PAO NOVATEK

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF AND FOR THE THREE MONTHS ENDED 31 MARCH 2019

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Report on Review of Consolidated Interim Condensed Financial Statements

To the Shareholders and Board of Directors of PAO NOVATEK:

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of PAO NOVATEK and its subsidiaries (together – the "Group") as at 31 March 2019 and the related consolidated interim condensed statements of income, comprehensive income, cash flows and changes in equity for the three-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

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

Conclusion

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

AO PricewaterhouseCoopers Audit

24 April 2019

Moscow, Russian Federation

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

Audited entity: PAO NOVATEK

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

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

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

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

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

	Notes	At 31 March 2019	At 31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	5	423,545	408,201
Investments in joint ventures	6	464,987	244,500
Long-term loans and receivables	7	279,244	232,922
Other non-current assets	8	69,147	37,427
Total non-current assets		**1,236,923**	**923,050**
Current assets			
Inventories		13,618	17,251
Current income tax prepayments		7,475	1,311
Trade and other receivables	9	99,584	54,433
Prepayments and other current assets	10	89,893	89,645
Short-term bank deposits with original maturity more than three months		15,536	27,788
Cash and cash equivalents		81,002	41,472
Assets held for sale	4	73,683	61,420
Total current assets		**380,791**	**293,320**
Total assets		**1,617,714**	**1,216,370**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	11	158,363	170,043
Long-term lease liabilities	21	6,700	7,473
Deferred income tax liabilities		51,545	29,927
Asset retirement obligations		8,589	8,730
Other non-current liabilities		5,703	6,579
Total non-current liabilities		**230,900**	**222,752**
Current liabilities			
Short-term debt and current portion of long-term debt	12	3,215	2,120
Current portion of long-term lease liabilities	21	1,991	2,325
Trade payables and accrued liabilities	13	77,972	79,241
Current income tax payable		18,451	1,633
Other taxes payable		18,639	16,823
Liabilities associated with assets held for sale	4	-	4,881
Total current liabilities		**120,268**	**107,023**
Total liabilities		**351,168**	**329,775**
Equity attributable to PAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(12,091)	(10,445)
Additional paid-in capital		31,297	31,297
Currency translation differences		(2,399)	(1,702)
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		1,224,797	843,094
Total equity attributable to PAO NOVATEK shareholders	14	**1,247,614**	**868,254**
Non-controlling interest		**18,932**	**18,341**
Total equity		**1,266,546**	**886,595**
Total liabilities and equity		**1,617,714**	**1,216,370**

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

L. Mikhelson
Chairman of the Management Committee

M. Gyetvay
Chief Financial Officer

24 April 2019

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

	Notes	Three months ended 31 March: 2019	2018
Revenues			
Oil and gas sales	15	231,184	178,485
Other revenues		2,922	918
Total revenues		**234,106**	**179,403**
Operating expenses			
Purchases of natural gas and liquid hydrocarbons	16	(94,760)	(61,815)
Transportation expenses	17	(40,103)	(37,794)
Taxes other than income tax	18	(15,542)	(13,422)
Depreciation, depletion and amortization		(7,487)	(8,097)
Materials, services and other		(6,030)	(5,563)
General and administrative expenses		(5,033)	(4,593)
Exploration expenses		(3,377)	(1,709)
Impairment (expenses) reversals, net		(1)	4
Change in natural gas, liquid hydrocarbons and work-in-progress		(2,807)	1,952
Total operating expenses		**(175,140)**	**(131,037)**
Gain on disposal of interests in subsidiaries and joint ventures, net	4	308,578	1,645
Other operating income (loss), net		(914)	102
Profit from operations		**366,630**	**50,113**
Finance income (expense)			
Interest expense	19	(1,091)	(1,219)
Interest income	19	4,330	3,191
Change in fair value of non-commodity financial instruments	21	10,115	21
Foreign exchange gain (loss), net	19	(19,375)	3,409
Total finance income (expense)		**(6,021)**	**5,402**
Share of profit (loss) of joint ventures, net of income tax	6	70,973	1,163
Profit before income tax		**431,582**	**56,678**
Income tax expense			
Current income tax expense		(23,402)	(9,409)
Deferred income tax benefit (expense), net		(21,922)	(340)
Total income tax expense	20	**(45,324)**	**(9,749)**
Profit		**386,258**	**46,929**
Profit attributable to:			
Non-controlling interest		4,462	3,808
Shareholders of PAO NOVATEK		381,796	43,121
Basic and diluted earnings per share (in Russian roubles)		126.74	14.30
Weighted average number of shares outstanding (in millions)		*3,012.5*	*3,015.6*

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

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

	Three months ended 31 March:	
	2019	**2018**
Profit	**386,258**	**46,929**
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to profit (loss)		
Remeasurement of pension obligations	(65)	(18)
Share of remeasurement of pension obligations of joint ventures	(28)	(33)
	(93)	**(51)**
Items that may be reclassified subsequently to profit (loss)		
Currency translation differences	(1,189)	15
Share of currency translation differences of joint ventures	492	(5)
	(697)	**10**
Other comprehensive income (loss)	**(790)**	**(41)**
Total comprehensive income	**385,468**	**46,888**
Total comprehensive income attributable to:		
Non-controlling interest	4,462	3,808
Shareholders of PAO NOVATEK	381,006	43,080

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

PAO NOVATEK

Consolidated Interim Condensed Statement of Cash Flows (unaudited)

(in millions of Russian roubles)

	Notes	Three months ended 31 March: 2019	2018
Profit before income tax		**431,582**	**56,678**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		7,487	8,097
Impairment expenses (reversals), net		1	(4)
Foreign exchange loss (gain), net		19,375	(3,409)
Gain on disposal of interests in subsidiaries and joint ventures, net	4	(308,578)	(1,645)
Interest expense		1,091	1,219
Interest income		(4,330)	(3,191)
Share of loss (profit) of joint ventures, net of income tax	6	(70,973)	(1,163)
Change in fair value of non-commodity financial instruments		(10,115)	(21)
Revaluation of commodity derivatives and contingent consideration through profit or loss		184	(140)
Other adjustments		317	(190)
Decrease (increase) in long-term advances given		1,498	1,235
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(5,060)	1,317
Decrease (increase) in inventories		5,550	(2,022)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		2,062	3,475
Increase (decrease) in taxes payable, other than income tax		3,472	(1,152)
Total effect of working capital changes		**6,024**	**1,618**
Interest received		635	346
Income taxes paid		(12,595)	(11,305)
Net cash provided by operating activities		**61,603**	**48,125**
Cash flows from investing activities			
Purchases of property, plant and equipment	5	(39,977)	(5,618)
Payments for mineral licenses	5	(2,006)	(227)
Purchases of materials for construction		(1,040)	(3,054)
Purchases of intangible assets		(100)	(86)
Payments for acquisition of subsidiaries, net of cash acquired	4	-	(30,492)
Proceeds from disposals of subsidiaries net of cash disposed	4	23,453	-
Interest paid and capitalized	5	(1,459)	(1,040)
Net decrease (increase) in bank deposits with original maturity more than three months		12,252	-
Guarantee fees paid		(362)	(324)
Loans provided to joint ventures	7	(1,129)	(186)
Repayments of loans provided to joint ventures	7	268	282
Net cash used for investing activities		**(10,100)**	**(40,745)**

(in millions of Russian roubles)

	Notes	Three months ended 31 March: 2019	2018
Cash flows from financing activities			
Repayments of long-term debt		-	(12,966)
Proceeds from 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		-	1,182
Interest on debt paid		-	(275)
Dividends paid to non-controlling interest		(3,871)	(5,553)
Payments of lease liabilities		(589)	(358)
Purchases of treasury shares	14	(1,529)	-
Net cash used for financing activities		**(4,989)**	**(17,970)**
Net effect of exchange rate changes on cash and cash equivalents		(6,984)	48
Net increase (decrease) in cash and cash equivalents		**39,530**	**(10,542)**
Cash and cash equivalents at the beginning of the period		41,472	65,943
Cash and cash equivalents at the end of the period		**81,002**	**55,401**

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

PAO NOVATEK
Consolidated Interim Condensed Statement of Changes in Equity (unaudited)
(in millions of Russian roubles, except for number of shares)

For the three months ended 31 March 2018	*Number of ordinary shares (in millions)*	**Ordinary share capital**	**Treasury shares**	**Additional paid-in capital**	**Currency translation differences**	**Asset revaluation surplus on acquisitions**	**Retained earnings**	**Equity attributable to PAO NOVATEK shareholders**	**Non-controlling interest**	**Total equity**
At 1 January 2018	***3,015.6***	**393**	**(8,353)**	**31,297**	**(3,283)**	**5,617**	**732,168**	**757,839**	**17,820**	**775,659**
Profit	-	-	-	-	-	-	43,121	43,121	3,808	46,929
Other comprehensive income (loss)	-	-	-	-	10	-	(51)	(41)	-	(41)
Total comprehensive income	**-**	**-**	**-**	**-**	**10**	**-**	**43,070**	**43,080**	**3,808**	**46,888**
Dividends (Note 14)	-	-	-	-	-	-	-	-	(4,900)	(4,900)
At 31 March 2018	***3,015.6***	**393**	**(8,353)**	**31,297**	**(3,273)**	**5,617**	**775,238**	**800,919**	**16,728**	**817,647**
For the three months ended 31 March 2019										
At 1 January 2019	***3,012.9***	**393**	**(10,445)**	**31,297**	**(1,702)**	**5,617**	**843,094**	**868,254**	**18,341**	**886,595**
Profit	-	-	-	-	-	-	381,796	381,796	4,462	386,258
Other comprehensive income (loss)	-	-	-	-	(697)	-	(93)	(790)	-	(790)
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	***(697)***	**-**	***381,703***	***381,006***	***4,462***	***385,468***
Dividends (Note 14)	-	-	-	-	-	-	-	-	(3,871)	(3,871)
Purchase of treasury shares (Note 14)	*(1.5)*	-	(1,646)	-	-	-	-	(1,646)	-	(1,646)
At 31 March 2019	***3,011.4***	**393**	**(12,091)**	**31,297**	**(2,399)**	**5,617**	**1,224,797**	**1,247,614**	**18,932**	**1,266,546**

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

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

The Group also purchases and sells natural gas on the European market under long- 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 TOTAL E&P Salmanov (see Note 4). The Arctic LNG 2 project envisages the construction of an LNG plant based on the feedstock resources of the Salmanovskoye (Utrenneye) field located on the Gydan peninsula.

In February 2019, under an agreement with PAO Gazprom Neft to perform a series of transactions on reorganization of its joint venture AO Arcticgas, the Group contributed 100 percent participation interest in OOO NOVATEK-Yarsaleneftegas to the capital of Arcticgas. OOO NOVATEK-Yarsaleneftegas is a holder of the license for exploration and production of hydrocarbons within the Malo-Yamalskiy license area located in YNAO (see Note 4).

2 BASIS OF PREPARATION

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

Use of estimates and judgments. The critical accounting estimates and judgments followed by the Group in the preparation of consolidated interim condensed financial statements are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2018. Estimates have principally been made in respect to fair values of assets and liabilities, deferred income taxes, estimation of oil and gas reserves, impairment provisions, pension obligations and asset retirement obligations.

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

2 BASIS OF PREPARATION (CONTINUED)

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

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

			Average rate for the three months ended 31 March:	
Russian roubles to one currency unit	**At 31 March 2019**	**At 31 December 2018**	**2019**	**2018**
US dollar (USD)	64.73	69.47	66.13	56.88
Euro (EUR)	72.72	79.46	75.17	69.87
Polish zloty (PLN)	16.91	18.48	17.47	16.72

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies and methods of computation followed by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2018, except for income tax expense and the effect of a change in accounting policy regarding the contribution of a subsidiary to a joint venture, a joint operation or an associate as described below.

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

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

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

Starting from 2019, the Group elected to follow IAS 28 whereas previously applied accounting policy was based on IFRS 10. The new accounting policy was applied to the transaction on the sale of a 10 percent participating interest in OOO Arctic LNG 2 (see Note 4). The Group considers that the new accounting policy is more appropriate and provides more relevant information to the users of financial statements compared to the previously applied accounting policy to recognize full unrealized gain immediately, as this gain will eventually affect the Group's future share in profit or loss of the investee through the application of the equity method. Management has assessed, based on both qualitative and quantitative factors, that retrospective application of the new accounting policy would not have a material effect on these financial statements; therefore, comparative information was not restated.

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

4 ACQUISITIONS AND DISPOSALS

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

In May 2018, NOVATEK and TOTAL S.A. agreed in principle on the acquisition by TOTAL 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 group.

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

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

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

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

i. *cash payments to the Group* of USD 1,300 million equivalent, of which USD 600 million equivalent was paid upon the transaction closing date and the remaining amount to be paid within twelve months from that date;
ii. *contingent cash consideration to the Group* consisting of tranches in total of up to USD 800 million equivalent depending on average crude oil benchmark prices level for the year preceding each payment. The contingent payments dates are linked to the dates of launching the Project’s LNG trains;
iii. *capital contributions to OOO Arctic LNG 2 (in the form of contributions to the assets)* ranging from USD 342 million to USD 842 million equivalent 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; however, the terms of the transaction stipulate that key strategic, operational and financial decisions are subject to unanimous approval by both participants. As a result of these changes, upon closing the transaction, the Group’s control over Arctic LNG 2 was replaced by a joint control. The Group determined Arctic LNG 2 to be a joint venture and accounts for this investment 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 non-monetary assets to a newly formed joint venture. In accordance with IAS 28, *Investments in associates and joint ventures,* the Group recognized within the gain on the transaction the part of a gain resulting from the remeasurement at fair value of the participation interest retained only to the extent of the unrelated investor’s interest in the new joint venture.

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

The total gain on disposal amounted to RR 308,578 million, before associated income tax (current and deferred) of RR 37,372 million.

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

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

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

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

At 31 March 2019 and 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.

Reorganization of AO Arcticgas.

At the end of 2018, the Group and PAO Gazprom Neft agreed on reorganization of 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-Yarsaleneftegas, 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-Yarsaleneftegas at the disposal date was RR 2.2 billion.

It is planned to implement further stages of the reorganisation in 2019. These transactions are treated as interrelated, and therefore, the financial result from the reorganization will be recognized after its completion.

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

Acquisition of AO Geotransgas and OOO Urengoyskaya gasovaya companiya

In February 2018, upon the results of an auction held by AK ALROSA (PAO), the Group acquired 100 percent participation interests in Maretiom Investments Limited and Velarion Investments Limited for total cash consideration of RR 30.3 billion. These companies owned 100 percent participation interests in AO Geotransgas (renamed to AO NOVATEK-Pur in November 2018) and OOO Urengoyskaya gasovaya companiya (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.

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

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

For the period from the date of acquisition to 31 December 2018, the acquired companies contributed RR 4.2 billion to the Group's revenues. The financial and operational activities of the acquired companies would have increased the Group's revenues for 2018 by an additional RR 0.8 billion, if the acquisition had occurred in January 2018.

Acquisition of OOO Chernichnoye

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

Disposal of an ownership interest in AO Arcticgas

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

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

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

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

5 PROPERTY, PLANT AND EQUIPMENT

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

For the three months ended 31 March 2018	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	479,569	38,926	16,709	535,204
Accumulated depreciation, depletion and amortization	(171,325)	-	(3,828)	(175,153)
Net book value at 1 January 2018	**308,244**	**38,926**	**12,881**	**360,051**
Additions	684	12,446	9	13,139
Transfers	6,145	(6,626)	481	-
Acquisition of subsidiaries (see Note 4)	31,822	4,827	271	36,920
Change in asset retirement costs	812	-	-	812
Depreciation, depletion and amortization	(7,901)	-	(211)	(8,112)
Disposals, net	(67)	(8)	(4)	(79)
Currency translation differences	(20)	1	1	(18)
Cost	526,159	49,566	17,669	593,394
Accumulated depreciation, depletion and amortization	(186,440)	-	(4,241)	(190,681)
Net book value at 31 March 2018	**339,719**	**49,566**	**13,428**	**402,713**
For the three months ended 31 March 2019				
Cost	525,089	77,953	17,949	620,991
Accumulated depreciation, depletion and amortization	(208,179)	-	(4,611)	(212,790)
Net book value at 1 January 2019	**316,910**	**77,953**	**13,338**	**408,201**
Additions	2,366	42,541	-	44,907
Transfers	11,556	(12,310)	754	-
Change in asset retirement costs	88	-	-	88
Depreciation, depletion and amortization	(7,295)	-	(242)	(7,537)
Reclassification to assets held for sale (see Note 4)	-	(18,761)	(386)	(19,147)
Disposals, net	(2,218)	(40)	(18)	(2,276)
Currency translation differences	(658)	(16)	(17)	(691)
Cost	536,145	89,367	18,211	643,723
Accumulated depreciation, depletion and amortization	(215,396)	-	(4,782)	(220,178)
Net book value at 31 March 2019	**320,749**	**89,367**	**13,429**	**423,545**

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 three months ended 31 March 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 (see Note 4).

Included in additions to property, plant and equipment for the three months ended 31 March 2019 and 2018 are capitalized interest of RR 1,498 million and RR 1,040 million, respectively.

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

5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in disposals for the three months ended 31 March 2019 are property, plant and equipment in the amount of RR 2.2 billion relating to OOO NOVATEK-Yarsaleneftegas contributed to the capital of AO Arcticgas (see Note 4).

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 19,986 million and RR 15,526 million at 31 March 2019 and 31 December 2018, respectively.

Included in property, plant and equipment at 31 March 2019 and 31 December 2018 are right-of-use assets with carrying value of RR 8,455 million and RR 9,570 million, respectively, primarily related to long-term agreements on time chartering of marine tankers. Depreciation charge for right-of-use assets for the three months ended 31 March 2019 and 2018 amounted to RR 485 million and RR 384 million, respectively.

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 YNAO for the total amount of RR 2,041 million, of which RR 35 million were paid in 2018 as the auction's participation fee and included within assets under construction and advances for construction at 31 December 2018. The remaining amount of RR 2,006 million was paid after the state registration of the license in January 2019.

In March 2018, the Group won an auction for an oil and gas exploration and production license for the Payutskiy license area located in Krasnoyarsk Territory for the total amount of RR 66 million, of which RR 60 million were paid during the three months ended 31 March 2018 and included within assets under construction and advances for construction as at that date. The remaining amount of RR 6 million was paid after the state registration of the license in April 2018.

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

	At 31 March 2019	At 31 December 2018
Proved properties acquisition costs	71,624	71,087
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(19,482)	(19,197)
Unproved properties acquisition costs	12,927	11,947
Total acquisition costs	**65,069**	**63,837**

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

Capital commitments are disclosed in Note 22.

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

6 INVESTMENTS IN JOINT VENTURES

	At 31 March 2019	At 31 December 2018
Joint ventures:		
AO Arcticgas	159,061	146,631
OOO Arctic LNG 2	148,082	-
OAO Yamal LNG	105,585	48,378
ZAO Nortgas	44,288	44,064
OOO Cryogas-Vysotsk	4,341	2,991
ZAO Terneftegas	3,628	2,434
Rostock LNG GmbH	2	2
Total investments in joint ventures	**464,987**	**244,500**

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

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

In the first quarter of the 2018, the Group and Gazprom Neft completed the final stage of the previously commenced restructuring procedures to achieve parity shareholdings in Arcticgas. As a result, Yamal Development and SeverEnergia were merged with Arcticgas, and the Group's participation ownership in Arcticgas was reduced to 50 percent (see Note 4).

After the balance sheet date, in April 2019, Arcticgas declared dividends in the total amount RR 77 billion, of which RR 38.5 billion is attributable to the Group.

OOO Arctic LNG 2. In March 2019, the Group sold a 10 percent participation interest in its subsidiary OOO Arctic LNG 2 to TOTAL E&P Salmanov (see Note 4).

The Group retained a 90 percent participation interest in Arctic LNG 2 upon the completion of the transaction and commenced to exercise 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.

At 31 March 2019, the Group's 30 percent participation interest in Arctic LNG 2 has been classified as an asset held for sale.

At 31 March 2019, a part of the Group's participation interest in Arctic LNG 2 constituting 15 percent was pledged in connection with one of the credit line facility agreements opened for the Group.

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

At 31 March 2019 and 31 December 2018, the Group's 50.1 percent ownership in Yamal LNG was pledged in connection with credit line facility agreements signed by Yamal LNG with a number of Russian and foreign banks to obtain external project financing.

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

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

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

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.

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

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

	Three months ended 31 March:	
	2019	**2018**
At 1 January	**244,500**	**285,326**
Share of profit from operations	36,795	14,640
Share of finance income (expense)	48,251	(12,774)
Share of total income tax benefit (expense)	(14,073)	(703)
Share of profit (loss) of joint ventures, net of income tax	**70,973**	**1,163**
Share of other comprehensive income (loss) of joint ventures	464	(38)
Sale of interests in subsidiaries resulting in the recognition of interests in joint ventures (see Note 4)	147,366	-
Reorganization of joint ventures (see Note 4)	2,163	-
Group's costs capitalized in investments	379	323
Gain on disposal of interests in joint ventures (see Note 4)	-	1,645
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	(858)	1,075
At 31 March	**464,987**	**289,494**

For the three months ended 31 March 2019 and 2018, the Group recorded commission fees in the amount of RR 379 million and RR 323 million, respectively, for the guarantee received from the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (see Note 22) as an increase to the investment in Yamal LNG.

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.

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

7 LONG-TERM LOANS AND RECEIVABLES

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

	At 31 March 2019	At 31 December 2018
Long-term loans receivable	321,924	272,901
Other long-term receivables	437	407
Total	**322,361**	**273,308**
Less: current portion of long-term loans receivable	(43,117)	(40,386)
Total long-term loans and receivables	**279,244**	**232,922**

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

	At 31 March 2019	At 31 December 2018
OAO Yamal LNG	257,795	265,606
OOO Arctic LNG 2	57,055	-
OOO Cryogas-Vysotsk	6,143	6,012
ZAO Terneftegas	931	1,283
Total long-term loans receivable	**321,924**	**272,901**

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

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

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

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

For the three months ended 31 March 2019 and 2018, Terneftegas repaid to the Group a part of the loans and accrued interest in the total amount of RR 283 million and RR 310 million, respectively.

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

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

8 OTHER NON-CURRENT ASSETS

	At 31 March 2019	At 31 December 2018
Financial assets		
Contingent consideration (see Note 4)	35,319	-
Commodity derivatives	1,346	2,397
Other financial assets	7	7
Non-financial assets		
Long-term advances	13,791	15,289
Materials for construction	10,652	10,852
Deferred income tax assets	5,678	6,486
Intangible assets, net	2,039	2,119
Other non-financial assets	315	277
Total other non-current assets	**69,147**	**37,427**

At 31 March 2019 and 31 December 2018, the long-term advances represented advances to OAO Russian Railways. The advances were paid in accordance with the Strategic Partnership Agreement signed with Russian Railways in 2012.

9 TRADE AND OTHER RECEIVABLES

	At 31 March 2019	At 31 December 2018
Trade receivables (net of provision of RR 345 million and RR 349 million at 31 March 2019 and 31 December 2018, respectively)	48,085	48,347
Other receivables (net of provision of RR 326 million and RR 323 million at 31 March 2019 and 31 December 2018, respectively)	51,499	6,086
Total trade and other receivables	**99,584**	**54,433**

Trade receivables in the amount RR 16,814 million and RR 8,921 million at 31 March 2019 and 31 December 2018, respectively, are secured by letters of credit, issued by banks with investment grade rating. The Group does not hold any other collateral as security for trade and other receivables (see Note 21 for credit risk disclosures).

At 31 March 2019, other receivables included RR 45,314 million related to receivables from TOTAL E&P Salmanov in respect of the sale of a 10 percent participation interest in OOO Arctic LNG 2 (see Note 4).

The carrying values of trade and other receivables approximate their respective fair values. Trade and other receivables were categorized as Level 3 in the fair value measurement hierarchy described in Note 21.

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

10 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 March 2019	At 31 December 2018
Financial assets		
Current portion of long-term loans receivable (see Note 7)	43,117	40,386
Commodity derivatives	9,222	9,313
Non-financial assets		
Value-added tax receivable	13,187	12,646
Recoverable value-added tax	9,565	8,467
Prepayments and advances to suppliers	7,176	7,066
Deferred transportation expenses for liquid hydrocarbons	3,080	3,100
Deferred transportation expenses for natural gas	1,749	3,963
Deferred export duties for liquid hydrocarbons	1,408	3,210
Prepaid customs duties	181	604
Other non-financial assets	1,208	890
Total prepayments and other current assets	**89,893**	**89,645**

11 LONG-TERM DEBT

	At 31 March 2019	At 31 December 2018
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	64,638	69,359
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	42,027	45,094
Loan from Silk Road Fund	45,634	48,757
Bank loans	8,279	8,953
Total	**160,578**	**172,163**
Less: current portion of long-term debt	(2,215)	(2,120)
Total long-term debt	**158,363**	**170,043**

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

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

11 LONG-TERM DEBT (CONTINUED)

The fair value of long-term debt including its current portion was RR 167,903 million and RR 176,984 million at 31 March 2019 and 31 December 2018, respectively. The fair value of the corporate bonds was determined based on market quote prices (Level 1 in the fair value measurement hierarchy described in Note 21). The fair value of other long-term loans was determined based on future cash flows discounted at the estimated risk-adjusted discount rate (Level 3 in the fair value measurement hierarchy described in Note 21).

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

Maturity period:	**At 31 March 2019**
1 April 2020 to 31 March 2021	54,042
1 April 2021 to 31 March 2022	3,968
1 April 2022 to 31 March 2023	68,606
1 April 2023 to 31 March 2024	3,968
After 31 March 2024	27,779
Total long-term debt	**158,363**

Available credit line facilities. In addition to disclosed above, at 31 March 2019, the Group had available long-term credit line facilities from banks with credit limits in the amounts of RR 164 billion, the equivalent of USD 750 million, and EUR 50 million. The facilities include the maintenance of certain restrictive financial covenants.

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

Short-term debt. At 31 March 2019, short-term debt included a loan in the amount of RUR 1 billion repayable in July 2019, obtained by the Group under a revolving credit line facility from a Russian bank in the amount up to a RR 65 billion, available to withdraw until February 2022. The remaining part of the credit line was not utilized.

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 March 2019 and 31 December 2018, these loans were repaid.

Current portion of long-term debt. At 31 March 2019 and 31 December 2018, current portion of long-term debt were RR 2,215 million and RR 2,120 million, respectively.

Available credit line facilities. At 31 March 2019, the Group had available short-term revolving credit line facilities from Russian banks, with credit limits in the total amount of RR 20 billion.

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

13 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 March 2019	At 31 December 2018
Financial liabilities		
Trade payables	48,637	46,692
Commodity derivatives	9,547	8,492
Interest payable	1,957	1,451
Other payables	3,663	7,639
Non-financial liabilities		
Advances from customers	3,255	5,447
Salary payables	803	837
Other liabilities and accruals	10,110	8,683
Total trade payables and accrued liabilities	**77,972**	**79,241**

The carrying values of trade payables and accrued liabilities approximate their respective fair values. Trade and other payables were categorized as Level 3 in the fair value measurement hierarchy described in Note 21.

14 SHAREHOLDERS' EQUITY

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

During the three months ended 31 March 2019, the Group purchased 1.5 million ordinary shares at a total cost of RR 1,646 million. At 31 March 2019 and 31 December 2018, the Group held in total 24.9 million and 23.4 million ordinary shares at a total cost of RR 12,091 million and RR 10,445 million, respectively. The Group has decided that these shares do not vote.

Dividends. Subsequent to the balance sheet date, on 23 April 2019, the Annual General Meeting of Shareholders of PAO NOVATEK approved the final dividend of RR 16.81 per share or RR 168.1 per GDR based on the financial results for the year ended 31 December 2018 totaling RR 51,040 million (including treasury shares).

15 OIL AND GAS SALES

	Three months ended 31 March:	
	2019	2018
Natural gas	124,982	88,485
Naphtha	37,284	29,290
Crude oil	27,051	22,448
Other gas and gas condensate refined products	22,945	18,772
Liquefied petroleum gas	10,776	10,604
Stable gas condensate	8,146	8,886
Total oil and gas sales	**231,184**	**178,485**

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

16 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Three months ended 31 March:	
	2019	**2018**
Natural gas	58,163	29,645
Unstable gas condensate	35,044	31,313
Other liquid hydrocarbons	2,632	857
Reverse excise	(1,079)	-
Total purchases of natural gas and liquid hydrocarbons	**94,760**	**61,815**

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 venture OAO Yamal LNG (see Note 23).

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

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

17 TRANSPORTATION EXPENSES

	Three months ended 31 March:	
	2019	**2018**
Natural gas transportation by trunk and low-pressure pipelines	26,042	26,617
Stable gas condensate and liquefied petroleum gas transportation by rail	8,262	7,146
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	3,571	1,924
Crude oil transportation by trunk pipelines	2,166	2,086
Other	62	21
Total transportation expenses	**40,103**	**37,794**

18 TAXES OTHER THAN INCOME TAX

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

	Three months ended 31 March:	
	2019	**2018**
Unified natural resources production tax	14,583	12,385
Property tax	867	949
Other taxes	92	88
Total taxes other than income tax	**15,542**	**13,422**

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

19 FINANCE INCOME (EXPENSE)

	Three months ended 31 March:	
Interest expense (including transaction costs)	**2019**	**2018**
Interest expense on fixed rate debt	2,300	1,964
Interest expense on variable rate debt	-	64
Total	**2,300**	**2,028**
Less: capitalized interest	(1,498)	(1,040)
Interest expense on debt	**802**	**988**
Provisions for asset retirement obligations:		
effect of the present value discount unwinding	176	143
Interest expense on lease liabilities	113	88
Total interest expense	**1,091**	**1,219**

	Three months ended 31 March:	
Interest income	**2019**	**2018**
Interest income on loans receivable classified as at amortised cost	228	170
Interest income on loans receivable classified as at fair value through profit or loss	3,576	2,727
Interest income on cash, cash equivalents and deposits	526	294
Total interest income	**4,330**	**3,191**

	Three months ended 31 March:	
Foreign exchange gains (losses)	**2019**	**2018**
Gains	11,773	7,732
Losses	(31,148)	(4,323)
Total foreign exchange gain (loss), net	**(19,375)**	**3,409**

20 INCOME TAX

Effective income tax rate. The Group's Russian statutory income tax rate for 2019 and 2018 was 20 percent.

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

Without the effect of net profit (loss) and dividends from joint ventures, and gain on disposal of interests in subsidiaries and joint ventures, the effective income tax rate for the three months ended 31 March 2019 and 2018 was 15.0 percent and 18.5 percent, respectively.

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

	At 31 March 2019		At 31 December 2018	
Financial assets	**Non-current**	**Current**	**Non-current**	**Current**
At amortised cost				
Long-term loans receivable	10,561	-	9,556	-
Trade and other receivables	437	99,584	407	54,433
Short-term bank deposits with original maturity more than three months	-	15,536	-	27,788
Cash and cash equivalents	-	81,002	-	41,472
Other	7	-	7	-
At fair value through profit or loss				
Long-term loans receivable	268,246	43,117	222,959	40,386
Contingent consideration	35,319	-	-	-
Commodity derivatives	1,346	9,222	2,397	9,313
Total financial assets	**315,916**	**248,461**	**235,326**	**173,392**
Financial liabilities				
At amortised cost				
Long-term debt	158,363	2,215	170,043	2,120
Short-term debt	-	1,000	-	-
Long-term lease liabilities	6,700	1,991	7,473	2,325
Trade and other payables	-	54,257	-	55,782
At fair value through profit or loss				
Commodity derivatives	1,367	9,547	2,403	8,492
Total financial liabilities	**166,430**	**69,010**	**179,919**	**68,719**

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

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

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

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

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

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

Commodity derivatives	**At 31 March 2019**	**At 31 December 2018**
Within other non-current and current assets	10,568	11,710
Within other non-current and current liabilities	(10,914)	(10,895)

	Three months ended 31 March:	
Included in other operating income (loss)	**2019**	**2018**
Operating income (loss) from natural gas foreign trading	(750)	(270)
Change in fair value	307	140

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:

	Three months ended 31 March:	
Effect on the fair value	**2019**	**2018**
Increase by ten percent	(1,699)	(1,539)
Decrease by ten percent	1,699	1,539

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

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

	Three months ended 31 March:	
	2019	**2018**
At 1 January	**263,345**	**207,051**
Recognition of loans, classified previously as intercompany, due to disposal of a subsidiary (see Note 4)	58,329	-
Repayment of the loans and accrued interest	(283)	(310)
Subsequent remeasurement at fair value recognized in profit (loss) as follows:		
– Interest income (using the effective interest rate method)	3,576	2,727
– Foreign exchange gain (loss), net	(23,719)	2,534
– Remaining effect from changes in fair value (attributable to free cash flows of the borrowers and interest rates)	10,115	21
At 31 March	**311,363**	**212,023**

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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.

	Three months ended 31 March:	
Effect on the fair value	**2019**	**2018**
Increase by one percent	(12,053)	(11,398)
Decrease by one percent	12,786	12,338

Contingent consideration. According to the terms of the sale of a 10 percent participation interest in OOO Arctic LNG 2 to TOTAL E&P Salmanov, total consideration comprises, inter alia, contingent cash payments 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 Arctic LNG 2 project's LNG trains.

Under IFRS 9, *Financial instruments*, this contingent consideration was classified as a financial asset measured at fair value through profit or loss. Gains or losses arising from changes in the fair value of the contingent consideration are recognized within other operating income (loss) in the consolidated statement of income. For the three months ended 31 March 2019, a loss from change in fair value of the contingent consideration amounted to RR 491 million.

Fair value measurement of the contingent consideration is determined based on a cash flow model using a discount rate, internal projections of 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:

Effect on the fair value	**At 31 March 2019**
Increase by one percent	1,165
Decrease by one percent	(1,174)

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.

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

(a) Foreign exchange risk

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

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

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

At 31 March 2019	**Russian rouble**	**US dollar**	**Euro**	**Other**	**Total**
Financial assets					
Non-current					
Long-term loans receivable	6,143	100,233	172,431	-	278,807
Trade and other receivables	376	2	-	59	437
Contingent consideration	-	35,319	-	-	35,319
Commodity derivatives	-	-	1,346	-	1,346
Other	-	-	-	7	7
Current					
Trade and other receivables	23,976	63,310	11,155	1,143	99,584
Current portion of long-term loans receivable	-	22,906	20,211	-	43,117
Commodity derivatives	-	-	9,222	-	9,222
Short-term bank deposits with original maturity more than three months	-	15,536	-	-	15,536
Cash and cash equivalents	25,882	44,234	10,362	524	81,002
Financial liabilities					
Non-current					
Long-term debt	(775)	(150,315)	(7,273)	-	(158,363)
Long-term lease liabilities	(354)	(6,263)	(3)	(80)	(6,700)
Commodity derivatives	-	-	(1,367)	-	(1,367)
Current					
Short-term debt and current portion of long-term debt	(1,232)	(1,983)	-	-	(3,215)
Current portion of long-term lease liabilities	(21)	(1,890)	(3)	(77)	(1,991)
Trade and other payables	(39,965)	(5,326)	(8,716)	(250)	(54,257)
Commodity derivatives	-	-	(9,547)	-	(9,547)
Net exposure	**14,030**	**115,763**	**197,818**	**1,326**	**328,937**

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At 31 December 2018	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
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
Current					
Trade and other receivables	21,379	13,577	18,393	1,084	54,433
Current portion of long-term loans receivable	-	20,694	19,692	-	40,386
Commodity derivatives	-	-	9,313	-	9,313
Short-term bank deposits with original maturity more than three months	-	27,788	-	-	27,788
Cash and cash equivalents	6,804	11,194	22,588	886	41,472
Financial liabilities					
Non-current					
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)
Current					
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)
Trade and other payables	(35,341)	(4,489)	(15,709)	(243)	(55,782)
Commodity derivatives	-	-	(8,492)	-	(8,492)
Net exposure	**(2,168)**	**4,004**	**156,620**	**1,624**	**160,080**

(b) Commodity price risk

The Group’s overall commercial trading strategy in natural gas and liquid hydrocarbons is centrally managed. Changes in commodity prices could negatively or positively affect the Group’s results of operations. The Group manages the exposure to commodity price risk by optimizing its core activities to achieve stable price margins.

Natural gas supplies on the Russian domestic market. As an independent natural gas producer, the Group is not subject to the government’s regulation of natural gas prices, except for those volumes sold to residential customers. Nevertheless, the Group’s prices for natural gas sold are strongly influenced by the prices regulated by the governmental agency of the Russian Federation that carries out state regulation of prices and tariffs for goods and services of natural monopolies in energy, utilities and transportation.

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

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

LNG supplies on international markets. The Group sells liquefied natural gas purchased primarily from its joint venture Yamal LNG 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 entered to meet supply requirements to fulfil contract obligations or for own consumption and are not within the scope of *IFRS 9, Financial Instruments*.

(c) Cash flow and fair value interest rate risk

The Group is subject to interest rate risk on financial liabilities with variable interest rates. Changes in interest rates impact primarily debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). To mitigate this risk, the Group's treasury function performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In cases where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favorable interest rate terms. At 31 March 2019 and 31 December 2018, the Group's debt bore fixed interest rates.

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

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

Credit risk. Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations.

Credit risk is managed on a Group level and arises from cash and cash equivalents, other bank deposits, as well as credit exposures to customers, including outstanding trade receivables and committed transactions. Cash, cash equivalents and deposits are placed only with banks that are considered by the Group during the whole deposit period to have minimal risk of default.

The Group's trade and other receivables consist of a large number of customers, spread across diverse industries and geographical areas. The Group has developed standard credit payment terms and constantly monitors the status of trade and other receivables and the creditworthiness of the customers.

Most of the Group's international natural gas and liquid hydrocarbons sales are made to customers with independent external ratings; however, if the customer has a credit rating below BBB-, the Group requires the collateral for the trade receivable to be in the form of letters of credit from banks with an investment grade rating. Most of domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis.

As a result of the domestic regional natural gas trading activities, the Group is exposed to the risk of payment defaults of small and medium-sized industrial users and individuals. To minimize credit risk the Group monitors the recoverability of these debtors by analyzing ageing of receivables by type of customers and their respective prior payment history.

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

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

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

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

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

At 31 March 2019	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
Debt					
Principal	4,484	54,628	77,243	31,525	167,880
Interest	8,208	7,869	11,070	5,348	32,495
Lease liabilities	2,270	2,227	5,255	-	9,752
Trade and other payables	54,257	-	-	-	54,257
Total financial liabilities	**69,219**	**64,724**	**93,568**	**36,873**	**264,384**

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At 31 December 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt					
Principal	2,416	13,786	129,124	33,831	179,157
Interest	8,775	8,494	13,371	5,739	36,379
Lease liabilities	2,408	2,396	6,294	-	11,098
Trade and other payables	55,782	-	-	-	55,782
Total financial liabilities	**69,381**	**24,676**	**148,789**	**39,570**	**282,416**

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

At 31 March 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Cash inflow	102,654	43,506	34,271	180,431
Cash outflow	(102,667)	(43,923)	(34,186)	(180,776)
Net cash flows	**(13)**	**(417)**	**85**	**(345)**
At 31 December 2018				
Cash inflow	133,167	47,403	42,251	222,821
Cash outflow	(132,409)	(47,367)	(42,292)	(222,068)
Net cash flows	**758**	**36**	**(41)**	**753**

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

At 31 March 2019, the Group had investment grade ratings of BBB- by Standard & Poor’s, BBB by Fitch Ratings and Baa2 by Moody’s Investors Service. The Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis to maintain its credit ratings.

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

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

The Group defines the term “capital” as equity attributable to PAO NOVATEK shareholders plus net debt (total debt less cash and cash equivalents and bank deposits with maturity more than three months). There were no changes to the Group’s approach to capital management during the three months ended 31 March 2019. At 31 March 2019 and 31 December 2018, the Group’s capital totalled RR 1,312,654 million and RR 971,157 million, respectively.

22 CONTINGENCIES AND COMMITMENTS

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

The Group's business operations are primarily located in the Russian Federation and are thus exposed to the economic and financial markets of the Russian Federation.

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

Sectoral sanctions imposed by the U.S. government. On 16 July 2014, the Office of Foreign Assets Control (OFAC) of the U.S. Treasury included PAO NOVATEK on the Sectoral Sanctions Identification List (the "List"), which prohibits U.S. persons or persons within the United States from providing new financing to the Group for longer than 60 days (prior to 28 November 2017, this restriction applied to new financing with a maturity of more than 90 days). Whereas all other transactions, including financial, carried out by U.S. persons or within the United States with the Group are permitted. The inclusion on the List has not impacted the Group's business activities, in any jurisdiction, nor does it affect the Group's assets and debt.

Management has reviewed the Group's capital expenditure programs and existing debt portfolio and has concluded that the Group has sufficient liquidity, through internally generated (operating) cash flows, to adequately fund its core oil and gas business operations including finance of planned capital expenditure programs of its subsidiaries, as well as to repay and service all Group's short-term and long-term debt existing at the current reporting date and, therefore, inclusion on the List does not adversely impact the Group's operational activities.

The Group together with its foreign partners currently raises necessary financing for our joint ventures from non-US debt markets and lenders.

Contractual commitments. At 31 March 2019, the Group had contractual capital expenditures commitments aggregating approximately RR 113 billion (at 31 December 2018: RR 376 billion) mainly for construction of infrastructure for future LNG projects (through 2023) and for development at the North-Russkoye (through 2021), the Yarudeyskoye (through 2020), the East-Tarkosalinskoye (through 2021) and the Yurkharovskoye (through 2019) fields all in accordance with duly signed agreements. At 31 December 2018, contractual commitments included RR 266 billion related to OOO Arctic LNG 2, which became a Group's joint venture in March 2019 (see Note 4).

At 31 March 2019 and 31 December 2018, the Group was a participant of joint operations on exploration and production in Montenegro (50 percent participation interest) and in Republic of Lebanon (20 percent participation interest) under the agreements concluded with the State of Montenegro and the Ministry of Energy and Water of Republic of Lebanon, respectively. Jointly with other participants of these agreements, the Group committed to conduct mandatory work program exploration activities during the established periods, as stipulated by these agreements (until 2021). The maximum amount to be paid by the Group in case of non-performance of work program exploration activities is EUR 42.5 million to the State of Montenegro and EUR 13.5 million to the Republic of Lebanon. The outflow of resources embodying economic benefits required to settle these contingent liabilities is not probable; therefore, no provision for these liabilities was recognized in the consolidated interim condensed financial statements.

22 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Non-financial guarantees. The aggregated amount of non-financial guarantees in respect of the Yamal LNG project issued by the Group to a number of third parties (the Ministry of Finance of the Russian Federation, Russian and foreign banks, LNG-terminal owners) in favor of the Group's joint venture OAO Yamal LNG and its subsidiary totaled USD 1.4 billion and EUR 7.3 billion at 31 March 2019 (at 31 December 2018: USD 1.4 billion and EUR 7.2 billion). These non-financial guarantees have various terms depending mostly on the successful project completion (finalization of the LNG plant construction and achievement of its full production capacity) that is expected in the near term. After the expiry of the aforementioned guarantees, in accordance with the project financing agreements, the Group will issue non-financial guarantees enforceable only in limited circumstances specified in these agreements.

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

The aggregated amount of non-financial guarantees issued by the Group to a Russian bank in favor of the Group's joint venture OOO Cryogas-Vysotsk totaled EUR 262 million at 31 March 2019 (at 31 December 2018: EUR 232 million).

The aggregated amount of non-financial guarantees issued by the Group in favor of the Group's joint venture OOO Arctic LNG 2 to its suppliers totaled EUR 168 million at 31 March 2019.

The outflow of resources embodying economic benefits required to settle the obligations under these non-financial guarantees issued by the Group is not probable; therefore, no provision for these liabilities was recognized in the consolidated interim condensed financial statements.

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Correspondingly, the relevant regional and federal tax authorities may periodically challenge management's interpretation of such taxation legislation as applied to the Group's transactions and activities. Furthermore, events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

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

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

22 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

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

23 RELATED PARTY TRANSACTIONS

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

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

	Three months ended 31 March:	
Related parties – joint ventures	**2019**	**2018**
Transactions		
Revenue from oil and gas sales	204	-
Other revenues	1,622	309
Purchases of natural gas and liquid hydrocarbons	(82,592)	(56,624)
Materials, services and other	(29)	(51)
Interest income on loans issued	3,758	2,855

Related parties – joint ventures	**At 31 March 2019**	**At 31 December 2018**
Balances		
Long-term loans receivable	278,807	232,515
Current portion of long-term loans receivable	43,117	40,386
Trade receivables	416	330
Trade payables and accrued liabilities	27,459	26,194

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

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

In September 2018, TOTAL S.A. acquired an additional shareholding in NOVATEK increasing their ownership interest in the Company to 19.4 percent. From here 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 parties transactions.

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

23 RELATED PARTY TRANSACTIONS (CONTINUED)

	Three months ended 31 March:	
Related parties – entities with significant influence and their subsidiaries	**2019**	**2018**
Transactions		
Revenue from oil and gas sales	9,254	-
Gain on disposal of interests in subsidiaries and joint ventures, net	308,578	-
Other operating income (loss), net	(277)	-

Related parties – entities with significant influence and their subsidiaries	**At 31 March 2019**	**At 31 December 2018**
Balances		
Trade and other receivables	45,445	2,271
Contingent consideration	35,319	-
Trade payables and accrued liabilities	156	350

	Three months ended 31 March:	
Related parties – entities under control of key management personnel	**2019**	**2018**
Transactions		
Purchases of construction services (capitalized within property, plant and equipment)	(2,998)	(964)
Liquid hydrocarbons transportation by rail	(2,560)	(2,215)

Related parties – entities under control of key management personnel	**At 31 March 2019**	**At 31 December 2018**
Balances		
Advances for construction	2,761	3,704
Prepayments and other current assets	695	715
Trade payables and accrued liabilities	1,616	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:

	Three months ended 31 March:	
Related parties – members of the key management personnel	**2019**	**2018**
Board of Directors	30	20
Management Committee	1,203	711
Total compensation	**1,233**	**731**

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

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

24 SEGMENT INFORMATION

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

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

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

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

Geographical information of oil and gas sales for the three months ended 31 March 2019 and 2018 is as follows:

	Three months ended 31 March:	
	2019	**2018**
Russia	105,410	103,788
Europe	95,502	45,345
Asia-Pacific region	31,447	23,799
North America	6,346	13,454
The Middle East	611	-
Less: export duties	(8,132)	(7,901)
Total outside Russia	125,774	74,697
Total oil and gas sales	**231,184**	**178,485**

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 three months ended 31 March 2019 and 2018, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 11 percent (RR 26 billion) and 16 percent (RR 28 billion) of total external revenues, respectively. The Group's major customer resides within the Russian Federation.

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

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