipment and operating sites, oil and gas gathering and treatment facilities and in-field pipelines. Generally, licenses and other regulatory acts require that such assets be decommissioned upon the completion of production, i.e. the Group is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Group's estimates of these obligations are based on current regulatory or license requirements, as well as actual dismantling and related costs.

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

The Group's management believes that due to the limited history of gas and gas condensate processing plants activities, the useful lives of these assets are indeterminable (while certain of the operating components and equipment have definite useful lives). Because of these reasons, and the lack of clear legal requirements as to the recognition of obligations, the present value of an asset retirement obligation for such processing facilities cannot be reasonably estimated and, therefore, legal or contractual asset retirement obligations related to these assets are not recognized.

In accordance with the guidelines of IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, the amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation where the Group's respective operating assets are located, and is subject to change because of modifications, revisions and changes in laws and regulations and their interpretation thereof. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

**Fair value assessment of investment in OOO Arctic LNG 2.** As further discussed in Note 4, as a result of the sale of a 10 percent participation interest in Arctic LNG 2 to TOTAL S.A. in March 2019, the Group's control over Arctic LNG 2 was replaced by joint control.

In accordance with IAS 28, *Investments in Associates and Joint Ventures*, the Group recognized a gain resulting from the remeasurement at fair value of the participation interest retained to the extent of the unrelated investor's interest in the new joint venture. The fair value of the investment in Arctic LNG 2 was calculated based on a discounted cash flow model for the Arctic LNG 2 project including a number of key assumptions, the sensitivities of which are disclosed in Note 4.

### 4 ACQUISITIONS AND DISPOSALS

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

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

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

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

No impairment of assets was identified as a result of the decision to sell an interest in this entity.

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

## PAO NOVATEK

### Notes to the Consolidated Financial Statements

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

#### 4 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

- *cash payments to the Group* of USD 1,300 million equivalent, of which USD 600 million equivalent was paid upon the transaction closing date and the remaining amount to be paid within twelve months from that date;
- *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 ("FID") and the date of production launch at the Project's first LNG train.

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

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

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

	<b>RR million</b>
Cash payment	85,540
Contingent consideration <sup>(1)</sup>	35,810
Capital contributions <sup>(2)</sup> (at 90 percent)	40,446
<b>Total consideration</b>	<b>161,796</b>
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)
<b>Gain on the sale of a 10 percent participation interest</b>	<b>308,578</b>

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

<sup>(2)</sup> – 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.

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

**4 ACQUISITIONS AND DISPOSALS (CONTINUED)**

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

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

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

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

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

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

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### Notes to the Consolidated Financial Statements

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#### 4 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

In June 2019, 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 upon the completion of the conditions precedent.

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

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

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

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

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

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

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

#### *Reorganization of AO Arcticgas*

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

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

**PAO NOVATEK****Notes to the Consolidated Financial Statements**

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**4 ACQUISITIONS AND DISPOSALS (CONTINUED)**

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

Reorganization transactions were completed in October 2019. The Group recognized a gain of RR 7.8 billion from the reorganization recorded in the line item “Gain on disposal of interests in subsidiaries and joint ventures” in the consolidated statement of income:

	<u>RR million</u>
Fair value of investments in new subsidiaries	19,650
Less: carrying value of the net assets of NOVATEK-Yarsaleneftegas	(2,163)
Less: Group’s share in a decrease in the net assets of Arcticgas	(9,722)
<b>Gain on reorganization</b>	<b>7,765</b>

The fair value of investments in new subsidiaries has been allocated to property, plant and equipment, primarily to the licences cost, and respective deferred tax liabilities (See Note 5).

***Acquisition of AO Geotransgas and OOO Urengoyskaya gasovaya kompaniya***

In February 2018, upon the results of an auction held by AK ALROSA (PAO), the Group acquired 100 percent participation interests in Maretiom Investments Limited and Velarion Investments Limited for total cash consideration of RR 30.3 billion. These companies owned 100 percent participation interests in AO Geotransgas (renamed to AO NOVATEK-Pur in November 2018) and OOO Urengoyskaya gasovaya kompaniya (merged into OOO NOVATEK-Yurkharovneftegas in January 2019), which held the licenses for exploration and production of hydrocarbons within the Beregovoy and Ust-Yamsoveyskiy license areas located in YNAO, respectively.

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

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

For the period from the date of acquisition to 31 December 2018, the acquired companies contributed RR 4.2 billion to the Group’s revenues. The financial and operational activities of the acquired companies would have increased the Group’s revenues for 2018 by an additional RR 0.8 billion, if the acquisition had occurred in January 2018.



**4 ACQUISITIONS AND DISPOSALS (CONTINUED)**

*Acquisition of OOO Chernichnoye*

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

*Disposal of an ownership interest in AO Arcticgas*

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

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

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

**PAO NOVATEK**

**Notes to the Consolidated Financial Statements**

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

**5 PROPERTY, PLANT AND EQUIPMENT**

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

	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	479,569	38,926	16,709	535,204
Accumulated depreciation, depletion and amortization	(171,325)	-	(3,828)	(175,153)
<b>Net book value at 1 January 2018</b>	<b>308,244</b>	<b>38,926</b>	<b>12,881</b>	<b>360,051</b>
Additions	3,671	94,813	-	98,484
Transfers	21,451	(23,104)	1,653	-
Acquisition of subsidiaries (see Note 4)	31,878	4,827	215	36,920
Change in asset retirement costs	1,375	-	-	1,375
Depreciation, depletion and amortization	(32,307)	-	(886)	(33,193)
Reclassification to assets held for sale (see Note 4)	(18,469)	(35,431)	(55)	(53,955)
Disposals, net	(697)	(2,109)	(504)	(3,310)
Currency translation differences	1,764	31	34	1,829
Cost	525,089	77,953	17,949	620,991
Accumulated depreciation, depletion and amortization	(208,179)	-	(4,611)	(212,790)
<b>Net book value at 31 December 2018</b>	<b>316,910</b>	<b>77,953</b>	<b>13,338</b>	<b>408,201</b>
Additions	6,676	170,309	-	176,985
Transfers	58,000	(62,993)	4,993	-
Reorganization (see Note 4)	18,605	3,165	-	21,770
Change in asset retirement costs	3,552	-	-	3,552
Depreciation, depletion and amortization	(30,805)	-	(1,066)	(31,871)
Reclassification to assets held for sale (see Note 4)	-	(18,761)	(386)	(19,147)
Disposals, net	(489)	(893)	(119)	(1,501)
Currency translation differences	(1,124)	(37)	(30)	(1,191)
Cost	609,958	168,743	22,294	800,995
Accumulated depreciation, depletion and amortization	(238,633)	-	(5,564)	(244,197)
<b>Net book value at 31 December 2019</b>	<b>371,325</b>	<b>168,743</b>	<b>16,730</b>	<b>556,798</b>

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

Included in additions to property, plant and equipment for the years ended 31 December 2019 and 2018 are capitalized interest and foreign exchange differences of RR 5,903 million and RR 7,395 million, respectively.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 44,070 million and RR 15,526 million at 31 December 2019 and 2018, respectively.

In 2019, as a result of the reorganization of AO Arcticgas, the Group consolidated assets relating to the North Chaselsky and Yevo Yakhinsky license areas and recorded a disposal of assets relating to the Malo Yamalsky license area. The respective net increase in the carrying value of property, plant and equipment amounted to RR 21,770 million (see Note 4).

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**5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

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 were paid at the reporting date as the auction's participation fees and included within assets under construction and advances for construction.

In August 2019, the Group won an auction for oil and gas exploration and production license for the license area including the Soletskoye-Khanaveyskoye field located on the Gydan peninsula in the YNAO for a payment of RR 2,586 million, which was included within oil and gas properties and equipment.

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 and included within assets under construction and advances for construction at 31 December 2018. The remaining amount of RR 2,006 million was paid after the state registration of the license in January 2019.

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

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

	<u>At 31 December 2019</u>	<u>At 31 December 2018</u>
Proved properties acquisition costs	100,495	71,087
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(20,463)	(19,197)
Unproved properties acquisition costs	10,997	11,947
<b>Total acquisition costs</b>	<b>91,029</b>	<b>63,837</b>

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

Reconciliation of depreciation, depletion and amortization (DDA):

	<u>Year ended 31 December:</u>	
	<u>2019</u>	<u>2018</u>
Depreciation, depletion and amortization of property, plant and equipment	31,871	33,193
Add: DDA of intangible assets	714	622
Less: DDA capitalized in the course of intra-group construction services	(355)	(721)
<b>DDA as presented in the consolidated statement of income</b>	<b>32,230</b>	<b>33,094</b>

At 31 December 2019 and 2018, no property, plant and equipment were pledged as security for the Group's borrowings. No impairment was recognized in respect of oil and gas properties and equipment for the years ended 31 December 2019 and 2018.

Capital commitments are disclosed in Note 27.

**PAO NOVATEK****Notes to the Consolidated Financial Statements**

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

**5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

**Leases.** Included in property, plant and equipment at 31 December 2019 and 2018 are the right-of-use assets primarily related to long-term agreements on time chartering of marine tankers. Movements in the carrying amounts of the right-of-use assets are as follows:

	Oil and gas properties and equipment	Other	Total
<b>Net book value at 1 January 2018</b>	<b>6,634</b>	<b>611</b>	<b>7,245</b>
Additions	2,308	172	2,480
Depreciation, depletion and amortization	(1,677)	(219)	(1,896)
Reclassification to assets held for sale	-	(15)	(15)
Other movements	1,731	25	1,756
<b>Net book value at 31 December 2018</b>	<b>8,996</b>	<b>574</b>	<b>9,570</b>
Additions	4,196	95	4,291
Depreciation, depletion and amortization	(2,278)	(180)	(2,458)
Other movements	(1,169)	(23)	(1,192)
<b>Net book value at 31 December 2019</b>	<b>9,745</b>	<b>466</b>	<b>10,211</b>

The maturity analysis of lease liabilities is disclosed in Note 26.

**Exploration for and evaluation of mineral resources.** The amounts of assets, liabilities, expense and cash flows arising from the exploration and evaluation of mineral resources comprise the following:

	Year ended 31 December:	
	2019	2018
<b>Net book value of assets at 1 January</b>	<b>19,311</b>	<b>17,805</b>
Additions	18,526	5,417
Acquisition of subsidiaries	-	14
Reorganisation (see Note 4)	(1,176)	-
Reclassification to proved properties and development expenditures	(16,279)	(3,685)
Reclassification to assets held for sale	-	(240)
<b>Net book value of assets at 31 December</b>	<b>20,382</b>	<b>19,311</b>
Liabilities	1,375	1,938
Cash flows used for operating activities	8,807	7,012
Cash flows used for investing activities	17,944	4,463

For the years ended 31 December 2019 and 2018, the Group has recognized exploration expenses within operating expenses in the amount of RR 8,386 million and RR 7,012 million, respectively. These expenses included employee compensations in the amount of RR 431 million and RR 207 million, respectively.

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**6 INVESTMENTS IN JOINT VENTURES**

	<u>At 31 December 2019</u>	<u>At 31 December 2018</u>
<i>Joint ventures:</i>		
OOO Arctic LNG 2	247,450	-
OAo Yamal LNG	150,943	48,378
AO Arcticgas	132,399	146,631
ZAO Nortgas	44,372	44,064
ZAO Terneftegas	6,394	2,434
OOO Cryogas-Vysotsk	3,511	2,991
Rostock LNG GmbH	225	2
OOO SMART LNG	46	-
<b>Total investments in joint ventures</b>	<b>585,340</b>	<b>244,500</b>

The Group considers that Arctic LNG 2, Yamal LNG, Arcticgas, 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. (see Note 4).

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

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

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

At 31 December 2019 and 2018, the Group's 50.1 percent ownership in Yamal LNG was pledged in connection with credit line facility agreements signed by Yamal LNG with a number of Russian and foreign banks to obtain external project financing.

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

In the first quarter of 2018, the Group and Gazprom Neft completed the final stage of the previously commenced restructuring procedures to achieve parity shareholdings in Arcticgas. As a result, Yamal Development and SeverEnergiya were merged with Arcticgas, and the Group's participation ownership in Arcticgas was reduced to 50 percent (see Note 4).

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

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

**PAO NOVATEK****Notes to the Consolidated Financial Statements**

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**6 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 the first train of a medium-scale LNG plant with annual capacity of 660 thousand tons, located at the port of Vysotsk on the Baltic Sea.

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

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

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

**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.

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

	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
<b>At 1 January</b>	<b>244,500</b>	<b>285,326</b>
Share of profit from operations	139,065	124,211
Share of finance income (expense)	40,432	(160,836)
Share of total income tax benefit (expense)	(30,259)	(633)
<b>Share of profit (loss) of joint ventures, net of income tax</b>	<b>149,238</b>	<b>(37,258)</b>
Share of other comprehensive income (loss) of joint ventures	451	(465)
Sale of interests in subsidiaries resulting in the recognition of investments in joint ventures (see Note 4)	147,366	-
Sale of interests in joint ventures (see Note 4)	93,053	1,645
Acquisitions of joint ventures	-	2
Reorganization (see Note 4)	(9,722)	-
Group's costs capitalized in investments	1,457	1,378
Effect from initial measurement of loans provided by the Group to joint ventures (see Note 26) net of deferred income tax	1,992	-
Effect from other changes in joint ventures' net assets	4,774	-
Capital contributions	298	-
Dividends from joint ventures	(46,550)	(8,500)
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	(1,517)	2,372
<b>At 31 December</b>	<b>585,340</b>	<b>244,500</b>

For the years ended 31 December 2019 and 2018, the Group recorded commission fees in the amount of RR 1,457 million and RR 1,378 million, respectively, for the guarantee received from the State Development Corporation VEB.RF (see Note 27) as an increase to the investment in Yamal LNG.

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**6 INVESTMENTS IN JOINT VENTURES (CONTINUED)**

For the year ended 31 December 2019, the capital of OOO Arctic LNG 2 was increased by RR 107,938 million through the cash contributions made by other participants in the form of contributions to the assets representing a part of the consideration for the disposal of a 40 percent participation interest in OOO Arctic LNG 2 (see Note 4). 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 1,789 million and was recorded as an increase in the investment in OOO Arctic LNG 2, with the corresponding effect recognized in the consolidated statement of changes in equity in accordance with the Group's accounting policy. The Group's participation interest in OOO Arctic LNG 2 did not change as a result of these transactions.

For the year ended 31 December 2019, the Group recorded an increase in equity in the amount of RR 2,985 million from remeasurement of the loans (net of deferred income tax) provided to OOO Arctic LNG 2 by other participants.

In 2019, the capital of Rostock LNG GmbH was increased through proportional contributions by its participants totaling RR 506 million, of which RR 248 were contributed by the Group.

In October 2019, the Group established OOO SMART LNG, a joint venture with PAO Sovcomflot, through proportional contributions by its participants totaling RR 100 million, of which RR 50 million were paid by the Group.

In 2019, Arcticgas declared dividends in the total amount of RR 92 billion, of which RR 46 billion were attributable to NOVATEK. Dividends in the amount of RR 91 billion, of which RR 45.5 billion were attributable to NOVATEK, were paid in 2019, and the remaining amount was paid in January 2020.

In 2019 and 2018, Nortgas declared and paid dividends in the amount of RR 1,100 million and RR 17,001 million, of which RR 550 million and RR 8,500 million, respectively, were attributable to NOVATEK.

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

For the year ended 31 December 2019, the summarized statements of financial position and statements of comprehensive income (loss) for the Group's principal joint ventures are as follows:

<i>At 31 December 2019</i>	<b>Arctic LNG 2</b>	<b>Arcticgas</b>	<b>Yamal LNG</b>	<b>Nortgas</b>
Property, plant and equipment and materials for construction	415,122	400,614	2,392,117	125,638
Other non-current non-financial assets	122	13	1,341	34
Non-current financial assets	-	69	-	13
<b>Total non-current assets</b>	<b>415,244</b>	<b>400,696</b>	<b>2,393,458</b>	<b>125,685</b>
Cash and cash equivalents	58,601	5,265	23,281	1,266
Other current financial assets	125	21,737	25,821	2,146
Current non-financial assets	19,561	9,625	33,470	374
<b>Total current assets</b>	<b>78,287</b>	<b>36,627</b>	<b>82,572</b>	<b>3,786</b>
Non-current financial liabilities	(126,606)	(66,197)	(1,958,446)	(9,654)
Non-current non-financial liabilities	(39,823)	(51,296)	(44,542)	(23,186)
<b>Total non-current liabilities</b>	<b>(166,429)</b>	<b>(117,493)</b>	<b>(2,002,988)</b>	<b>(32,840)</b>
Trade payables and accrued liabilities	(9,579)	(15,760)	(15,386)	(551)
Other current financial liabilities	(75)	(28,804)	(152,757)	(5,821)
Current non-financial liabilities	(101)	(10,468)	(3,453)	(1,515)
<b>Total current liabilities</b>	<b>(9,755)</b>	<b>(55,032)</b>	<b>(171,596)</b>	<b>(7,887)</b>
<b>Net assets</b>	<b>317,347</b>	<b>264,798</b>	<b>301,446</b>	<b>88,744</b>



**PAO NOVATEK**

**Notes to the Consolidated Financial Statements**

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**6 INVESTMENTS IN JOINT VENTURES (CONTINUED)**

<i>For the year ended 31 December 2019</i>	<b>Arctic LNG 2</b>	<b>Arcticgas</b>	<b>Yamal LNG</b>	<b>Nortgas</b>
Revenues	36	196,191	324,018	21,137
Depreciation, depletion and amortization	-	(22,523)	(102,403)	(7,893)
<b>Profit (loss) from operations</b>	<b>(485)</b>	<b>103,573</b>	<b>164,106</b>	<b>3,765</b>
Interest expense	(77)	(5,389)	(126,627)	(1,709)
Change in fair value of non-commodity financial instruments	(581)	-	(9,231)	-
Foreign exchange gain (loss), net	1,702	1	213,509	-
Profit (loss) before income tax	574	99,400	242,139	2,216
Income tax benefit (expense)	(120)	(16,337)	(41,309)	(447)
<b>Profit (loss), net of income tax</b>	<b>454</b>	<b>83,063</b>	<b>200,830</b>	<b>1,769</b>
Other comprehensive income (loss)	(11)	(84)	1,092	(53)
<b>Total comprehensive income (loss)</b>	<b>443</b>	<b>82,979</b>	<b>201,922</b>	<b>1,716</b>

The information above reflects the amounts presented in the financial statements of the joint ventures adjusted for differences in accounting policies between the Group and the joint ventures.

Reconciliation of the summarized financial information presented to the Group's share in net assets of the joint ventures:

<i>As at and for the year ended 31 December 2019</i>	<b>Arctic LNG 2</b>	<b>Arcticgas</b>	<b>Yamal LNG</b>	<b>Nortgas</b>
<b>Net assets at 1 January 2019</b>	<b>-</b>	<b>293,263</b>	<b>96,614</b>	<b>88,128</b>
Profit (loss), net of income tax	454	83,063	200,830	1,769
Other comprehensive loss	(11)	(84)	1,092	(53)
Sale of interests in subsidiaries (see Note 4)	200,673	-	-	-
Capital contributions	107,938	-	-	-
Reorganization (see Note 4)	-	(19,444)	-	-
Other equity movements	8,293	-	2,910	-
Dividends	-	(92,000)	-	(1,100)
<b>Net assets at 31 December 2019</b>	<b>317,347</b>	<b>264,798</b>	<b>301,446</b>	<b>88,744</b>
Ownership	60%	50%	50.1%	50%
<b>Group's share in net assets</b>	<b>190,408</b>	<b>132,399</b>	<b>150,943</b>	<b>44,372</b>

At 31 December 2019, the Group's investment in OOO Arctic LNG 2 totaled RR 247,450 million, which differed from its share in the net assets of Arctic LNG 2. This difference of RR 57,042 million related to the Group's share in the future cash payments in the form of capital contributions by other participants representing a part of the consideration for the disposal of a 40 percent interest in OOO Arctic LNG 2 (see Note 4).

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**6 INVESTMENTS IN JOINT VENTURES (CONTINUED)**

For the year ended 31 December 2018, the summarized statements of financial position and statements of comprehensive income (loss) for the Group's principal joint ventures are as follows:

<i>At 31 December 2018</i>	<b>Arcticgas</b>	<b>Yamal LNG</b>	<b>Nortgas</b>
Property, plant and equipment and materials for construction	400,606	2,155,305	130,956
Other non-current non-financial assets	13	828	36
Non-current financial assets	70	-	9
<b>Total non-current assets</b>	<b>400,689</b>	<b>2,156,133</b>	<b>131,001</b>
Cash and cash equivalents	27,139	8,407	1,151
Other current financial assets	27,595	37,685	2,053
Current non-financial assets	2,117	32,213	444
<b>Total current assets</b>	<b>56,851</b>	<b>78,305</b>	<b>3,648</b>
Non-current financial liabilities	(65,160)	(1,832,224)	(15,435)
Non-current non-financial liabilities	(46,800)	(24,312)	(23,504)
<b>Total non-current liabilities</b>	<b>(111,960)</b>	<b>(1,856,536)</b>	<b>(38,939)</b>
Trade payables and accrued liabilities	(12,868)	(36,558)	(468)
Other current financial liabilities	(28,615)	(244,567)	(5,587)
Current non-financial liabilities	(10,834)	(163)	(1,527)
<b>Total current liabilities</b>	<b>(52,317)</b>	<b>(281,288)</b>	<b>(7,582)</b>
<b>Net assets</b>	<b>293,263</b>	<b>96,614</b>	<b>88,128</b>
<i>For the year ended 31 December 2018</i>	<b>Arcticgas</b>	<b>Yamal LNG</b>	<b>Nortgas</b>
Revenues	195,066	181,835	23,339
Depreciation, depletion and amortization	(21,219)	(31,253)	(7,288)
<b>Profit from operations</b>	<b>108,904</b>	<b>129,722</b>	<b>6,623</b>
Interest expense	(7,163)	(63,350)	(2,142)
Change in fair value of non-commodity financial instruments	-	(24,624)	-
Foreign exchange gain (loss), net	(7)	(216,255)	-
Profit (loss) before income tax	102,971	(174,202)	5,162
Income tax benefit (expense)	(17,056)	16,477	(1,059)
<b>Profit (loss), net of income tax</b>	<b>85,915</b>	<b>(157,725)</b>	<b>4,103</b>
Other comprehensive income (loss)	(95)	(798)	(11)
<b>Total comprehensive income (loss)</b>	<b>85,820</b>	<b>(158,523)</b>	<b>4,092</b>

The information above reflects the amounts presented in the financial statements of the joint ventures adjusted for differences in accounting policies between the Group and the joint ventures.

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**6 INVESTMENTS IN JOINT VENTURES (CONTINUED)**

Reconciliation of the summarized financial information presented to the Group's share in net assets of the joint ventures:

<i>As at and for the year ended 31 December 2018</i>	Arcticgas	Yamal LNG	Nortgas
<b>Net assets at 1 January 2018</b>	<b>180,630</b>	<b>252,385</b>	<b>101,037</b>
Profit (loss), net of income tax	85,915	(157,725)	4,103
Other comprehensive loss	(95)	(798)	(11)
Restructuring (see Note 4)	26,813	-	-
Other equity movements	-	2,752	-
Dividends	-	-	(17,001)
<b>Net assets at 31 December 2018</b>	<b>293,263</b>	<b>96,614</b>	<b>88,128</b>
Ownership	50%	50.1%	50%
<b>Group's share in net assets</b>	<b>146,631</b>	<b>48,378</b>	<b>44,064</b>

**7 LONG-TERM LOANS AND RECEIVABLES**

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

	At 31 December 2019	At 31 December 2018
Long-term loans receivable	282,310	272,901
Other long-term receivables	403	407
<b>Total</b>	<b>282,713</b>	<b>273,308</b>
Less: current portion of long-term loans receivable	(50,815)	(40,386)
<b>Total long-term loans and receivables</b>	<b>231,898</b>	<b>232,922</b>

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

	At 31 December 2019	At 31 December 2018
OAQ Yamal LNG	199,623	265,606
OOO Arctic LNG 2	76,085	-
OOO Cryogas-Vysotsk	6,521	6,012
ZAO Terneftegas	81	1,283
<b>Total long-term loans receivable</b>	<b>282,310</b>	<b>272,901</b>

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

For the year ended 31 December 2019, Yamal LNG repaid to the Group a part of the loans and accrued interest in the amount of RR 65,210 million.

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

## PAO NOVATEK

### Notes to the Consolidated Financial Statements

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#### 7 LONG-TERM LOANS AND RECEIVABLES (CONTINUED)

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

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

For the years ended 31 December 2019 and 2018, Terneftegas repaid to the Group a part of the loans and accrued interest in the total amount of RR 1,142 million and RR 1,673 million, respectively.

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

#### 8 OTHER NON-CURRENT ASSETS

	<u>At 31 December 2019</u>	<u>At 31 December 2018</u>
<b>Financial assets</b>		
Contingent consideration (see Note 26)	101,391	-
Commodity derivatives	749	2,397
Other financial assets	8	7
<b>Non-financial assets</b>		
Long-term advances	9,549	15,289
Materials for construction	12,552	10,852
Deferred income tax assets	14,800	6,486
Intangible assets, net	2,644	2,119
Other non-financial assets	642	277
<b>Total other non-current assets</b>	<b>142,335</b>	<b>37,427</b>

At 31 December 2019 and 2018, the long-term advances represented advances to OAO Russian Railways. The advances were paid in accordance with the Strategic Partnership Agreement signed with Russian Railways in 2012.

#### 9 INVENTORIES

	<u>At 31 December 2019</u>	<u>At 31 December 2018</u>
Natural gas and liquid hydrocarbons	8,685	14,465
Materials and supplies (net of provision of RR 5 million and RR 4 million at 31 December 2019 and 2018)	3,550	2,760
Other inventories	28	26
<b>Total inventories</b>	<b>12,263</b>	<b>17,251</b>

No inventories were pledged as security for the Group's borrowings or payables at both dates.

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**10 TRADE AND OTHER RECEIVABLES**

	<u>At 31 December 2019</u>	<u>At 31 December 2018</u>
Trade receivables (net of provision of RR 362 million and RR 349 million at 31 December 2019 and 2018, respectively)	48,539	48,347
Other receivables (net of provision of RR 317 million and RR 323 million at 31 December 2019 and 2018, respectively)	181,042	6,086
<b>Total trade and other receivables</b>	<b>229,581</b>	<b>54,433</b>

Trade receivables in the amount RR 16,996 million and RR 12,413 million at 31 December 2019 and 2018, respectively, are secured by letters of credit, issued by banks with investment grade rating. The Group does not hold any other collateral as security for trade and other receivables (see Note 26 for credit risk disclosures).

At 31 December 2019, other receivables included RR 173,336 million related to receivables in respect of the transactions on the sale of a 40 percent participation interest in OOO Arctic LNG 2 (see Note 4).

The carrying values of trade and other receivables approximate their respective fair values. Trade and other receivables were categorized as Level 3 in the fair value measurement hierarchy described in Note 26.

Movements in the Group's provision for impairment of trade receivables are as follows:

	<u>Year ended 31 December:</u>	
	<u>2019</u>	<u>2018</u>
<b>At 1 January</b>	<b>349</b>	<b>284</b>
Additional provision recorded	113	42
Acquisition of subsidiaries	-	107
Receivables written off as uncollectible	(72)	(26)
Provision reversed	(28)	(58)
<b>At 31 December</b>	<b>362</b>	<b>349</b>

The provision for impaired trade and other receivables has been included in the consolidated statement of income in net impairment expenses.

**11 PREPAYMENTS AND OTHER CURRENT ASSETS**

	<u>At 31 December 2019</u>	<u>At 31 December 2018</u>
<b><i>Financial assets</i></b>		
Current portion of long-term loans receivable (see Note 7)	50,815	40,386
Commodity derivatives	16,966	9,313
Other financial assets	622	-
<b><i>Non-financial assets</i></b>		
Value-added tax receivable	22,401	12,646
Prepayments and advances to suppliers	9,879	7,066
Recoverable value-added tax	6,026	8,467
Deferred transportation expenses for natural gas	2,064	3,963
Deferred transportation expenses for liquid hydrocarbons	1,784	3,100
Deferred export duties for liquid hydrocarbons	1,218	3,210
Prepaid customs duties	530	604
Other non-financial assets	1,536	890
<b>Total prepayments and other current assets</b>	<b>113,841</b>	<b>89,645</b>

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**12 CASH AND CASH EQUIVALENTS**

	<u>At 31 December 2019</u>	<u>At 31 December 2018</u>
Cash at current bank accounts	22,736	30,196
Bank deposits with original maturity of three months or less	30,504	11,276
<b>Total cash and cash equivalents</b>	<b>53,240</b>	<b>41,472</b>

All deposits are readily convertible to known amounts of cash and are not subject to significant risk of change in value (see Note 26 for credit risk disclosures).

**13 LONG-TERM DEBT**

	<u>At 31 December 2019</u>	<u>At 31 December 2018</u>
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	61,833	69,359
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	40,209	45,094
Loan from Silk Road Fund	42,115	48,757
Bank loans	7,941	8,953
<b>Total</b>	<b>152,098</b>	<b>172,163</b>
Less: current portion of long-term debt	(12,246)	(2,120)
<b>Total long-term debt</b>	<b>139,852</b>	<b>170,043</b>

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

In February 2011, the Group issued US dollar denominated Eurobonds in the amount of USD 650 million. The US dollar denominated Eurobonds were issued with an annual coupon rate of 6.604 percent, payable semi-annually. The Eurobonds have a ten-year tenor and are repayable in February 2021.

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

**Bank loans.** In December 2016, the Group obtained EUR 100 million under a revolving credit line facility from the Russian subsidiary of a foreign bank. The loan is repayable in April 2020 and includes the maintenance of certain restrictive financial covenants.

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

The fair value of long-term debt including its current portion was RR 164,310 million and RR 176,984 million at 31 December 2019 and 2018, respectively. The fair value of the corporate bonds was determined based on market quote prices (Level 1 in the fair value measurement hierarchy described in Note 26). 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 26).

Scheduled maturities of long-term debt are disclosed in Note 26.

**Available credit line facilities.** In addition to disclosed above, at 31 December 2019, the Group had available long-term bank credit line facilities with credit limits for the total amount of RR 150 billion. The facilities include the maintenance of certain restrictive financial covenants.

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**14 SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT**

At 31 December 2019 and 2018, short-term debt and current portion of long-term debt consisted only of current portion of long-term debt in the amount of RR 12,246 million and RR 2,120 million, respectively.

**Loans with original maturity three months or less.** During 2019 and 2018, the Group had available revolving credit line facilities under which the obtained loans with original maturities of three months or less to finance trade activities were secured by cash revenues from specifically determined liquid hydrocarbons export sales contracts. At 31 December 2019 and 2018, these loans were repaid.

**Available credit line facilities.** At 31 December 2019, the Group had available short-term revolving bank credit line facilities, with credit limits in the total amount of RR 20 billion.

**15 PENSION OBLIGATIONS**

**Defined contribution plan.** For the years ended 31 December 2019 and 2018, total amounts recognized as an expense in respect of payments made by employer on behalf of employees to the Pension Fund of the Russian Federation were RR 3,190 million and RR 2,608 million, respectively.

**Defined benefit plan.** The Group operates a post-employment benefit program for its retired employees. Under the current terms of the pension program, employees who are employed and retire from the Group on or after the statutory retirement age will receive from the Group pension benefits in the form of a lump sum retirement benefit and/or monthly life payments unless they are reemployed. The type and amounts of payments to be disbursed depend on the employee's average salary, duration and location of employment.

The program represents an unfunded defined benefit plan and is accounted for as such under provisions of IAS 19, *Employee Benefits*. The present value of the defined benefit obligation is included in other non-current liabilities in the consolidated statement of financial position. The impact of the program on the consolidated financial statements is disclosed below.

The movements in the present value of the defined benefit obligation are as follows:

	Year ended 31 December:	
	2019	2018
<b>At 1 January</b>	<b>4,174</b>	<b>3,198</b>
Interest cost	269	217
Current service cost	340	254
Past service cost	(496)	(80)
Benefits paid	(152)	(138)
Actuarial gains (losses) arising from:		
- changes in financial assumptions	1,064	180
- changes in demographic assumptions	68	(15)
- experience adjustments	(156)	560
Reclassification to liabilities associated with assets held for sale	-	(2)
<b>At 31 December</b>	<b>5,111</b>	<b>4,174</b>

*Defined benefit plan (benefits) costs were recognized in:*

	Year ended 31 December:	
	2019	2018
Materials, services and other (as employee compensation)	76	206
General and administrative expenses (as employee compensation)	37	185
Other comprehensive loss	976	725



## PAO NOVATEK

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#### 15 PENSION OBLIGATIONS (CONTINUED)

The principal actuarial assumptions used are as follows:

	<u>At 31 December 2019</u>	<u>At 31 December 2018</u>
Weighted average discount rate	5.6%	7.7%
Projected annual increase in employee compensation	4.0%	5.0%
Expected increases to pension benefits	4.0%	5.0%

The discount rate was determined by reference to Russian rouble denominated bonds issued by the Government of the Russian Federation chosen to match the duration of the post-employment benefit obligations.

The assumed average salary and pension payment increases for Group employees have been calculated on the basis of inflation forecasts, analysis of increases of past salaries and the general salary policy of the Group.

Mortality assumptions are based on the Russian mortality tables published by the Federal State Statistics Service from the year 2014 adjusted for estimates of mortality improvements in the future periods.

The Group's management has assessed that reasonable changes in the principal significant actuarial assumptions will not have a significant impact on the consolidated statement of income or the consolidated statement of comprehensive income or the liability recognized in the consolidated statement of financial position.

#### 16 TRADE PAYABLES AND ACCRUED LIABILITIES

	<u>At 31 December 2019</u>	<u>At 31 December 2018</u>
<i>Financial liabilities</i>		
Trade payables	50,048	46,692
Commodity derivatives	16,450	8,492
Interest payable	1,291	1,451
Other payables	3,188	7,639
<i>Non-financial liabilities</i>		
Advances from customers	4,253	5,447
Salary payables	915	837
Other liabilities and accruals	10,583	8,683
<b>Total trade payables and accrued liabilities</b>	<b>86,728</b>	<b>79,241</b>

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 26.

During the years ended 31 December 2019 and 2018, advances from customers in the amount of RR 4,570 million and RR 4,394 million, respectively, remained at the beginning of the respective period were recognized as revenue.

#### 17 SHAREHOLDERS' EQUITY

**Ordinary share capital.** Share capital issued and paid in consisted of 3,036,306,000 ordinary shares with a par value of RR 0.1 each at 31 December 2019 and 2018. The total authorized number of ordinary shares was 10,593,682,000 shares at both dates.

**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.

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**17 SHAREHOLDERS' EQUITY (CONTINUED)**

During the years ended 31 December 2019 and 2018, the Group purchased 1.7 million and 2.7 million ordinary shares at a total cost of RR 1,863 million and RR 2,092 million, respectively. At 31 December 2019 and 2018, the Group held in total 25.1 million and 23.4 million ordinary shares at a total cost of RR 12,308 million and RR 10,445 million, respectively. The Group has decided that these shares do not vote.

**Dividends.** Dividends (including tax on dividends) declared and paid were as follows:

	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
Dividends payable at 1 January	-	1
Dividends declared (*)	93,468	51,979
Dividends paid (*)	(93,468)	(51,980)
<b>Dividends payable at 31 December</b>	<b>-</b>	<b>-</b>
Dividends per share declared during the year (in Russian roubles)	31.04	17.25
Dividends per GDR declared during the year (in Russian roubles)	310.40	172.50

(\*) – excluding treasury shares.

The Group declares and pays dividends in Russian roubles. Dividends declared in 2019 and 2018 were as follows:

Final for 2018: RR 16.81 per share or RR 168.10 per GDR declared in April 2019	51,040
Interim for 2019: RR 14.23 per share or RR 142.30 per GDR declared in September 2019	43,207
<b>Total dividends declared in 2019</b>	<b>94,247</b>
Final for 2017: RR 8.00 per share or RR 80.00 per GDR declared in April 2018	24,291
Interim for 2018: RR 9.25 per share or RR 92.50 per GDR declared in September 2018	28,086
<b>Total dividends declared in 2018</b>	<b>52,377</b>

**Distributable retained earnings.** The basis for distribution of profits of a company to shareholders is defined by Russian legislation as net profit presented in its statutory financial statements prepared in accordance with the Regulations on Accounting and Reporting of the Russian Federation, which may differ significantly from amounts calculated on the basis of IFRS. At 31 December 2019 and 2018, NOVATEK's closing balances of the accumulated profit including the respective year's net statutory profit totaled RR 694,890 million and RR 551,913 million, respectively.

**18 OIL AND GAS SALES**

	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
Natural gas	414,844	375,198
Naphtha	144,541	149,770
Crude oil	114,641	106,257
Other gas and gas condensate refined products	88,010	89,686
Liquefied petroleum gas	47,668	56,243
Stable gas condensate	42,528	48,607
<b>Total oil and gas sales</b>	<b>852,232</b>	<b>825,761</b>

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**19 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS**

	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
Natural gas	175,023	150,811
Unstable gas condensate	138,092	155,360
Other liquid hydrocarbons	21,775	13,819
Reverse excise	(4,072)	-
<b>Total purchases of natural gas and liquid hydrocarbons</b>	<b>330,818</b>	<b>319,990</b>

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 29).

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 29).

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

**20 TRANSPORTATION EXPENSES**

	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
Natural gas transportation by trunk and low-pressure pipelines	97,371	96,146
Stable gas condensate and liquefied petroleum gas transportation by rail	32,674	30,643
Crude oil transportation by trunk pipelines	9,639	8,557
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	8,589	8,307
Other	3,378	2,011
<b>Total transportation expenses</b>	<b>151,651</b>	<b>145,664</b>

**21 TAXES OTHER THAN INCOME TAX**

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

	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
Unified natural resources production tax	57,935	54,644
Property tax	3,658	3,595
Other taxes	388	529
<b>Total taxes other than income tax</b>	<b>61,981</b>	<b>58,768</b>

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**22 MATERIALS, SERVICES AND OTHER**

	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
Employee compensation	11,273	9,815
Repair and maintenance	2,778	2,948
Preparation and processing of hydrocarbons	2,431	2,009
Materials and supplies	1,945	1,963
Electricity and fuel	1,551	1,311
Liquefied petroleum gas volumes reservation expenses	1,157	1,155
Fire safety and security expenses	1,051	976
Transportation services	924	822
Rent expenses	591	416
Insurance expenses	366	340
Other	1,116	920
<b>Total materials, services and other</b>	<b>25,183</b>	<b>22,675</b>

**23 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
Employee compensation	17,905	15,807
Social expenses and compensatory payments	2,503	2,484
Legal, audit, and consulting services	975	1,122
Business travel expense	720	621
Advertising expenses	531	465
Fire safety and security expenses	509	471
Repair and maintenance expenses	228	229
Rent expenses	189	176
Other	1,008	907
<b>Total general and administrative expenses</b>	<b>24,568</b>	<b>22,282</b>

**Auditor's fees.** AO PricewaterhouseCoopers Audit has served as the independent external auditor of PAO NOVATEK for each of the reported financial years. The independent external auditor is subject to appointment at the Annual General Meeting of shareholders based on the recommendations from the Board of Directors. The aggregate fees for audit and other services rendered by PricewaterhouseCoopers Audit to the parent company of the Group included within legal, audit, and consulting services are as follows:

	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
Audits of PAO NOVATEK (audit of the Group's consolidated financial statements and audit of statutory financial statements of PAO NOVATEK)	37	34
Other services	12	8
<b>Total auditor's fees and services</b>	<b>49</b>	<b>42</b>

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**24 FINANCE INCOME (EXPENSE)**

<i>Interest expense (including transaction costs)</i>	Year ended 31 December:	
	2019	2018
Interest expense on fixed rate debt	9,079	8,615
Interest expense on variable rate debt	33	87
<b>Total</b>	<b>9,112</b>	<b>8,702</b>
Less: capitalized interest	(5,903)	(5,032)
<b>Interest expense on debt</b>	<b>3,209</b>	<b>3,670</b>
Provisions for asset retirement obligations:		
effect of the present value discount unwinding	738	602
Interest expense on lease liabilities	544	474
<b>Total interest expense</b>	<b>4,491</b>	<b>4,746</b>

<i>Interest income</i>	Year ended 31 December:	
	2019	2018
Interest income on loans receivable classified as at amortised cost	963	653
Interest income on loans receivable classified as at fair value through profit or loss	15,319	11,940
Interest income on cash, cash equivalents, deposits and other assets	4,417	1,410
<b>Total interest income</b>	<b>20,699</b>	<b>14,003</b>

<i>Foreign exchange gains (losses)</i>	Year ended 31 December:	
	2019	2018
Gains	37,683	70,704
Losses	(82,430)	(44,845)
<b>Total foreign exchange gain (loss), net</b>	<b>(44,747)</b>	<b>25,859</b>

**25 INCOME TAX**

*Reconciliation of income tax.* The table below reconciles actual income tax expense and theoretical income tax, determined based on the applicable rates for each of the Group's entities and their accounting profit before income tax.

	Year ended 31 December:	
	2019	2018
Profit before income tax	1,003,115	228,534
Theoretical income tax expense at applicable rates of the Group's entities	192,157	38,878
Increase (decrease) due to:		
Permanent differences in respect of the Group's share of loss (profit) of joint ventures	(29,544)	6,977
Permanent differences in respect of disposal of interests in subsidiaries and joint ventures	(44,507)	(329)
Other differences	1,548	61
<b>Total income tax expense</b>	<b>119,654</b>	<b>45,587</b>

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**25 INCOME TAX (CONTINUED)**

Domestic and foreign components of current income tax expense were:

	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
Russian Federation income tax	95,590	42,968
Foreign income tax	2,242	1,575
<b>Total current income tax expense</b>	<b>97,832</b>	<b>44,543</b>

**Effective income tax rate.** The Russian statutory income tax rate for 2019 and 2018 was 20 percent. A number of the Group's investment projects were included by the government authorities in the list of priority projects, in respect of them the Group was able to apply a reduced income tax rate. Profits of the Group's foreign subsidiaries are taxed at rates applicable in accordance with legislation of the respective jurisdiction.

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 years ended 31 December 2019 and 2018 was 16.7 percent and 17.3 percent, respectively.

For the year ended 31 December 2019, the Group paid income tax in the amount of RR 99.6 billion, inclusive of a payment of RR 40 billion to a government controlled entity under an agreement to finance infrastructure facilities in federal ownership in YNAO, to which an investment tax credit was applied.

In respect of PAO NOVATEK and the majority of its Russian subsidiaries, the Group submits a single consolidated income tax return in accordance with Russian tax legislation (see Note 31).

**Deferred income tax.** Differences between IFRS and Russian statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes.

Deferred income tax balances are presented in the consolidated statement of financial position as follows:

	<b>At 31 December 2019</b>	<b>At 31 December 2018</b>
Long-term deferred income tax asset (other non-current assets)	14,800	6,486
Long-term deferred income tax liability	(62,146)	(29,927)
<b>Net deferred income tax liability</b>	<b>(47,346)</b>	<b>(23,441)</b>

Deferred income tax assets expected to be realized within twelve months as of 31 December 2019 and 2018 were RR 4,031 million and RR 3,768 million, respectively. Deferred tax liabilities expected to be reversed within twelve months of 31 December 2019 and 2018 were RR 1,521 million and RR 1,113 million, respectively.

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**25 INCOME TAX (CONTINUED)**

Movements in deferred income tax assets and liabilities during the years ended 31 December 2019 and 2018 are as follows:

	At 31 December 2018	Statement of Income effect	Statement of Comprehensive Income effect	Statement of Financial Position effect	At 31 December 2019
Property, plant and equipment	(36,895)	(3,732)	-	(4,304)	(44,931)
Contingent consideration	-	(20,278)	-	-	(20,278)
Other	(1,483)	(405)	34	9	(1,845)
<b>Deferred income tax liabilities</b>	<b>(38,378)</b>	<b>(24,415)</b>	<b>34</b>	<b>(4,295)</b>	<b>(67,054)</b>
<i>Less: deferred tax assets offset</i>	<i>8,451</i>	<i>(3,543)</i>	-	-	<i>4,908</i>
<b>Total deferred income tax liabilities</b>	<b>(29,927)</b>	<b>(27,958)</b>	<b>34</b>	<b>(4,295)</b>	<b>(62,146)</b>
Tax losses carried forward	4,943	3,634	-	(336)	8,241
Property, plant and equipment	3,509	(33)	-	69	3,545
Asset retirement obligations	1,708	843	-	(9)	2,542
Inventories	2,304	(24)	2	(332)	1,950
Trade payables and accrued liabilities	1,234	190	(13)	1	1,412
Loans receivable	1,009	(2,460)	989	1,811	1,349
Other	230	443	(3)	(1)	669
<b>Deferred income tax assets</b>	<b>14,937</b>	<b>2,593</b>	<b>975</b>	<b>1,203</b>	<b>19,708</b>
<i>Less: deferred tax liabilities offset</i>	<i>(8,451)</i>	<i>3,543</i>	-	-	<i>(4,908)</i>
<b>Total deferred income tax assets</b>	<b>6,486</b>	<b>6,136</b>	<b>975</b>	<b>1,203</b>	<b>14,800</b>
<b>Net deferred income tax liabilities</b>	<b>(23,441)</b>	<b>(21,822)</b>	<b>1,009</b>	<b>(3,092)</b>	<b>(47,346)</b>

	At 31 December 2017	Statement of Income effect	Statement of Comprehensive Income effect	Statement of Financial Position effect	At 31 December 2018
Property, plant and equipment	(31,983)	(2,550)	(2)	(2,360)	(36,895)
Other	(1,282)	(205)	22	(18)	(1,483)
<b>Deferred income tax liabilities</b>	<b>(33,265)</b>	<b>(2,755)</b>	<b>20</b>	<b>(2,378)</b>	<b>(38,378)</b>
<i>Less: deferred tax assets offset</i>	<i>7,098</i>	<i>669</i>	-	<i>684</i>	<i>8,451</i>
<b>Total deferred income tax liabilities</b>	<b>(26,167)</b>	<b>(2,086)</b>	<b>20</b>	<b>(1,694)</b>	<b>(29,927)</b>
Tax losses carried forward	3,607	2,253	-	(917)	4,943
Property, plant and equipment	3,102	754	-	(347)	3,509
Inventories	2,438	(648)	(2)	516	2,304
Asset retirement obligations	1,389	351	-	(32)	1,708
Trade payables and accrued liabilities	1,237	(2)	9	(10)	1,234
Loans receivable	1,996	(987)	-	-	1,009
Other	227	(10)	7	6	230
<b>Deferred income tax assets</b>	<b>13,996</b>	<b>1,711</b>	<b>14</b>	<b>(784)</b>	<b>14,937</b>
<i>Less: deferred tax liabilities offset</i>	<i>(7,098)</i>	<i>(669)</i>	-	<i>(684)</i>	<i>(8,451)</i>
<b>Total deferred income tax assets</b>	<b>6,898</b>	<b>1,042</b>	<b>14</b>	<b>(1,468)</b>	<b>6,486</b>
<b>Net deferred income tax liabilities</b>	<b>(19,269)</b>	<b>(1,044)</b>	<b>34</b>	<b>(3,162)</b>	<b>(23,441)</b>



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**25 INCOME TAX (CONTINUED)**

At 31 December 2019, the Group had recognized deferred income tax assets of RR 8,241 million (31 December 2018: RR 4,943 million) in respect of unused tax loss carry forwards of RR 41,456 million (31 December 2018: RR 25,029 million). In accordance with tax legislation of Russian Federation effective 1 January 2017, taxable profits can be reduced in the amount of tax losses carried forward for relief during unlimited period of time, at the same time in 2017 to 2021 tax losses carried forward cannot exceed 50 percent of taxable profits. In determining future taxable profits and the amount of tax benefits that are probable in the future, the Group's management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

**26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS**

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

<i>Financial assets</i>	At 31 December 2019		At 31 December 2018	
	Non-current	Current	Non-current	Current
<i>At amortised cost</i>				
Long-term loans receivable	11,408	2,878	9,556	-
Trade and other receivables	403	229,581	407	54,433
Short-term bank deposits				
with original maturity more than three months	-	83,752	-	27,788
Cash and cash equivalents	-	53,240	-	41,472
Other	8	622	7	-
<i>At fair value through profit or loss</i>				
Long-term loans receivable	220,087	47,937	222,959	40,386
Contingent consideration	101,391	-	-	-
Commodity derivatives	749	16,966	2,397	9,313
<b>Total financial assets</b>	<b>334,046</b>	<b>434,976</b>	<b>235,326</b>	<b>173,392</b>
<i>Financial liabilities</i>				
<i>At amortised cost</i>				
Long-term debt	139,852	12,246	170,043	2,120
Long-term lease liabilities	7,516	2,947	7,473	2,325
Interest payable	-	1,291	-	1,451
Trade and other payables	-	53,236	-	54,331
<i>At fair value through profit or loss</i>				
Commodity derivatives	1,680	16,450	2,403	8,492
<b>Total financial liabilities</b>	<b>149,048</b>	<b>86,170</b>	<b>179,919</b>	<b>68,719</b>

**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.

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**26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)**

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

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

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

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

<i>Commodity derivatives</i>	At 31 December 2019	At 31 December 2018
Within other non-current and current assets	17,715	11,710
Within other non-current and current liabilities	(18,130)	(10,895)
	Year ended 31 December:	
<i>Included in other operating income (loss)</i>	2019	2018
Operating income (loss) from natural gas foreign trading	(1,072)	(2,278)
Change in fair value	238	(450)

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

<i>Effect on the fair value</i>	Year ended 31 December:	
	2019	2018
Increase by ten percent	(1,478)	(2,021)
Decrease by ten percent	1,478	2,021

**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.

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**26 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:

	Year ended 31 December:	
	2019	2018
<b>At 1 January</b>	<b>263,345</b>	<b>207,051</b>
Loans provided	24,441	-
Repayment of loans and accrued interest	(66,352)	(1,673)
Recognition of loans, classified previously as intercompany, due to disposal of a subsidiary (see Note 4)	58,329	-
Initial measurement at fair value allocated to increase the Group's investments in joint ventures (see Note 6)	(3,803)	-
Subsequent remeasurement at fair value recognized in profit or loss as follows:		
– Interest income (using the effective interest rate method)	15,319	11,940
– Foreign exchange gain (loss), net	(36,082)	42,535
– Remaining effect from changes in fair value (attributable to free cash flows of the borrowers and interest rates)	12,827	3,492
<b>At 31 December</b>	<b>268,024</b>	<b>263,345</b>

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

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

<i>Effect on the fair value</i>	Year ended 31 December:	
	2019	2018
Increase by one percent	(7,752)	(10,036)
Decrease by one percent	8,142	10,650

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

Under IFRS 9, *Financial Instruments*, this contingent consideration 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.

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**26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)**

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

	<u>Year ended 31 December:</u> <u>2019</u>
<b>At 1 January</b>	-
Initial recognition of the contingent consideration (see Note 4)	137,499
Subsequent remeasurement	
at fair value recognized in profit or loss as follows:	
– Interest income (using the effective interest rate method)	2,269
– Foreign exchange gain (loss), net	(3,835)
– Remaining effect from changes in fair value (attributable to crude oil benchmark prices forecast)	(34,542)
<b>At 31 December</b>	<b>101,391</b>

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

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

<i>Effect on the fair value</i>	<b>At 31 December 2019</b>
Increase by one percent	4,492
Decrease by one percent	(4,551)

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

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

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

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

*(a) Foreign exchange risk*

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

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**26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)**

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

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

<i>At 31 December 2019</i>	<b>Russian rouble</b>	<b>US dollar</b>	<b>Euro</b>	<b>Other</b>	<b>Total</b>
<i>Financial assets</i>					
<i>Non-current</i>					
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
<i>Current</i>					
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
<i>Financial liabilities</i>					
<i>Non-current</i>					
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)
<i>Current</i>					
Short-term debt and 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)
<b>Net exposure</b>	<b>1,891</b>	<b>326,130</b>	<b>204,323</b>	<b>1,460</b>	<b>533,804</b>

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**26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)**

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

The Group chooses to provide information about market risk and potential exposure to hypothetical loss from its use of financial instruments through sensitivity analysis disclosures in accordance with IFRS requirements.

The sensitivity analysis depicted in the table below reflects the hypothetical profit (loss) that would occur assuming a ten percent increase in exchange rates and no changes in the portfolio of instruments and other variables at 31 December 2019 and 2018, respectively:

<i>Effect on profit before income tax</i>	<b>Increase in exchange rate</b>	<b>Year ended 31 December:</b>	
		<b>2019</b>	<b>2018</b>
RUB / USD	10%	32,613	438
RUB / EUR	10%	20,432	15,662

The effect of a corresponding ten percent decrease in exchange rate is approximately equal and opposite.

*(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.

**26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)**

**Natural gas supplies on the Russian domestic market.** As an independent natural gas producer, the Group is not subject to the government's regulation of natural gas prices, except for those volumes sold to residential customers. Nevertheless, the Group's prices for natural gas sold are strongly influenced by the prices regulated by the governmental agency of the Russian Federation that carries out state regulation of prices and tariffs for goods and services of natural monopolies in energy, utilities and transportation.

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

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

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

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

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

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

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

As a result, the Group's revenues from the sales of liquid hydrocarbons are subject to fluctuations in the crude oil and gas condensate refined products benchmark prices. The Group's liquid hydrocarbons purchase and sales contracts are concluded to meet supply requirements to fulfil contract obligations or for own consumption and are not within the scope of IFRS 9, *Financial Instruments*.



## 26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

*(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 31 December 2019 and 2018, the Group's debt bore fixed interest rates.

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

**Credit risk.** Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations.

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.

The table below highlights the Group's trade and other receivables to published credit ratings of its counterparties and/or their parent companies:

<i>Moody's, Fitch and/or Standard &amp; Poor's</i>	<b>At 31 December 2019</b>	<b>At 31 December 2018</b>
Investment grade rating	199,446	30,285
Non-investment grade rating	328	2,438
No external rating	29,807	21,710
<b>Total trade and other receivables</b>	<b>229,581</b>	<b>54,433</b>

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**26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)**

The table below highlights the Group's cash, cash equivalents and short-term bank deposits with original maturity more than three months to published credit ratings of its banks and/or their parent companies:

<i>Moody's, Fitch and/or Standard &amp; Poor's</i>	<b>At 31 December 2019</b>	<b>At 31 December 2018</b>
Investment grade rating	131,049	40,759
Non-investment grade rating	5,915	28,462
No external rating	28	39
<b>Total cash, cash equivalents and short-term bank deposits with original maturity more than three months</b>	<b>136,992</b>	<b>69,260</b>

Investment grade ratings classification referred to as Aaa to Baa3 for Moody's Investors Service, and as AAA to BBB- for Fitch Ratings and Standard & Poor's.

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

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

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

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

<i>At 31 December 2019</i>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Debt					
<i>Principal</i>	12,246	44,545	74,827	25,839	157,457
<i>Interest</i>	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
<b>Total financial liabilities</b>	<b>76,207</b>	<b>53,469</b>	<b>87,706</b>	<b>29,635</b>	<b>247,017</b>
<i>At 31 December 2018</i>					
Debt					
<i>Principal</i>	2,416	13,786	129,124	33,831	179,157
<i>Interest</i>	8,775	8,494	13,371	5,739	36,379
Lease liabilities	2,408	2,396	6,294	-	11,098
Trade and other payables	54,330	-	-	-	54,330
<b>Total financial liabilities</b>	<b>67,929</b>	<b>24,676</b>	<b>148,789</b>	<b>39,570</b>	<b>280,964</b>

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**26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)**

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

<i>At 31 December 2019</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Cash inflow	113,918	43,034	15,146	172,098
Cash outflow	(113,402)	(43,649)	(15,462)	(172,513)
<b>Net cash flows</b>	<b>516</b>	<b>(615)</b>	<b>(316)</b>	<b>(415)</b>
<i>At 31 December 2018</i>				
Cash inflow	133,167	47,403	42,251	222,821
Cash outflow	(132,409)	(47,367)	(42,292)	(222,068)
<b>Net cash flows</b>	<b>758</b>	<b>36</b>	<b>(41)</b>	<b>753</b>

**Reconciliation of liabilities arising from financing activities.** The movements in the Group's liabilities arising from financing activities were as follows:

	Long-term debt and interest payable	Long-term lease liabilities	Total
<b>At 1 January 2018</b>	<b>156,971</b>	<b>7,296</b>	<b>164,267</b>
Cash flows	(22,313)	(2,192)	(24,505)
<b>Non-cash movements</b>			
Non-cash additions	249	2,480	2,729
Interest accrued	8,702	474	9,176
Foreign exchange movements	28,995	1,758	30,753
Acquisition of subsidiaries	1,010	-	1,010
Reclassification to assets held for sale (see Note 4)	-	(18)	(18)
<b>At 31 December 2018</b>	<b>173,614</b>	<b>9,798</b>	<b>183,412</b>
Cash flows	(10,316)	(2,944)	(13,260)
<b>Non-cash movements</b>			
Non-cash additions	-	4,291	4,291
Interest accrued	9,112	544	9,656
Foreign exchange movements	(19,021)	(1,226)	(20,247)
<b>At 31 December 2019</b>	<b>153,389</b>	<b>10,463</b>	<b>163,852</b>

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

At 31 December 2019, the Group had investment grade ratings of BBB by Standard & Poor's, BBB by Fitch Ratings and Baa2 by Moody's Investors Service. The Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis to maintain its credit ratings.

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

**26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)**

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 2019. At 31 December 2019 and 2018, the Group's capital totaled RR 1,663 billion and RR 971 billion, respectively.

**27 CONTINGENCIES AND COMMITMENTS**

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

The Group's business operations are primarily located in the Russian Federation and are thus exposed to the economic and financial markets of the Russian Federation.

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

**Sectoral sanctions imposed by the U.S. government.** On 16 July 2014, the Office of Foreign Assets Control (OFAC) of the U.S. Treasury included PAO NOVATEK on the Sectoral Sanctions Identification List (the "List"), which prohibits U.S. persons or persons within the United States from providing new financing to the Group for longer than 60 days (prior to 28 November 2017, this restriction applied to new financing with a maturity of more than 90 days). Whereas all other transactions, including financial, carried out by U.S. persons or within the United States with the Group are permitted. The inclusion on the List has not impacted the Group's business activities, in any jurisdiction, nor does it affect the Group's assets and debt.

Management has reviewed the Group's capital expenditure programs and existing debt portfolio and has concluded that the Group has sufficient liquidity, through internally generated (operating) cash flows, to adequately fund its core oil and gas business operations including finance of planned capital expenditure programs of its subsidiaries, as well as to repay and service all Group's short-term and long-term debt existing at the current reporting date and, therefore, inclusion on the List does not adversely impact the Group's operational activities.

The Group together with its foreign partners currently raises necessary financing for our joint ventures from non-US debt markets and lenders.

**Contractual commitments.** At 31 December 2019, the Group had contractual capital expenditures commitments aggregating approximately RR 223 billion (at 31 December 2018: RR 376 billion) mainly for development of LNG projects (through 2024), 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), and for development at the North-Russkoye (through 2021), the East-Tarkosalinskoye (through 2021), the Yarudeyskoye (through 2020), the Kharbeyskoye (through 2023), and the Yurkharovskoye (through 2022) fields all in accordance with duly signed agreements. At 31 December 2018, contractual commitments included RR 266 billion related to OOO Arctic LNG 2, which became a Group's joint venture in March 2019 (see Note 4).

**27 CONTINGENCIES AND COMMITMENTS (CONTINUED)**

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

The Group has entered into a number of agreements, relating to time chartering of marine tankers with service terms from 20 to 29 years under which provision of the services has not yet commenced. At 31 December 2019, the Group's future minimum payments under these time charter agreements amounted to 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 8.5 billion at 31 December 2019 (at 31 December 2018: USD 1.4 billion and EUR 7.2 billion). These non-financial guarantees have various terms depending mostly on passing tests proving successful project completion that is expected in the near term. After the expiry of the aforementioned guarantees, in accordance with the project financing agreements, the Group will issue non-financial guarantees enforceable only in limited circumstances specified in these agreements.

With regard to the Group's obligations under the non-financial guarantee issued to the banks providing project financing to Yamal LNG, the State 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 277 million at 31 December 2019 (at 31 December 2018: EUR 232 million).

Subsequent to the balance sheet date, in January 2020, the Group issued non-financial guarantees in favor of its joint venture Arctic LNG 2 relating to LNG-tankers time charter agreements in the amount of USD 384 million.

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

**PAO NOVATEK****Notes to the Consolidated Financial Statements**

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

**27 CONTINGENCIES AND COMMITMENTS (CONTINUED)**

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. The principal licenses of the Group and its joint ventures and their expiry dates are:

Field	License holder	License expiry date
<b>Subsidiaries:</b>		
Geofizicheskoye	OOO Arctic LNG 1	2034
Soletskoye+Khanaveyskoye	OOO Arctic LNG 1	2046
Gydanskoye	OOO Arctic LNG 1	2044
Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2034
Urengoyskoe (within the Ust-Yamsoveyskiy license area)	OOO NOVATEK-Yurkharovneftegas	2198
East-Urengoiskoye+North-Esetinskoye (within the West Yaro Yakhinsky license area)	OOO NOVATEK-Yurkharovneftegas	2025
Nyakhartinskoye	OOO NOVATEK-Yurkharovneftegas	2043
West-Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2029
Upper-Tiuteyskoye and West-Seyakhinskoye	OOO Obskiy LNG	2044
East-Tarkosalinskoye	OOO NOVATEK-Tarkosaleneftegas	2043
North-Russkoye	OOO NOVATEK-Tarkosaleneftegas	2031
Kharbeyskoye	OOO NOVATEK-Tarkosaleneftegas	2036
East-Tazovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
Urengoyskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
Dorogovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
Khancheyskoye	OOO NOVATEK-Tarkosaleneftegas	2044
Dobrovolskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
South-Khadyryakhinskoye	OOO NOVATEK-Tarkosaleneftegas	2031
North-Khancheyskoye+Khadyryakhinskoye	OOO NOVATEK-Tarkosaleneftegas	2029
Sterkhovoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
North-Chaselskoye	OOO North-Chaselskoye	Life of field
Beregovoye	AO NOVATEK-Pur	2070
Syskonsyninskoye	AO NOVATEK-Pur	2027
Yevo-Yakhinskoye	OOO Yevo-Yakhinskoye	2034
Yarudeyskoye	OOO Yargeo	2029
<b>Joint ventures:</b>		
South-Tambeyskoye	OAO Yamal LNG	2045
Salmanovskoye (Utrenneye)	OOO Arctic LNG 2	2120
Urengoyskoye (within the Samburgskiy and Yevo-Yakhinskiy license areas)	AO Arcticgas	2034
Yaro-Yakhinskoye	AO Arcticgas	2034
Samburgskoye	AO Arcticgas	2034
East-Urengoiskoye+North-Esetinskoye (within the Samburgskiy license area)	AO Arcticgas	2034
North-Urengoyskoye	ZAO Nortgas	2038
Termokarstovoye	ZAO Terneftegas	2097

Management believes the Group has the right to extend its licenses beyond the initial expiration date under the existing legislation and intends to exercise this right on all of its fields.

**PAO NOVATEK****Notes to the Consolidated Financial Statements**

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**27 CONTINGENCIES AND COMMITMENTS (CONTINUED)**

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

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

**28 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES**

The principal subsidiaries and joint ventures of the Group and respective effective ownership in the ordinary share capital at 31 December 2019 and 2018 are set out below:

	Ownership percent at 31 December:		Country of incorporation	Principal activities
	2019	2018		
<b>Subsidiaries:</b>				
OOO NOVATEK-Yurkharovneftegas	100	100	Russia	Exploration and production
OOO NOVATEK-Tarkosaleneftegas	100	100	Russia	Exploration and production
OOO Yargeo	51	51	Russia	Exploration, development and production
AO NOVATEK-Pur	100	100	Russia	Exploration and production
OOO Arctic LNG 1	100	100	Russia	Exploration and development
OOO Arctic LNG 3	100	100	Russia	Exploration and development
OOO NOVATEK-NTC	100	100	Russia	Scientific and technical support of exploration and development
OOO NOVATEK-Murmansk	100	100	Russia	Construction of large-scale offshore structures
OOO NOVATEK-Purovsky ZPK	100	100	Russia	Gas Condensate Processing Plant
OOO NOVATEK-Transervice	100	100	Russia	Transportation services
OOO NOVATEK-Ust-Luga	100	100	Russia	Fractionation and Transshipment Complex
OOO NOVATEK-AZK	100	100	Russia	Wholesale and retail trading
OOO NOVATEK-Chelyabinsk	100	100	Russia	Trading and marketing
OOO NOVATEK-Kostroma	100	100	Russia	Trading and marketing
OOO NOVATEK-Perm	100	100	Russia	Trading and marketing
OOO NOVATEK Moscow Region	100	100	Russia	Trading and marketing
Novatek Gas & Power GmbH	100	100	Switzerland	Trading and marketing
Novatek Gas & Power Asia Pte. Ltd.	100	100	Singapore	Trading and marketing
Novatek Polska Sp. z o.o. (renamed to Novatek Green Energy Sp. z o.o. in February 2020)	100	100	Poland	Trading and marketing

**PAO NOVATEK****Notes to the Consolidated Financial Statements**

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**28 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES (CONTINUED)**

	Ownership percent at 31 December:		Country of incorporation	Principal activities
	2019	2018		
<i>Joint ventures:</i>				
OAo Yamal LNG	50.1	50.1	Russia	Exploration and development, production of LNG
OOO Arctic LNG 2 (subsidiary until March 2019)	60	100	Russia	Exploration and development, construction of LNG plant
AO Arcticgas	50	50	Russia	Exploration and production
ZAO Nortgas	50	50	Russia	Exploration and production
ZAO Terneftegas	51	51	Russia	Exploration and production
OOO Cryogas-Vysotsk	51	51	Russia	Operation of medium-scale LNG plant
OOO SMART LNG	50	-	Russia	Leasing of LNG tankers
Rostock LNG GmbH	49	49	Germany	Construction of LNG transshipment terminal

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

<i>Related parties – joint ventures</i>	Year ended 31 December:	
	2019	2018
<i>Transactions</i>		
Revenue from oil and gas sales	3,210	-
Other revenues	5,304	3,258
Purchases of natural gas and liquid hydrocarbons	(296,442)	(280,570)
Materials, services and other	(164)	(133)
Interest income	16,158	12,511
Dividends declared	46,550	8,500
<i>Related parties – joint ventures</i>		
	At 31 December 2019	At 31 December 2018
<i>Balances</i>		
Long-term loans receivable	231,495	232,515
Current portion of long-term loans receivable	50,815	40,386
Trade and other receivables	1,426	330
Trade payables and accrued liabilities	27,034	26,194

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



**PAO NOVATEK****Notes to the Consolidated Financial Statements**

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**29 RELATED PARTY TRANSACTIONS (CONTINUED)**

The Group issued non-financial guarantees in favor of its joint ventures as described in Note 27.

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

<i>Related parties – entities with significant influence and their subsidiaries</i>	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
<b>Transactions</b>		
Revenue from oil and gas sales	38,325	16,511
Other revenues	106	-
Gain on disposal of interests in subsidiaries and joint ventures, net	308,578	-
Other operating income (loss), net	(7,842)	(459)
Interest income	899	-

<i>Related parties – entities with significant influence and their subsidiaries</i>	<b>At 31 December 2019</b>	<b>At 31 December 2018</b>
<b>Balances</b>		
Trade and other receivables	43,910	2,271
Contingent consideration	26,513	-
Trade payables and accrued liabilities	359	350

<i>Related parties – parties under control of key management personnel</i>	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
<b>Transactions</b>		
Purchases of construction services (capitalized within property, plant and equipment)	(14,555)	(7,107)
Transportation expenses	(10,114)	(9,449)

<i>Related parties – parties under control of key management personnel</i>	<b>At 31 December 2019</b>	<b>At 31 December 2018</b>
<b>Balances</b>		
Advances for construction	4,773	3,704
Prepayments and other current assets	487	715
Trade payables and accrued liabilities	1,898	2,104

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

<i>Related parties – members of the key management personnel</i>	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
Board of Directors	166	128
Management Committee	4,134	3,151
<b>Total compensation</b>	<b>4,300</b>	<b>3,279</b>

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.

## PAO NOVATEK

### Notes to the Consolidated Financial Statements

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#### 30 SEGMENT INFORMATION

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

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

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

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

Geographical information of the Group's oil and gas sales for the years ended 31 December 2019 and 2018 is as follows:

	Year ended 31 December:	
	2019	2018
Russia	403,639	406,621
Europe	303,564	278,367
Asia-Pacific region	120,802	138,992
North America	41,205	26,867
The Middle East	16,217	11,742
Latin America	-	4,786
Less: export duties	(33,195)	(41,614)
Total outside Russia	448,593	419,140
<b>Total oil and gas sales</b>	<b>852,232</b>	<b>825,761</b>

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 years ended 31 December 2019 and 2018, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 13.4 percent (RR 115.9 billion) and 13.9 percent (RR 115.4 billion) of total external revenues, respectively. The Group's major customer resides within the Russian Federation.

### 31 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of consolidation.** These consolidated financial statements present the assets, liabilities, equity, income, expenses and cash flows of PAO “NOVATEK” and its subsidiaries as those of a single economic entity. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvements with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Accounting policies of the Group’s subsidiaries have been changed where necessary to ensure consistency with the Group’s policies.

**Joint arrangements.** The Group undertakes a number of business activities through joint arrangements, which exist when two or more parties have joint control. Joint arrangements are classified as either joint operations or joint ventures, based on the contractual rights and obligations between the parties to the arrangement.

Interests in joint ventures are accounted for using the equity method. With regard to joint operations, the Group records its share of assets, liabilities, revenues and expenses of its joint operations in the consolidated financial statements on a line-by-line basis.

Under the equity method, an investment in a joint venture is initially recognized at cost. The difference between the cost of an acquisition and the share of the fair value of the joint venture’s identifiable net assets represents goodwill upon acquiring the joint venture.

Post-acquisition changes in the Group’s share of net assets of a joint venture are recognized as follows: (a) the Group’s share of profits or losses is recorded in the consolidated profit or loss for the year as share of financial result of joint ventures; (b) the Group’s share of other comprehensive income or loss is recognized in other comprehensive income or loss and presented separately; (c) dividends received or receivable from a joint venture are recognized as a reduction in the carrying amount of the investment; (d) all other changes in the Group’s share of the carrying value of net assets of a joint venture are recognized within retained earnings in the consolidated statement of changes in equity.

After application of the equity method, including recognizing the joint venture’s losses, the entire carrying amount of the investment is tested for impairment as a single asset whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When the Group’s share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures. The interest in a joint venture is the carrying amount of the investment in the joint venture together with any long-term interests that, in substance, form part of the Group’s net investment in the joint venture, including receivables and loans for which settlement is neither planned nor likely to occur in the foreseeable future.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group’s interest in joint ventures; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

**Business combinations.** The acquisition method of accounting is used to account for acquisitions of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill”) is recognized in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

**31 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The consideration transferred for the acquiree is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

**Disposals of subsidiaries, associates or joint ventures.** When the Group ceases to control a subsidiary as a result of its contribution to a joint venture, a joint operation or an associate, the subsidiary is deconsolidated and the retained interest in the entity is remeasured to its fair value only to the extent of the unrelated investors' interest in the joint venture, the joint operation or the associate, with the change in carrying amount recognized in profit or loss.

If the ownership interest in a joint venture is reduced but joint control is retained or replaced with significant influence, the Group continues to apply the equity method and does not remeasure the retained interest.

**Extractive activities.** The Group follows the successful efforts method of accounting for its oil and gas properties and equipment whereby property acquisitions and development costs are capitalized, and exploration costs (geological and geophysical expenditures, expenditures associated with the maintenance of non-proven reserves and other expenditures relating to exploration activity), excluding exploratory drilling expenditures and exploration license acquisition costs, are recognized within operating expenses in the consolidated statement of income as incurred.

Exploration license acquisition costs and exploratory drilling costs are recognized as exploration assets within property, plant and equipment until it is determined whether proved reserves justifying their commercial development have been found. If no proved reserves are found, the relevant costs are charged to the consolidated statement of income. When proved reserves are determined, exploration license acquisition costs are reclassified to proved properties acquisition costs and exploratory drilling costs are reclassified to development expenditure categories within property, plant and equipment. Exploration license acquisition costs and exploratory drilling costs recognized as exploration assets are reviewed for impairment on an annual basis.

The costs of 3-D seismic surveys used to assist production, increase total recoverability and determine the desirability of drilling additional development wells within proved reservoirs are capitalized as development costs. All other seismic costs are expensed as incurred.

Production costs and overheads are charged to expense as incurred.

**Property, plant and equipment.** Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation, depletion, amortization and impairment.

The cost of self-constructed assets includes the cost of direct materials, direct employee related costs, a pro-rata portion of depreciation of assets used for construction and an allocation of the Group's overhead costs.

Depreciation, depletion and amortization of oil and gas properties and equipment is calculated using the unit-of-production method for each field based upon total proved reserves for costs associated with acquisitions of proved properties and common infrastructure facilities, and proved developed reserves for other development costs, including wells. Where unit-of-production method does not reflect useful life and pattern of consumption of particular oil and gas assets, such as processing facilities serving several properties, those assets are depreciated on a straight-line basis.

Property, plant and equipment, other than oil and gas properties and equipment, are depreciated on a straight-line basis over their estimated useful lives. Land and assets under construction are not depreciated.

The estimated useful lives of the Group's property, plant and equipment depreciated on a straight-line basis are as follows:

	<u>Years</u>
Machinery and equipment	5-15
Processing facilities	20-30
Buildings	25-50

**31 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

At each reporting date management assesses whether there is any indication of impairment in respect of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less selling costs and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the respective period. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

**Borrowing costs.** Interest costs on borrowings and exchange differences arising from foreign currency borrowings (to the extent that they are regarded as an adjustment to interest costs) used to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are recognized in the consolidated statement of income.

**Asset retirement obligations.** An asset retirement obligation is recognized when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment whose construction is substantially completed. The obligation is recognized when incurred at the present value of the estimated costs of dismantling the assets, including abandonment and site restoration costs, and are included within the carrying value of property, plant and equipment.

Changes in the asset retirement obligation relating to a change in the expected pattern of settlement of the obligation, or in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the current period. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability. Changes in the obligation resulting from the passage of time are recognized in the consolidated statement of income as interest expense.

**Leases.** A contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use assets are initially measured at cost and depreciated by the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The cost of right-of-use assets comprises of initial measurement of the lease liability, any lease payments made before or at the commencement date and initial direct costs. After the commencement date, the right-of-use assets are carried at cost less accumulated depreciation and impairment losses in accordance with IAS 16, *Property, Plant and Equipment*.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and subsequently measured at amortised cost with the interest expense recognized within finance income (expense) in the consolidated statement of income.

In accordance with IFRS 16, *Leases*, the Group elected not to apply accounting requirements under this standard to short-term leases.

**Non-current assets held for sale.** Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and the sale within a year from the date of classification is highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment are not depreciated once classified as held for sale.

The Group ceases to use the equity method of accounting in relation to an interest in a joint venture or an associate classified as an asset held for sale.

**Inventories.** Natural gas, gas condensate, crude oil and gas condensate refined products are valued at the lower of cost or net realizable value. The cost of natural gas and liquid hydrocarbons includes direct cost of materials, direct operating costs, and related production overhead expenses and is recorded on weighted average cost basis. Net realizable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

**31 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Materials and supplies are carried at amounts which do not exceed their respective recoverable amounts in the normal course of business.

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

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

Certain shareholders' loans provided by the Group to its joint ventures include embedded derivatives that modify cash flows of the loans based on financial (market interest rates) and non-financial (interest rate on borrowings of the lender and free cash flows of the borrower) variables. The risks relating to these variables are interrelated; therefore, terms and conditions of each of these loans related to those variables were defined as a single compound embedded derivative. The Group classified these loans as financial assets at fair value through profit or loss (see Note 26).

The difference between the loan proceeds and the fair value at initial recognition is recorded as the Group's investment in the joint ventures. Subsequently, the loans are measured at fair value at each reporting date with recognition of the revaluation 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 such loans are disclosed separately in the consolidated statement of income.

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

The Group's non-derivative financial liabilities are measured at amortised cost. Derivatives are classified as at fair value through profit or loss. The Group does not apply hedge accounting.

Where there is an active market for a commodity, commodity contracts are accounted for as derivatives except for contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a commodity in accordance with the Group's expected purchase, sale or usage requirements. Gains or losses arising from changes in the fair value of commodity derivatives are recognized within other operating income (loss) in the consolidated statement of income (see Note 26).

An allowance for expected credit losses ("ECL") shall be recorded for financial assets classified as at amortised cost. Loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument.

For trade receivables, the Group measures loss allowances applying a simplified approach at an amount equal to lifetime ECLs. To measure the expected credit losses, expected loss rates are applied to trade receivables grouped based on the days past due. For other financial assets classified as at amortised cost, including some shareholders' loans provided, loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

The effective interest rate is the rate that exactly discounts future cash payments and receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying value of the financial asset or financial liability.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

**31 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Provisions for liabilities and charges.** Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are reassessed at each reporting date, and those changes in the provisions resulting from the passage of time are recognized in the consolidated statement of income as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

**Pension obligations.** The Group performs mandatory contributions to the Pension Fund of the Russian Federation on behalf of its employees based on gross salary payments. These contributions represent a defined contribution plan, are expensed when incurred and are included in the employee compensation in the consolidated statement of income.

The Group also operates a non-contributory post-employment defined benefit plan based on employees' years of service and average salary (see Note 15).

The liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the balance sheet date. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method.

Actuarial gains and losses on assets and liabilities arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. They are not reclassified to profit or loss in subsequent periods. Past-service costs are recognized in profit or loss in the period when a plan is amended or curtailed.

**Non-financial guarantees.** The Group issued a number of shareholder guarantees that provide compensation to third parties if a joint venture fails to perform a contractual obligation. Such guarantees meet the definition of insurance contracts and are accounted for under IFRS 4, *Insurance Contracts*. Liabilities for a non-financial guarantee are recognized when an outflow of resources embodying economic benefits required to settle the obligation is probable. The liabilities are recognized in the amount of best estimates of such an outflow.

**Income taxes.** The income tax charge or benefit comprises current tax and deferred tax and is recognized in the consolidated statement of income unless it relates to transactions that are recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Russian tax legislation allows to prepare and file a single, consolidated income tax declaration by the taxpayers' group comprised of a holding company and any number of entities with at least 90 percent ownership in each (direct or indirect). Eligible taxpayers' group must be registered with tax authorities and meet certain conditions and criteria. The tax declaration can be submitted then by any member of the group. The Group prepares a consolidated tax return for the taxpayers' group including the Company and majority of its subsidiaries in Russia.

Deferred tax assets and liabilities are recognized on temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or when the tax loss carry forwards will be utilized. The Group applies a net-basis accounting in respect of temporary differences arising from right-of-use assets and long-term lease liabilities. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

**31 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes balances relate to the same taxation authority and the same taxable entity, consolidated tax group of entities or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only with respect to individual companies of the Group (for companies outside the consolidated tax group of companies) and within the consolidated tax payers' group of companies.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognize deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

**Treasury shares.** Where any Group company purchases PAO NOVATEK's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to PAO NOVATEK shareholders until the shares are cancelled or reissued or disposed. Where such shares are subsequently reissued or disposed, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to PAO NOVATEK shareholders. Treasury shares are recorded at weighted average cost. Gains or losses resulting from subsequent sales of shares are recorded in the consolidated statement of changes in equity, net of associated costs including taxation.

**Dividends.** Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed or declared after the balance sheet date but before the consolidated financial statements are authorized for issue.

**Revenue recognition.** Revenues represent the fair value of consideration received or receivable for the sale of goods and services in the normal course of business, net of discounts, export duties, value-added tax, excise and fuel taxes.

Revenues from oil and gas sales are recognized when control over such products has transferred to a customer, which refers to ability to direct the use of, and obtain substantially all of the remaining benefits from the products. The Group considers indicators of the transfer of control, which include, but are not limited to the following: the Group has a present right to payment for the products; the Group has transferred physical possession of the products; the customer has legal title to the products; the customer has the significant risks and rewards of ownership of the products; the customer has accepted the products. Not all of the indicators have to be met for management to conclude that control has transferred and revenue could be recognized. Management uses judgment to determine whether factors collectively indicate that the customer has obtained control over the products. Revenues from services are recognized in the period in which the services are rendered.

When the consideration includes a variable amount, minimum amounts must be recognized that are not at significant risk of reversal. If sales contract includes the variability associated with market price it represents a separated embedded derivative that is treated as part of revenue. Accordingly, at the date of sale the sales price is determined on a provisional basis, and the fair value of the final sales price adjustment is re-estimated continuously with changes in fair value recognized as an adjustment to revenue.

Trade receivables are recognized when the goods are transferred as this is the point in time that the consideration is unconditional and only the passage of time is required before the payment is due. No significant element of financing is deemed present as the sales are made with short-term credit terms consistent with market practice.

**General and administrative expenses.** General and administrative expenses represent overall corporate management and other expenses related to the general management and administration of the business unit as a whole. They include management and administrative compensation, legal and other advisory expenses, insurance of administrative buildings, social expenses and compensatory payments of general nature not directly linked to the Group's oil and gas activities, charity and other expenses necessary for the administration of the Group.

**Earnings per share.** Earnings per share are determined by dividing the profit or loss attributable to PAO NOVATEK shareholders by the weighted average number of shares outstanding during the reporting period.



**31 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Consolidated statement of cash flows.** Cash and cash equivalents comprises cash on hand, cash deposits held with banks and short-term highly liquid investments which are readily convertible to known amounts of cash and which are not subject to significant risk of change in value and have an original maturity of three months or less.

The Group reports cash receipts and the repayments of short-term borrowings which have a maturity of three months or less on a net basis in the consolidated statement of cash flows.

**32 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 2020, 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.

Amendments to IFRS 3, *Business Combinations* (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020, early adoption is permitted). 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 starting from 1 January 2020.

**UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES**

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). In the absence of specific IFRS guidance for the oil and gas industry, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with norms established for companies in the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities but excludes disclosures regarding the standardized measures of discounted cash flows related to oil and gas activities.

The Group’s exploration and production activities are mainly within the Russian Federation; therefore, majority of the information provided in this section pertains to this country. The Group operates through various oil and gas production subsidiaries, and also has an interest in oil and gas companies that are accounted for under the equity method.

**Oil and Gas Exploration and Development Costs**

The following tables set forth information regarding oil and gas acquisition, exploration and development activities. The amounts reported as costs incurred include both capitalized costs and costs charged to expense, and are presented comprising amounts classified as assets held for sale and amounts allocated to fair values of the identified assets in acquisitions of subsidiaries (see Note 4), except for the effects from non-monetary transactions. These costs do not include LNG liquefaction and transportation operations (amounts in millions of Russian roubles).

	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
<b>Costs incurred in exploration and development activities</b>		
Acquisition of unproved properties	5,217	66
Acquisition of proved properties	3,420	17,633
Exploration costs	25,604	12,379
Development costs	68,681	59,946
<b>Total costs incurred in exploration and development activities</b>	<b>102,922</b>	<b>90,024</b>
The Group’s share in joint ventures’ cost incurred in exploration and development activities	50,453	29,401
	<b>At 31 December 2019</b>	<b>At 31 December 2018</b>
<b>Capitalized costs relating to oil and gas producing activities</b>		
Proved and unproved properties	111,492	91,496
Wells, related equipment and facilities	287,447	279,361
Support equipment and facilities	158,732	126,970
Uncompleted wells, related equipment and facilities	86,758	78,843
<b>Total capitalized costs relating to oil and gas producing activities</b>	<b>644,429</b>	<b>576,670</b>
Less: accumulated depreciation, depletion and amortization	(218,316)	(193,834)
<b>Net capitalized costs relating to oil and gas producing activities</b>	<b>426,113</b>	<b>382,836</b>
The Group’s share in joint ventures’ capitalized costs relating to oil and gas producing activities	604,488	456,277

**UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)**

**Results of Operations for Oil and Gas Producing Activities**

Results of operations for oil and gas producing activities of the Group's subsidiaries and the Group's share in the results of operations of joint ventures are shown below (amounts in millions of Russian roubles).

	<b>Year ended 31 December:</b>	
	<b>2019</b>	<b>2018</b>
<b><i>Subsidiaries</i></b>		
Revenues from oil and gas sales (less transportation)	235,156	242,078
Lifting costs	(16,045)	(14,938)
Taxes other than income tax	(61,225)	(57,821)
Depreciation, depletion and amortization	(25,280)	(27,051)
Exploration expenses	(8,386)	(7,012)
Social expenses and charity <sup>(1)</sup>	(268)	(1,171)
Other operating expenses <sup>(2)</sup>	(433)	(388)
<b>Total operating expenses</b>	<b>(111,637)</b>	<b>(108,381)</b>
<b>Results of operations for oil and gas producing activities before income tax</b>	<b>123,519</b>	<b>133,697</b>
Less: related income tax expenses	(23,088)	(25,123)
<b>Results of operations for oil and gas producing activities of the Group's subsidiaries</b>	<b>100,431</b>	<b>108,574</b>
<b><i>Group's share in joint ventures</i></b>		
Revenues from oil and gas sales (less transportation)	192,421	193,396
Lifting costs	(5,897)	(5,527)
Taxes other than income tax	(39,237)	(37,306)
Depreciation, depletion and amortization	(23,620)	(19,786)
Exploration expenses	(731)	(332)
Social expenses and charity <sup>(1)</sup>	(42)	(106)
Other operating expenses <sup>(2)</sup>	(113)	-
<b>Total operating expenses</b>	<b>(69,640)</b>	<b>(63,057)</b>
<b>Results of operations for oil and gas producing activities before income tax</b>	<b>122,781</b>	<b>130,339</b>
Less: related income tax expenses	(20,415)	(21,738)
<b>Group's share in results of operations for oil and gas producing activities of joint ventures</b>	<b>102,366</b>	<b>108,601</b>
<b>Total results of operations for oil and gas producing activities of the Group's subsidiaries and joint ventures</b>	<b>202,797</b>	<b>217,175</b>

<sup>(1)</sup> Represent social expenses and compensatory payments related mainly to continued support of charities and social programs in the regions where production and development activities are performed.

<sup>(2)</sup> Represent mainly materials, services and other expenses, as well as administrative expenses being by nature operating expenses relating to fields in exploration and development stage.

The results of operations for hydrocarbons producing activities are presented only for volumes produced by the Group's subsidiaries and joint ventures and do not include general corporate overheads, processing costs incurred after saleable hydrocarbons are received, such as stable gas condensate processing costs and natural gas liquefaction costs. Revenues from oil and gas sales are calculated based on hydrocarbons production volumes and netback prices determined at the point of marketable products production and do not include export duties, transportation expenses to customers, storage, sales and other similar expenses.

**UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)**

Operating expenses include only the amounts directly related to the extraction of natural gas, gas condensate and crude oil, such as lifting costs (materials, services and other expenses, as well as administrative expenses being by nature operating expenses of oil and gas producing activities), taxes other than income tax, depreciation, depletion and amortization and other expenses. Income tax expense is calculated based on income tax rates applicable to each Group's subsidiary and joint venture.

**Proved Oil and Gas Reserves**

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2019 and 2018.

The Group estimates its oil and gas reserves in accordance with rules promulgated by the Securities and Exchange Commission (SEC) for proved reserves.

The Group's oil and gas reserves estimation and reporting process involves an annual independent third party reserve appraisal as well as internal technical appraisals of reserves. The Group maintains its own internal reserve estimates that are calculated by qualified engineers and technical staff working directly with the oil and gas properties. The Group's technical staff periodically updates reserve estimates during the year based on evaluations of new wells, performance reviews, new technical information and other studies.

The oil and gas reserve estimates reported below are determined by the Group's independent petroleum reservoir engineers, DeGolyer and MacNaughton ("D&M"). The Group provides D&M annually with engineering, geological and geophysical data, actual production histories and other information necessary for the reserve determination. The Group's and D&M's technical staffs meet to review and discuss the information provided, and upon completion of this process, senior management reviews and approves the final reserve estimates issued by D&M.

The following reserve estimates were prepared using standard geological and engineering methods generally accepted by the petroleum industry. The method or combination of methods used in the analysis of each reservoir is tempered by experience with similar reservoirs, stages of development, quality and completeness of basic data, and production history.

Extensions of production licenses are assumed to be at the discretion of the Group. Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group's production licenses. The principal licenses of the Group for exploration and production expire between 2029 and 2120. Legislation of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Management intends to extend its licenses for properties expected to produce beyond the license expiry dates.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves which are expected to be recovered through existing wells with existing equipment and operating methods. Undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to re-complete existing wells and/or install facilities to collect and deliver the production. Net reserves exclude quantities due to others when produced.

The reserve quantities below include 100 percent of the net proved reserve quantities attributable to the Group's consolidated subsidiaries and the Group's ownership percentage of the net proved reserves quantities of the joint ventures including volumes of natural gas consumed in hydrocarbons production and development activities. Production and reserves of the South-Tambeyskoye field of Yamal LNG are reported at 60 percent including an additional 9.9 percent interest not owned by the Group, since the Group assumes certain economic and operational risks related to this interest.

**PAO NOVATEK**  
**Unaudited Supplemental Oil and Gas Disclosures**

**UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)**

For convenience, reserves estimates are provided both in English and Metric units.

Net proved reserves of natural gas are presented below.

	Net proved reserves		Group's share in joint ventures		Total net proved reserves	
	Billions of cubic feet	Billions of cubic meters	Billions of cubic feet	Billions of cubic meters	Billions of cubic feet	Billions of cubic meters
<b>At 31 December 2017</b>	<b>44,988</b>	<b>1,274</b>	<b>29,097</b>	<b>824</b>	<b>74,085</b>	<b>2,098</b>
Changes attributable to:						
Revisions of previous estimates	288	8	433	13	721	21
Extension and discoveries	483	14	1,294	36	1,777	50
Acquisitions <sup>(1)</sup>	3,426	97	-	-	3,426	97
Disposals <sup>(2)</sup>	-	-	(699)	(20)	(699)	(20)
Production	(1,478)	(42)	(951)	(27)	(2,429)	(69)
<b>At 31 December 2018</b>	<b>47,707</b>	<b>1,351</b>	<b>29,174</b>	<b>826</b>	<b>76,881</b>	<b>2,177</b>
Changes attributable to:						
Revisions of previous estimates	(1,296)	(37)	494	14	(802)	(23)
Extension and discoveries	5,030	143	2,611	74	7,641	217
Acquisitions <sup>(3)</sup>	3,698	105	-	-	3,698	105
Disposals <sup>(4)</sup>	(5,884)	(167)	-	-	(5,884)	(167)
Reclassifications <sup>(5)</sup>	(7,267)	(206)	7,267	206	-	-
Production	(1,391)	(40)	(1,247)	(35)	(2,638)	(75)
<b>At 31 December 2019</b>	<b>40,597</b>	<b>1,149</b>	<b>38,299</b>	<b>1,085</b>	<b>78,896</b>	<b>2,234</b>
<b>Net proved developed reserves (included above)</b>						
At 31 December 2017	12,685	359	12,820	363	25,505	722
At 31 December 2018	12,187	345	14,103	399	26,290	744
At 31 December 2019	11,527	326	18,612	527	30,139	853
<b>Net proved undeveloped reserves (included above)</b>						
At 31 December 2017	32,303	915	16,277	461	48,580	1,376
At 31 December 2018	35,520	1,006	15,071	427	50,591	1,433
At 31 December 2019	29,070	823	19,687	558	48,757	1,381

<sup>(1)</sup> Represent reserves attributable to the 100 percent participation interests in AO Geotransgas (renamed to AO NOVATEK-Pur) and OOO Urengoykaya gasovaya kompaniya (merged into OOO NOVATEK-Yurkharovneftegas) acquired in 2018.

<sup>(2)</sup> Represent reserves attributable to the disposal of a 3.3 percent effective participation interest in the joint venture AO Arcticgas.

<sup>(3)</sup> Relate to reserves of the Soletskoye-Khanaveyskoye field acquired in the third quarter of 2019 and an additional 50 percent interest in reserves of the North-Chaselskiy and Yevo-Yakhinskiy license areas acquired by the Group as a result of the reorganization of Arcticgas.

<sup>(4)</sup> Represent reserves attributable to the disposal of a 40 percent participation interest in OOO Arctic LNG 2 in 2019.

<sup>(5)</sup> Represent reclassification of reserves attributable to the Group's retained 60 percent participating interest in Arctic LNG 2, which after the sale of a 40 percent participating interest in 2019 is accounted for as an investment in a joint venture. This item also includes reclassification of a 50 percent interest in reserves of the North-Chaselskiy and Yevo-Yakhinskiy license areas which were transferred to the Group as a result of the reorganization of Arcticgas in 2019.

**UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)**

The net proved reserves of natural gas reported in the table above included reserves attributable to a non-controlling interest in a Group's subsidiary of 231 billion cubic feet (seven billion cubic meters) and 238 billion cubic feet (seven billion cubic meters) at 31 December 2019 and 2018, respectively, and reserves attributable to an additional 9.9 percent interest in Yamal LNG not owned by the Group (see above) of 2,413 billion cubic feet (68 billion cubic meters) and 2,471 billion cubic feet (70 billion cubic meters) at 31 December 2019 and 2018, respectively.

Net proved reserves of crude oil, gas condensate and natural gas liquids are presented below.

	Net proved reserves		Group's share in joint ventures		Total net proved reserves	
	Millions of barrels	Millions of metric tons	Millions of barrels	Millions of metric tons	Millions of barrels	Millions of metric tons
<b>At 31 December 2017</b>	<b>702</b>	<b>83</b>	<b>698</b>	<b>81</b>	<b>1,400</b>	<b>164</b>
Changes attributable to:						
Revisions of						
previous estimates	31	4	50	5	81	9
Extension and discoveries	35	4	88	11	123	15
Acquisitions <sup>(1)</sup>	77	9	-	-	77	9
Disposals <sup>(2)</sup>	-	-	(31)	(4)	(31)	(4)
Production	(53)	(7)	(46)	(5)	(99)	(12)
<b>At 31 December 2018</b>	<b>792</b>	<b>93</b>	<b>759</b>	<b>88</b>	<b>1,551</b>	<b>181</b>
Changes attributable to:						
Revisions of						
previous estimates	(4)	-	(7)	(1)	(11)	(1)
Extension and discoveries	150	17	82	9	232	26
Acquisitions <sup>(3)</sup>	39	5	-	-	39	5
Disposals <sup>(4)</sup>	(56)	(6)	-	-	(56)	(6)
Reclassifications <sup>(5)</sup>	(47)	(5)	47	5	-	-
Production	(52)	(6)	(49)	(6)	(101)	(12)
<b>At 31 December 2019</b>	<b>822</b>	<b>98</b>	<b>832</b>	<b>95</b>	<b>1,654</b>	<b>193</b>
<b>Net proved developed reserves (included above)</b>						
At 31 December 2017	307	38	359	41	666	79
At 31 December 2018	340	42	387	44	727	86
At 31 December 2019	335	42	457	52	792	94
<b>Net proved undeveloped reserves (included above)</b>						
At 31 December 2017	395	45	339	40	734	85
At 31 December 2018	452	51	372	44	824	95
At 31 December 2019	487	56	375	43	862	99

<sup>(1)</sup> Represent reserves attributable to the 100 percent participation interests in AO Geotransgas (renamed to AO NOVATEK-Pur) and OOO Urengoyskaya gasovaya kompaniya (merged into OOO NOVATEK-Yurkharovneftegas) acquired in 2018.

<sup>(2)</sup> Represent reserves attributable to the disposal of a 3.3 percent effective participation interest in the joint venture AO Arcticgas.

<sup>(3)</sup> Relate to reserves of the Soletskoye-Khanaveyskoye field acquired in the third quarter of 2019 and an additional 50 percent interest in reserves of the North-Chaselskiy and Yevo-Yakhinskiy license areas acquired by the Group as a result of the reorganization of Arcticgas.

<sup>(4)</sup> Represent reserves attributable to the disposal of a 40 percent participation interest in OOO Arctic LNG 2 in 2019.

<sup>(5)</sup> Represent reclassification of reserves attributable to the Group's retained 60 percent participating interest in Arctic LNG 2, which after the sale of a 40 percent participating interest in 2019 is accounted for as an investment in a joint venture. This item also includes reclassification of a 50 percent interest in reserves of the North-Chaselskiy and Yevo-Yakhinskiy license areas which were transferred to the Group as a result of the reorganization of Arcticgas in 2019.

**UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)**

The net proved reserves of crude oil, gas condensate and natural gas liquids reported in the table above included reserves attributable to a non-controlling interest in a Group's subsidiary of 75 million barrels (10 million metric tons) and 82 million barrels (11 million metric tons) at 31 December 2019 and 2018, respectively, and reserves attributable to an additional 9.9 percent interest in Yamal LNG not owned by the Group (see above) of 20 million barrels (two million metric tons) and 22 million barrels (two million metric tons) at 31 December 2019 and 2018, respectively.

**PAO NOVATEK**  
**Contact Information**

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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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**PAO NOVATEK**

**Management's  
Discussion and Analysis  
of Financial Condition  
and Results of Operations**

**for the Year Ended  
31 December 2019**

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## **GENERAL PROVISIONS**

You should read the following discussion and analysis of our financial condition and results of operations as of 31 December 2019 and for the year then ended in conjunction with our audited consolidated financial statements as of and for the year ended 31 December 2019. The consolidated financial statements and the related notes thereto have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial and operating information contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" comprises information of PAO NOVATEK, its consolidated subsidiaries and joint ventures (hereinafter jointly referred to as "we" or the "Group").

## **OVERVIEW**

We are Russia's second largest natural gas producer and one of the world leaders in terms of proved natural gas reserves under the Petroleum Resources Management System ("PRMS") and the Securities and Exchange Commission ("SEC") reserve reporting methodologies.

Our exploration and development, production and processing of natural gas, gas condensate and crude oil are conducted mainly within the Russian Federation.

The natural gas assets of our subsidiaries and joint ventures include projects where we sell natural gas through the Unified Gas Supply System in the Russian domestic market and liquefied natural gas ("LNG") delivered to international markets.

In the fourth quarter of 2017, our joint venture OAO Yamal LNG commenced producing LNG at the first train of its liquefaction plant, and in the third and fourth quarters of 2018, the second and third LNG trains were launched. The launch of the three LNG trains with a combined nameplate capacity of 16.5 million tons per annum allowed Yamal LNG to become one of the largest suppliers of LNG to international markets. In 2019, our joint venture OOO Cryogas-Vysotsk commissioned its medium-scale LNG plant.

We deliver unstable gas condensate produced by our subsidiaries and our joint ventures Arcticgas, Nortgas and Terneftegas to our Purovsky Gas Condensate Plant (the "Purovsky Plant") for processing into stable gas condensate and natural gas liquids ("NGL"). The Purovsky Plant allows us to process more than 12 million tons of unstable gas condensate per annum.

Most of our stable gas condensate is sent for further processing to our Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea (the "Ust-Luga Complex"). The Ust-Luga Complex processes our stable gas condensate into light and heavy naphtha, jet fuel, gasoil and fuel oil, nearly all of which we sell to the international markets allowing us to increase the added value of our liquid hydrocarbons sales. The Ust-Luga Complex allows us to process about seven million tons of stable gas condensate annually.

The excess volumes of stable gas condensate received from the processing at the Purovsky Plant over volumes sent for further processing to the Ust-Luga Complex are sold on both the domestic and international markets (by rail and from the port of Ust-Luga on the Baltic Sea by tankers).

A significant part of our NGL volumes produced at the Purovsky Plant is dispatched via pipeline for further processing at the refining facilities of OOO SIBUR Tobolsk (the "Tobolsk Refining Facilities"). The remaining volumes are sold directly from the Purovsky Plant without incurring additional transportation expenses. After processing at the Tobolsk Refining Facilities we receive liquefied petroleum gas ("LPG") with higher added value, the majority of which are transported by rail to our end-customers in the domestic and international markets with the remaining portion sold directly from the Tobolsk Refining Facilities without incurring additional transportation expenses. NGL sold directly from the Purovsky Plant and sales of LPG received from the processing at the Tobolsk Refining Facilities are presented within LPG sales in this report.

We deliver our crude oil to both domestic and international markets.

## **RECENT DEVELOPMENTS**

### **Arctic LNG 2 project**

The Group through an entity OOO Arctic LNG 2 undertakes a project to construct an LNG plant on the Gydan peninsula based on the hydrocarbon resources of the Salmanovskoye (Utrenneye) field (the "Arctic LNG 2 project").

The Arctic LNG 2 plant will be built on gravity-based platforms and consist of three processing trains with an annual capacity of 6.6 million tons of LNG each, or an aggregated capacity of 19.8 million tons of LNG per annum. The licenses for natural gas liquefaction technology were purchased from Linde AG.

By the end of 2018, the FEED work on the LNG plant construction was completed, and in the first half of 2019, the EPC agreements on the design and construction of gravity-based platforms, topsides and onshore facilities for the plant's three liquefaction trains were signed. In September 2019, the final investment decision (FID) was made. The launch of the first train is expected to be in 2023, with the subsequent launches of the second and third trains in 2024 and 2026, respectively.

Gravity-based platforms and other major units for the plant will be produced at our own LNG construction center in the Murmansk region (the "Murmansk yard"), which will also be used for the Group's subsequent LNG projects. At present, the loading berths of the gravity-based platforms construction complex, the concrete plant, the main workshops and storage facilities of the gravity-based platforms fabrication site are completed. In addition, the construction of the first dry dock is completed, and the casting of the first gravity-based platform for the first train of the Arctic LNG 2 plant commenced. The topsides fabrication complex for LNG plants is in process of construction.

The use of gravity-based platforms technology for the plant construction, as well as localizing production will contribute to lower LNG liquefaction costs compared to other LNG projects.

The Salmanovskoye (Utrenneye) field's development is ongoing. Two power plants were completed with initial production wells drilled to supply their operation. Construction of berthing facilities necessary for installation of gravity-based platforms is underway.

In 2019, the Group signed heads of agreements with several international companies to supply liquefied natural gas from the Arctic LNG 2 project as well as other Group's projects. The signing of these agreements is a vital step in the successful and timely implementation of the Arctic LNG 2 project.

In March 2019, the Group sold a 10% participation interest in OOO Arctic LNG 2 to a subsidiary of TOTAL S.A. After transaction closing, the key project's financial and operational decisions are approved unanimously by all participants, implying joint control over the company. As a result, the Group recognized Arctic LNG 2 as a joint venture and started to account for its participation interest using the equity method.

In July 2019, the Group sold a 30% participation interest in OOO Arctic LNG 2 to three new participants (10% to each participant): to China National Petroleum Corporation ("CNPC") and CNOOC Limited (through their respective subsidiaries), and to Japan Arctic LNG B.V., a joint venture of Mitsui & Co., Ltd and Japan Oil, Gas and Metals National Corporation ("JOGMEC"). As a result, the Group's participation interest in OOO Arctic LNG 2 further decreased to 60%.

In October 2019, the Group and PAO Sovcomflot established a joint venture OOO SMART LNG with parity participation interests. The new joint venture will lease ice-class LNG tankers fleet for the Arctic LNG 2 project.

### **Yamal LNG project**

The Group, through its joint venture OAO 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"). The total annual capacity of the liquefaction plant is 17.4 million tons of LNG, including first three LNG trains with an annual capacity of 5.5 million tons for each and the fourth train with an annual capacity of 0.9 million tons (currently is in the final stage of construction).

With the commencement of LNG production at the first LNG train in the end of 2017, and the launch of the second and third LNG trains in July and November 2018, respectively, 2019 became the first full year of operations for all three LNG trains.

In total, during 2019, 18.4 million tons of LNG and 1.2 million tons of stable gas condensate were produced and shipped from the port of Sabetta exceeding the project capacity at the each of the first three LNG trains (in aggregate by 1.9 million tons or 11.5%). We delivered 1.2 million tons of LNG eastbound via the Northern Sea Route to the Asia-Pacific Region utilizing our Arc7 ice-class LNG tankers. Shipping via the Northern Sea Route reduces the LNG voyage period by more than one third as compared to the traditional route via the Suez Canal and the Strait of Malacca.

### **LNG production at the medium-scale LNG plant at the port of Vysotsk**

In March 2019, our joint venture OOO Cryogas-Vysotsk commenced initial LNG production at the first train of its medium-scale LNG plant located at the port of Vysotsk on the Baltic Sea, and in April reached the facility's nameplate capacity of 660 thousand tons per annum.

During 2019, Cryogas-Vysotsk produced and sold 0.4 million tons of LNG to customers in the Northwest Europe and the Baltic region markets via both tankers and trucks, as well as LNG used for marine bunkering.

### **Obskiy LNG project**

In 2019, the Group established a subsidiary OOO Obskiy LNG to implement a project to construct an LNG plant based on the feedstock resources of the Verhnetiuteyskoye and the West-Seyakhinskoye fields located in YNAO (the "Obskiy LNG project").

The project envisages the construction of two liquefaction trains with an annual capacity of 2.5 million tons of LNG each, or aggregated capacity of 5 million tons of LNG per annum. The project will use a modified version of "Arctic Cascade", our proprietary patented natural gas liquefaction technology developed by the Group's specialists, as well as equipment manufactured mainly in Russia. Currently, the Group is developing the front-end engineering design (FEED) for the LNG plant construction.

### **Reorganization of AO Arcticgas**

At the end of 2018, the Group and PAO Gazprom Neft agreed to hold a series of transactions on reorganizing its joint venture AO Arcticgas, aimed at obtaining by the Group the full ownership over the licenses for exploration and production for the North-Chaselskiy and Yevo-Yakhinskiy license areas from Arcticgas and transfer of the license for the Malo-Yamalskiy license area to Gazprom Neft.

The reorganization transactions were completed in October 2019 resulting in a net gain of RR 7.8 billion recognized by the Group and reported within the "Gain on disposal of interests in subsidiaries and joint ventures" in the consolidated statement of income.

### **Increasing our resource base and production facilities**

In October 2019, our joint venture AO Arcticgas commenced commercial production at the East-Urengoyenskoye+North-Esetinskoye field within the Samburgskiy license area, with estimated annual production capacity of more than one billion cubic meters of natural gas and 0.2 million tons of gas condensate. In addition, in January 2020, AO Arcticgas started pilot operation at the third stage of the gas condensate treatment facility at the Samburgskiy license area with an annual capacity of 1.2 million tons of gas condensate to develop the Achimov horizons.

In December 2019, the Group commenced commercial production at the North-Russkoye field with estimated annual production capacity of 5.7 billion cubic meters of natural gas and 0.7 million tons of gas condensate. The North-Russkoye field is the first launch of the North-Russkiy block of fields, which also includes the Dorogovskoye, East-Tazovskoye and Kharbeyskoye fields scheduled for launch during 2020 to 2021 with cumulative gas production capacity of more than 13 billion cubic meters per annum.

The new production facilities will contribute to the natural gas production growth at our production assets connected to the Unified Gas Supply System.

During 2019, the Group obtained rights to use nine license areas located in close proximity to the Group's other assets in YNAO:

- In May 2019, the Group obtained the rights for geological research works at five license areas in the Krasnoyarsk Territory: the Khalmeryakhskiy, Dorofeevskiy, West-Dorofeevskiy, South-Khalmeryakhskiy and South-Dorofeevskiy. The license areas are located on the Gydan peninsula in close proximity to our South-Leskinskiy license area.
- In August 2019, the Group won an auction for the right for geological research works, exploration and production of hydrocarbons at a license area, which includes the Soletskoye-Khanaveyskoye field. The license area is located on the Gydan peninsula bordering the Group's Trekhbugorniy and Gydanskiy license areas. The license area has estimated hydrocarbon resources of 2,183 billion cubic meters of natural gas and 212 million tons of liquids under the Russian reserve classification. The aggregate proved, probable and possible reserves of the Soletskoye-Khanaveyskoye field appraised under the PRMS reserve methodology as of 31 December 2019 totaled 194.6 bcm of natural gas and 1.6 million tons of gas condensate. The payment for the license amounted to RR 2,586 million.

Further, in December 2019, the Group won an auction for the right for geological research works, exploration and production of hydrocarbons at the Bukharinskiy license area bordering the Group's Soletskoye-Khanaveyskoye field and Trekhbugorniy license area. The Bukharinskiy license area has estimated hydrocarbon resources of 1,190 billion cubic meters of natural gas and 74 million tons of liquids under the Russian reserve classification. The payment for the license was set at RR 2,346 million.

The acquisition of both license areas allows us to expand the resource base for one more new LNG project similar in scale to Arctic LNG 2, with liquefaction trains to be located at the Utrenniy terminal.

- In December 2019, the Group won an auction for the right for geological research works, exploration and production of hydrocarbons at the South-Yamburgskiy license area located in the close proximity to the North-Urengoyenskoye field of our joint venture ZAO Nortgas. The license area has estimated hydrocarbon resources of 506 billion cubic meters of natural gas and 126 million tons of liquids under the Russian resource classification. The payment for the license was set at RR 1,066 million.
- In December 2019, the Group won an auction for the right for geological research works, exploration and production of hydrocarbons at the East-Ladertoyskiy license area. The license area has estimated hydrocarbon resources of 184 billion cubic meters of natural gas and 32 million tons of liquids under the Russian resource classification. The license area is located on the Gydan Peninsula and borders with the Group's West-Solpatinskiy, Ladertoyskiy, Nyavuyahskiy and Centralno-Nadoyakhskiy license areas. The acquisition of the East-Ladertoyskiy license area is in line with the Company's strategy to expand our resource base on the Yamal and Gydan peninsulas. The payment for the license was set at RR 81 million.

## **BASIS OF PRESENTATION**

Oil and gas production and reserves in the current report are calculated based on 100% of our subsidiaries production and reserves and our proportionate share in the production and reserves of our joint ventures including volumes of natural gas consumed in oil and gas producing and development activities. Meanwhile, production costs per barrel of oil equivalent are calculated based on production volumes net of the volume of consumed natural gas. Production and reserves of the South-Tambeyskoye field developed by the Group's joint venture OAO Yamal LNG are reported at 60% including an additional 9.9% interest not owned by the Group, since the Group assumes certain economic and operational risks related to this interest.

Our oil and gas revenues and average realized net prices are presented net of VAT and export duties, where applicable. Our LPG revenues and average realized net prices also exclude excise and fuel taxes incurred on sales in Poland. Starting from January 2019, the Group accrues excise tax on raw oil and claims the double excise tax deduction. The net result, or so-called "reverse excise", is reported as a deduction to our "Purchases of natural gas and liquid hydrocarbons" in our consolidated statement of income (see "Our tax burden and obligatory payments" below).

**PAO NOVATEK**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**for the year ended 31 December 2019**

**SELECTED DATA**

<i>millions of Russian roubles except as stated</i>	<b>Year ended 31 December:</b>		<b>Change %</b>
	<b>2019</b>	<b>2018</b>	
<b>Financial results</b>			
Total revenues <sup>(1)</sup>	862,803	831,758	3.7%
Operating expenses	(640,463)	(603,912)	6.1%
Normalized EBITDA <sup>(2),(3)</sup>	461,157	415,296	11.0%
Normalized profit attributable to shareholders of PAO NOVATEK <sup>(3)</sup>	302,418	162,097	86.6%
Normalized profit attributable to shareholders of PAO NOVATEK <sup>(3)</sup> , excluding the effect of foreign exchange gains (losses) <sup>(4)</sup>	245,002	232,930	5.2%
Normalized earnings per share <sup>(3)</sup> (in Russian roubles)	100.42	53.79	86.7%
Normalized earnings per share <sup>(3)</sup> , excluding the effect of foreign exchange gains (losses) <sup>(4)</sup> (in Russian roubles)	81.35	77.29	5.3%
Net debt <sup>(5)</sup>	15,106	102,903	(85.3%)
<b>Production volumes <sup>(6)</sup></b>			
Hydrocarbons production (million barrels of oil equivalent)	589.9	549.1	7.4%
Daily production (million barrels of oil equivalent per day)	1.62	1.50	7.4%
<b>Sales volumes</b>			
Natural gas sales volumes (million cubic meters)	78,452	72,134	8.8%
Crude oil sales volumes (thousand tons)	4,834	4,542	6.4%
Naphtha sales volumes (thousand tons)	4,511	4,185	7.8%
Liquefied petroleum gas sales volumes (thousand tons)	2,777	2,676	3.8%
Other stable gas condensate refined products (thousand tons)	2,470	2,498	(1.1%)
Stable gas condensate sales volumes (thousand tons)	1,739	1,908	(8.9%)
<b>Oil and gas SEC reserves <sup>(6)</sup></b>			
Total proved reserves (billion barrels of oil equivalent)	16.3	15.8	3.0%
Total natural gas proved reserves (trillion cubic meters)	2.23	2.18	2.6%
Total liquids proved reserves (million tons)	193	181	6.6%
<b>Cash flow results</b>			
Net cash provided by operating activities	307,433	216,349	42.1%
Cash used for capital expenditures <sup>(7)</sup>	162,502	94,038	72.8%
Free cash flow <sup>(8)</sup>	144,931	122,311	18.5%

<sup>(1)</sup> Net of VAT, export duties, excise and fuel taxes, as well as excise and fuel taxes incurred on LPG sales in Poland.

<sup>(2)</sup> EBITDA represents profit (loss) adjusted for the add-back of depreciation, depletion and amortization, net impairment expenses (reversals), finance income (expense), income tax expense, as well as income (loss) from changes in fair value of derivative financial instruments. EBITDA includes EBITDA from subsidiaries and our proportionate share in the EBITDA of our joint ventures.

<sup>(3)</sup> Excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration).

<sup>(4)</sup> Excluding the effect of foreign exchange gains (losses) of subsidiaries and our proportionate share in foreign exchange gains (losses) of our joint ventures (see "Profit attributable to shareholders and earnings per share" below).

<sup>(5)</sup> Net Debt represents our total debt net of cash, cash equivalents and bank deposits with original maturity more than three months.

<sup>(6)</sup> Oil and gas production and reserves are calculated based on 100% of production and reserves of our subsidiaries and our proportionate share in the production and reserves of our joint ventures including fuel gas. Production and reserves of the South-Tambeykoye field of Yamal LNG are reported at 60% (see "Basis of presentation" above).

<sup>(7)</sup> Cash used for capital expenditures represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries.

<sup>(8)</sup> Free cash flow represents the difference between Net cash provided by operating activities and Cash used for capital expenditures.

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Reconciliation of EBITDA and normalized EBITDA is as follows:

<i>millions of Russian roubles</i>	<b>Year ended 31 December:</b>		<b>Change %</b>
	<b>2019</b>	<b>2018</b>	
<b>Profit</b>	<b>883,461</b>	<b>182,947</b>	<b>382.9%</b>
Depreciation, depletion and amortization	32,230	33,094	(2.6%)
Impairment expenses (reversals), net	162	287	n/a
Loss (income) from changes in fair value of commodity derivative instruments	(238)	450	n/a
Total finance expense (income)	15,712	(38,608)	n/a
Total income tax expense	119,654	45,587	162.5%
Share of loss (profit) of joint ventures, net of income tax	(149,238)	37,258	n/a
<b>EBITDA from subsidiaries</b>	<b>901,743</b>	<b>261,015</b>	<b>245.5%</b>
<b>Share in EBITDA of joint ventures</b>	<b>207,605</b>	<b>155,926</b>	<b>33.1%</b>
including:			
OAO Yamal LNG	133,478	80,617	65.6%
AO Arcticgas	64,088	64,084	0.0%
others	10,039	11,225	(10.6%)
<b>EBITDA</b>	<b>1,109,348</b>	<b>416,941</b>	<b>166.1%</b>
Net gain on disposal of interests in subsidiaries and joint ventures	(682,733)	(1,645)	n/a
Changes in fair value of contingent consideration reported within the "Other operating income (loss)"	34,542	-	n/a
<b>Normalized EBITDA</b>	<b>461,157</b>	<b>415,296</b>	<b>11.0%</b>
<b>Normalized EBITDA from subsidiaries</b>	<b>253,552</b>	<b>259,370</b>	<b>(2.2%)</b>



**PAO NOVATEK**

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**SELECTED MACRO-ECONOMIC DATA**

<i>Exchange rate, RR for one foreign currency unit <sup>(1)</sup></i>	1Q		2Q		3Q		4Q		Year		Change Y-o-Y, %
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	
<b>US dollar (USD)</b>											
Average for the period	66.13	56.88	64.56	61.80	64.57	65.53	63.72	66.48	64.74	62.71	3.2%
At the beginning of the period	69.47	57.60	64.73	57.26	63.08	62.76	64.42	65.59	69.47	57.60	20.6%
At the end of the period	64.73	57.26	63.08	62.76	64.42	65.59	61.91	69.47	61.91	69.47	(10.9%)
Depreciation (appreciation) of RR to US dollar	(6.8%)	(0.6%)	(2.5%)	9.6%	2.1%	4.5%	(3.9%)	5.9%	(10.9%)	20.6%	n/a
<b>Euro</b>											
Average for the period	75.17	69.87	72.52	73.75	71.83	76.18	70.54	75.92	72.50	73.95	(2.0%)
At the beginning of the period	79.46	68.87	72.72	70.56	71.82	72.99	70.32	76.23	79.46	68.87	15.4%
At the end of the period	72.72	70.56	71.82	72.99	70.32	76.23	69.34	79.46	69.34	79.46	(12.7%)
Depreciation (appreciation) of RR to Euro	(8.5%)	2.5%	(1.2%)	3.4%	(2.1%)	4.4%	(1.4%)	4.2%	(12.7%)	15.4%	n/a

<sup>(1)</sup> Based on the data from the Central Bank of Russian Federation (CBR). The average rates for the period are calculated as the average of the daily exchange rates on each business day (rate is announced by the CBR) and on each non-business day (rate is equal to the exchange rate on the previous business day).

<i>Average for the period</i>	1Q		2Q		3Q		4Q		Year		Change Y-o-Y, %
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	
<b>Benchmark natural gas prices, USD per mmbtu <sup>(2)</sup></b>											
NBP (National Balancing Point)	6.3	8.1	4.1	7.3	3.4	8.4	4.1	8.4	4.4	8.0	(45.0%)
TTF (Title Transfer Facility)	6.1	7.7	4.3	7.4	3.3	8.4	4.1	8.3	4.5	8.0	(43.8%)
<b>Benchmark crude oil prices <sup>(3)</sup></b>											
Brent, USD per barrel	63.1	66.8	68.9	74.4	62.0	75.2	63.1	68.8	64.2	71.3	(10.0%)
Urals, USD per barrel	63.2	65.2	67.9	72.5	61.3	74.2	61.4	68.3	63.4	70.1	(9.6%)
Urals, RR per barrel	4,179	3,709	4,384	4,481	3,958	4,862	3,912	4,541	4,105	4,396	(6.6%)
<b>Benchmark crude oil prices excluding export duties <sup>(4)</sup></b>											
Urals, USD per barrel	51.3	49.2	53.6	56.0	48.3	55.7	49.2	48.9	50.6	52.5	(3.6%)
Urals, RR per barrel	3,392	2,798	3,460	3,461	3,119	3,650	3,135	3,251	3,276	3,292	(0.5%)
<b>Benchmark oil products <sup>(5)</sup> and liquefied petroleum gas <sup>(6)</sup> prices, USD per ton</b>											
Naphtha Japan	519	582	542	640	495	666	539	575	524	616	(14.9%)
Naphtha CIF NWE	497	574	527	636	477	652	519	552	505	604	(16.4%)
Jet fuel	625	647	646	709	629	710	627	684	632	688	(8.1%)
Gasoil	586	588	603	647	578	661	579	637	586	633	(7.4%)
Fuel oil	396	370	414	417	387	436	408	420	401	411	(2.4%)
Liquefied petroleum gas	363	422	404	456	339	541	446	453	387	470	(17.7%)
<b>Export duties, USD per ton <sup>(7)</sup></b>											
Crude oil, stable gas condensate	87.0	117.0	104.1	120.6	95.0	134.8	88.7	141.5	93.7	128.5	(27.1%)
Naphtha	47.8	64.3	57.2	66.2	52.2	74.1	48.7	77.8	51.5	70.6	(27.1%)
Jet fuel, gasoil	26.1	35.1	31.2	36.1	28.5	40.4	26.5	42.4	28.1	38.5	(27.0%)
Fuel oil	87.0	117.0	104.1	120.6	95.0	134.8	88.7	141.5	93.7	128.5	(27.1%)
Liquefied petroleum gas	0.0	0.0	0.0	0.0	0.0	8.9	0.0	36.2	0.0	11.3	n/a

<sup>(2)</sup> Based on spot natural gas prices at natural gas hubs in the United Kingdom (NBP) and the Netherlands (TTF).

<sup>(3)</sup> Based on Brent (dtd) and Russian Urals CIF Rotterdam spot assessments prices.

<sup>(4)</sup> Export duties per barrel were calculated based on export duties per ton divided by the coefficient 7.3.

<sup>(5)</sup> Based on Naphtha C+F (cost plus freight) Japan, Naphtha CIF NWE, Jet CIF NWE, Gasoil 0.1% CIF NWE, Fuel Oil 1.0% CIF NWE prices.

<sup>(6)</sup> Based on spot prices for propane-butane mix at the Belarusian-Polish border (DAF, Brest).

<sup>(7)</sup> Export duties are determined by the Russian Federation government in US dollars and are paid in Russian roubles (see "Our tax burden and obligatory payments" below).

## **CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS**

### **Current economic conditions**

Commodity price volatility continues to exert significant influence on financial and operational results in the global oil and gas industry. Our financial results are obviously impacted by these global developments as our export sales are linked to the specific underlying benchmark commodity prices but we believe our business model, representing one of the lowest cost producers in the world, insulates us from severe financial and operational stress. In each reporting period, the Group achieved strong operating results and remained free cash flow positive.

Management continues to closely monitor the economic and political environment in Russia and abroad, including the domestic and international capital markets, to determine if any further corrective and/or preventive measures are required to sustain and grow our business. We also closely monitor the present commodity price environment and its impact on our business operations. We do not expect any asset impairments or write-offs resulting from a lower commodity price environment.

We conduct regular reviews of our capital expenditure program and existing debt obligations. In our opinion, the Group's financial position is stable and expected operating cash flows are sufficient to service and repay our debt, as well as to execute our planned capital expenditure programs.

Political events in Ukraine in the beginning of 2014 have prompted a negative reaction by the world community, including economic sanctions levied by the United States of America, Canada and the European Union against certain Russian individuals and legal entities. In July 2014, NOVATEK was included on the OFAC's Sectoral Sanctions Identification List (the "List"), which imposed sanctions that prohibit individuals or legal entities registered or working on the territory of the United States from providing new credit facilities to the Group for longer than 60 days (prior to 28 November 2017, the aforementioned restrictions related to new credit facilities with maturity of more than 90 days).

Despite the inclusion on the List, the Group may conduct any other activities, including financial transactions, with U.S. investors and partners. NOVATEK was included on the List even though the Group does not conduct any business activities in Ukraine, nor does it have any impact on the political and economic processes taking place in this country. Management has assessed the impact of the sanctions described above on the Group's activities taking into consideration the current state of the world economy, the condition of domestic and international capital markets, the Group's business, and long-term projects with foreign partners. We have concluded that the inclusion on the List does not significantly impede the Group's operations and business activities in any jurisdiction, nor does it affect the Group's assets and debt, and does not have a material effect on the Group's financial position.

We together with our international partners are undertaking all necessary actions to implement our joint investment projects on time as planned, including, but not limited to, attracting financing from domestic and non-US capital markets.

### **Natural gas prices**

We sell our natural gas to customers in the Russian domestic market, mainly through trunk pipelines and regional distribution networks, and deliver LNG purchased primarily from our joint ventures, OAO Yamal LNG and OOO Cryogas-Vysotsk, to international markets. In addition, we sell on the European market regasified liquefied natural gas arising during the transshipment of LNG (boil-off gas), as well as during the regasification of purchased LNG at our own regasification stations in Poland.

The Group's natural gas prices in Russia are strongly influenced by the prices set by the Federal Anti-Monopoly Service, a federal executive agency of the Russian Federation that carries out governmental regulation of prices and tariffs for products and services of natural monopolies in energy, utilities and transportation (the "Regulator"), as well as present market conditions.

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

In September 2019, the Ministry of Economic Development of the Russian Federation published the "Forecast of Socio-economic Development of the Russian Federation for the period until 2024" stating that wholesale natural gas prices for sales to all customer categories (excluding residential customers) will be increased from July 2020 to 2024 by an average of 3.0% on an annual basis. The Russian Federation government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth rates on the domestic market.

The specific terms for delivery of natural gas affect our average realized prices. The majority of our natural gas volumes on the domestic market are sold directly to end-customers in the regions of natural gas consumption, so transportation tariff to the end-customer's location is included in the contract sales price. The remaining volumes of natural gas are sold "ex-field" to wholesale gas traders, in which case the buyer is responsible for the payment of further gas transportation tariff. Sales to wholesale gas traders allow us to diversify our natural gas sales without incurring additional commercial expenses.

We deliver natural gas to residential customers in the Chelyabinsk and Kostroma regions of the Russian Federation at regulated prices through our subsidiaries OOO NOVATEK-Chelyabinsk and OOO NOVATEK-Kostroma, respectively. We disclose such residential sales within our end-customers category.

In addition, we periodically sell natural gas at the Saint-Petersburg International Mercantile Exchange based on market conditions. We disclose such sales within our sales to end-customers category.

The Group's natural gas prices on international markets are influenced by many factors, such as the balance between supply and demand fundamentals, weather, the geography of sales, and the delivery terms to name a few. The Group sells LNG on international markets under short- and long-term contracts with prices based on the prices for natural gas at major natural gas hubs and on benchmark crude oil prices. We sell boil-off gas in Europe at prices linked to natural gas prices at major European natural gas hubs. The Group's prices for regasified LNG sold as natural gas on the Polish market are based on the prices regulated by the Energy Regulatory Office of Poland.

The following table shows our aggregate average realized natural gas sales prices on the domestic and international markets (excluding VAT, where applicable):

	Year ended 31 December:		Change %
	2019	2018	
Average natural gas price, RR per mcm	5,288	5,201	1.7%
Average natural gas price, USD per mcm <sup>(4)</sup>	81.6	82.3	(0.9%)

<sup>(4)</sup> Operations initially priced in Russian roubles were translated into US dollars using the average exchange rate for the period.

In 2019, our aggregate average price for natural gas changed marginally as a result of the offsetting effects of following factors: an increase in the share of our LNG sales volumes in total natural gas sales volumes, as well as an increase in the regulated Russian domestic price (by 3.4% effective 21 August 2018 and by 1.4% effective 1 July 2019), and an offsetting decrease in LNG prices on international markets in 2019.

#### Stable gas condensate and refined products, crude oil and liquefied petroleum gas prices

Crude oil, stable gas condensate, LPG and oil products prices on international markets have historically been volatile depending on, among other things, the balance between supply and demand fundamentals, the ability and willingness of oil producing countries to sustain or change production levels to meet changes in global demand and potential disruptions in global crude oil supplies due to war, geopolitical developments, terrorist activities or natural disasters.

The actual prices we receive for our liquid hydrocarbons on both the domestic and international markets are dependent on many external factors beyond the control of management. Among many other factors volatile movements in benchmark crude oil and oil products prices can have a positive and/or negative impact on the contract prices we receive for our liquids sales volumes.

In addition, our actual realized net export prices for crude oil, stable gas condensate and its refined products are affected by the so-called "export duty lag effect". This lag effect is due to the differences between actual crude oil prices for a certain period and crude oil prices based on which export duty rate is calculated for the same period (see "Our tax burden and obligatory payments" below). In periods when crude oil prices are rising, the duty lag effect normally has a positive impact on the Group's financial results, as the export duty rates are set on the basis of lower crude oil prices compared to the actual prices. Conversely, in periods of declining crude oil prices, the export duty rate is calculated based on higher prices compared to the actual prices, resulting in a negative financial impact.

Most of our liquid hydrocarbons sales prices on both the international and domestic markets include transportation expenses in accordance with the specific terms of delivery. The remaining portion of our liquids volumes is sold without additional transportation expenses (ex-works sales of liquefied petroleum gas from the Purovsky Plant and the Tobolsk Refining Facilities, as well as certain other types of sales).

We commonly sell our stable gas condensate and refined products, as well as liquefied petroleum gas to the international markets with a premium to the respective international benchmark reference products prices. We export SILCO (low-sulfur "Siberian Light Crude Oil") and ESPO ("East Siberia – Pacific Ocean") grades of crude oil to international markets with a premium or a discount to the benchmark Brent and Dubai crude oil depending on current market situation.

The following table shows our average realized net stable gas condensate and refined products, crude oil and LPG sales prices. Average realized net prices are shown net of VAT and export duties, as well as excise and fuel taxes incurred on LPG sales in Poland:

<i>Russian roubles or US dollars per ton <sup>(1)</sup></i>	<b>Year ended 31 December:</b>		<b>Change %</b>
	<b>2019</b>	<b>2018</b>	
<b>Naphtha</b>			
Average net price, RR per ton	32,043	35,789	(10.5%)
Average net price, USD per ton	494	572	(13.6%)
<b>Other stable gas condensate refined products</b>			
Average net price, RR per ton	35,213	35,682	(1.3%)
Average net price, USD per ton	543	570	(4.7%)
<b>Crude oil</b>			
Average net price, RR per ton	23,716	23,394	1.4%
Average net price, USD per ton	367	373	(1.6%)
<b>LPG</b>			
Average net price, RR per ton	17,166	21,015	(18.3%)
Average net price, USD per ton	265	335	(20.9%)
<b>Stable gas condensate</b>			
Average net price, RR per ton	24,452	25,473	(4.0%)
Average net price, USD per ton	379	403	(6.0%)

<sup>(1)</sup> Operations initially priced in Russian roubles were translated into US dollars using the average exchange rate for the period.

In 2019, the underlying benchmark prices for all our liquids decreased compared to the prior year period (see "Selected macro-economic data" above), resulting in a decrease in our weighted-average realized net prices in US dollar terms. At the same time, our weighted-average realized net prices in Russian rouble terms decreased by a lesser extent, and for crude oil increased marginally due to the Russian rouble depreciation relative to the US dollar by 3.2%.

The dynamics of our weighted-average realized net prices for each product category also reflects changes in volumes sold within periods and changes in the geography of shipments which may significantly impact our average prices in periods of high benchmark prices volatility on international markets. In addition, specifics of pricing mechanism for each particular product (such as time lag of international benchmark crude oil prices and export duty rates used in price calculation, price setting on an individual transaction basis for some deliveries and other factors) also have an impact on the dynamics of our weighted-average realized net prices.

**Transportation tariffs***Natural gas by pipelines*

We transport our natural gas within the Russian Federation territory through our own pipelines into the Unified Gas Supply System ("UGSS"), which is owned and operated by PAO Gazprom, a Russian Federation Government controlled monopoly. Transportation tariffs charged to independent producers for the use of the Gas Transmission System ("GTS"), as part of the UGSS, are set by the Regulator (see "Terms and abbreviations" below).

In accordance with the existing methodology of calculating transportation tariffs for natural gas produced in the Russian Federation for shipments to consumers located within the customs territory of the Russian Federation and the member states of the Customs Union Agreement (Belarus, Kazakhstan, Kyrgyzstan and Tajikistan), the transportation tariff consists of two parts: a rate for the utilization of the trunk pipeline and a transportation rate per mcm per 100 kilometers (km). The rate for utilization of the trunk pipeline is based on an "input/output" function, which is determined by where natural gas enters and exits the trunk pipeline and includes a constant rate for end-customers using Gazprom's gas distribution systems. The constant rate is deducted from the utilization rate for end-customers using non-Gazprom gas distribution systems.

In 2018 and 2019, the average tariff for natural gas transportation through the trunk pipeline did not change. The transportation rate amounted to RR 13.04 per mcm per 100 km (excluding VAT), and the rate for utilization of the trunk pipeline was set in the range from RR 62.57 to RR 2,014.16 per mcm (excluding VAT).

According to the Forecast of the Ministry of Economic Development of the Russian Federation published in September 2019, the increase in tariffs for natural gas transportation through the trunk pipeline beginning in 2020 through 2024 will not exceed the growth rate for wholesale natural gas prices (see "Natural gas prices" above). The Russian Federation Government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth on the domestic market.

*Stable gas condensate and LPG by rail*

Substantially all of our stable gas condensate and LPG (excluding volumes sold ex-works from the Purovsky Plant and the Tobolsk Refining Facilities) we transport by rail owned by Russia's state-owned monopoly railway operator – OAO Russian Railways ("RZD").

The railroad transportation tariffs are set by the Regulator and vary depending on the type of product, and the direction and the length of the transport route. In addition, the Regulator sets the range of railroad tariffs as a percentage of the regulated tariff within which RZD may vary railroad transportation tariffs within the Russian Federation territory based on the type of product, direction and length of the transportation route taking into account current railroad transportation and market conditions.

Effective January 2019, railroad freight transportation tariffs for all types of hydrocarbons were increased by 3.56% relative to the 2018 tariffs and did not change until the end of 2019. In January 2020, the Regulator increased the aforementioned tariffs by 3.5% relative to the 2019 tariffs.

In 2018 and 2019, we applied the discount coefficient of 0.94 to the existing railroad transportation tariffs for stable gas condensate deliveries from the Limbey rail station to the port of Ust-Luga and to end-customers on the domestic and international markets. The discount coefficient is set by the decision of the Management Board of RZD as part of the Strategic Partnership Agreement between the Group and RZD.

*Stable gas condensate, refined products and liquefied natural gas by tankers*

We deliver part of our stable gas condensate and substantially all stable gas condensate refined products, as well as liquefied natural gas (excluding volumes purchased and sold to customers in the same location) to international markets by chartered tankers. In addition to time chartering expenses, we also may incur transshipment, bunkering, port charges and other expenses depending on the delivery terms, which are included in the transportation by tankers expense category. The distance to the final port of destination, tanker availability, seasonality of deliveries and other factors also influence our tanker transportation expenses.

*Crude oil*

We transport nearly all of our crude oil through the pipeline network owned by PAO Transneft, Russia's state-owned monopoly crude oil pipeline operator. The Regulator sets tariffs for transportation of crude oil through Transneft's pipeline network, which includes transport, dispatch, pumping, loading, charge-discharge, transshipment and other related services. The Regulator sets tariffs for each separate route of the pipeline network, so the overall expense for the transport of crude oil depends on the length of the transport route from the producing fields to the ultimate destination, transportation direction and other factors.

Effective 1 January 2019, crude oil transportation tariffs through the pipeline network within the Russian Federation territory were increased by an average of 3.87% relative to the 2018 tariffs and remained unchanged until the end of 2019. Effective 1 January 2020, transportation tariffs were increased by an average of 3.42% relative to the 2019 tariffs.

**Our tax burden and obligatory payments**

We are subject to a wide range of taxes imposed at the federal, regional, and local levels, many of which are based on revenue or volumetric measures. In addition to income tax, significant taxes and obligatory payments to which we are subject include VAT, unified natural resources production tax ("UPT", commonly referred as "MET" – mineral extraction tax), export duties, excise, property tax and social contributions to non-budget funds.

In practice, Russian tax authorities often have their own interpretation of tax laws that rarely favors taxpayers, who have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations and other documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to an inspection of their activities for a period of three calendar years immediately preceding the year in which the audit is conducted. Previous audits do not completely exclude subsequent claims relating to the audited period. In addition, in some instances, new tax regulations may have a retroactive effect.

We have not employed any tax minimization schemes using offshore or domestic tax zones in the Russian Federation.

Detailed information regarding UPT, export duties, excise and social contributions to non-budget funds is described below based on the current versions of the Tax Code of the Russian Federation and the law "On Customs Tariff".

Starting from 2019, significant amendments were introduced in the above laws aimed at the completion of the tax maneuver in the oil and gas industry in the Russian Federation. In particular, the UPT and the export duties rates formulas were changed, the new types of excisable goods were introduced, and specific procedures for excise tax deductions applicable for processors of raw oil were established.

The tax maneuver in the oil and gas industry envisages a gradual decrease in export duties for crude oil and oil products with a respective increase in unified production taxes for crude oil and gas condensate during the periods 2019 to 2024. Herewith, the UPT rates will be increased by the same amount of a decrease in export duty rate for crude oil, which will result in economic losses to raw oil processors as the export duty rates for oil products are calculated with a discount to crude oil export duty rate. Starting from January 2019, the excise tax for raw oil and the double deductions for this tax were introduced to compensate for these losses.

Starting from January 2019 and during the next six years, the above mentioned legislation changes, with other factors being equal, will influence line items in our consolidated financial statements by increasing our liquids net prices and revenues due to a gradual decrease in export duties, increasing our UPT expenses, as well as our hydrocarbons purchases due to an increase in UPT expenses in our joint ventures. The increase in our UPT expenses and cost of hydrocarbons purchases will be offset by excise tax deductions for raw oil.

*Export duties*

Procedure for calculation and payment of export duties is set in the Law of the Russian Federation "On Customs Tariff". According to this law, we are subject to export duties on our exports of liquid hydrocarbons (stable gas condensate and refined products, LPG and crude oil).

Crude oil export duty rate formulas are set by the Russian Federation Government and are based on the average Urals crude oil price (Mediterranean and Rotterdam) for the so called "monitoring period" (the period from the 15th calendar day in the previous month to the 14th calendar day of the current month).

In 2018, the calculation of the export duty rate in US dollars when the average Urals crude oil price was more than USD 182.5 per ton (or USD 25 per barrel) was set as follows: USD 29.2 plus 30% of the difference between the average Urals crude oil price and USD 182.5 per ton.

Starting from January 2019, as part of the completion stage of the tax maneuver in the oil and gas industry, the above export duty rate is multiplied by a coefficient, which will be gradually decreased on an annual basis from 0.833 in 2019 to zero in 2024, thus gradually decreasing the export duty rate for crude oil to zero by 2024. During 2020, the coefficient will be equal to 0.667.

We pay export duties for our stable gas condensate export sales volumes at the export duty rate for crude oil.

The export duty rates for oil products are calculated based on the export duty rate for crude oil adjusted by a coefficient (discount) set for each category of oil products. The export duty rates for our exported stable gas condensate refined products as a percentage of the crude oil export duty rate are presented below:

	% from the crude oil export duty rate
Naphtha	55%
Jet fuel	30%
Gasoil	30%
Fuel oil	100%

The export duty rate for LPG for the next calendar month is calculated based on the average LPG price at the Polish border (DAF, Brest) for the current monitoring period and is calculated using the formula presented in the table below:

<i>Average LPG price, USD per ton (P)</i>	<b>Formula for export duty rate calculation</b>
less 490 (inclusive)	Zero rate
between 490 and 640 (inclusive)	$0.5 \times (P - 490)$
between 640 and 740 (inclusive)	$75 + 0.6 \times (P - 640)$
above 740	$135 + 0.7 \times (P - 740)$

We record export duties as a deduction to our revenues in the consolidated statement of income.

*UPT – natural gas*

We pay UPT for natural gas on a monthly basis. The UPT rate for natural gas is set in Russian roubles per one mcm of extracted natural gas.

The UPT rate for natural gas is calculated as a product of the base UPT rate (RR 35 per mcm), the base value of a standard fuel equivalent and a coefficient characterizing the difficulty of extracting natural gas and gas condensate from each particular field. The result is then increased by a parameter characterizing natural gas transportation costs (was set at zero in both reporting periods).

The base value of a standard fuel equivalent is calculated by a taxpayer based on a combination of factors including natural gas prices, Urals crude oil prices and crude oil export duty rate.

*UPT – crude oil*

We pay UPT for crude oil on a monthly basis. The UPT rate for crude oil is set in Russian roubles per ton of extracted crude oil.

The UPT rate is calculated as a product of a coefficient characterizing the dynamics of world crude oil prices and the base UPT rate (RR 919 per ton) adjusted for parameters characterizing crude oil production peculiarities (the reserves' depletion, complexity of extraction, the region, crude oil properties). The result is then increased by a fixed amount of RR 357 per ton in 2018, and by RR 428 per ton since 2019.

Starting from January 2019, and during the next six years, the UPT rate for crude oil will be gradually increased on an annual basis by the amount of a decrease in the crude oil export duty rate, and will be finally increased by the full amount of export duty rate by 2024.

In both reporting periods, we applied a reduced UPT rate for crude oil produced at our Yurkharovskoye, East-Tarkosalinskoye, Khancheyevskoye and Yarudeyskoye fields since these fields are located fully or partially to the north of the 65th degree of the northern latitude fully or partially in the YNAO. Therefore, the adjusted base UPT rate for crude oil produced at these fields for the Group amounted to RR 360 per ton.

Starting from January 2019, where the average export alternative prices for petrol and diesel fuel exceed the regulated wholesale prices for these products on the Russian domestic market, the UPT rate for crude oil is also increased by the so called "petrol and diesel fuel premiums" (set at RR 125 and RR 110 per ton, respectively, from 1 January to 30 September 2019, at RR 200 and RR 185 per ton, respectively, from 1 October to 31 December 2019, and at RR 105 and RR 92 per ton, respectively, starting from 1 January 2020). The petrol and diesel fuel premiums are payable by all crude oil producers regardless of whether the extracted crude oil volumes will be further sold or refined.

#### *UPT – gas condensate*

We pay UPT for gas condensate on a monthly basis. The UPT rate for gas condensate is set in Russian roubles per ton of extracted gas condensate.

The UPT rate for gas condensate is calculated as a product of the base UPT rate (RR 42 per ton), the base value of a standard fuel equivalent, a coefficient characterizing the difficulty of extracting natural gas and gas condensate from each particular field and an adjusting coefficient of 6.5. The base value of a standard fuel equivalent is calculated by a taxpayer based on the combination of factors including natural gas prices, Urals crude oil prices and crude oil export duty rate.

The Group reduces its overall UPT expense accrued for gas condensate production volumes by applying a UPT tax deduction on gas condensate volumes produced for processing into NGL. The amount of the tax deduction is calculated monthly by multiplying a coefficient of NGL recovery from gas condensate processing, the quantity of gas condensate produced and processed, and the tax deduction rate in Russian roubles per ton of NGL derived. The tax deduction rate was set at RR 147 per ton for January 2018 and since then is increasing monthly by the same amount until the end of 2020. Starting from January 2021, the tax deduction rate will be fixed at RR 5,280 per ton of produced NGL.

During the six years starting from January 2019, the UPT rate for gas condensate will be increased on an annual basis by 75% of a decrease in the crude oil export duty rate. The share of 75% is deemed to represent volumes of produced gas condensate excluding the share of NGL received from gas condensate processing.

#### *Excise and fuel taxes*

Starting from January 2019, a new excisable type of product was introduced – "raw oil", which represents a mixture of hydrocarbons composed of one or more components of crude oil, stable gas condensate, vacuum gasoil, tar, and fuel oil. The tax base for raw oil excise tax is the volume of raw oil sent by the owner for processing.

The amount of excise tax accrued on raw oil volumes may be claimed for deduction at a double rate. This deduction is introduced to compensate economic losses of oil and gas refining companies arising as a result of the tax maneuver and the transfer of tax burden from export duties to the UPT in the amount of full export duty rate for crude oil while export duties for oil products are paid at a discount to crude oil export duty rate.

The excise tax rate for raw oil is calculated based on the average Urals crude oil prices, the mix of processed products, region of processing, and the adjusting coefficient, which will be gradually increased on an annual basis from 0.167 in 2019 to 1.0 in 2024 as part of the completion stage of the tax maneuver in the oil and gas industry. During 2020, the adjusting coefficient will be equal to 0.333.



Starting from January 2019, we accrue excise tax on volumes of stable gas condensate sent for processing to our Ust-Luga Complex on a monthly basis and simultaneously claim the double excise tax deduction. The net result, or so called "reverse excise", is reported as a deduction to our "Purchases of natural gas and liquid hydrocarbons" in our consolidated statement of income as most of our unstable gas condensate volumes used to produce stable gas condensate we purchase from our joint ventures.

In both reporting periods, most of our LPG sales in Poland were subject to excise and fuel taxes in accordance with the local legislation. The amount of excise and fuel tax payments depends on the volume of excisable goods sold and the respective tax rates (the excise tax rate in both reporting periods amounted to 670 Polish zloty per ton, and the fuel tax rate was increased from 162.27 Polish zloty per ton in 2018 to 164.61 Polish zloty per ton in 2019). We disclose LPG revenues net of excise and fuel taxes expense accrued on LPG volumes sold in Poland in our consolidated statement of income.

#### *Social contributions*

The Group makes contributions to the Pension Fund, the Federal Compulsory Medical Insurance Fund and the Social Insurance Fund on behalf of employees in Russia. The base for social contributions accrual is the amount of salaries and similar employee compensation stipulated by the employment contracts.

The rates for social contributions depend on the fund and the employee's annual income:

	2018		2019		2020	
	Base, RR thousand	Rate, %	Base, RR thousand	Rate, %	Base, RR thousand	Rate, %
Pension Fund of the Russian Federation	less 1,021	22.0%	less 1,150	22.0%	less 1,292	22.0%
	above 1,021	10.0%	above 1,150	10.0%	above 1,292	10.0%
Federal Compulsory Medical Insurance Fund	No limit	5.1%	No limit	5.1%	No limit	5.1%
Social Insurance Fund of the Russian Federation	less 815	2.9%	less 865	2.9%	less 912	2.9%
	above 815	0.0%	above 865	0.0%	above 912	0.0%

**OIL AND GAS RESERVES**

We do not file with the Securities and Exchange Commission ("SEC") nor we are obliged to report our reserves in compliance with these standards. However, we have consistently disclosed proved oil and gas reserves as unaudited supplemental information in the Group's IFRS audited consolidated financial statements. The Group's total proved reserves, comprised of proved developed and proved undeveloped reserves, as of 31 December 2019 and 2018, are provided using the SEC reserves reporting classification. We also provide additional information about our hydrocarbon reserves based on the widely-industry accepted PRMS reserves reporting classification, which in addition to total proved reserves discloses information on our probable and possible reserves.

The Group's reserves are located in the Russian Federation, primarily in the Yamal-Nenets Autonomous Region (Western Siberia), thereby representing one geographical area.

The Group's oil and gas estimation and reporting process involves an annual independent external appraisal, as well as internal technical appraisals of reserves. The internal technical appraisals of reserves are performed by the Group's qualified technical staff working directly with the oil and gas reserves and are periodically updated during the year based on evaluations of new wells, performance reviews, new technical information and other studies.

The annual independent external appraisal of our reserves is performed by independent petroleum engineers, DeGolyer and MacNaughton ("D&M"). The Group provides D&M annually with engineering, geological and geophysical data, actual production histories and other information necessary for reserves appraisal. The method or combination of methods used in the analysis of each reservoir is tempered by experience with similar reservoirs, stages of development, quality and completeness of basic data, and production history. Our reserves estimates were prepared using standard geological and engineering methods generally accepted in the oil and gas industry. The Group and D&M's technical staffs meet to review and discuss the information provided, and upon completion of the process, senior management reviews and approves the final reserves estimates issued by D&M.

The Reserves Management and Assessment Group ("RMAG") is comprised of qualified technical staff from various departments responsible for geology and geophysics, gas and liquids commercial operations, engineering and capital construction, production, and long-term financial planning, and also includes representatives from the Group's subsidiaries, which are the principal holders of the mineral licenses for geological research works, exploration and production of hydrocarbons. The person responsible for overseeing the work of the RMAG is a member of the Management Board.

The approval of the final reserve estimates is the sole responsibility of the Group's senior management.

The information below about the Group's oil and gas production and reserves under SEC and PRMS reserve classifications is presented based on 100% of production and reserves attributable to all consolidated subsidiaries (whether or not wholly owned) and our proportionate share in the production and reserves in companies accounted for by the equity method based on our equity ownership interest, including volumes of natural gas consumed in oil and gas production and development activities (primarily, as fuel gas). Production and reserves of the South-Tambeyskoye field of Yamal LNG are reported at 60% including an additional 9.9% interest not owned by the Group, since the Group assumes certain economic and operational risks related to this interest (see "Basis of presentation" above).

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The table below provides proved oil and gas reserves under SEC reserve classification and the change in reserves in metric units and on a total barrel of oil equivalent basis:

	As of and for the year ended 31 December:		Change %
	2019	2018	
<b>Natural gas, billions of cubic meters</b>	<b>2,234</b>	<b>2,177</b>	<b>2.6%</b>
Subsidiaries	1,149	1,351	(15.0%)
Share in joint ventures	1,085	826	31.4%
<b>Liquids, millions of metric tons</b>	<b>193</b>	<b>181</b>	<b>6.6%</b>
Subsidiaries	98	93	5.4%
Share in joint ventures	95	88	8.0%
<b>Combined reserves, millions of boe</b>	<b>16,265</b>	<b>15,789</b>	<b>3.0%</b>
<b>Change in total reserves, millions of boe</b>	<b>476</b>	<b>669</b>	
Production	(590)	(549)	
Acquisitions <sup>(1)</sup>	724	712	
Disposals <sup>(2)</sup>	(1,145)	(160)	
Organic growth <sup>(3)</sup>	1,487	666	
<b>Reserves replacement ratio <sup>(4)</sup>, %</b>	<b>181%</b>	<b>222%</b>	
<b>Normalized reserves replacement ratio <sup>(4), (5)</sup>, %</b>	<b>252%</b>	<b>121%</b>	

<sup>(1)</sup> In 2019, represent reserves of the acquired Soletskoye-Khanaveyskoye field and the net effect from the changes in the Groups' reserves due to the reorganization of Acticgas (see "Recent developments" above). In 2018, represent reserves attributable to the acquired Beregovoy and the Ust-Yamsoveyskiy license areas.

<sup>(2)</sup> Represent reserves attributable to the sale of a 40% participation interest in Arctic LNG 2 project in 2019, and to the disposal of the 3.3% participation interest in Arcticgas in 2018.

<sup>(3)</sup> Represent change due to extensions and discoveries, revisions of previous estimates.

<sup>(4)</sup> The reserves replacement ratio is calculated as the change in reserves increased for the production for the year divided by production for the year.

<sup>(5)</sup> Excluding reserves acquisitions and disposals.

The Groups' total proved reserves under the SEC reserve classification methodology as at the end of 2019 increased by 476 million boe, or 3.0%, to 16,265 million boe, representing a reserve replacement ratio of 181%.

The increase in total proved hydrocarbons reserves under the SEC reserve classification was primarily due to successful exploration works and production drilling at our subsidiaries and joint ventures, as well as the discovery of new deposits and a new field in our subsidiaries.

Our subsidiaries obtained positive exploration results at the Geofizicheskoye and Kharbeyskoye fields, successfully performed production drilling at the East-Tazovskoye and North-Russkoye fields, as well as discovered the Nyakhartinskoye field and new Achimov deposits in the Gydanskiy license area. Additions to the reserves of our joint ventures were due to successful exploration at the Salmanovskoye (Utrenneye) field of OOO Arctic LNG 2, production drilling at the Urengoyevskoye and East-Urengoyevskoye+North-Esetinskoye fields (Samburgskiy license area) of Arcticgas and production drilling at the South-Tambeyskoye field of Yamal LNG.

In addition, our total proved reserves as at the end of 2019 were impacted by the following factors: the sale of a 40% participation interest in Arctic LNG 2 project, the acquisition of the Soletskoye-Khanaveyskoye field and the reorganization of Acticgas (see "Recent developments" above). Excluding the effect of reserves acquisitions and disposals, the reserves replacement ratio amounted to 252%.

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The following table provides for the Group's PRMS proved, proved and probable, and proved, probable and possible reserves in metric units and on a total barrel of oil equivalent basis:

	Natural gas, billions of cubic meters		Liquid hydrocarbons, millions of metric tons		Combined reserves, millions of boe	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Proved reserves (1P reserves)	2,390	2,362	213	210	17,456	17,241
Proved and probable reserves (2P reserves)	3,901	4,021	373	387	28,725	29,619
Proved, probable and possible reserves (3P reserves)	5,065	5,029	514	520	37,581	37,348

As we continue to invest capital into the development of our fields, we anticipate that we will increase our resource base, as well as migrate reserves among the reserve categories.

The below table contains information about reserve to production ratios as of 31 December 2019 and 2018 under both reserves reporting methodologies:

<i>Number of years</i>	SEC		PRMS	
	At 31 December: 2019	2018	At 31 December: 2019	2018
Total proved reserves to production	28	29	30	31
Total proved and probable reserves to production	-	-	49	54
Total proved, probable and possible reserves to production	-	-	64	68

**OPERATIONAL HIGHLIGHTS****Oil and gas production costs per unit of production**

Oil and gas production costs on a barrel of oil equivalent (boe) basis are calculated by dividing oil and gas production costs by the barrel of oil equivalent of hydrocarbons produced during the year.

Oil and gas production costs include only the amounts directly related to the extraction of natural gas, gas condensate and crude oil and exclude processing costs incurred after saleable hydrocarbons are received, such as stable gas condensate processing costs and natural gas liquefaction costs, as well as transportation and other marketing expenses. Oil and gas production costs comprise of lifting costs (materials, services and other expenses, as well as administrative expenses being by nature operating expenses of oil and gas producing activities), taxes other than income tax and depreciation, depletion and amortization which are disclosed in the "Unaudited Supplemental Oil and Gas Disclosures" in the consolidated financial statements.

Natural gas, gas condensate and crude oil volumes produced are converted to a barrel of oil equivalent based on the relative energy content of each fields' hydrocarbons. Natural gas production volumes used for calculation of production costs per boe differ from the volumes presented in the section "Natural gas production volumes" as the former excludes volumes of natural gas consumed in oil and gas production and development activities (see "Basis of presentation" above).

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The following tables set forth information with respect to oil and gas production costs on a barrel of oil equivalent basis of our subsidiaries and joint ventures, as well as combined weighted average oil and gas production costs for the Group's subsidiaries and joint ventures for the reporting periods in Russian roubles and US dollars.

<i>RR per boe</i>	Year ended 31 December:		Change %
	2019	2018	
<i>Subsidiaries</i>			
<b>Production costs per boe:</b>			
Lifting costs	53.6	47.1	13.8%
Taxes other than income tax	204.5	181.7	12.5%
<b>Total production costs before DDA per boe</b>	<b>258.1</b>	<b>228.8</b>	<b>12.8%</b>
Depreciation, depletion and amortization	83.9	84.6	(0.8%)
<b>Total production costs of subsidiaries per boe</b>	<b>342.0</b>	<b>313.4</b>	<b>9.1%</b>
<i>Joint ventures</i>			
<b>Production costs per boe:</b>			
Lifting costs	22.1	26.3	(16.0%)
Taxes other than income tax	141.4	169.6	(16.6%)
<b>Total production costs before DDA per boe</b>	<b>163.5</b>	<b>195.9</b>	<b>(16.5%)</b>
Depreciation, depletion and amortization	90.2	93.3	(3.3%)
<b>Total weighted average production costs of joint ventures per boe <sup>(1)</sup></b>	<b>253.7</b>	<b>289.2</b>	<b>(12.3%)</b>
<i>Subsidiaries and joint ventures</i>			
<b>Production costs per boe:</b>			
Lifting costs	38.5	38.5	0.0%
Taxes other than income tax	174.1	176.8	(1.5%)
<b>Total production costs before DDA per boe</b>	<b>212.6</b>	<b>215.3</b>	<b>(1.3%)</b>
Depreciation, depletion and amortization	86.9	88.2	(1.5%)
<b>Total weighted average production costs of subsidiaries and joint ventures per boe <sup>(2)</sup></b>	<b>299.5</b>	<b>303.5</b>	<b>(1.3%)</b>

<sup>(1)</sup> Calculated based on the Group's share in the production of each joint venture.

<sup>(2)</sup> Calculated based on 100% of the Group's subsidiaries production and our share in the production of each joint venture.

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<i>USD per boe</i> <sup>(1)</sup>	Year ended 31 December:		Change %
	2019	2018	
<i>Subsidiaries</i>			
<b>Production costs per boe:</b>			
Lifting costs	0.83	0.75	10.7%
Taxes other than income tax	3.16	2.90	9.0%
<b>Total production costs before DDA per boe</b>	<b>3.99</b>	<b>3.65</b>	<b>9.3%</b>
Depreciation, depletion and amortization	1.29	1.35	(4.4%)
<b>Total production costs of subsidiaries per boe</b>	<b>5.28</b>	<b>5.00</b>	<b>5.6%</b>
<i>Joint ventures</i>			
<b>Production costs per boe:</b>			
Lifting costs	0.34	0.42	(19.0%)
Taxes other than income tax	2.18	2.70	(19.3%)
<b>Total production costs before DDA per boe</b>	<b>2.52</b>	<b>3.12</b>	<b>(19.2%)</b>
Depreciation, depletion and amortization	1.40	1.49	(6.0%)
<b>Total weighted average production costs of joint ventures per boe</b> <sup>(2)</sup>	<b>3.92</b>	<b>4.61</b>	<b>(15.0%)</b>
<i>Subsidiaries and joint ventures</i>			
<b>Production costs per boe:</b>			
Lifting costs	0.59	0.61	(3.3%)
Taxes other than income tax	2.69	2.82	(4.6%)
<b>Total production costs before DDA per boe</b>	<b>3.28</b>	<b>3.43</b>	<b>(4.4%)</b>
Depreciation, depletion and amortization	1.35	1.41	(4.3%)
<b>Total weighted average production costs of subsidiaries and joint ventures per boe</b> <sup>(3)</sup>	<b>4.63</b>	<b>4.84</b>	<b>(4.3%)</b>

<sup>(1)</sup> Production costs in US dollars per boe were translated from Russian roubles amounts using the average exchange rate for the period (see "Selected macro-economic data" above).

<sup>(2)</sup> Calculated based on the Group's share in the production of each joint venture.

<sup>(3)</sup> Calculated based on 100% of the Group's subsidiaries production and our share in the production of each joint venture.

**Hydrocarbon production and sales volumes**

Our total natural gas and liquids production including the proportionate share in the production of our joint ventures increased by 8.6% and by 2.9%, respectively. The main factors positively impacting our production growth were the commencement of LNG production at the second and third LNG trains at Yamal LNG in July and November 2018, respectively, and the launch of crude oil production at the Yaro-Yakhinskoye field of our joint venture AO Arcticgas in December 2018.

In 2019, our total natural gas sales volumes increased by 6,318 mmcm, or 8.8%, due to increased sales of LNG on international markets purchased primarily from our joint ventures OAO Yamal LNG and OOO Cryogas-Vysotsk.

In 2019, our liquids sales volumes increased by 533 thousand tons, or 3.4%, mainly due to crude oil purchases from our joint venture Arcticgas.

*Natural gas production volumes*

The following table presents natural gas production of the Group's subsidiaries by major production fields and our proportionate share in natural gas production of joint ventures by entities:

<i>millions of cubic meters if not stated otherwise</i>	<b>Year ended 31 December:</b>		<b>Change %</b>
	<b>2019</b>	<b>2018</b>	
<b>Production by subsidiaries from:</b>			
Yurkharovskoye field	25,590	27,745	(7.8%)
East-Tarkosalinskoye field	5,956	6,627	(10.1%)
Beregovoye field	1,927	1,204	60.0%
Yarudeyskoye field	1,731	1,500	15.4%
Khancheyevskoye field	1,581	1,942	(18.6%)
East-Urengoyskoye + North-Esetinskoye field (West-Yaroyakhinskiy license area)	613	705	(13.0%)
Other fields	1,991	2,137	(6.8%)
<b>Total natural gas production by subsidiaries <sup>(1)</sup></b>	<b>39,389</b>	<b>41,860</b>	<b>(5.9%)</b>
<b>Group's proportionate share in the production of joint ventures:</b>			
Yamal LNG <sup>(2)</sup>	16,727	8,213	103.7%
Arcticgas	13,787	13,698	0.6%
Nortgas	3,529	3,789	(6.9%)
Terneftegas	1,249	1,246	0.2%
Arctic LNG 2	19	-	n/a
<b>Total Group's proportionate share in the natural gas production of joint ventures <sup>(1)</sup></b>	<b>35,311</b>	<b>26,946</b>	<b>31.0%</b>
<b>Total natural gas production including proportionate share in the production of joint ventures</b>	<b>74,700</b>	<b>68,806</b>	<b>8.6%</b>
<i>Average daily natural gas production including proportionate share in the production of joint ventures</i>	<i>204.7</i>	<i>188.5</i>	<i>8.6%</i>
<i>The Group's proportionate share in LNG production of joint ventures (thousands of tons) <sup>(2)</sup></i>	<i>11,228</i>	<i>5,152</i>	<i>117.9%</i>

<sup>(1)</sup> Natural gas production includes natural gas volumes consumed in oil and gas production and development activities (primarily, as fuel gas):

in subsidiaries	1,635	1,413	15.7%
in joint ventures (Group's proportionate share)	378	333	13.5%

<sup>(2)</sup> Natural gas and LNG production at Yamal LNG are reported at 60% (see "Basis of presentation" above).

In 2019, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 5,894 mmcm, or 8.6%, to 74,700 mmcm from 68,806 mmcm in 2018. The main factor positively impacting our production growth was the increase of natural gas production at Yamal LNG resulting from the start of LNG production at the second and third LNG trains in July and November 2018, respectively. In addition, our production increased at the Beregovoye field due to the commissioning of new wells. These allowed us to fully compensate for the decrease in production at mature fields of our subsidiaries (the Yurkharovskoye, the East-Tarkosalinskoye and the Khancheyevskoye fields) and at our joint venture Nortgas, which resulted mainly from natural declines in the reservoir pressure at the current gas producing horizons.

#### *Natural gas sales volumes*

In 2019, our total natural gas sales volumes increased by 6,318 mmcm, or 8.8%, to 78,452 mmcm from 72,134 mmcm in 2018.

<i>millions of cubic meters</i>	Year ended 31 December:		Change %
	2019	2018	
Production by subsidiaries	39,389	41,860	(5.9%)
Purchases from the Group's joint ventures	31,296	24,892	25.7%
Other purchases	8,544	8,119	5.2%
<b>Total production and purchases</b>	<b>79,229</b>	<b>74,871</b>	<b>5.8%</b>
Own usage <sup>(1)</sup>	(1,763)	(1,561)	12.9%
Decrease (increase) in natural gas inventory balance	986	(1,176)	n/a
<b>Total natural gas sales volumes</b>	<b>78,452</b>	<b>72,134</b>	<b>8.8%</b>
<i>Sold to end-customers</i>	<i>62,653</i>	<i>61,901</i>	<i>1.2%</i>
<i>Sold ex-field</i>	<i>3,000</i>	<i>4,172</i>	<i>(28.1%)</i>
<b><i>Subtotal sold in the Russian Federation</i></b>	<b><i>65,653</i></b>	<b><i>66,073</i></b>	<b><i>(0.6%)</i></b>
<b><i>Sold on international markets</i></b>	<b><i>12,799</i></b>	<b><i>6,061</i></b>	<b><i>111.2%</i></b>

<sup>(1)</sup> Own usage represents volumes of natural gas consumed in oil and gas producing and development activities (primarily, as fuel gas), as well as used to maintain the refining process at the Purovsky Plant and methanol production.

In 2019, natural gas purchases from our joint ventures increased by 6,404 mmcm, or 25.7%, to 31,296 mmcm from 24,892 mmcm in 2018 primarily due to an increase in purchases of LNG produced by Yamal LNG for subsequent sale on international markets.

Other natural gas purchases are included in our natural gas volumes for sale, which allows us to coordinate sales across geographic regions as well as to optimize our end-customers portfolios. In the years ended 31 December 2019 and 2018, we purchased from third parties 7,613 mmcm and 7,413 mmcm of natural gas, respectively, on the Russian domestic market, and 931 mmcm and 706 mmcm, respectively, on international markets.

As of 31 December 2019, our cumulative natural gas inventory balance, mainly representing our inventory balances of natural gas in the UGSF, aggregated 1,223 mmcm and decreased by 986 mmcm during the year as compared to an increase by 1,176 mmcm in 2018. Natural gas inventory balances tend to fluctuate period-to-period depending on the Group's demand for natural gas withdrawal from the UGSF for the sale in the subsequent periods.



*Liquids production volumes*

The following table presents liquids production of the Group's subsidiaries by major production fields and our proportionate share in the liquids production of joint ventures by entities:

<i>thousands of tons</i>	Year ended 31 December:		Change %
	2019	2018	
<b>Production by subsidiaries from:</b>			
Yarudeyskoye field	3,311	3,439	(3.7%)
East-Tarkosalinskoye field	1,438	1,347	6.8%
Yurkharovskoye field	1,178	1,249	(5.7%)
Beregovoye field	223	97	129.9%
Khancheyskoye field	176	223	(21.1%)
Other fields	154	191	(19.4%)
<b>Total liquids production by subsidiaries</b>	<b>6,480</b>	<b>6,546</b>	<b>(1.0%)</b>
<i>including crude oil</i>	<i>4,696</i>	<i>4,704</i>	<i>(0.2%)</i>
<i>including gas condensate</i>	<i>1,784</i>	<i>1,842</i>	<i>(3.1%)</i>
<b>Group's proportionate share in the production of joint ventures:</b>			
Arcticgas	4,166	3,999	4.2%
Yamal LNG <sup>(1)</sup>	826	542	52.4%
Terneftegas	392	403	(2.7%)
Nortgas	284	310	(8.4%)
<b>Total Group's proportionate share in the liquids production of joint ventures</b>	<b>5,668</b>	<b>5,254</b>	<b>7.9%</b>
<b>Total liquids production including proportionate share in the production of joint ventures</b>	<b>12,148</b>	<b>11,800</b>	<b>2.9%</b>
<i>Average daily liquids production including proportionate share in the production of joint ventures</i>	<i>33.3</i>	<i>32.3</i>	<i>2.9%</i>

<sup>(1)</sup> Production at South-Tambeyskoye field of Yamal LNG is reported at 60% (see "Basis of presentation" above).

In 2019, our total liquids production (including our proportionate share in the production of joint ventures) increased by 348 thousand tons, or 2.9%, to 12,148 thousand tons from 11,800 thousand tons in 2018. The increase was due to gas condensate production growth at Yamal LNG resulting from the production commencement at the second and third LNG trains in July and November 2018, respectively, the launch of crude oil deposits at the Yaro-Yakhinskoye field of Arcticgas in December 2018, as well as an increase in crude oil production at the East-Tarkosalinskoye field and gas condensate production at the Beregovoye field due to the commissioning of new wells. These allowed us to fully compensate for a decrease in gas condensate production at mature fields of our subsidiaries and joint ventures mainly due to natural declines in the concentration of gas condensate as a result of decreasing reservoir pressure at the current gas condensate producing horizons.

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*Liquids sales volumes*

In 2019, our total liquids sales volumes increased by 533 thousand tons, or 3.4%, to 16,355 thousand tons from 15,822 thousand tons in 2018.

<i>thousands of tons</i>	Year ended 31 December:		Change %
	2019	2018	
Production by subsidiaries	6,480	6,546	(1.0%)
Purchases from the Group's joint ventures	9,566	9,368	2.1%
Other purchases	242	226	7.1%
<b>Total production and purchases</b>	<b>16,288</b>	<b>16,140</b>	<b>0.9%</b>
Losses <sup>(1)</sup> and own usage <sup>(2)</sup>	(201)	(211)	(4.7%)
Decreases (increases) in liquids inventory balances	268	(107)	n/a
<b>Total liquids sales volumes</b>	<b>16,355</b>	<b>15,822</b>	<b>3.4%</b>
<i>Naphtha export</i>	<i>4,511</i>	<i>4,185</i>	<i>7.8%</i>
<i>Other stable gas condensate refined products export</i> <sup>(3)</sup>	<i>2,268</i>	<i>2,396</i>	<i>(5.3%)</i>
<i>Other stable gas condensate refined products domestic</i> <sup>(3)</sup>	<i>202</i>	<i>102</i>	<i>98.0%</i>
<b>Subtotal stable gas condensate refined products</b>	<b>6,981</b>	<b>6,683</b>	<b>4.5%</b>
<i>Crude oil export</i>	<i>1,869</i>	<i>1,549</i>	<i>20.7%</i>
<i>Crude oil domestic</i>	<i>2,965</i>	<i>2,993</i>	<i>(0.9%)</i>
<b>Subtotal crude oil</b>	<b>4,834</b>	<b>4,542</b>	<b>6.4%</b>
<i>LPG export</i>	<i>591</i>	<i>593</i>	<i>(0.3%)</i>
<i>LPG domestic</i>	<i>2,186</i>	<i>2,083</i>	<i>4.9%</i>
<b>Subtotal LPG</b>	<b>2,777</b>	<b>2,676</b>	<b>3.8%</b>
<i>Stable gas condensate export</i>	<i>332</i>	<i>274</i>	<i>21.2%</i>
<i>Stable gas condensate domestic</i>	<i>1,407</i>	<i>1,634</i>	<i>(13.9%)</i>
<b>Subtotal stable gas condensate</b>	<b>1,739</b>	<b>1,908</b>	<b>(8.9%)</b>
<b>Other oil products</b>	<b>24</b>	<b>13</b>	<b>84.6%</b>

<sup>(1)</sup> Losses associated with processing at the Purovsky Plant, the Ust-Luga Complex and the Tobolsk Refining Facilities, as well as during railroad, trunk pipeline and tanker transportation.

<sup>(2)</sup> Own usage associated primarily with the maintaining of refining process at the Ust-Luga Complex, as well as bunkering of chartered tankers.

<sup>(3)</sup> Other stable gas condensate refined products include jet fuel, gasoil and fuel oil received from the processing of stable gas condensate at the Ust-Luga Complex.

Our sales volumes of naphtha and other stable gas condensate refined products fluctuate from period-to-period depending on changes in inventory balances, with volumes of the products received from processing at the Ust-Luga Complex staying relatively flat. Our sales volumes of stable gas condensate represent the volumes remaining after we deliver most of our stable gas condensate for further processing to our Ust-Luga Complex, as well as volumes purchased by the Group for subsequent sale on international markets, including purchases from our joint venture Yamal LNG.

Our crude oil sales volumes increased by 6.4% primarily due to crude oil purchases from our joint venture Arcticgas resulting from the commencement of crude oil commercial production at the Yaro-Yakhinskoye field in December 2018.

In 2019, our liquids inventory balances decreased by 268 thousand tons to 801 thousand tons as of 31 December 2019 as compared to an increase in inventory balances by 107 thousand tons to 1,069 thousand tons in 2018. Our liquids inventory balances may vary period-to-period depending on shipping schedules and final destinations (see "Changes in natural gas, liquid hydrocarbons and work-in-progress" below).

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**RESULTS OF OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2019  
COMPARED TO THE YEAR ENDED 31 DECEMBER 2018**

The following table and discussion is a summary of our consolidated results of operations for the years ended 31 December 2019 and 2018. Each line item is also shown as a percentage of our total revenues.

<i>millions of Russian roubles</i>	Year ended 31 December:			
	2019	% of total revenues	2018	% of total revenues
<b>Total revenues <sup>(1)</sup></b>	<b>862,803</b>	<b>100.0%</b>	<b>831,758</b>	<b>100.0%</b>
<i>including:</i>				
natural gas sales	414,844	48.1%	375,198	45.1%
liquids sales	437,388	50.7%	450,563	54.2%
Operating expenses	(640,463)	(74.2%)	(603,912)	(72.6%)
Other operating income (loss)	(35,484)	(4.1%)	(2,307)	(0.3%)
Gain on disposal of interests in subsidiaries and joint ventures, net	682,733	79.1%	1,645	n/a
<b>Profit from operations</b>	<b>869,589</b>	<b>100.8%</b>	<b>227,184</b>	<b>27.3%</b>
<b>Normalized profit from operations <sup>(2)</sup></b>	<b>221,398</b>	<b>25.7%</b>	<b>225,539</b>	<b>27.1%</b>
Finance income (expense)	(15,712)	(1.8%)	38,608	4.6%
Share of profit (loss) of joint ventures, net of income tax	149,238	17.3%	(37,258)	(4.4%)
<b>Profit before income tax</b>	<b>1,003,115</b>	<b>116.3%</b>	<b>228,534</b>	<b>27.5%</b>
Total income tax expense	(119,654)	(13.9%)	(45,587)	(5.5%)
<b>Profit</b>	<b>883,461</b>	<b>102.4%</b>	<b>182,947</b>	<b>22.0%</b>
Less: profit (loss) attributable to non-controlling interest	(17,984)	(2.1%)	(19,205)	(2.3%)
<b>Profit attributable to shareholders of PAO NOVATEK</b>	<b>865,477</b>	<b>100.3%</b>	<b>163,742</b>	<b>19.7%</b>
<b>Normalized profit attributable to shareholders of PAO NOVATEK <sup>(2)</sup>, excluding the effect of foreign exchange gains (losses)</b>	<b>245,002</b>	<b>28.4%</b>	<b>232,930</b>	<b>28.0%</b>

<sup>(1)</sup> Net of VAT and export duties, as well as excise and fuel taxes incurred on LPG sales in Poland.

<sup>(2)</sup> Excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration).

**Total revenues**

The following table sets forth our sales (excluding VAT and export duties, as well as excise and fuel taxes incurred on LPG sales in Poland) for the years ended 31 December 2019 and 2018:

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %	Change <sup>(1)</sup>		
	2019	2018		Total	Due to volume <sup>(2)</sup>	Due to price <sup>(3)</sup>
Natural gas sales	414,844	375,198	10.6%	39,646	32,861	6,785
Stable gas condensate refined products sales	231,536	238,886	(3.1%)	(7,350)	10,705	(18,055)
<i>Naphtha</i>	<i>144,541</i>	<i>149,770</i>	<i>(3.5%)</i>	<i>(5,229)</i>	<i>11,668</i>	<i>(16,897)</i>
<i>Other refined products</i>	<i>86,995</i>	<i>89,116</i>	<i>(2.4%)</i>	<i>(2,121)</i>	<i>(963)</i>	<i>(1,158)</i>
Crude oil sales	114,641	106,257	7.9%	8,384	6,824	1,560
Liquefied petroleum gas sales	47,668	56,243	(15.2%)	(8,575)	2,112	(10,687)
Stable gas condensate sales	42,528	48,607	(12.5%)	(6,079)	(4,302)	(1,777)
Other products sales	1,015	570	78.1%	445	n/a	n/a
<b>Total oil and gas sales</b>	<b>852,232</b>	<b>825,761</b>	<b>3.2%</b>	<b>26,471</b>	<b>n/a</b>	<b>n/a</b>
Other revenues	10,571	5,997	76.3%	4,574	n/a	n/a
<b>Total revenues</b>	<b>862,803</b>	<b>831,758</b>	<b>3.7%</b>	<b>31,045</b>	<b>n/a</b>	<b>n/a</b>

<sup>(1)</sup> The figures reflect the impact of sales volumes and average realized net prices factors on the change in total revenues from hydrocarbons sales in millions of Russian roubles for the respective periods.

<sup>(2)</sup> The amount of the change in total revenues due to sales volumes is calculated for each product category as a product of the average realized net price for the previous reporting period and the change in sales volumes.

<sup>(3)</sup> The amount of the change in total revenues due to average realized net prices is calculated for each product category as a product of the volume sold in the current reporting period and the change in average realized net prices.

*Natural gas sales*

Revenues from natural gas sales represent our revenues from natural gas sales in the Russian Federation (to end-customers and wholesale traders), revenues from LNG sales to international markets, as well as revenues from sales of regasified LNG to customers in Europe.

The increase in LNG sales volumes purchased primarily from our joint ventures, OAO Yamal LNG and OOO Cryogas-Vysotsk, combined with a simultaneous decline in LNG prices on international markets in 2019, as well as an increase in sales prices in the Russian domestic market resulted in an increase in our aggregate average price by 1.7% and sales volumes by 8.8% (see "Natural gas prices" and "Natural gas sales volumes" above). As a result, in 2019, our total revenues from natural gas sales increased by RR 39,646 million, or 10.6%, compared to 2018.

*Stable gas condensate refined products sales*

Stable gas condensate refined products sales represent revenues from sales of naphtha, jet fuel, gasoil and fuel oil produced from our stable gas condensate at the Ust-Luga Complex.

In 2019, our revenues from sales of stable gas condensate refined products decreased by RR 7,350 million, or 3.1%, to RR 231,536 million from RR 238,886 million in 2018 due to a decrease in average realized prices.

In 2019, our revenues from sales of naphtha decreased by RR 5,229 million, or 3.5%, as compared to 2018. In the years ended 31 December 2019 and 2018, we exported 4,511 thousand and 4,185 thousand tons of naphtha, respectively, mainly to the APR, and the European and North America markets. Our average realized net price, excluding export duties, where applicable, decreased by RR 3,746 per ton, or 10.5%, to RR 32,043 per ton from RR 35,789 per ton in 2018 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

In 2019, our total revenues from sales of jet fuel, gasoil and fuel oil on the domestic and export markets decreased by RR 2,121 million, or 2.4%, as compared to 2018. In the years ended 31 December 2019 and 2018, we exported in aggregate 2,268 thousand and 2,396 thousand tons of these products mainly to the European markets, or 91.8% and 95.9% of total sales volumes (on both the domestic and export markets), respectively. Our average realized net price, excluding export duties, where applicable, decreased by RR 469 per ton, or 1.3%, to RR 35,213 per ton from RR 35,682 per ton in 2018 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

#### *Crude oil sales*

In 2019, our revenues from crude oil sales increased by RR 8,384 million, or 7.9%, compared to 2018 mainly due to an increase in sales volumes (see "Liquids sales volumes" above).

In 2019, we sold 2,965 thousand tons, or 61.3% of our total crude oil sales volumes, domestically as compared to sales of 2,993 thousand tons, or 65.9%, in 2018. The remaining 1,869 thousand tons of crude oil, or 38.7% of our total crude oil sales volumes, in 2019 and 1,549 thousand tons, or 34.1%, in 2018 were sold to customers with destination points in the APR, the European and the North America (only in 2019) markets.

Our average realized net price, excluding export duties, where applicable, increased by RR 322 per ton, or 1.4%, to RR 23,716 per ton from RR 23,394 per ton in 2018 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

#### *Liquefied petroleum gas sales*

In 2019, our revenues from sales of LPG decreased by RR 8,575 million, or 15.2%, compared to 2018 due to a decrease in average realized prices.

In 2019, we sold 2,186 thousand tons of LPG, or 78.7% of our total LPG sales volumes, on the domestic market compared to sales of 2,083 thousand tons, or 77.8%, in 2018. The remaining 591 thousand tons of LPG, or 21.3% of our total LPG sales volumes, in 2019 and 593 thousand tons, or 22.2%, in 2018 were sold to the Polish market.

Our average realized LPG net price, excluding export and import duties, excise and fuel taxes expense, where applicable, in 2019 decreased by RR 3,849 per ton, or 18.3%, to RR 17,166 per ton from RR 21,015 per ton in 2018 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

#### *Stable gas condensate sales*

In 2019, our revenues from sales of stable gas condensate decreased by RR 6,079 million, or 12.5%, compared to 2018 mainly due to a decrease in sales volumes (see "Liquids sales volumes" above) and, to a lesser extent, a decrease in our average realized net prices.

In 2019, we sold 1,407 thousand tons of stable gas condensate, or 80.9% of our total stable gas condensate sales volumes, on the domestic market compared to sales of 1,634 thousand tons, or 85.6%, in 2018. The remaining 332 thousand tons of stable gas condensate, or 19.1% of our total stable gas condensate sales volumes, in 2019 were sold to the APR and European markets compared to sales of 274 thousand tons, or 14.4%, to the APR, the Middle East and European markets in 2018.

Our average realized net price, excluding export duties, where applicable, decreased by RR 1,021 per ton, or 4.0%, to RR 24,452 per ton from RR 25,473 per ton in 2018 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

#### *Other products sales*

Other products sales represent our revenues from sales of purchased oil products (diesel fuel and petrol) through our retail stations, as well as sales of other liquid hydrocarbons, including methanol from our own production. In 2019, our revenues from other products sales increased by RR 445 million, or 78.1%, to RR 1,015 million from RR 570 million in 2018.

*Other revenues*

Other revenues include revenue from transportation, geological and geophysical research services, repair and maintenance of energy equipment services, and other services.

In 2019, other revenues increased by RR 4,574 million, or 76.3%, to RR 10,571 million from RR 5,997 million in 2018. The increase was primarily due to an increase in revenues from tanker transportation rendered to our joint ventures and third parties by RR 2,377 million, as well as from power generation, repair and maintenance of energy equipment services by RR 625 million.

**Operating expenses**

In 2019, our total operating expenses increased by RR 36,551 million, or 6.1%, to RR 640,463 million compared to RR 603,912 million in 2018. The increase was mainly due to an increase in volumes of LNG purchased from our joint venture OAO Yamal LNG with the launch of LNG production at the second and third LNG trains in the second half of 2018 (see "Purchases of natural gas and liquid hydrocarbons" below) and due to changes in our hydrocarbons inventory balances. The increase in hydrocarbons purchase volumes and the decrease in inventory balances in turn allowed us to earn higher revenues.

<i>millions of Russian roubles</i>	Year ended 31 December:			
	2019	% of total revenues	2018	% of total revenues
Purchases of natural gas and liquid hydrocarbons	330,818	38.3%	319,990	38.5%
Transportation expenses	151,651	17.6%	145,664	17.5%
Taxes other than income tax	61,981	7.2%	58,768	7.1%
Depreciation, depletion and amortization	32,230	3.7%	33,094	4.0%
Materials, services and other	25,183	2.9%	22,675	2.7%
General and administrative expenses	24,568	2.8%	22,282	2.7%
Exploration expenses	8,386	1.0%	7,012	0.8%
Impairment expenses (reversals), net	162	n/a	287	n/a
Changes in natural gas, liquid hydrocarbons and work-in-progress	5,484	0.6%	(5,860)	n/a
<b>Total operating expenses</b>	<b>640,463</b>	<b>74.2%</b>	<b>603,912</b>	<b>72.6%</b>

*Purchases of natural gas and liquid hydrocarbons*

In 2019, our purchases of natural gas and liquid hydrocarbons increased by RR 10,828 million, or 3.4%, to RR 330,818 million from RR 319,990 million in 2018.

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2019	2018	
Natural gas	175,023	150,811	16.1%
Unstable gas condensate	138,092	155,360	(11.1%)
Other hydrocarbons	21,775	13,819	57.6%
Reverse excise	(4,072)	-	n/a
<b>Total purchases of natural gas and liquid hydrocarbons</b>	<b>330,818</b>	<b>319,990</b>	<b>3.4%</b>

In 2019, our purchases of natural gas increased by RR 24,212 million, or 16.1%, as compared to 2018 mainly due to an increase in LNG purchases from our joint ventures, OAO Yamal LNG and OOO Cryogas-Vysotsk, for subsequent sale on international markets, as well as an increase in purchase prices on the domestic market that are influenced by the regulated natural gas prices (see "Natural gas prices" above). The impact of these factors was partially offset by a decrease in our LNG purchase prices that are based on prices for natural gas at major natural gas hubs and on benchmark crude oil prices (see "Selected macro-economic data" above).

In 2019, our purchases of unstable gas condensate from our joint ventures decreased by RR 17,268 million, or 11.1%, as compared to 2018 mainly due to a decrease in purchase prices, which are primarily impacted by international crude oil and LPG prices excluding export duties (see "Selected macro-economic data" above).

Other hydrocarbons purchases represent our purchases of crude oil, LPG, stable gas condensate, oil products and methanol for subsequent resale depending on the demand for these types of products. In 2019, our purchases of other hydrocarbons increased by RR 7,956 million, or 57.6%, as compared to 2018 mainly due to purchases of crude oil produced at the Yaro-Yakhinskoye field of Arcticgas for subsequent sale.

Starting from January 2019, we accrue excise tax on volumes of stable gas condensate sent for processing to our Ust-Luga Complex on a monthly basis and simultaneously claim the double excise tax deduction (see "Our tax burden and obligatory payments" above). The net result from these operations is reported as a deduction to our purchases of natural gas and liquid hydrocarbons expenses in the line "Reverse excise" above as most of our unstable gas condensate volumes used to produce stable gas condensate we purchase from our joint ventures.

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*Transportation expenses*

In 2019, our total transportation expenses increased by RR 5,987 million, or 4.1%, to RR 151,651 million as compared to RR 145,664 million in 2018.

<i>millions of Russian roubles</i>	<b>Year ended 31 December:</b>		<b>Change %</b>
	<b>2019</b>	<b>2018</b>	
Natural gas transportation			
by trunk and low-pressure pipelines	97,371	96,146	1.3%
Stable gas condensate and liquefied petroleum gas transportation by rail	32,674	30,643	6.6%
Crude oil transportation by trunk pipelines	9,639	8,557	12.6%
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	8,589	8,307	3.4%
Other	3,378	2,011	68.0%
<b>Total transportation expenses</b>	<b>151,651</b>	<b>145,664</b>	<b>4.1%</b>

In 2019, our expenses for natural gas transportation by trunk and low-pressure pipelines increased by RR 1,225 million, or 1.3%, to RR 97,371 million from RR 96,146 million in 2018 mainly due to a 1.2% increase in our natural gas sales volumes to our end-customers, for which we incurred transportation expenses.

In 2019, our total expenses for stable gas condensate and LPG transportation by rail increased by RR 2,031 million, or 6.6%, to RR 32,674 million from RR 30,643 million in 2018. The increase was primarily due to a 5.3% increase in weighted average transportation cost per unit resulted from a 3.56% increase in the regulated railroad transportation tariffs effective 1 January 2019 (see "Transportation tariffs" above), as well as a 1.3% increase in volumes of liquids sold and transported via rail.

In 2019, our expenses for crude oil transportation to customers by trunk pipeline increased by RR 1,082 million, or 12.6%, to RR 9,639 million from RR 8,557 million in 2018 mainly due to a 6.4% increase in sales volumes, as well as an increase in the regulated transportation tariffs for crude oil by 3.87% effective 1 January 2019 (see "Transportation tariffs" above).

In 2019, our total transportation expenses for our hydrocarbons delivered by tankers to international markets increased by RR 282 million, or 3.4%, to RR 8,589 million from RR 8,307 million in 2018 due to increases in freight rates and stable gas condensate and refined products volumes delivered, which was partially offset by changes in the LNG delivery terms and points of destination.

Other transportation expenses mainly include our short-term vessels time charter expenses related to our revenues from hydrocarbons transportation by tankers rendered to our joint ventures and third parties (see "Other revenues" above), as well as expenses for hydrocarbons transportation by trucks. In 2019, our short-term vessels time charter expenses increased by RR 1,240 million to RR 3,078 million compared to RR 1,838 million in 2018 in line with an increase in our revenues from tanker transportation.

*Taxes other than income tax*

In 2019, taxes other than income tax increased by RR 3,213 million, or 5.5%, to RR 61,981 million from RR 58,768 million in 2018 primarily due to an increase in unified natural resources production tax expense.

<i>millions of Russian roubles</i>	<b>Year ended 31 December:</b>		<b>Change %</b>
	<b>2019</b>	<b>2018</b>	
Unified natural resources production tax (UPT)	57,935	54,644	6.0%
Property tax	3,658	3,595	1.8%
Other taxes	388	529	(26.7%)
<b>Total taxes other than income tax</b>	<b>61,981</b>	<b>58,768</b>	<b>5.5%</b>



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In 2019, our unified natural resources production tax expense increased by RR 3,291 million, or 6.0%, to RR 57,935 million from RR 54,644 million in 2018 as a result of the offsetting effects of the following factors: an increase in UPT rates for crude oil and gas condensate resulting from changes in the UPT rates formulas effective 1 January 2019 and a decrease in natural gas production at mature fields of our subsidiaries (see "Natural gas production volumes" above).

The increase in UPT rates is caused by the completion of the tax maneuver in the oil and gas industry and is offset by increases in liquids net prices and revenues due to a gradual decrease in export duties (see "Our tax burden and obligatory payments" above).

*Depreciation, depletion and amortization*

In 2019, our depreciation, depletion and amortization ("DDA") expense decreased by RR 864 million, or 2.6%, to RR 32,230 million from RR 33,094 million in 2018 primarily due to an increase in total proved reserves in our subsidiaries as at the end of 2018 compared to the previous period.

We accrue depreciation and depletion on oil and gas assets using the "units-of-production" method and straight-line method for other facilities. Our reserve base is only appraised on an annual basis as of 31 December and does not fluctuate during the year until the subsequent appraisal, whereas our depletable cost base does change each quarter due to the ongoing capitalization of our costs throughout the year.

*Materials, services and other*

In 2019, our materials, services and other expenses increased by RR 2,508 million, or 11.1%, to RR 25,183 million compared to RR 22,675 million in 2018.

<i>millions of Russian roubles</i>	<b>Year ended 31 December:</b>		<b>Change %</b>
	<b>2019</b>	<b>2018</b>	
Employee compensation	11,273	9,815	14.9%
Repair and maintenance	2,778	2,948	(5.8%)
Preparation and processing of hydrocarbons	2,431	2,009	21.0%
Materials and supplies	1,945	1,963	(0.9%)
Electricity and fuel	1,551	1,311	18.3%
Liquefied petroleum gas volumes reservation expenses	1,157	1,155	0.2%
Fire safety and security expenses	1,051	976	7.7%
Transportation services	924	822	12.4%
Rent expenses	591	416	42.1%
Insurance expense	366	340	7.6%
Other	1,116	920	21.3%
<b>Total materials, services and other</b>	<b>25,183</b>	<b>22,675</b>	<b>11.1%</b>

Employee compensation relating to operating personnel increased by RR 1,458 million, or 14.9%, to RR 11,273 million compared to RR 9,815 million in 2018 due to an increase in average number of employees, particularly, in our service subsidiary NOVATEK-Energo due to the expansion of its operations and servicing new assets, an indexation of base salaries effective from 1 July 2019, and the related increase in social contributions for medical and social insurance and to the Pension Fund of the Russian Federation.

Preparation and processing of hydrocarbons expenses mainly relate to transportation and further processing at the Tobolsk Refining Facilities of our NGL produced at the Purovsky Plant, as well as to preparation of our hydrocarbons by third parties. These expenses increased by RR 422 million, or 21.0%, to RR 2,431 million compared to RR 2,009 million in 2018 primarily due to a price increase for these services.

Electricity and fuel expenses increased by RR 240 million, or 18.3%, to RR 1,551 million compared to RR 1,311 million in 2018 due to higher electricity prices in 2019, as well as an increase in the consumption at our core production subsidiaries.

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Rent expenses increased by RR 175 million, or 42.1%, to RR 591 million as compared to RR 416 million in 2018 primarily due to the rent of energy equipment by our service subsidiary NOVATEK-Energo used for rendering energy services to our joint ventures.

Other items of our materials, services and other expenses changed marginally.

*General and administrative expenses*

In 2019, our general and administrative expenses increased by RR 2,286 million, or 10.3%, to RR 24,568 million compared to RR 22,282 million in 2018.

<i>millions of Russian roubles</i>	<b>Year ended 31 December:</b>		<b>Change %</b>
	<b>2019</b>	<b>2018</b>	
Employee compensation	17,905	15,807	13.3%
Social expenses and compensatory payments	2,503	2,484	0.8%
Legal, audit and consulting services	975	1,122	(13.1%)
Business travel expense	720	621	15.9%
Advertising expenses	531	465	14.2%
Fire safety and security expenses	509	471	8.1%
Repair and maintenance expenses	228	229	(0.4%)
Rent expense	189	176	7.4%
Other	1,008	907	11.1%
<b>Total general and administrative expenses</b>	<b>24,568</b>	<b>22,282</b>	<b>10.3%</b>

Employee compensation relating to administrative personnel increased by RR 2,098 million, or 13.3%, to RR 17,905 million in 2019 from RR 15,807 million in 2018 due to an increase in accrued provision for bonuses to key management, an increase in average number of employees resulting from the expansion of the Group's operations, an indexation of base salaries effective 1 July 2019 and the related increase in social contributions for medical and social insurance and to the Pension Fund of the Russian Federation.

In 2019, our social expenses and compensatory payments amounted to RR 2,503 million compared to RR 2,484 million in 2018. In both reporting periods, the major part of expenses represented our social expenses related to continued support of charities and social programs in the regions where we operate. In addition, in 2019 and 2018, besides social expenses, we made compensatory payments of RR 237 million and RR 673 million, respectively, which mainly related to the development of the Geofizicheskoye and North-Obskoye fields in 2019, and the development of the Salmanovskoye (Utrenneye) and Yarudeyskoye fields in 2018. Social expenses and compensatory payments fluctuate period-to-period depending on the implementation schedules of specific programs we support.

Other items of our general and administrative expenses changed marginally.

*Exploration expenses*

In 2019, our exploration expenses increased by RR 1,374 million, or 19.6%, to RR 8,386 million from RR 7,012 million in 2018 primarily due to an increase in the volume of exploration works. A significant part of expenses related to exploration works performed at the Gydanskiy, the Verhnetiuteyskiy and the West-Seyakhinskiy, the Nyakhartinskiy (only in 2019) and the Shtormovoy (only in 2018) license areas.

Exploration works ensure timely preparation of reserves at our promising fields for development and further progress of the Group's hydrocarbons production projects in line with our long-term strategy. Exploration expenses fluctuate period-to-period in accordance with the approved exploration work schedule at our production subsidiaries.

In accordance with our accounting policies exploration expenses include geological and geophysical research services expenditures, expenditures associated with the maintenance of license areas with non-proven reserves, expenses of our science and technology center associated with the exploration activities at our fields, costs related to exploratory wells drilling when reserves are not found, and other expenditures relating to exploration activity.

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*Impairment expenses*

In 2019 and 2018, we recognized net impairment expenses of RR 162 million and RR 287 million, respectively, which in both periods related to impairments of trade accounts receivables.

*Changes in natural gas, liquid hydrocarbons and work-in-progress*

In 2019, we recorded a charge of RR 5,484 million to changes in inventory expense due to a decrease in our hydrocarbons inventory balances as of 31 December compared to 1 January. In 2018, as a result of increases in our natural gas and stable gas condensate refined products inventory balances, we recorded a reversal of RR 5,860 million to changes in inventory expense.

In 2019, our cumulative natural gas inventory balance representing mainly our inventory balances of natural gas in the Underground Gas Storage Facilities ("UGSF") decreased by 986 mmcm compared to an increase in natural gas inventory balance by 1,176 mmcm in 2018. Natural gas inventory balances tend to fluctuate period-to-period depending on the Group's demand for natural gas withdrawals for the sale in the subsequent periods.

In 2019, our cumulative liquid hydrocarbons inventory balances, recognized as inventory in transit or in storage, decreased by 268 thousand tons and, in 2018, increased by 107 thousand tons mainly due to a change in inventory balance of stable gas condensate refined products in storage at our Ust-Luga Complex and in tankers in transit not realized at the reporting date. Inventory balances of stable gas condensate and refined products tend to fluctuate period-to-period depending on shipment schedules and final destination of our shipments.

The following table highlights movements in our hydrocarbons inventory balances:

<i>Inventory balances in transit or in storage</i>	2019			2018		
	At 31 December	At 1 January	Increase / (decrease)	At 31 December	At 1 January	Increase / (decrease)
<b>Natural gas (millions of cubic meters)</b>	<b>1,223</b>	<b>2,209</b>	<b>(986)</b>	<b>2,209</b>	<b>1,033</b>	<b>1,176</b>
<i>incl. Gazprom's UGSF</i>	982	2,106	(1,124)	2,106	870	1,236
<b>Liquid hydrocarbons (thousand tons)</b>	<b>801</b>	<b>1,069</b>	<b>(268)</b>	<b>1,069</b>	<b>962</b>	<b>107</b>
<i>incl. stable gas condensate refined products</i>	331	578	(247)	578	464	114
<i>stable gas condensate</i>	272	276	(4)	276	290	(14)
<i>crude oil</i>	94	109	(15)	109	103	6

**Other operating income (loss)**

Other operating income (loss) includes realized income (loss) from hydrocarbons trading on the international markets, income (loss) from the change in the fair value of the aforementioned contracts, as well as other income (loss) relating to penalty charges, disposal of materials, fixed assets and other transactions. In 2019, we recognized other operating loss of RR 35,484 million compared to other operating loss of RR 2,307 million in 2018.

In 2019, other operating loss was primarily due to the recognition of non-cash revaluation of fair value of contingent consideration in the amount of RR 34,542 million related to the transactions on the sale of a 40% participation interest in OOO Arctic LNG 2 resulting from a decrease in long-term crude oil benchmark prices forecast, which may be revised subject to world market conditions and may or may not reflect actual future cash inflows.

In 2019, we purchased and sold approximately 10.3 bcm of natural gas, as well as various derivative commodity instruments within our trading activities, and recognized the aggregate realized loss from trading activities of RR 1,072 million as compared to a loss of RR 2,278 million in 2018. At the same time, we recognized non-cash income of RR 238 million in 2019 as a result of an increase in the fair value of the aforementioned contracts as compared to a non-cash loss of RR 450 million in 2018. The effect of the change in fair value of the commodity contracts fluctuate from period to period depending on the forecast prices for hydrocarbons on international markets and other macroeconomic parameters and may or may not reflect actual future cash flows from trading activities.

**Net gain on disposal of interests in subsidiaries and joint ventures**

In 2019, we recognized a gain on the disposal of a 40% participation interest in OOO Arctic LNG 2 in the amount of RR 674,968 million before income tax. As a result, our participation interest in Arctic LNG 2 decreased to 60% (see "Recent developments" above).

In addition, in 2019, the Group recognized a gain from the reorganization of our joint venture AO Arcticgas in the amount of RR 7,765 million (see "Recent developments" above).

In 2018, the Group recognized a gain on the disposal of a 3.3% participation interest in AO Arcticgas to PAO Gazprom Neft in the amount of RR 1,645 million.

**Profit from operations and EBITDA**

Profit from operations and EBITDA of our subsidiaries, excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration) decreased to RR 221,398 million and RR 253,552 million, respectively, compared to RR 225,539 million and RR 259,370 million in 2018. The decrease in the above performance measures was caused by a decline in hydrocarbons prices on international markets in 2019 compared to the prior year.

The effect of decline in hydrocarbons prices on international markets in 2019 was largely offset by an increase in our natural gas sales volumes due to the commencement of LNG production at the second and third LNG trains at Yamal LNG in July and November 2018, respectively. As a result, our profit from operations and EBITDA including our proportionate share of joint ventures, but excluding the effects from the disposal of participation interests, increased in 2019 to RR 360,463 million and RR 461,157 million, respectively, compared to RR 349,750 million and RR 415,296 million in 2018.

**Finance income (expense)**

In 2019, we recorded net finance expense of RR 15,712 million compared to net finance income of RR 38,608 million in 2018.

<i>millions of Russian roubles</i>	<b>Year ended 31 December:</b>		<b>Change %</b>
	<b>2019</b>	<b>2018</b>	
Accrued interest expense on loans received	(9,112)	(8,702)	4.7%
Less: capitalized interest	5,903	5,032	17.3%
Provisions for asset retirement obligations: effect of the present value discount unwinding	(738)	(602)	22.6%
Interest expense on lease liabilities	(544)	(474)	14.8%
<b>Interest expense</b>	<b>(4,491)</b>	<b>(4,746)</b>	<b>(5.4%)</b>
Interest income	20,699	14,003	47.8%
Change in fair value of non-commodity financial instruments	12,827	3,492	267.3%
Foreign exchange gain (loss), net	(44,747)	25,859	n/a
<b>Total finance income (expense)</b>	<b>(15,712)</b>	<b>38,608</b>	<b>n/a</b>

In 2019, our interest expense decreased by RR 255 million, or 5.4%, to RR 4,491 million primarily due to an increase in the amount of capitalised interest costs on borrowings as a result of the increased volume of capital expenditures and assets under construction.

Interest income increased by RR 6,696 million, or 47.8%, to RR 20,699 million in 2019 from RR 14,003 million in 2018 primarily due to new loans provided to our joint venture OOO Arctic LNG 2, recognition of interest income on contingent consideration related to the transactions on the sale of participation interests in OOO Arctic LNG 2, as well as an increase in cash balances on bank deposits.

In 2019, we recognized a non-cash gain of RR 12,827 million compared to RR 3,492 million in 2018 due to the remeasurement of the shareholders' loans issued by the Group to our joint ventures in accordance with IFRS 9 "Financial instruments". The effect of the fair value remeasurement of shareholders' loans may change period-to-period due to the change in market interest rates and other macroeconomic parameters and does not affect real future cash flows of loans repayments.

The Group continues to record non-cash foreign exchange gains and losses each reporting period due to movements between currency exchange rates. In 2019, we recorded a net foreign exchange loss of RR 44,747 million compared to a net foreign exchange gain of RR 25,859 million in 2018 due to the revaluation of our foreign currency denominated borrowings and loans received and provided, trade receivables and contingent consideration related to the transactions on the sale of participation interests in Arctic LNG 2, as well as cash balances in foreign currency.

### Share of profit (loss) of joint ventures, net of income tax

In 2019, the Group's proportionate share of profit of joint ventures amounted to RR 149,238 million as compared to the share of loss in the amount of RR 37,258 million in 2018.

<i>millions of Russian roubles (Group's share)</i>	Year ended 31 December:		Change %
	2019	2018	
<b>Profit from operations</b>	<b>139,065</b>	<b>124,211</b>	<b>12.0%</b>
<b>Finance income (expense)</b>			
Interest income (expense), net	(67,770)	(35,900)	88.8%
Foreign exchange gain (loss), net	111,733	(109,663)	n/a
Change in fair value of non-commodity financial instruments	(3,531)	(15,273)	(76.9%)
<b>Total finance income (expense)</b>	<b>40,432</b>	<b>(160,836)</b>	<b>n/a</b>
Total income tax benefit (expense)	(30,259)	(633)	n/a
<b>Total share of profit (loss) of joint ventures, net of income tax</b>	<b>149,238</b>	<b>(37,258)</b>	<b>n/a</b>

The following table presents the Group's proportionate share of profit (loss) of our joint ventures by entities:

<i>millions of Russian roubles (Group's share)</i>	Yamal LNG		Arcticgas		Others	
	2019	2018	2019	2018	2019	2018
<b>Profit from operations</b>	<b>82,190</b>	<b>64,928</b>	<b>52,994</b>	<b>53,263</b>	<b>3,881</b>	<b>6,020</b>
<b>Finance income (expense)</b>						
Interest income (expense), net	(63,214)	(31,568)	(2,087)	(3,047)	(2,469)	(1,285)
Foreign exchange gain (loss), net	106,910	(108,285)	1	(3)	4,822	(1,375)
Change in fair value of non-commodity financial instruments	(4,622)	(12,330)	-	-	1,091	(2,943)
<b>Total finance income (expense)</b>	<b>39,074</b>	<b>(152,183)</b>	<b>(2,086)</b>	<b>(3,050)</b>	<b>3,444</b>	<b>(5,603)</b>
Total income tax benefit (expense)	(20,685)	8,250	(8,169)	(8,635)	(1,405)	(248)
<b>Total share of profit (loss) of joint ventures, net of income tax</b>	<b>100,579</b>	<b>(79,005)</b>	<b>42,739</b>	<b>41,578</b>	<b>5,920</b>	<b>169</b>

Our proportionate share in the profit from operations of our joint ventures increased by RR 14,854 million, or 12.0%, mainly due to the commencement of LNG production at the second and third LNG trains at Yamal LNG in July and November 2018, respectively.

In 2019, our proportionate share in the finance income of our joint ventures amounted to RR 40,432 million as compared to the share in the finance expense in the amount of RR 160,836 million in 2018.

The main factor impacting the change in our share in finance income (expense) was the recognition of a significant non-cash foreign exchange gain in the current year (our share amounted to RR 111.7 billion) as compared to a significant non-cash foreign exchange loss (our share of RR 109.7 billion) in 2018, which in both reporting periods primarily related to the revaluation of foreign currency denominated loans in our joint venture Yamal LNG. We assess that the impact of foreign currency risk relating to the debt portfolio of Yamal LNG is to a large extent mitigated by the fact that all of its products are delivered to international markets and its revenues are denominated in foreign currencies.

In addition, our share in interest expense increased by RR 31.9 billion, or 88.8%, mainly due to the commencement of LNG production at the second and third LNG trains at Yamal LNG in July and November 2018 and ceasing capitalizing the respective interest expense.

The remaining change in our share in finance income (expense) related to the decrease by RR 11.7 billion, or 76.9%, in our share of a non-cash loss from the remeasurement of the fair value of shareholders' loans mainly in Yamal LNG.

### **Income tax expense**

The Russian statutory income tax rate for both reporting periods was 20%.

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

Without the effect of net profit (loss) from joint ventures and excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration), the effective income tax rate (total income tax expense calculated as a percentage of profit before income tax) for the years ended 31 December 2019 and 2018 was 16.7% and 17.3%, respectively.

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for the year ended 31 December 2019****Profit attributable to shareholders and earnings per share**

As a result of the factors discussed in the respective sections above, profit attributable to shareholders of PAO NOVATEK significantly increased by RR 701,735 million, or 5.3 times, to RR 865,477 million in 2019 compared to RR 163,742 million in 2018.

The Group's financial results in 2019 were significantly impacted by a gain from the disposal of a 40% participation interest in OOO Arctic LNG 2 and the reorganization of our joint venture AO Arcticgas (see "Recent developments" above). In addition, in both reporting periods, the Group's subsidiaries and joint ventures recognized significant non-cash foreign exchange effects on foreign currency denominated loans and cash balances. Excluding the effects from the disposal of interests in subsidiaries and joint ventures and foreign exchange gains (losses), our profit attributable to shareholders of PAO NOVATEK increased by RR 12,072 million, or 5.2%, and amounted to RR 245,002 million in 2019 compared to RR 232,930 million in 2018 (see the table below):

<i>millions of Russian roubles</i>	<b>Year ended 31 December:</b>		<b>Change %</b>
	<b>2019</b>	<b>2018</b>	
Profit attributable to shareholders of PAO NOVATEK	865,477	163,742	n/a
Gain on disposal of interests in subsidiaries and joint ventures, net	(682,733)	(1,645)	n/a
Income tax expense related to the disposal of interests in subsidiaries and joint ventures	92,040	-	n/a
Changes in fair value of contingent consideration reported within the "Other operating income (loss)"	34,542	-	n/a
Income tax expense (benefit) related to changes in fair value of contingent consideration	(6,908)	-	n/a
<b>Normalized profit attributable to shareholders of PAO NOVATEK</b>	<b>302,418</b>	<b>162,097</b>	<b>86.6%</b>
Foreign exchange (gains) losses	44,747	(25,859)	n/a
Income tax expense (benefit) relating to foreign exchange (gains) losses	(8,949)	5,172	n/a
Share of foreign exchange (gains) losses of joint ventures	(111,733)	109,663	n/a
Share of income tax expense (benefit) relating to foreign exchange (gains) losses of joint ventures	18,519	(18,143)	n/a
<b>Normalized profit attributable to shareholders of PAO NOVATEK, excluding the effect of foreign exchange gains (losses)</b>	<b>245,002</b>	<b>232,930</b>	<b>5.2%</b>

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of PAO NOVATEK increased by RR 233.06 per share, or 5.3 times, to RR 287.39 per share in 2019 from RR 54.33 per share in 2018. Excluding the effects from the disposal of interests in subsidiaries and joint ventures and foreign exchange gains (losses), our weighted average basic and diluted earnings per share increased by RR 4.06, or 5.3%, to RR 81.35 per share in 2019 from RR 77.29 per share in 2018.

## LIQUIDITY AND CAPITAL RESOURCES

## Cash flows

The following table shows our net cash flows from operating, investing and financing activities for the years ended 31 December 2019 and 2018:

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2019	2018	
Net cash provided by <b>operating</b> activities	307,433	216,349	42.1%
Net cash used for <b>investing</b> activities	(169,044)	(153,046)	10.5%
Net cash used for <b>financing</b> activities	(119,448)	(93,658)	27.5%

*Net cash provided by operating activities*

Our net cash provided by operating activities increased by RR 91,084 million, or 42.1%, to RR 307,433 million compared to RR 216,349 million in 2018 primarily due to an increase in interest on loans and dividends received from our joint ventures.

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2019	2018	
Profit from operations, excluding the effects from the disposal of interests in subsidiaries and joint ventures	221,398	225,539	(1.8%)
Non-cash adjustments <sup>(4)</sup>	31,860	34,580	(7.9%)
Changes in working capital and long-term advances given	(4,227)	(6,454)	(34.5%)
Dividends received from joint ventures	46,050	8,500	n/a
Interest received	47,413	1,311	n/a
Income taxes paid excluding payments relating to disposal of interests in subsidiaries and joint ventures	(35,061)	(47,127)	(25.6%)
<b>Total net cash provided by operating activities</b>	<b>307,433</b>	<b>216,349</b>	<b>42.1%</b>

<sup>(4)</sup> Include adjustments for depreciation, depletion and amortization, net impairment expenses (reversals), change in fair value of non-commodity financial instruments and some other adjustments.

In 2019, profit from operations, excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration), adjusted for non-cash items decreased due to a decline in hydrocarbons prices on international markets compared to 2018. This effect was largely offset by an increase in natural gas volumes sold due to the commencement of LNG production at the second and third LNG trains at Yamal LNG in July and November 2018, respectively (see "Profit from operations and EBITDA" above).

In 2019, we received RR 45,500 million and RR 550 million of dividends from our joint ventures Arcticgas and Nortgas, respectively. In 2018, we received RR 8,500 million of dividends from our joint venture Nortgas.

In 2019, we received RR 47 billion of interest, which mainly related to interest on loans provided to our joint ventures Yamal LNG and Terneftegas.



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*Net cash used for investing activities*

In 2019, our net cash used for investing activities increased by RR 15,998 million, or 10.5%, to RR 169,044 million compared to RR 153,046 million in 2018.

<i>millions of Russian roubles</i>	<b>Year ended 31 December:</b>		<b>Change %</b>
	<b>2019</b>	<b>2018</b>	
Cash used for capital expenditures	(162,502)	(94,038)	72.8%
Proceeds from disposal of interests in subsidiaries and joint ventures, net of cash disposed	136,541	-	n/a
Income tax payments relating to disposal of interests in subsidiaries and joint ventures	(64,540)	-	n/a
Payments for acquisition of subsidiaries, net of cash acquired	-	(30,492)	n/a
Payments for mineral licenses	(7,827)	(327)	n/a
Loans provided to joint ventures	(29,664)	(3,429)	n/a
Repayments of loans provided to joint ventures	20,764	1,573	n/a
Capital contributions to joint ventures	(298)	-	n/a
Net decrease (increase) in bank deposits with original maturity more than three months	(58,945)	(26,161)	125.3%
Proceeds from disposals of property, plant and equipment and materials for construction	-	2,133	n/a
Other	(2,573)	(2,305)	11.6%
<b>Net cash used for investing activities</b>	<b>(169,044)</b>	<b>(153,046)</b>	<b>10.5%</b>

Cash used for capital expenditures increased by RR 68,464 million, or 72.8%, as compared to 2018 primarily due to investments in our LNG projects (the LNG construction center located in the Murmansk region, the Obskiy LNG and the Arctic LNG 2 projects). In addition, we increased our investments in the ongoing development of our producing fields, preparation for the commencement of commercial production at our new fields, as well as exploratory drilling (see "Capital expenditures" below).

In March and July 2019, the Group sold a 10% and a 30% participation interests in OOO Arctic LNG 2, respectively, to four participants and received from them first cash payments in the aggregate amount of RR 152,531 million (the equivalent of USD 2.4 billion) for the participation interests disposed (see "Recent developments" above). Excluding the cash balance in OOO Arctic LNG 2 as at the first transaction closing date, the net cash inflow from the transactions amounted to RR 136,541 million. In 2019, we paid RR 64,540 million of income tax accrued for these sale transactions.

In 2019, we made a final payment in the amount of RR 2,006 million for the acquisition of a license to use the South-Leskinskiy license area (an advance payment in the amount of RR 35 million was made in the fourth quarter of 2018), paid RR 2,586 million for the acquisition of a license to use a license area, which includes the Soletskoye-Khanaveyskoye field, as well as paid RR 3,176 million for participation in the auctions for the right to use the East-Ladertoyskiy, the South-Yamburgskiy and the Bukharinskiy license areas (see "Recent developments" above). In addition, in both reporting periods, we paid a part of a one-time payment fee for the exploration and production license for our discovered Kharbeyskoye field in the amount of RR 59 million. In 2018, we also made a one-time payment fee to expand the borders of our Salmanovskiyy (Utrenniy) license area in the amount of RR 167 million and paid RR 66 million for the acquisition of a license to use the Payutskiy license area.

In 2019, we provided loans in the aggregate amount of RR 29,664 million compared to RR 3,429 million in 2018. In both reporting periods, we provided loans to our joint ventures for developing its activities, mainly to OOO Arctic LNG 2 in 2019 and to Yamal LNG in 2018. At the same time, in both reporting periods, we received partial repayments of the loans provided to our joint ventures Yamal LNG (only in 2019) and Terneftegas in the aggregate amount of RR 20,764 million in 2019 and RR 1,573 million in 2018.

In 2019, we made capital contributions to our joint venture Rostock LNG GmbH in the amount of RR 248 million and to our joint venture OOO SMART LNG in the amount of RR 50 million.

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The Group's cash management involves periodic cash placement on bank deposits with different maturities. Deposits are reported in "Cash and cash equivalents" if opened for three months or less, or otherwise in "Short-term bank deposits with original maturity more than three months". Transactions with bank deposits with original maturity more than three months are classified as investing activities in the Consolidated Statement of Cash Flows. In 2019, the net increase in bank deposits with original maturity more than three months amounted to approximately RR 59 billion compared to RR 26 billion in 2018.

In 2018, the Group acquired 100% participation interests in AO Geotransgas, OOO Urengoykaya gasovaya kompaniya and OOO Chernichnoye for RR 30,492 million net of cash acquired.

In 2018, we received RR 2,133 million from disposals of property, plant and equipment and materials for construction, which primarily related to the assignment of rights to our joint venture Yamal LNG under concluded contracts for design and equipment production for the fourth LNG train, as well as materials purchased for this purpose.

*Net cash used for financing activities*

In 2019, our net cash used for financing activities increased by RR 25,790 million, or 27.5%, to RR 119,448 million as compared to RR 93,658 million in 2018.

<i>millions of Russian roubles</i>	<b>Year ended 31 December:</b>		<b>Change %</b>
	<b>2019</b>	<b>2018</b>	
Dividends paid to shareholders of PAO NOVATEK	(93,468)	(51,980)	79.8%
Dividends paid to non-controlling interest	(16,758)	(20,068)	(16.5%)
Proceeds from (repayments of) long-term debt, net	(2,176)	(14,107)	(84.6%)
Proceeds from (repayments of) short-term debt, net	-	(150)	n/a
Interest on debt paid	(2,237)	(3,024)	(26.0%)
Purchase of treasury shares	(1,865)	(2,137)	(12.7%)
Payments of lease liabilities	(2,944)	(2,192)	34.3%
<b>Net cash used for financing activities</b>	<b>(119,448)</b>	<b>(93,658)</b>	<b>27.5%</b>

In both reporting periods, our major financing cash flows related to payment of dividends.

In addition, in 2019, the Group partially repaid a loan obtained from China's investment fund Silk Road Fund in the amount of RR 2,176 million (USD 35 million). In 2018, the Group fully repaid a loan obtained under our syndicated credit line facility in the amount of RR 12,966 million (USD 231 million), as well as a loan obtained by a Group subsidiary from its non-controlling shareholder.

The remaining change related primarily to the repayment of interest on borrowings and loans and shares buy-back.

**Liquidity and working capital**

The following table shows the Group's liquidity and credit measures as of 31 December 2019 and 2018:

	31 December 2019	31 December 2018	Change, %
<b>Absolute amounts, RR million</b>			
Net debt <sup>(1)</sup>	15,106	102,903	(85.3%)
Net working capital position <sup>(2)</sup>	379,383	186,297	103.6%
<b>Liquidity and credit ratios</b>			
Current ratio <sup>(3)</sup>	4.24	2.74	54.7%
Total debt to total equity	0.09	0.19	(52.6%)
Long-term debt to long-term debt and total equity	0.08	0.16	(50.0%)
Net debt to total capitalization <sup>(4)</sup>	0.01	0.09	(88.9%)
Net debt to normalized EBITDA from subsidiaries <sup>(5)</sup>	0.06	0.40	(85.0%)
Interest coverage ratio <sup>(6)</sup>	28	30	(6.7%)

<sup>(1)</sup> Net debt represents total debt less cash, cash equivalents and bank deposits with original maturity more than three months.

<sup>(2)</sup> Net working capital position represents current assets less current liabilities.

<sup>(3)</sup> Current ratio is calculated as current assets divided by current liabilities.

<sup>(4)</sup> Total capitalization represents total debt, total equity and deferred income tax liability.

<sup>(5)</sup> Net debt to normalized EBITDA from subsidiaries ratio is calculated as Net debt divided by EBITDA from subsidiaries excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration) for the last twelve months.

<sup>(6)</sup> Interest coverage ratio is calculated as normalized EBITDA from subsidiaries divided by accrued interest on debt, including capitalized interest.

In each quarter of 2018 and 2019, the Group demonstrated high operating results and achieved positive free cash flow. The Group's management believes that it presently has and will continue to have the ability to generate sufficient cash flows (from operating and financing activities) to repay all its current liabilities as they become due and to finance the Group's capital construction programs.

**Capital expenditures**

In both reporting periods, our capital expenditures represent our investments primarily relating to developing our oil and gas assets. The following table shows capital expenditures at our main fields, processing facilities and other assets:

<i>millions of Russian roubles</i>	Year ended 31 December:	
	2019	2018
Infrastructure for future LNG projects <sup>(1)</sup>	43,013	16,421
North-Russkoye and East-Tazovskoye fields	34,436	17,602
Arctic LNG 2 project <sup>(2)</sup>	19,147	22,729
Obskiy LNG project	7,766	662
Yarudeyskoye field	7,013	4,693
East-Tarkosalinskoye field	6,333	6,820
Beregovoye field	5,923	1,400
West-Yurkharovskoye field	5,213	2,961
Geofizicheskoye field	3,506	914
Yurkharovskoye field	3,484	4,215
Ust-Luga Complex	3,288	1,477
Dorogovskoye field	3,167	770
Gydanskiy license area	2,618	2,303
South-Khadyryakhinskiy license area	1,806	203
NOVATEK-Chelyabinsk	1,236	387
Shtormovoy license area	1,221	16
NOVATEK-AZK	1,034	478
Nyakhartinskiy license area	960	642
Novatek Polska	875	74
West-Yaroyakhinskiy license area	716	578
North-Obskiy license area	192	3,330
Office buildings	7,070	3,093
Other	4,909	3,968
<b>Capital expenditures</b>	<b>164,926</b>	<b>95,736</b>

<sup>(1)</sup> Mainly includes expenditures related to the project for the LNG construction center located in the Murmansk region.

<sup>(2)</sup> Capital expenditures are reported before the sale of a 10% participation interest in OOO Arctic LNG 2 to TOTAL S.A. group in March 2019 (see "Recent developments" above).

Total capital expenditures on property, plant and equipment in 2019 significantly increased by RR 69,190 million, or 72.3%, to RR 164,926 million from RR 95,736 million.

In both reporting periods, a significant part of our capital expenditures related to the development of our LNG projects, in particular the LNG construction center located in the Murmansk region, the Obskiy LNG and the Arctic LNG 2 projects (before the sale of a 10% participation interest in March 2019) (see "Recent developments" above).

In addition, we invested in the ongoing development of our producing fields (development activities at the East-Tarkosalinskoye and the Yarudeyskoye field's crude oil deposits, further development of the Yurkharovskoye and the Beregovoye fields) and to the preparation for production commencement at our new fields (the North-Russkoye and the Dorogovskoye fields, and the South-Khadyryakhinskiy license area). We also increased capital expenditures in exploratory drilling which in 2019 was mainly conducted at the Geofizicheskoye and the West-Yurkharovskoye fields, the Gydanskiy, the Shtormovoy and the Nyakhartinskiy license areas.

In both reporting periods, we also continued to invest in the project for construction of a hydrocracker unit at our Ust-Luga Complex, which will allow us to increase the depth of processing of stable gas condensate and output of light oil products.

Our capital expenditures in NOVATEK-Chelyabinsk in 2019 mainly related to the construction of a small-scale LNG plant in the Chelyabinsk region.

We also continued to expand the filling stations network at our subsidiary NOVATEK-AZK and to develop our LPG and LNG wholesale and retail network through our subsidiary Novatek Polska Sp. z o.o. (renamed to Novatek Green Energy Sp. z o.o. in February 2020).

The "Office buildings" line in the table above represents our capital expenditures related to construction of our new office buildings in Moscow and Novy Urengoy.

The "Other" line represents our capital expenditures related to other fields and processing facilities of the Group, as well as unallocated capital expenditures as of the reporting date. The allocation of capital expenditures by fields or processing facilities takes place upon the completion of the fixed assets construction stages and depends on the approved fixed assets launch schedule.

The following table presents the reconciliation of our capital expenditures and additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements, and cash used for capital expenditures:

<i>millions of Russian roubles</i>	Year ended 31 December:		Change %
	2019	2018	
<b>Total additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements</b>	<b>176,985</b>	<b>98,484</b>	<b>79.7%</b>
Less: acquisition of mineral licenses	(7,768)	(268)	n/a
Less: right-of-use assets <sup>(1)</sup> additions	(4,291)	(2,480)	73.0%
<b>Capital expenditures</b>	<b>164,926</b>	<b>95,736</b>	<b>72.3%</b>
Add (less): change in accounts payable, capitalized foreign exchange losses and other non-cash adjustments	(2,424)	(1,698)	42.8%
<b>Cash used for capital expenditures <sup>(2)</sup></b>	<b>162,502</b>	<b>94,038</b>	<b>72.8%</b>

<sup>(1)</sup> Related mainly to long-term agreements on time chartering of marine tankers.

<sup>(2)</sup> Represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries and joint ventures.

In 2019, the Group won auctions for geological research works, exploration and production of hydrocarbons at the Soletskoye-Khanaveyskoye, the South-Yamburgskiy, the East-Ladertoyskiy and the Bukharinskiy license areas and paid in the aggregate RR 5,762 million (see "Recent developments" above). In addition, in 2019, we made a final payment of RR 2,006 million for the auction won in December 2018 for the usage of the South-Leskinskiy license area.

In 2018, the Group won auctions for geological research works, exploration and hydrocarbons production at the Payutskiy and the South-Leskinskiy license areas and paid in the aggregate RR 101 million. In addition, we paid a one-time fee in the amount of RR 167 million to expand the borders of the Salmanovskiy (Utrenniy) license area.

**QUANTITATIVE AND QUALITATIVE DISCLOSURES AND MARKET RISKS**

We are exposed to market risk from changes in commodity prices, foreign currency exchange rates and interest rates. We are exposed to commodity price risk as our prices for crude oil, stable gas condensate and refined products destined for export sales are linked to international crude oil prices and other benchmark price references. We are exposed to foreign exchange risk to the extent that a portion of our sales, costs, receivables, loans and debt are denominated in currencies other than Russian roubles. We are subject to market risk from changes in interest rates that may affect the cost of our financing. From time to time we may use derivative instruments, such as commodity forward contracts, commodity price swaps, commodity options, foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks, and we may hold or issue derivative or other financial instruments for trading purposes.

**Foreign currency risk**

Our principal exchange rate risk involves changes in the value of the Russian rouble relative to the US dollar and the Euro. As of 31 December 2019, the total amount of our debt denominated in foreign currency was RR 151,091 million, or 99.3% of our total borrowings at that date. Changes in the value of the Russian rouble relative to foreign currencies will impact the value in Russian rouble terms of our foreign currency-denominated costs, debt, receivables at our foreign subsidiaries and loans provided to our joint ventures. We believe that the risks associated with our foreign currency exposure are partially mitigated by the fact that a portion of our total revenues, 52.6% in 2019, was denominated in foreign currencies.

In addition, our share of profit (loss) of joint ventures is also exposed to foreign currency exchange rate movements due to the significant amount of foreign currency-denominated borrowings in our joint ventures, mostly in Yamal LNG. We assess that the impact of foreign currency risk relating to the debt portfolio of Yamal LNG is to a large extent mitigated by the fact that all of its products are delivered to international markets and its revenues are denominated in foreign currencies.

As of 31 December 2019, the Russian rouble appreciated by 10.9% and 12.7% against the US dollar and the Euro, respectively, compared to 31 December 2018.

**Commodity risk**

Our export prices for natural gas, stable gas condensate and refined products, LPG and crude oil are primarily linked to international natural gas, crude oil and oil products prices and/or a combination thereof. External factors such as geopolitical developments, natural disasters and the actions of the Organization of Petroleum Exporting Countries affect crude oil prices and thus our export prices.

The weather is another factor affecting demand for natural gas. Changes in weather conditions from year to year can influence demand for natural gas and to some extent stable gas condensate and refined products.

From time to time we may employ derivative instruments to mitigate the price risk of our sales activities. In our consolidated financial statements all derivative instruments are recognized at their fair values. Unrealized gains or losses on derivative instruments are recognized within other operating income (loss), unless the underlying arrangement qualifies as a hedge.

Within our trading activities, the Group purchases and sells natural gas on the European market under long-term contracts 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 financial results from natural gas foreign trading activities are subject to commodity price volatility based on fluctuations or changes in the respective benchmark reference prices.

**Pipeline access**

We transport substantially all of our natural gas within the Russian Federation territory through the Gas Transmission System ("GTS") owned and operated by PAO Gazprom, which is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in the domestic market. Under existing legislation, Gazprom must provide access to the GTS to all independent suppliers on a non-discriminatory basis provided there is capacity available that is not being used by Gazprom. In practice, Gazprom exercises considerable discretion over access to the GTS because it is the sole owner of information relating to capacity. There can be no assurance that Gazprom will continue to provide us with access to the GTS; however, we have not been denied access in prior periods.

**Ability to reinvest**

Our business requires significant ongoing capital expenditures in order to grow our production and meet our strategic plans. An extended period of reduced demand for our hydrocarbons available for sale and the corresponding revenues generated from these sales would limit our ability to maintain an adequate level of capital expenditures, which in turn could limit our ability to increase or maintain current levels of production and deliveries of natural gas, gas condensate, crude oil and other associated products; thereby, adversely affecting our financial and operating results.

**Forward-looking statements**

This report includes forward-looking statements concerning future possible events that can impact operational and financial results of the Group. Forward-looking statements can be identified by words such as "believes", "anticipates", "expects", "estimates", "intends", "plans" and similar expressions. Forward-looking statements are made based on the current situation with definite and indefinite risks and uncertainties. Actual future results could differ materially from those discussed in the forward-looking statements as they are dependent on various factors beyond and under the control of management.

**Off balance sheet activities**

As of 31 December 2019, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.

## TERMS AND ABBREVIATIONS

<b>APR</b>	Asian-Pacific Region
<b>bbl</b>	barrel
<b>bcm</b>	billion cubic meters
<b>boe</b>	barrels of oil equivalent
<b>btu</b>	British thermal unit
<b>CBR</b>	Central Bank of Russian Federation
<b>CFR</b>	"Cost and freight"
<b>CIF</b>	"Cost, insurance and freight"
<b>DAP</b>	"Delivery at point of destination"
<b>DDA</b>	depreciation, depletion and amortization
<b>DES</b>	"Delivery to the port of destination ex-ship"
<b>FCA</b>	"Free carrier"
<b>FEED</b>	Front-End Engineering Design
<b>FID</b>	Final Investment Decision
<b>FOB</b>	"Free on board"
<b>Forecast of the Ministry of Economic Development</b>	The document " <i>Forecast of Socio-economic Development of the Russian Federation for the period till 2024</i> " prepared by the Ministry of Economic Development of the Russian Federation or the similar document prepared for another period
<b>GTS</b>	Gas Transmission System part of the UGSS
<b>IFRS</b>	International Financial Reporting Standards
<b>List</b>	the OFAC's Sectoral Sanctions Identification List
<b>LNG</b>	liquefied natural gas
<b>LPG</b>	liquefied petroleum gas
<b>mcm</b>	thousand cubic meters
<b>MET</b>	mineral extraction tax
<b>Murmansk yard</b>	LNG construction center located in the Murmansk region
<b>NBP</b>	National Balancing Point
<b>NGL</b>	natural gas liquids
<b>OFAC</b>	U.S. Treasury Department's Office of Foreign Assets Control
<b>PRMS</b>	Petroleum Resources Management System
<b>Purovsky Plant</b>	Purovsky Gas Condensate Plant
<b>Regulator</b>	A federal executive agency of the Russian Federation that carries out governmental regulation of prices and tariffs for products and services of natural monopolies in energy, utilities and transportation. Effective July 2015, Federal Anti-Monopoly Service fulfills the Regulator's role.
<b>RR</b>	Russian rouble(s)
<b>RZD</b>	OAO Russian Railways, Russia's state-owned monopoly railway operator
<b>SEC</b>	Securities and Exchange Commission
<b>Tobolsk Refining Facilities</b>	Refining facilities of OOO SIBUR Tobolsk
<b>TTF</b>	Title Transfer Facility
<b>UGSF</b>	Underground Gas Storage Facilities
<b>UGSS</b>	Unified Gas Supply System owned and operated by PAO Gazprom
<b>UPT</b>	unified natural resources production tax
<b>USD, US dollar</b>	United States Dollar
<b>Ust-Luga Complex</b>	Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea
<b>VAT</b>	value added tax
<b>YNAO</b>	Yamal-Nenets Autonomous Region



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