Think **Green.** Think **Natural Gas.**

NOVATEK

Annual Report 2020

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Letter to Shareholders

NOVATEK's Corporate Strategy considers the increasing role of LNG in the future global energy mix by replacing other types of fossil fuels (coal, fuel oil and diesel), thus reducing greenhouse gas emissions and harmful air pollutants. Natural gas will play a fundamental role in decarbonizing the global energy mix, as a low-carbon energy alternative to traditional fossil fuels in the energy transition, while managing the intermittency of the energy supply from renewables.

Alexander NATALENKO

Chairman of the Board of Directors

Leonid MIKHELSON

Chairman of the Management Board

Mark GYETVAY

Deputy Chairman of the Management Board

Dear Shareholders,

"THINK GREEN. THINK NATURAL GAS." is our theme for 2020 and beyond, as we formally established and adopted our Environmental and Climate Change targets up to 2030. As the defining topic of this generation, the climate change agenda is at the forefront of policy decisions globally as world economies transition from traditional sources of energy to some combination of natural gas, renewables and hydrogen to meet the increasing demands of electrification and decarbonization.

NOVATEK's Corporate Strategy considers the increasing role of LNG in the future global energy mix by replacing other types of fossil fuels (coal, fuel oil and diesel), thus reducing greenhouse gas emissions and harmful air pollutants. Natural gas will play a fundamental role in decarbonizing the global energy mix, as a low-carbon energy alternative to traditional fossil fuels in the energy transition, while managing the intermittency of the energy supply from renewables.

Our LNG is already one of the greenest in the world and we are developing operational solutions to further reduce our CO_2 emissions. Our present level of greenhouse gas emissions per barrel of production is already among the lowest globally due to the use of state-of-the-art technologies and a high share of natural gas in the Company's hydrocarbon production. As a confirmation of our commitment to **"THINK GREEN. THINK NATURAL GAS."** we approved in August 2020 our climate change targets, including atmospheric emissions reduction, associated petroleum gas utilization and waste utilization and disposal. We set ambitious targets that will meaningfully contribute to reducing greenhouse gas emissions, as well providing affordable, secure and sustainable natural gas to our customers for many decades.

Unlike most of our competitors, we control the full LNG value chain – from our LNG Construction facility in The Murmansk Region to our upstream production at our fields, to our liquefaction processing and finally to end-customer delivery using our dedicated Arc7 ice-class tanker fleet.

To achieve a goal to continually reduce methane emissions within our business activities, increase reporting transparency and implement more stringent regulations on methane emissions, NOVATEK became one of 23 signatories to the Methane Guiding Principles Initiative in October 2020. We recently submitted our first workplan under this important initiative for the year 2021.

Our flagship Yamal LNG project continued to perform above its operational nameplate capacity and to expand its geography of LNG deliveries. In 2020, the project loaded and dispatched 255 cargos or 18.6 million tons of LNG.

During the past year, we made great progress with our second large-scale LNG project – Arctic LNG 2. We are presently on schedule with all construction activities at both the Utrenneye field and the Utrenniy Terminal. Our Arctic LNG 2 is being realized despite massive delays and cancellations of other global

32 %

Overall construction progress on Arctic LNG 2 at the end of 2020

Our LNG is one of the greenest in the world and we are developing operational solutions to further reduce our CO_2 emissions. Our present level of greenhouse gas emissions per barrel of production is already among the lowest globally due to the use of state-of-the-art technologies and a high share of natural gas in NOVATEK's hydrocarbon production.

LNG projects. Equally important, we expect no delays in deliveries of LNG modules as the yards are producing at full capacity and preventative measures have been taken to reduce and/or eliminate the impact of the COVID-19 virus on specific work schedules. At the end of December 2020, the overall construction progress for Arctic LNG 2 is estimated at 32%.

In 2020, the formation of Arctic LNG 2 ice-class tanker fleet was completed and we signed construction contracts for all 21 Arc7 ice-class tankers – 15 ice-class tankers from the Zvezda Shipyard in Russia and six ice-class tankers from DSME in South Korea.

Another important aspect of our business is ongoing exploratory works – geophysical and geological – to increase our resource base for new project development. Therefore, exploration is fundamental to our future success. We continued exploration activities on the Gydan Peninsula in 2020 that will contribute to the successful implementation of NOVATEK's future large-scale LNG projects in the Arctic zone and ensure the maintenance of natural gas production levels into the domestic pipeline network. As of 31 December 2020, NOVATEK's total SEC proved reserves[1] aggregated 16,366 million barrels of oil equivalent (boe), including 2,244 billion cubic meters (bcm) of natural gas and 197 million tons of liquid hydrocarbons. Our reserve replacement rate amounted to 117%, with the addition of 710 million boe, inclusive of 2020 production.

Due to the successful launches of fields within the North-Russkiy cluster at the end of 2019 and in Q3 2020, and an increase in hydrocarbon production from the Achimov horizons at Arcticgas's Urengoyskoye field, our 2020 hydrocarbon production totaled 608.2 mln boe, including 77.4 bcm of natural gas and 12,237 thousand tons of liquids (gas condensate and crude oil). This increased our total hydrocarbons produced by 18.3 million boe, or by 3.1% as compared with 2019. The total natural gas sales volumes, including volumes of LNG sold, aggregated 75.6 bcm.

The uses of LNG as a transport fuel represents a promising market segment that we are actively developing both in Russia and abroad. In August, we launched our first small-scale LNG plant in the Chelyabinsk Region with a design capacity of 40 thousand tons per annum. As part of NOVATEK's long-term strategy, we plan to build a network of LNG fueling stations in Europe and Russia to provide heavy duty transport with clean fuel at key transport connecting points. Currently, the Company operates a network of 9 LNG fueling stations in the European market as well as 21 regasification facilities. In December, we launched our first carbon-neutral LNG fueling station in Rostock, Germany that will utilize carbon offset mechanisms.

Our Russian domestic gas business remained resilient in 2020 despite the COVID-19 pandemic. This business segment remains an important cornerstone of our business strategy as it insulates us from both price and volume volatility in global markets and, more importantly, remains stable and generates positive free cash flows.

In December, NOVATEK's Board of Directors approved amendments to the Regulations on Company's Dividend Policy, which increased the minimum target payout level from 30% to 50% of the adjusted consolidated net profit according to the International Financial Reporting Standards. The decision to amend the minimum payout level was based on the Company's strong operating and financial results as well as significant growth in the scale of the Company's operations.

As the COVID-19 pandemic took much of the headlines during the past year, we undertook many precautionary measures to protect the safety and wellbeing of our employees, our contractors and their families against the spread of virus, while maintaining our commitment to deliver natural gas to our customers. We worked closely with Federal, Regional and Local authorities, as well as our partners, to contain the virus spread, and took appropriate action, where necessary, to minimize possible disruptions to our operations. NOVATEK also provided direct help to the regions where we have operations as a key element of our social programs. It is important to unequivocally state that we place the health, wellbeing and safety of our employees above profits.

Despite the economic instability on the global markets, the Company achieved strong operating results and implemented its main investment projects in accordance with NOVATEK's approved corporate strategy. In 2020, our revenues amounted to RR 712 bln and our normalized EBITDA[2] amounted to RR 392 bln. The year-on-year decreases in revenues and normalized EBITDA by 17.5% and 15.0% respectively were largely due to a decline in global commodity prices for hydrocarbons.

Based on the Company's financial results, the Board of Directors recommended to the General Meeting of Shareholders to approve dividends for 2020 at RR 35.56 per share, exceeding the dividend paid out for the previous year by 10%.

Two thousand and twenty has been an unprecedented year, and definitely one for the history books. The spread of the COVID-19 virus

1. Including the Company's share in JVs.
2. Excluding the effects from the disposal of interests in subsidiaries and joint ventures and including the share in EBITDA of JVs.

As the COVID-19 pandemic took much of the headlines during 2020 year, we undertook many precautionary measures to protect the safety and wellbeing of our employees, our contractors and their families against the spread of virus, while maintaining our commitment to deliver natural gas to our customers.

caused much financial and economic stress and disruption to the global markets. We witnessed extreme volatility in both natural gas and crude oil prices and endured economic lockdowns across many of our key markets. The pandemic devastated the lives of many people and changed the way we now interact with society. Most importantly, we remained optimistic during this extraordinary past year and are more committed and determined to deliver up to 70 million tons of LNG by 2030 in a tightening global LNG market according to our corporate strategy.

As the climate change agenda gains momentum, we must demonstrate that we are a responsible operator and mitigate any harmful emissions to the atmosphere. We are targeting carbon neutrality with our future LNG platform and will work closely with our partners to find viable technical solutions for decarbonization. We are confident that natural gas will play a major role in the Energy Transition and remain a viable energy source to power the world economies for many decades.

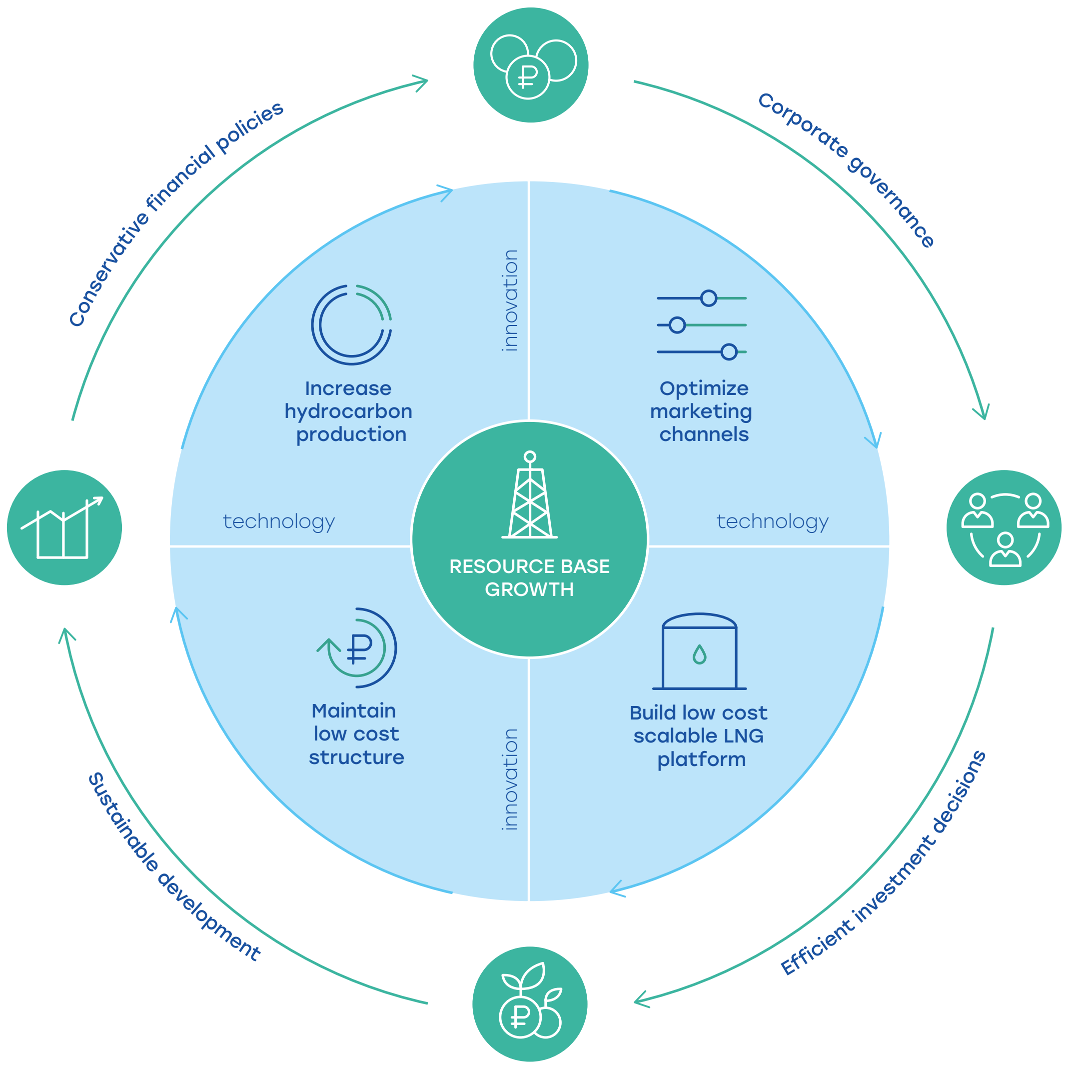
To achieve our ESG goals, the Company will deliver new projects and programs with low greenhouse gas emissions and implement environmental standards for our activities in the Arctic Region that meet the criteria of "Green Projects". We strive to fulfill our commitment to achieve the global emission goals as outlined in the Paris Climate Agreement and expand our joint activities with our customers and suppliers.

"THINK GREEN. THINK NATURAL GAS." redefines our contribution to society by delivering low-carbon, large-scale LNG projects to meet the challenges of decarbonizing energy molecules and ensuring a sustainable lifestyle for future generations.

On behalf of the Board of Directors and Management Board, we are pleased to present to all our valued stakeholders the Company's 2020 Annual Report. We would like to thank everyone for your support during a very difficult past year, and especially, each and every one of our employees for their commitment and dedication towards work at our production fields, construction sites, offices and at their "remote" locations.

Although challenges still remain, we are better positioned to capitalize on the world's growing energy requirements with our low-cost resource base and our world-class production facilities to better serve humanity's energy needs in a environmentally and socially responsible manner.

Strategic Priorities



Resourse base growth

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

Sustainable development

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

Increase hydrocarbon production

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

Maintain low cost structure

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

Optimize marketing channels

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

Build low cost scalable LNG platform

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

Environmental and Climate Change Targets

NOVATEK's Strategy considers the increasing role of LNG in the future global energy mix by replacing other types of fossil fuels (coal, fuel oil and diesel), which reduces greenhouse gas and air pollutants emissions. The role of natural gas will be fundamental in decarbonizing the global energy mix, as a low-carbon energy alternative to traditional fossil fuels in the energy transition. NOVATEK fully subscribes to the tenets outlined in the Paris Climate Agreement, which was subsequently adopted by the Russian Federation in September 2019.

On 25 August 2020, the Board of Directors of PAO NOVATEK approved the following environmental and climate change targets for the period up to 2030:

	2019	2030
Reduce methane emissions per unit of production in the Production, Processing and LNG segments by 4%	tons/ mmboe 10.44	-4%
Reduce air pollutant emissions per unit of production by 20%	tons/ mboe 0.128	-20%
Reduce greenhouse gas emissions per unit of production in the Upstream segment by 6%	tons of CO_2 equivalent per 1 mboe 12.58	-6%
Reduce greenhouse gas emissions per ton of LNG produced by 5%	tons of CO_2 equivalent per ton of LNG 0.263	-5%
Increase the associated petroleum gas utilization rate to 99%	Legal requirement in Russia 95%	to 99%
Increase the share of waste directed to utilization and disposal to 90%	75%	to 90%

Key Events and Achievements

February

Condensate treatment capacity expanded at the Samburgskiy license area to accommodate volumes of gas condensate from developing the Achimov horizons, which allowed to increase both gas and gas condensate production volumes.

May

NOVATEK signed Cooperation Agreement with The Murmansk Region covering social and economic development in the region and **Agreement with Far East Development Corporation** on operating in the territory of the Advanced Special Economic Zone "Capital of the Arctic".

Yamal LNG Arc7 ice-class tankers completed unique voyages along the Northern Sea Route in May 2020 and January-February 2021 opening the navigation one month before and ending two months after the end of the traditional navigation season.

August

We approved Environmental and Climate Change targets for the period up to 2030 including atmospheric emissions reduction, associated petroleum gas utilization and waste disposal.

We commenced production from gas condensate bearing deposits at the North-Russkiy cluster (North-Russkoye and East-Tazovskoye fields) which, together with the start of natural gas production at the North-Russkoye field at the end of 2019, allowed the Company to increase both gas and gas condensate production volumes.

Our first small-scale LNG plant was launched in the Chelyabinsk Region (Magnitogorsk) with a design capacity of 40 thousand tons per annum. As of 31 December 2020, NOVATEK operates 11 LNG stations in Russia.

September

NOVATEK completed the fleet formation of ice-class tankers for Arctic LNG 2. We signed the long-term charter agreements on 21 Arc7 ice-class LNG tankers.

October

NOVATEK joined the international oil and gas industry Methane Guiding Principles Initiative to achieve a goal to continually reduce methane emissions within business activities, increase transparency and implementation of regulations on methane emissions.

November

NOVATEK completed Russia's first ship-to-ship LNG transshipment in the Kildin Strait of the Barents Sea.

December

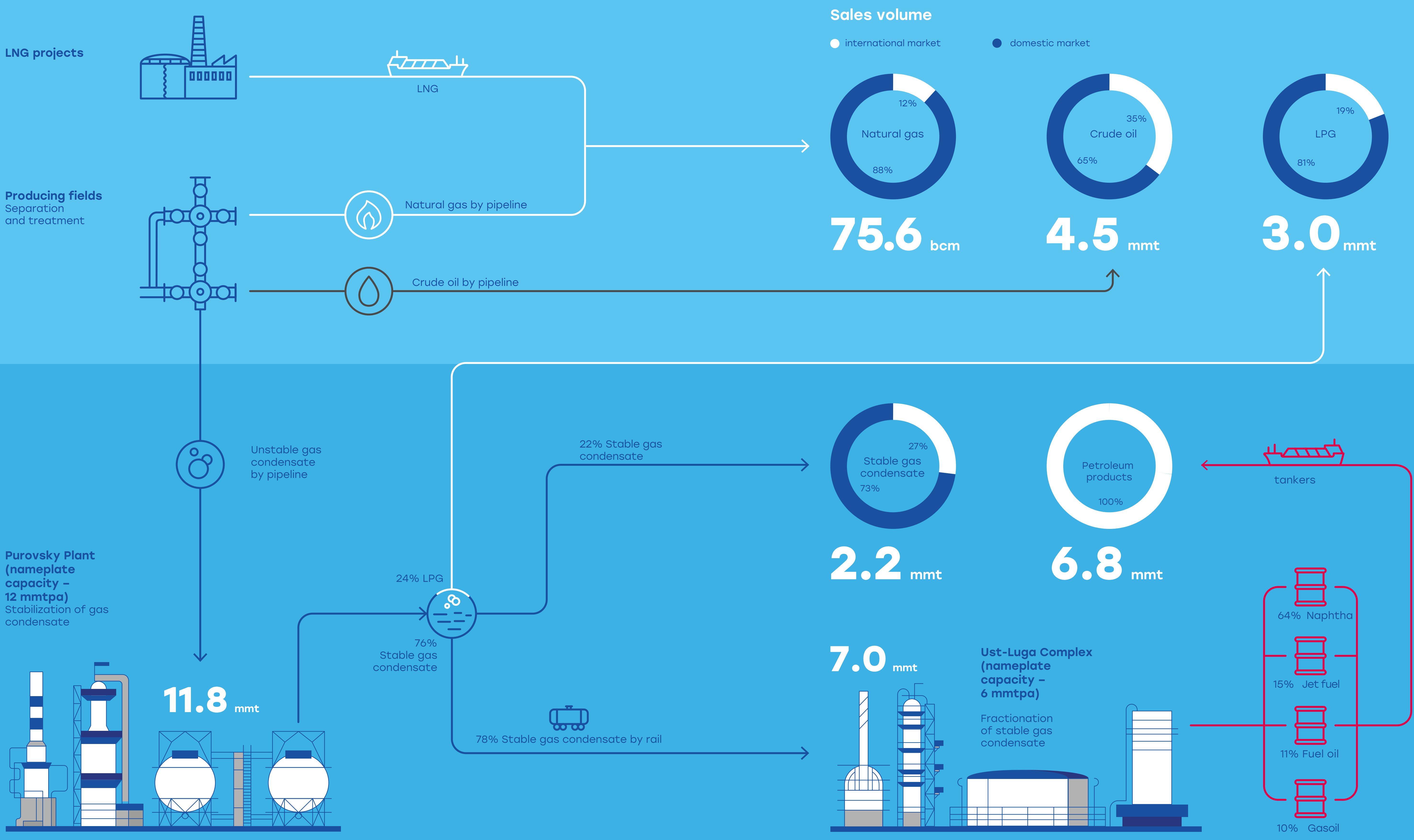
NOVATEK's Board of Directors approved the new Dividend Policy to increase the minimum target payout level from 30% to 50% of the adjusted consolidated net profit according to the IFRS.

We launched our first carbon-neutral LNG fueling station in Germany (Rostock). At the end of January 2021, a network of 9 NOVATEK LNG fueling stations and 21 regasification stations is operated in Europe.

18.8 mmt of LNG

Yamal LNG produced in 2020

Business Model

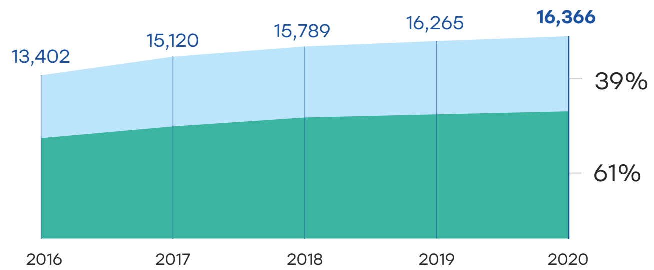


Key Indicators

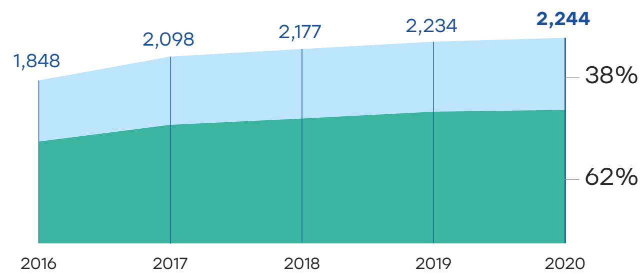
	Unit	2019	2020	Change
Operating indicators[1]				
Proved natural gas reserves (SEC)	bcm	2,234	2,244	0.4%
Proved liquid hydrocarbon reserves (SEC)	mmt	193	197	2.1%
Total hydrocarbon reserves (SEC)	mmboe	16,265	16,366	0.6%
Natural gas production	bcm	74.7	77.4	3.6%
Liquid hydrocarbons production	mt	12,148	12,237	0.7%
Proportionate share in LNG production of JVs	mt	11,228	11,553	2.9%
Total production	mmboe	589.9	608.2	3.1%
Daily production	mmboe/day	1.62	1.66	2.8%
Positions in Russia				
Share in natural gas production[2]	%	10.1%	11.0%	0.9 p.p.
Share in liquid hydrocarbons production[2]	%	2.2%	2.4%	0.2 p.p.

	Unit	2019	2020	Change
Financial indicators				
Total revenues[3]	RR mln	862,803	711,812	(17.5%)
Normalized profit from operations[4]	RR mln	221,398	160,766	(27.4%)
Normalized EBITDA (including share in EBITDA of JVs)[4]	RR mln	461,157	392,008	(15.0%)
Normalized profit attributable to shareholders of PAO NOVATEK[4] excluding the effect of foreign exchange gains (losses)[5]	RR mln	245,002	169,020	(31.0%)
Normalized earnings per share, basic and diluted[4] excluding the effect of foreign exchange gains (losses)[5]	RR	81.35	56.26	(30.9%)
Net cash provided by operating activities	RR mln	307,433	171,896	(44.1%)
Cash used for capital expenditures[6]	RR mln	162,502	204,577	25.9%
Free cash flow[7]	RR mln	144,931	(32,681)	n/a

Total proved hydrocarbon reserves (SEC), mmboe

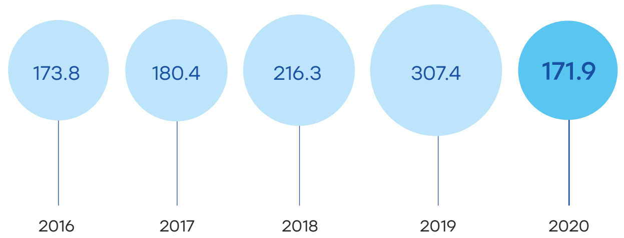


Proved natural gas reserves (SEC), bcm

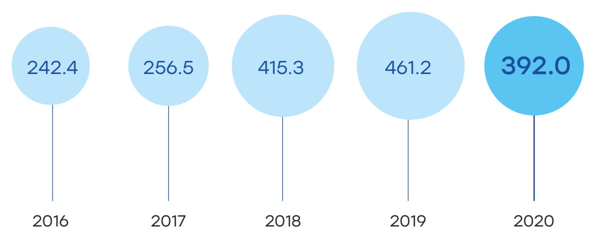


Proved developed Proved undeveloped

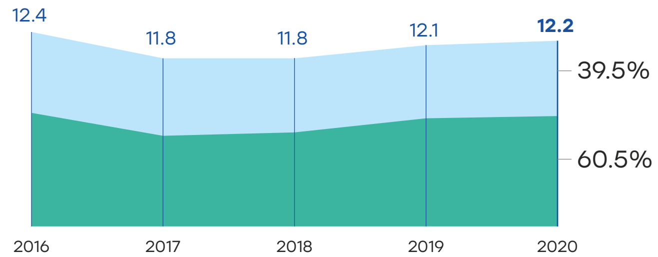
Operating cash flow, RR bln



Normalized EBITDA[4], RR bln

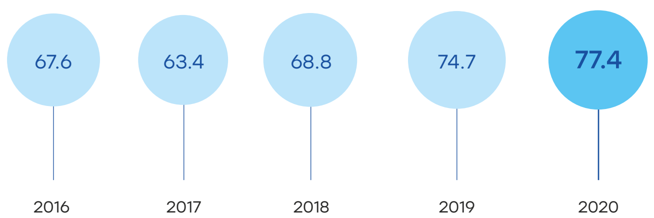


Liquids production, mmt

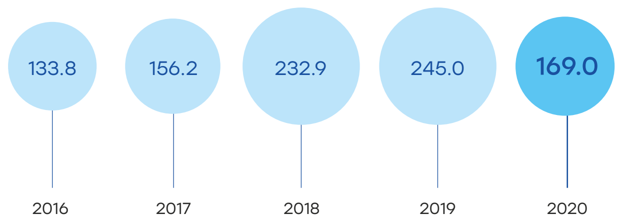


Crude oil Gas condensate

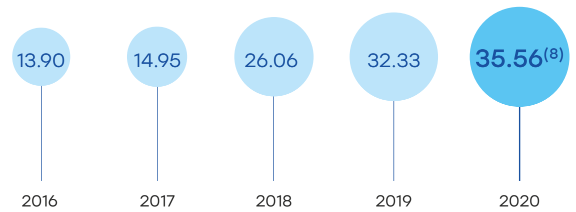
Natural gas production, bcm



Normalized profit attributable to shareholders of PAO NOVATEK[4] excluding the effect of foreign exchange gains (losses)[5], RR bln



Dividends per share, RR



1. Oil and gas production and reserves are calculated based on 100% of production and reserves of our subsidiaries and our proportionate share in the production and reserves of our joint ventures including fuel gas. Production and reserves of the South-Tambeyskoye field of Yamal LNG are reported at 60%.
2. According to CDU TEK information.
3. Net of VAT, export duties, excise and fuel taxes, where applicable.
4. Excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration).
5. Excluding the effect of foreign exchange gains (losses) of subsidiaries and our proportionate share in foreign exchange gains (losses) of our joint ventures.
6. Cash used for capital expenditures represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries.
7. Free cash flow represents the difference between Net cash provided by operating activities and Cash used for capital expenditures.
8. Recommendation of the Board of Directors.

Hydrocarbon Reserves

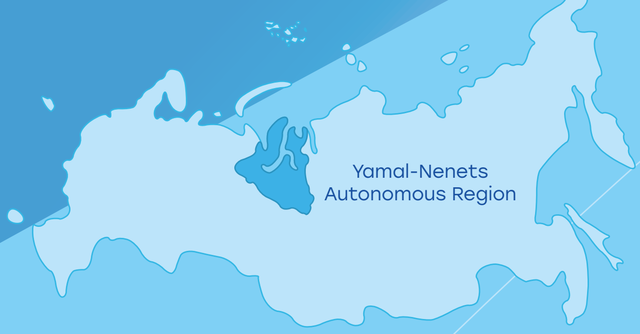
Our production and processing assets are located in the Russian Federation.

72

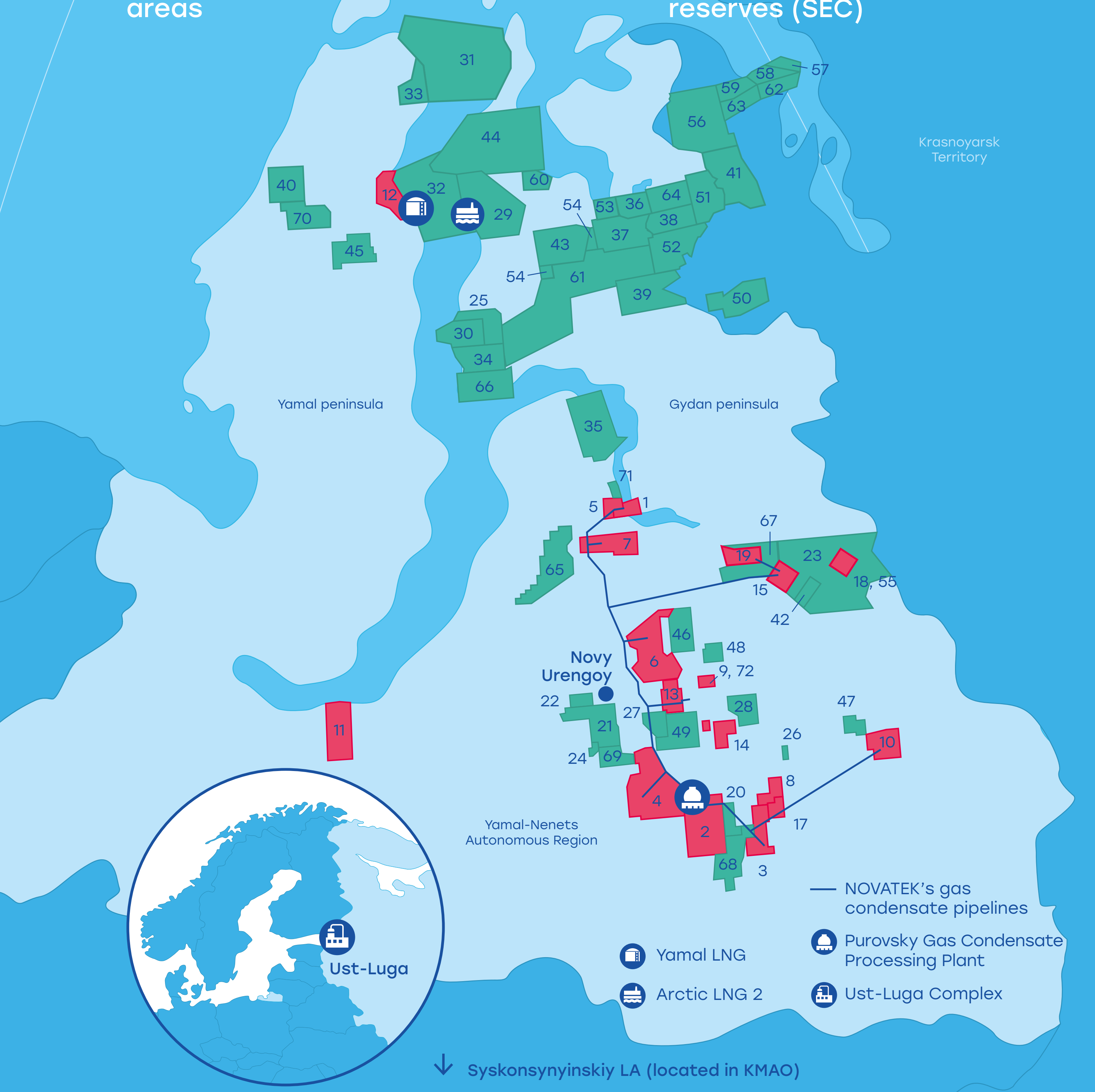
Fields and license areas

16.4 bln boe

Total proved hydrocarbons reserves (SEC)



As of 31 December 2020, NOVATEK's subsidiaries and joint ventures held a total of 72 subsoil licenses for areas within Russia.



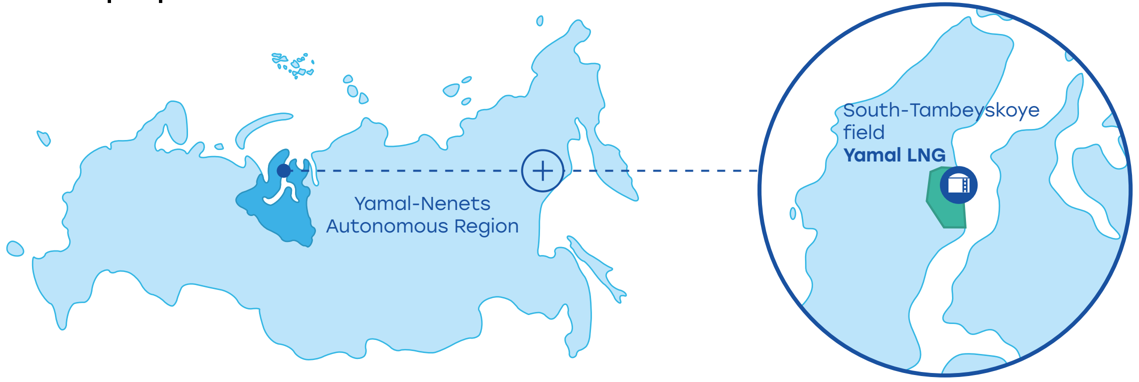
Producing fields and license areas

Prospective fields and license areas

1. Yurkharovskoye field
2. East-Tarkosalinskoye field
3. Khancheyskoye field
4. Olimpiyskiy LA (Urengoyskoye, Dobrovolskoye, Sterkhovoye fields)
5. West-Yurkharovskoye field
6. Samburgskiy LA (Samburgskoye, Urengoyskoye, East-Urengoyskoye+North-Esetinskoye fields)
7. North-Urengoyskoye field
8. North-Khancheyskoye field
9. Yaro-Yakhinskiy license area
10. Termokarstovoye field
11. Yarudeyskoye field
12. South-Tambeyskoye field
13. West-Yaroyakhinskiy license area
14. Beregovoy license area
15. North-Russkoye field
16. Syskonsynyinskiy LA (located in KMAO)
17. South-Khadyryakhinskoye field
18. Dorogovskoye field
19. East-Tazovskoye field
20. Yumantilskiy license area
21. West-Urengoiskiy license area
22. North-Yubileynoye field
23. North-Russkiy license area
24. Ukrainsko-Yubileynoye field
25. Geofizicheskiy 1 license area
26. West-Chaselskoye field
27. Yevo-Yakhinskiy license area
28. North-Chaselskiy license area
29. Utrenneye field
30. Geofizicheskiy license area
31. North-Obskiy license area
32. East-Tambeyskiy license area
33. North-Tasiyskiy license area
34. Trekhbugorniy license area
35. Nyakhartinskiy license area
36. Ladertoyskiy license area
37. Nyavuyahskiy license area
38. West-Solpatinskiy license area
39. North-Tanamskiy license area
40. Syadorskiy license area
41. Tanamskiy subsoil area
42. Kharbeyskoye field
43. Gydanskiy license area
44. Shtormovoy license area
45. Verhnetiuteyskiy+ West-Seyakhinskiy LA
46. Osenniy license area
47. Chernichnoye field
48. Raduzhnoye field
49. Ust-Yamsoveyskiy license area
50. Payutskiy license area
51. Central-Nadoyakhskiy license area
52. Palkurtoiskiy license area
53. Ladertoyskiy 1 license area
54. Gydanskiy 1 license area
55. Dorogovskiy 1 license area
56. South-Leskinskiy license area
57. Dorofeevskiy license area
58. West-Dorofeevskiy license area
59. Khalmeriakhskiy license area
60. Shtormovoy 1 license area
61. Soletsko-Khanaveyskoye fields
62. South-Dorofeevskiy license area
63. South-Khalmeriakhskiy license area
64. East-Ladertoyskiy license area
65. South-Yamburgskiy license area
66. Bukharinskiy license area
67. East-Tazovskiy 1 license area
68. East-Tarkosalinskiy 1 license area
69. West-Urengoiskiy 1 license area
70. Syadorskiy 1 license area
71. West-Yurkharovskiy 1 license area
72. Yaro-Yakhinskiy 2 license area

Yamal LNG

Yamal LNG is our first integrated project for production, liquefaction and sales of natural gas. South-Tambeyskoye field is the resource base for the project.



670 bcm

of natural gas and 21 mmt of liquid hydrocarbons – proved reserves (SEC) as of 31 December 2020

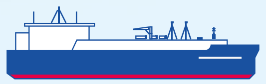
18.8 mmt of LNG

produced by Yamal LNG in 2020

255 LNG cargos

(18.6 mmt) and 24 stable gas condensate cargos (1.0 mmt) were shipped in 2020 from Yamal LNG

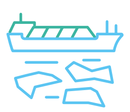
Arc7



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

29 countries

consumed natural gas molecules from Yamal LNG since its launch in December 2017.



May 2020 and January-February 2021

Yamal LNG's Arc7 ice-class tankers completed **unique voyages along the NSR** opening the navigation one month before and ending it two months after the end of the traditional navigation season. Eastbound transportation of LNG along the NSR is not normally performed in May as this represents one of the most difficult months for navigation.

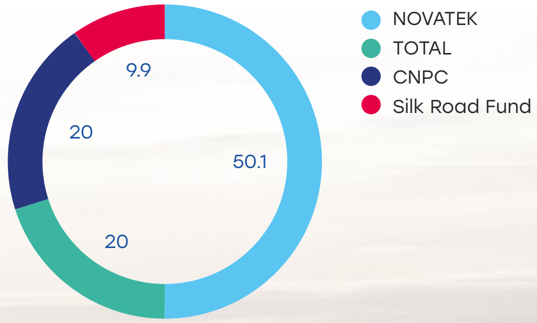
November 2020

NOVATEK-Western Arctic, a wholly owned subsidiary, completed **Russia's first ship-to-ship LNG transshipment** in the Kildin Strait of the Barents Sea. The Arc7 ice-class LNG tanker "Nikolay Yevgenov" successfully reloaded an LNG cargo delivered from the Yamal LNG facility at Sabetta to the conventional tanker "Yamal Spirit".

LNG supplies via the NSR to the Asia-Pacific region in 2020:

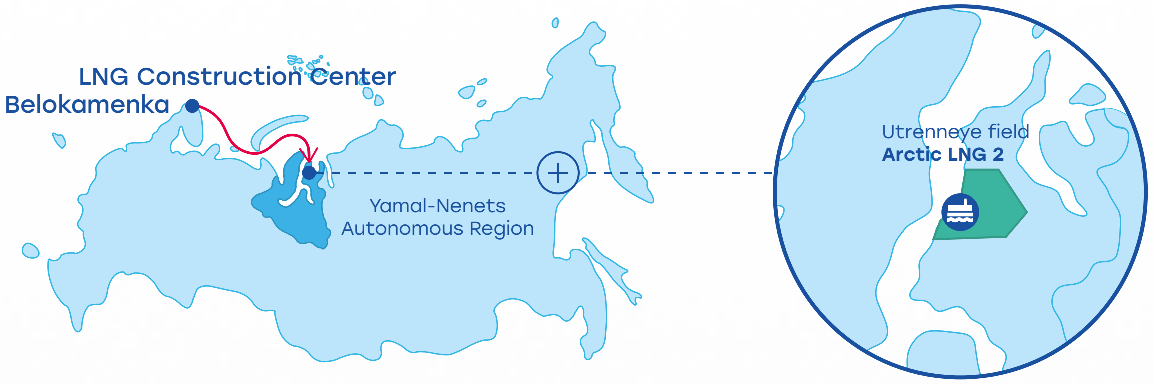
- **a twofold** increase in supplies to the Asian Pacific market
- **34** cargos (2.4 mmt of LNG) were shipped
- allows us to reduce shipping times by **40%** in comparison with the traditional route through the Suez Canal
- allows us to reduce our carbon footprint and decrease carbon emissions **by seven (7) thousand tons** per round trip

Shareholder structure of Yamal LNG,%



Arctic LNG 2

Utrenneye field is the resource base of the project.



513 bcm of gas

and 20 mmt of liquid hydrocarbons – proved reserves of the field (SEC) as of 31 December 2020

19.8 mmtpa

Total design capacity of the three LNG trains

Project status:

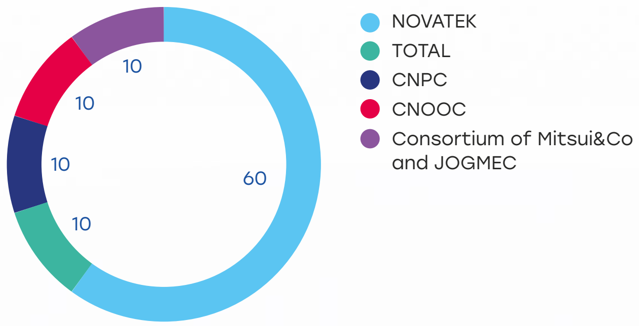
- **32%** Overall Project progress
- **46%** Completion progress on the first GBS-based LNG train
- **74%** Concrete casting of the first GBS platform
- **100%** Ice-class tanker fleet formation completed
- **32%** of the well stock required for Train 1 (23 production wells drilled)
- **69%** Completion progress on the Utrenniy Terminal

LNG Construction Center is the world's first facility for "mass production" of natural gas liquefaction trains on gravity-based structures (GBS).

The LNG Construction Center main parts:

- GBS yard including two dry docks
- Topsides yard
- Marine infrastructure
- Utilities
- Accommodation camp and administrative facilities

Arctic LNG 2 participants, %



Key advantages:

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

2018

October 2018 - Front-end engineering design (FEED) was completed.

2019

September 2019 - Final investment decision (FID) made.

2020

October 2020 - Arctic LNG 2's ice-class tanker fleet formation was completed and long-term charter agreements were signed for 21 Arc7 ice-class LNG tankers: 15 tankers to be built at the Zvezda shipyard in Russia and 6 tankers to be built at Daewoo Shipbuilding & Marine Engineering in Korea.

Geological Exploration and Production

NOVATEK uses a systematic and comprehensive approach to exploration and development of its fields and license areas, beginning with the collection and interpretation of seismic data to the creation of dynamic field models for the placement of exploration and production wells. We employ modern geological and hydrodynamic modelling as well as new well drilling and completion techniques to maximize the ultimate recovery of hydrocarbons in a cost effective manner. With this approach, we are able to carry out prospecting, exploration and production in a cost effective and environmentally prudent manner.

608 mmboe
Hydrocarbon production

77.4 bcm
Total natural gas production

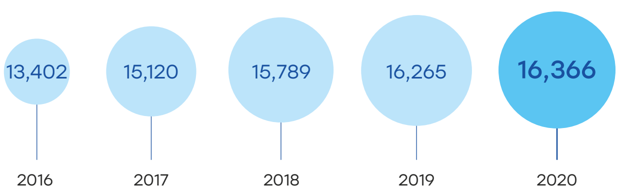
12.2 mmt
Total liquid hydrocarbon production

48 years
Proved and probable reserve to production ratio (PRMS)

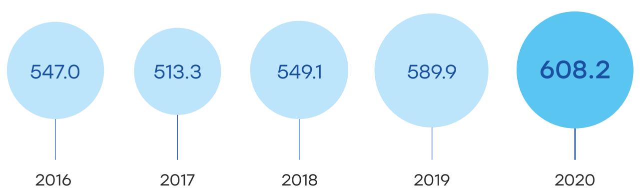
91.7 RR bln
Investments in resource base development

198 %
PRMS proved and probable hydrocarbon reserve replacement ratio

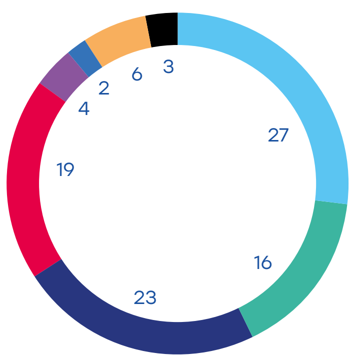
Total proved hydrocarbon reserves (SEC), mmboe



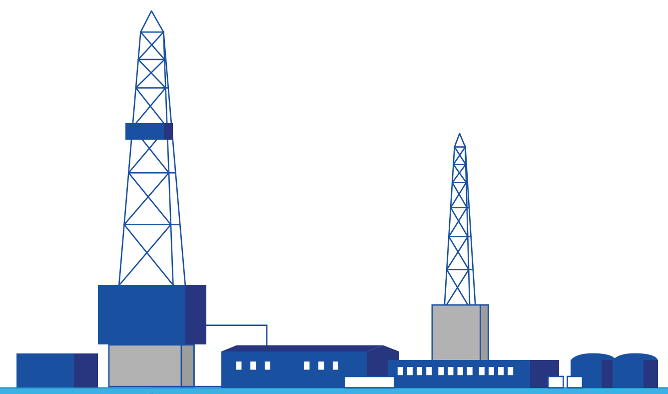
Hydrocarbon production[1], mmboe



Hydrocarbon production breakdown including share in production by JVs, %



1. Including share in production by JVs.



16.4 bln boe

Total proved hydrocarbons reserves (SEC) as of 31 December 2020

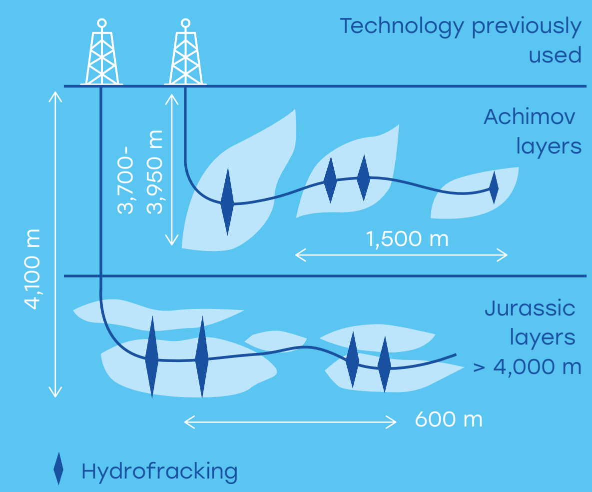
22% — 1,000 m
Cenomanian layers
"Dry" gas not containing liquid hydrocarbons

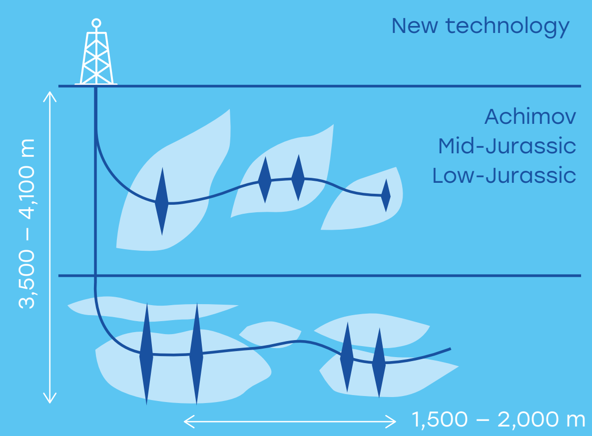
64% — 1,700 m
Valanginian layers
Gas containing liquid hydrocarbons – "wet" gas

14% — 3,200 m
Achimov layers
"Wet" gas with high share of liquid hydrocarbons. The layers have low permeability and require special development techniques.

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

Technologies to develop deep layers





Increase in wells productivity,
Including increase in low permeable formations

Processing of Gas Condensate

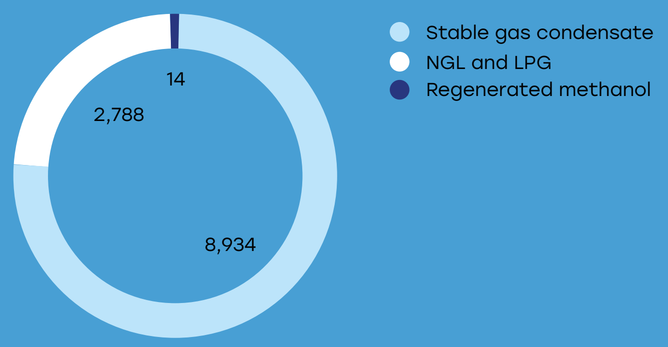
11,786 mt

Processing of de-ethanized condensate

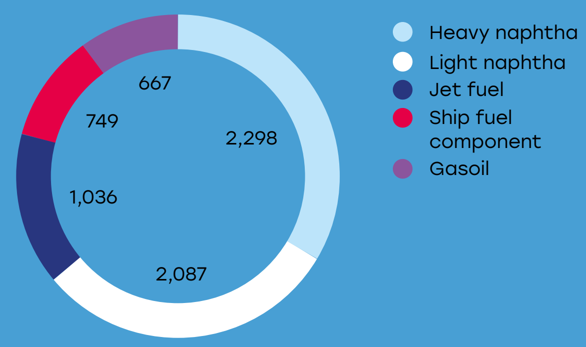
7,007 mt

Processing of stable gas condensate

Total output of the Purovsky Plant in 2020, mt



Total output of the Ust-Luga Complex in 2020, mt

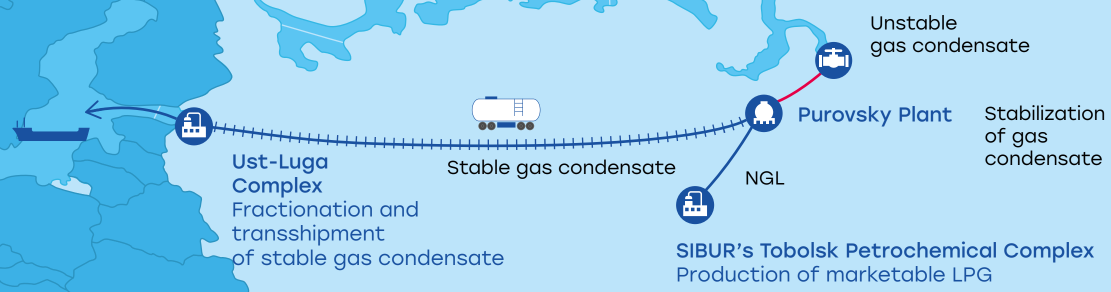


Our subsidiaries and JVs are producing natural gas with a significant content of liquid hydrocarbons (gas condensate). After being separated and de-ethanized at the field, the main part of unstable (de-ethanized) gas condensate is delivered via a system of condensate pipelines owned and operated by the Company for further stabilization at our Purovsky Plant.

The Purovsky Plant provides us complete operational control over our processing needs and access to higher yielding marketing channels for our stable gas condensate. The Purovsky Plant processes unstable gas condensate into stable gas condensate and natural gas liquids (NGL).

Most of the stable gas condensate volumes produced at the Purovsky Plant are delivered by rail to Ust-Luga for further processing or transshipment to exports, with the remaining volume of stable gas condensate sold directly from the plant to the domestic market. All of the NGL volumes (feedstock for LPG production) produced at the plant are delivered by pipeline to SIBUR's Tobolsk Petrochemical Complex for further processing.

The Ust-Luga Complex processes stable gas condensate into light and heavy naphtha, jet fuel, ship fuel component (fuel oil) and gasoil, and enables us to ship the value-added petroleum products to international markets.



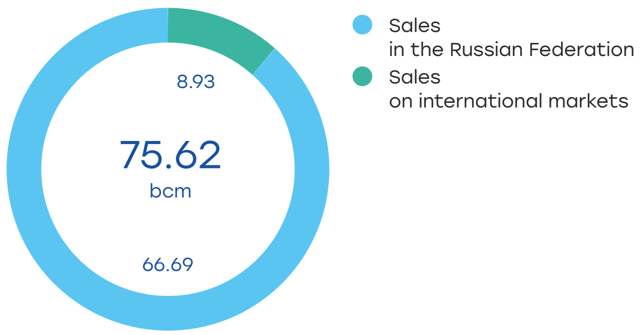
Natural Gas Sales

In 2020, natural gas sales volumes, including volumes of LNG sold, aggregated 75.62 bcm. The total volume of natural gas sold in the Russian Federation amounted to 66.69 bcm, increasing by 1.6% compared to the previous year.

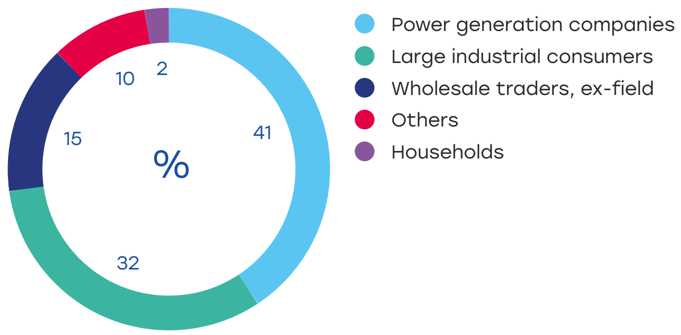
Our sales of natural gas in the Russian domestic market are mainly through trunk pipelines and regional distribution networks, as well as sales of LNG produced at our small-scale LNG plant in the Chelyabinsk Region through our refueling complexes.

NOVATEK has a key role in ensuring supplies of natural gas to the domestic market. During 2020, the Company supplied natural gas to 41 regions within the Russian Federation.

Total natural gas sales, bcm



Natural gas sales breakdown on the Russian domestic market by customers in 2020, %

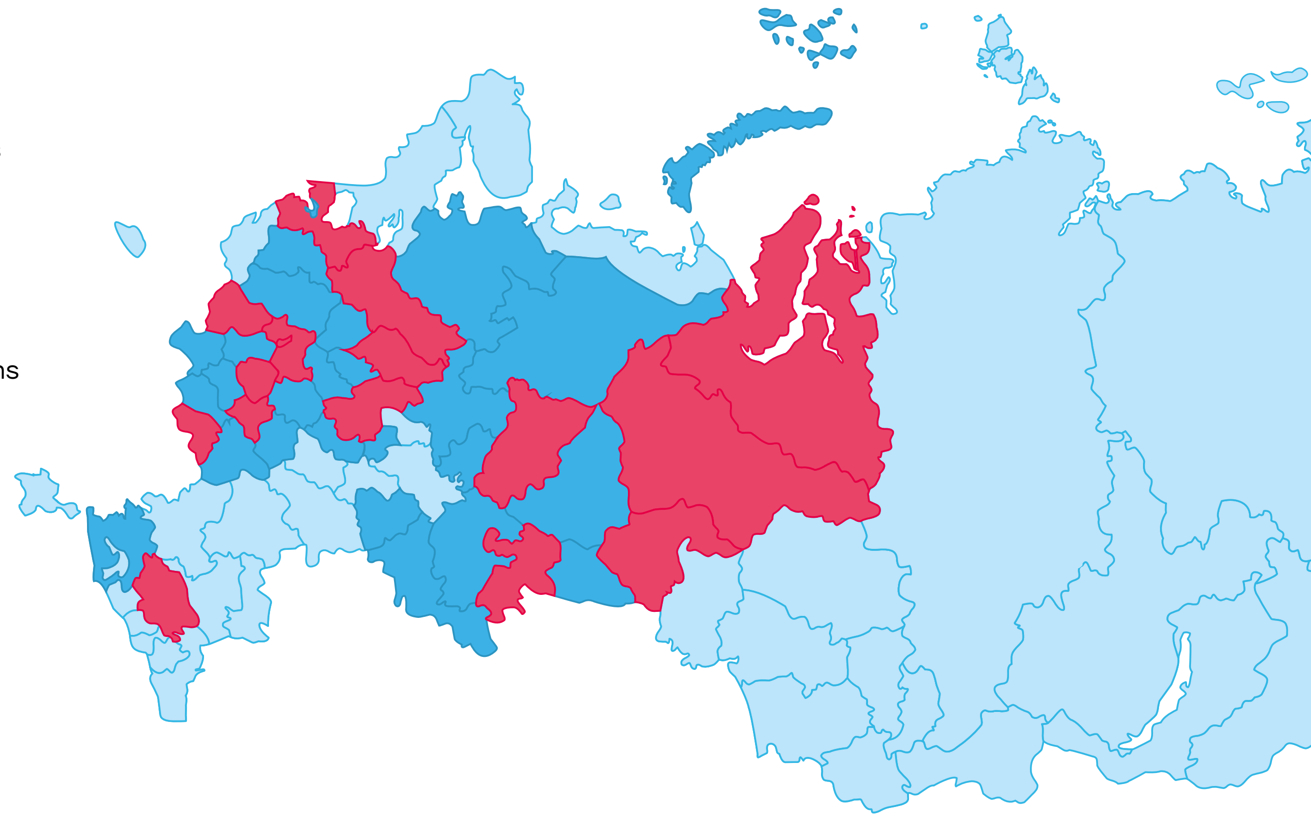


16

Main regions of gas sales

25

Other regions of gas sales



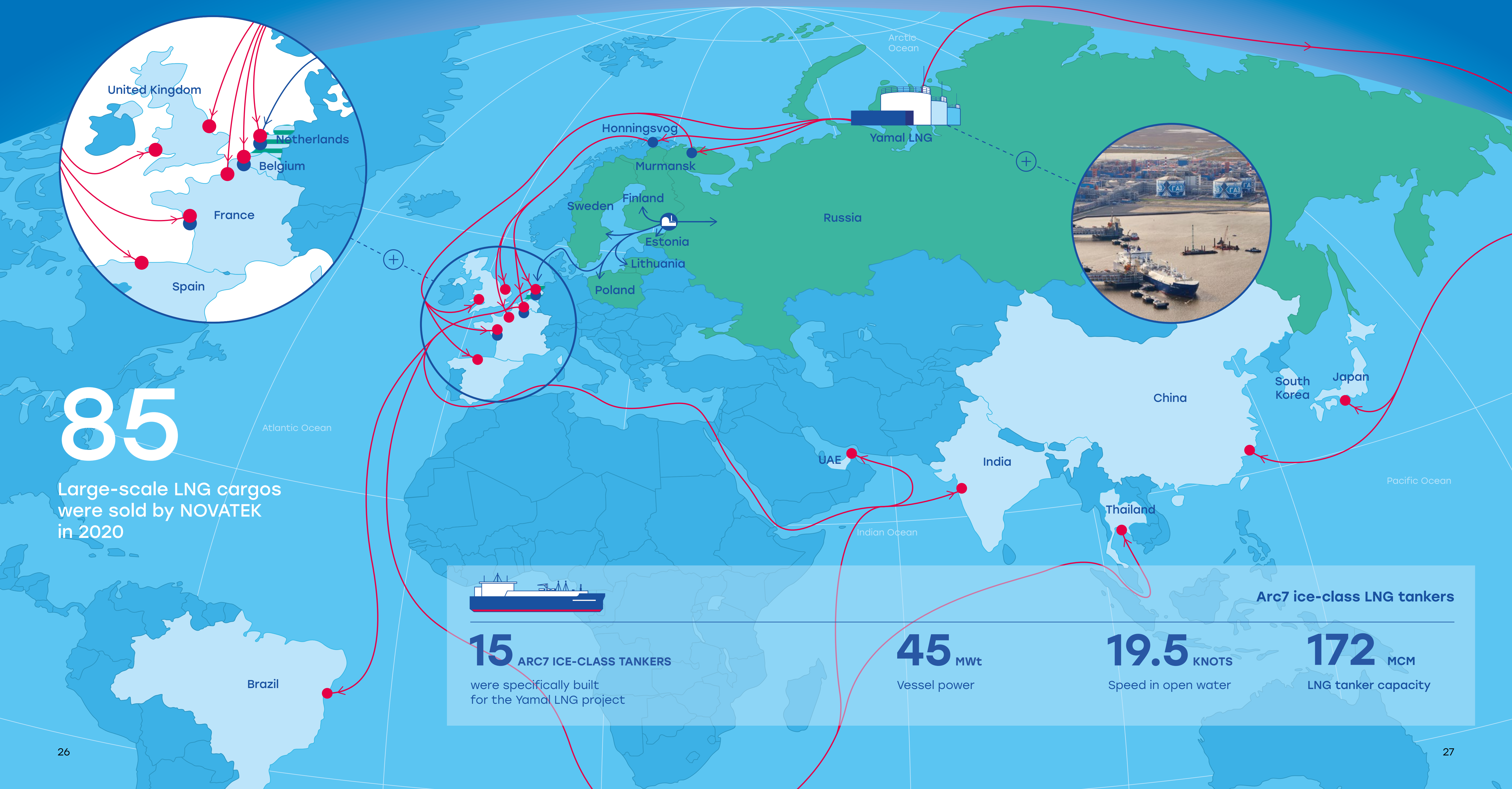
LNG Sales

During 2020, NOVATEK sold 8.9 bcm (6.4 mmt) of LNG. Our sales of natural gas on international markets are sales of LNG purchased primarily from our joint ventures, Yamal LNG and Cryogas-Vysotsk. In addition, we sell on the European market regasified liquefied natural gas arising during the transshipment of LNG (boil-off gas), as well as during the regasification of purchased LNG at our own regasification stations in Poland and Germany.

LNG transportation

Unique Arc7 ice class LNG carriers are capable of year-round navigating the Northern Sea Route (NSR) Westbound without icebreaker support, as well as Eastbound, in months with severe ice conditions – with icebreaker support. The use of the NSR Eastbound enables the Company to reduce shipping times and decrease the transportation cost, a key importance to develop our licenses and fields on the Yamal and Gydan peninsulas.

- Cryogas-Vysotsk
- Delivery point
- Transshipment
- Small- and medium-scale LNG
- Large-scale LNG



85

Large-scale LNG cargos were sold by NOVATEK in 2020

Arc7 ice-class LNG tankers

15 ARC7 ICE-CLASS TANKERS
were specifically built for the Yamal LNG project

45 MWt
Vessel power

19.5 KNOTS
Speed in open water

172 MCM
LNG tanker capacity

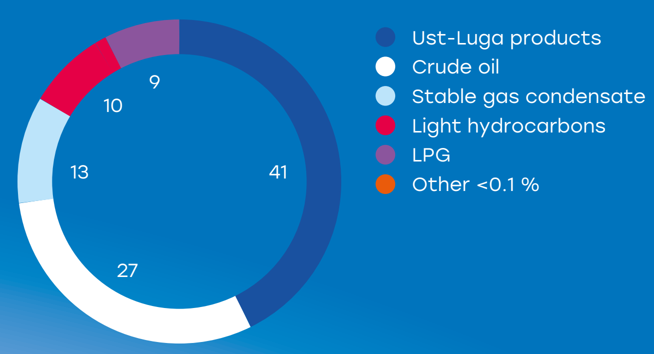
Liquid Hydrocarbons Sales

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

16.4 mmt

Liquid hydrocarbons sales volumes

Liquid Hydrocarbons Sales, %



341 RR bln

Liquid hydrocarbons sales revenues

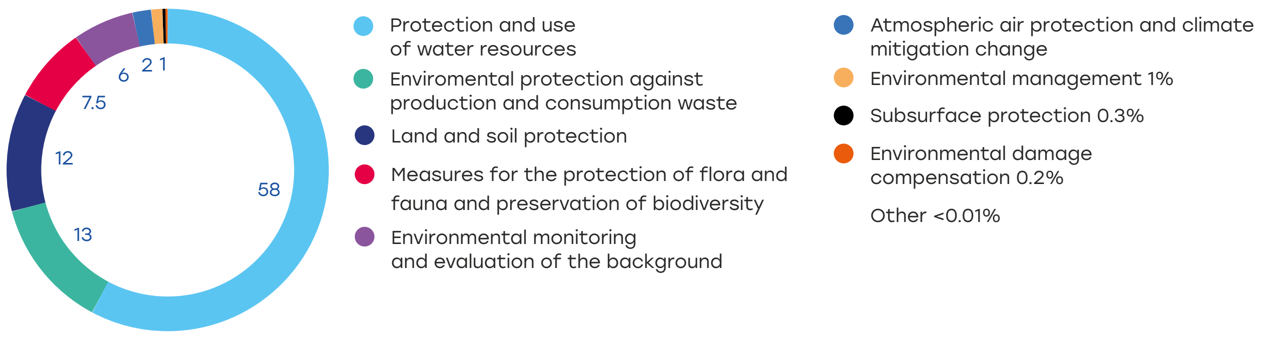
Environmental and Social Responsibility

In 2020, despite the COVID-19 pandemic, the Company continued to pay close attention to projects aimed at supporting the culture, preserving and revitalizing national values and spiritual legacy of Russia, and developing mass and high-performance sports. One of the focal points in 2020 was contributing to local epidemic containment efforts through setting up PCR laboratories, and purchasing equipment and materials for medical treatment, protective suits for medical personnel, etc.

4.1 RR bln

Social expenses and compensatory payments directly invested by NOVATEK and its subsidiaries on charitable projects and activities, cultural and educational programs, and support for indigenous communities, **including RR 671.8 million to assist the regions in their epidemic containment efforts**

Environmental expenses, %



August 2020

Board of Directors approved Environmental and Climate Change targets for the period up to 2030 including atmospheric emissions reduction, associated petroleum gas utilization and waste disposal.

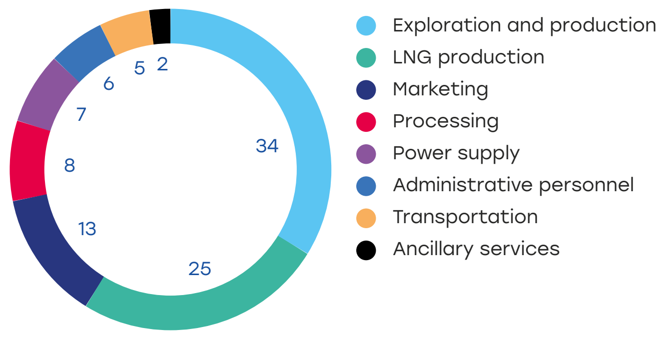
October 2020

NOVATEK joined the international oil and gas industry Methane Guiding Principles Initiative to achieve a goal to continually reduce methane emissions within business activities, increase transparency and implementation of regulations on methane emissions.

December 2020

We launched our first carbon-neutral LNG fueling station in Germany (Rostock). Carbon neutral offsets from a carefully selected portfolio of emission reduction projects will be used to compensate for the LNG's carbon footprint sold to end-customers.

NOVATEK's personnel structure as of 31 December 2020, %



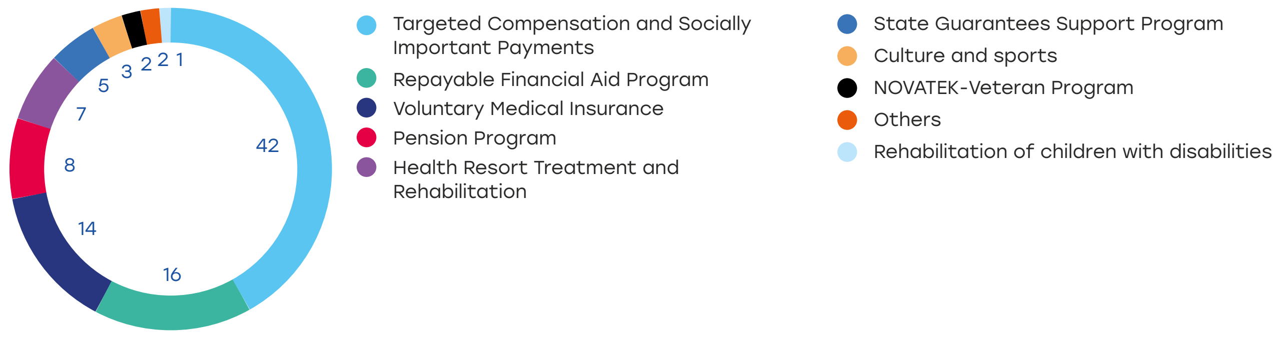
16,821 employees

at NOVATEK, its subsidiaries and joint ventures as of 31 December 2020

2.4 RR bln

Environmental protection and sustainable nature management (Including NOVATEK's share in JVs)

Social expenses for employees, %



Charity project "Health Territory"

Under the project, leading doctors from the Russian Children's Clinical Hospital visited six towns: Tarko-Sale, Novy Urengoy, Kostroma, Chelyabinsk, Magnitogorsk, and Petropavlovsk-Kamchatsky. The project allowed **457** critically ill **children** to get medical help, and **97 children** were taken to the Russian Children's Clinical Hospital and other federal medical centers.

During examinations and consultations by the Russian Children's Clinical Hospital visiting teams, the necessary safety measures were taken; the Company also provided children, parents, and doctors with personal protective equipment.

Telemedicine Center project (TMC)

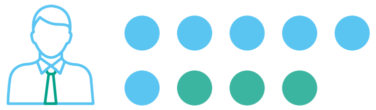
In 2020, the work under the TMC project to equip and connect hospitals in Novy Urengoy, Tarko-Sale, Murmansk, and Kostroma to the unified telemedical network, was completed. Efforts were made to expand the TMC by connecting hospitals in Chelyabinsk and Tyumen to the Center. The TMC helped to conduct **626 video consultations,** a series of five lectures on pediatric anesthesiology and intensive care in December 2020, as well as regular online meetings and medical councils with relevant experts of the Russian Children's Clinical Hospital.

As part of the **Targeted Therapy project** aimed at helping children with cancer undergoing treatment in the Dmitry Rogachev National Medical Research Center of Pediatric Hematology, Oncology and Immunology, **120 children received help** in 2020.

Corporate Governance

NOVATEK strives to commit to the highest standards of corporate governance. We believe that such standards are an essential prerequisite to business integrity and performance and provide a framework for socially responsible management of our operations. The Company has established an effective and transparent system of corporate governance complying with both Russian and international standards.

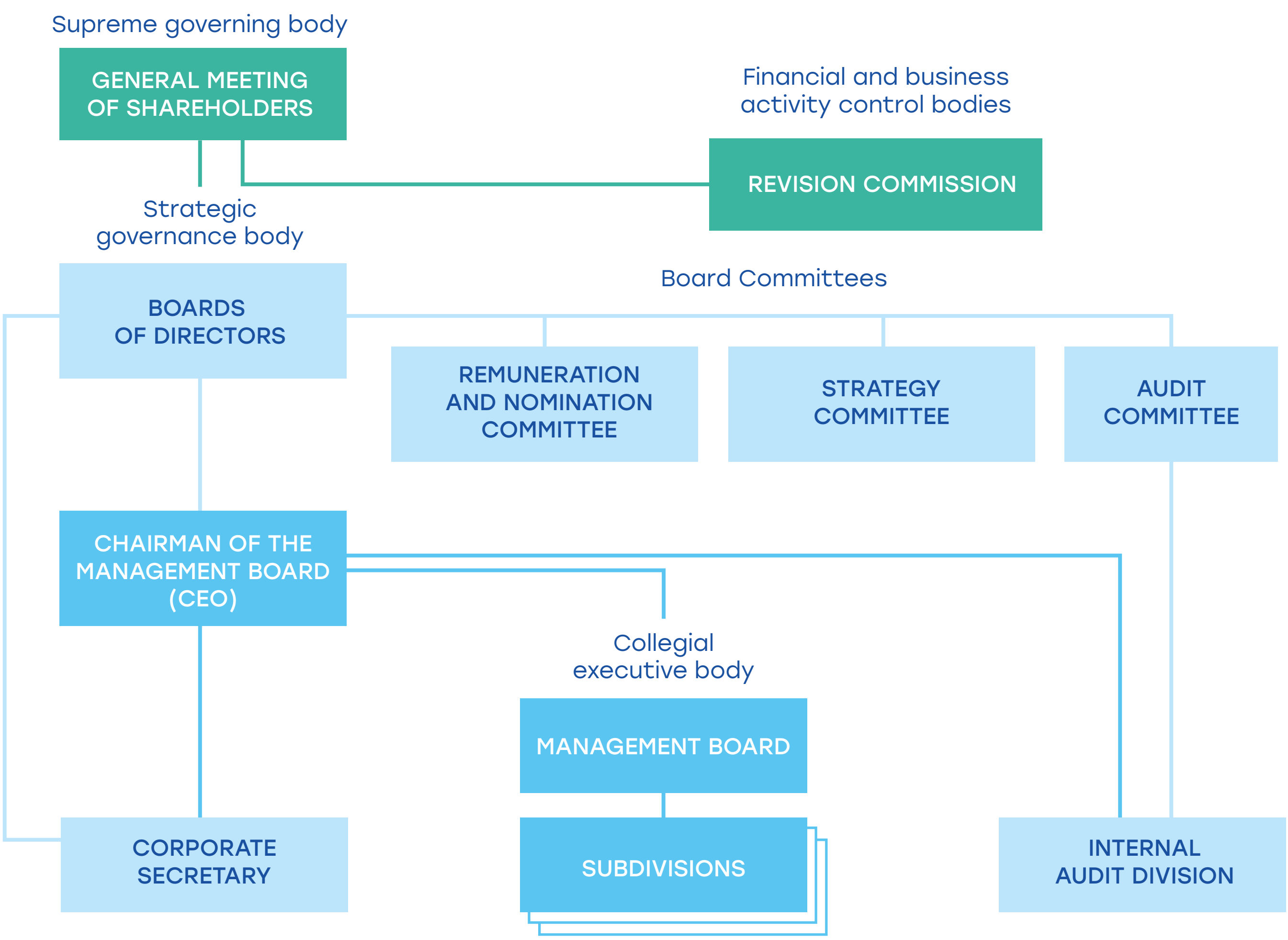
NOVATEK's supreme governing body is the General Meeting of Shareholders. The corporate governance system comprises the Board of Directors, the Board Committees, and the Management Board, as well as internal control and audit bodies and the Corporate Secretary. The activity of all these bodies is governed by the applicable laws of the Russian Federation, NOVATEK's Articles of Association and internal documents available on our website **http://www.novatek.ru**.



The Board of Directors is comprised of nine (9) members, of which eight (8) are non-executive directors, including three (3) directors who are considered to be independent.

Independent directors

Corporate Governance Structure

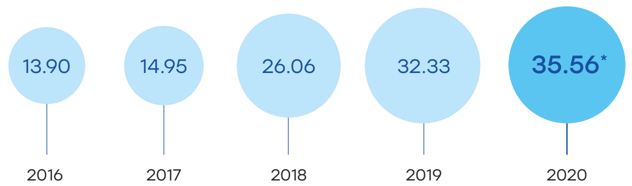


In December 2020, NOVATEK's Board of Directors approved the new Dividend Policy

Considering sustainably strong operating and financial results as well as significant growth in the scale of the Company's operations, the new Dividend Policy increased the minimum target payout level from 30% to 50% of the adjusted consolidated net profit according to the International Financial Reporting Standards (IFRS) (Minutes No. 236 of 18 December 2020).

NOVATEK's dividend policy is based on keeping the balance between the Company's business goals and shareholder's interests. A decision to pay dividends as well as the amount of the dividend, the payment deadline and form of the dividend is passed by the Annual General Meeting of Shareholders according to the recommendation of the Board of Directors.

Dividends per share, RR



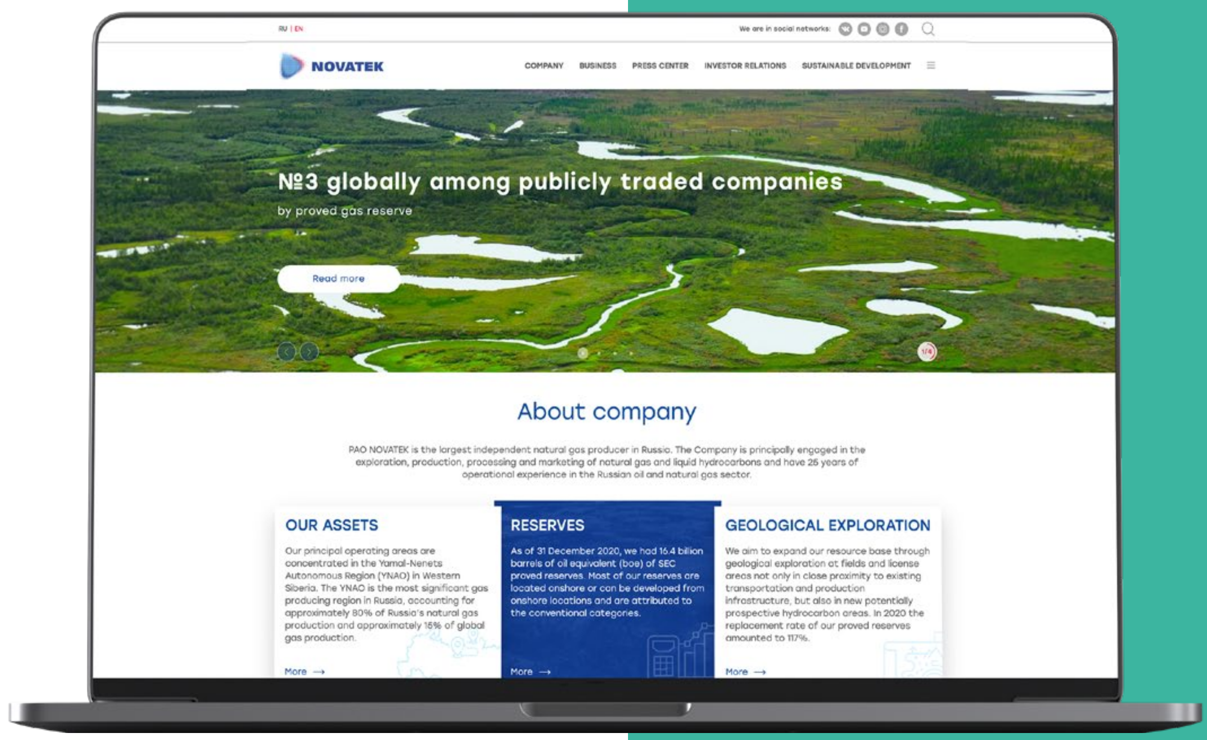
*Recommendation of the Board of Directors

The Board of Directors membership elected at the Annual General Meeting of Shareholders on 24 April 2020:

- Alexander E. Natalenko – Chairman of the Board
- Andrei I. Akimov
- Arnaud Le Foll
- Michael Borrell
- Robert Castaigne[1]
- Leonid V. Mikhelson[2]
- Tatyana A. Mitrova [1]
- Victor P. Orlov[1]
- Gennady N. Timchenko

1. Independent
2. Executive

The Company's website was updated in 2020.



About the Company

NOVATEK is one of the largest independent natural gas producers in Russia.

The Company is ranked 3rd globally among publicly traded companies in terms of proven natural gas reserves under the Security and Exchange Commission (SEC) reserves methodology and is ranked among the 10 top companies globally in terms of natural gas production. The Company is also considered one of the lowest-cost producers in the global oil and gas industry in key industry metrics regarding "finding and development", "reserve replacement" costs and "lifting" costs.

NOVATEK plays a significant role in Russia's energy sector: in 2020, the Company accounted for 11% of total Russian natural gas production. NOVATEK sells its natural gas on the Russian domestic market through the Unified Gas Supply System (UGSS) and on international markets mainly in the form of liquefied natural gas (LNG) since December 2017.

NOVATEK's main businesses are the exploration and production, processing, transportation and marketing of natural gas and liquid hydrocarbons. The Company's production assets are located mainly in the Yamal-Nenets Autonomous Region (YNAO), one of the largest and most prolific natural gas regions in the world.

NOVATEK's main strategic priorities are:

- Ensuring development of the Company's hydrocarbon resource base, including efficient reserve management;
- Growing its hydrocarbon production;
- Maintaining a low-cost structure;
- Optimizing marketing channels;
- Building a low cost, scalable LNG platform; and
- Operating according to sustainable development principles.

On 12 December 2017, we held our Corporate Strategy Day that comprehensively outlined our long-term strategy covering the period from 2018 up to 2030. We adhered to our goals and objectives as outlined in our corporate strategy for the year ended 31 December 2020.

The Company has a number of key competitive advantages to successfully implement our corporate strategy: the size and structure of its hydrocarbon resource base; the close proximity of existing infrastructure to core producing fields; a well-developed customer base for natural gas sales; natural gas liquefaction capacity and LNG project execution experience; and facilities for gas condensate processing and product exports. The development of a low-cost LNG platform and delivering cost-competitive LNG export sales to key consuming regions are key strategic priorities for the Company. Another core priority is to increase production within the reach of the UGSS through sustainable and responsible development of new fields and exploration activities, targeting lower producing horizons and complemented by acquisitions meeting certain financial and operational criteria. Our high level of operational flexibility and our consistent and efficient use of leading edge technologies in production and processing practices as well as our adherence to sound and prudent business management support our competitive position.

Our commitment to the principles of sustaible development, social responsibility and to observing the latest environmental, health and safety standards are integral parts of NOVATEK's development strategy and managerial philosophy.

Review of Operating Results

Licenses

NOVATEK's core fields and license areas are located in the Yamal-Nenets Autonomous Region and in the Kransoyarsk Territory. In 2020, we obtained new licenses in the Yamal-Nenets Autonomous Region where the Company operates, in close proximity to existing licenses.

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

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

As of 31 December 2020, NOVATEK's subsidiaries and joint ventures held a total 72 subsoil licenses for areas within Russia. There are also exploration and production agreements in place for four offshore blocks in Montenegro and two offshore blocks in Lebanon.

The duration of licenses for the Company's core fields exceeds 13 years. In particular, the license for the Utrenneye field is valid until 2120, for the East-Tarkosalinskoye – until 2043, for the Yurkharovskoye field – until 2034, for the Samburgskiy license area of Arcticgas – until 2130. In accordance with standard practice, licenses are extended based on design documents by the field development time.

In the reporting year, NOVATEK significantly expanded its portfolio of licenses with 9 new licenses obtained, including:

- geological study, exploration and production licenses for the Bukharinskiy, East-Ladertoiskiy and South-Yamburgskiy areas (following the results of auctions);
- geological study for flanks of the fields that are under exploration, including the West-Urengoyskiy 1, Syadorskiy 1, West-Yurkharovskiy 1, East-Tazovskiy 1 and East-Tarkosalinskiy 1 areas;
- geological study license for deeper formations in the Yaro-Yakhinskoye field (Yaro-Yakhinskiy 2 area).

The Company boasts a vast resource base in the Yamal-Nenets Autonomous Region. With new licenses, NOVATEK is expanding its resources to support LNG projects as well as its ability to maintain the resource base for its existing fields to ensure stable hydrocarbons production.

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

Hydrocarbon Reserves

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

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

As of 31 December 2020, NOVATEK's SEC proved reserves, including the Company's proportionate share in joint ventures, aggregated 16,366 million barrels of oil equivalent (mmboe), including 2,244 billion cubic meters (bcm) of natural gas and 197 million metric tons (mmt) of liquid hydrocarbons. The Company's proved reserves grew by 0.6% (excluding the 2020 production), and the reserve replacement ratio stood at 117%, which corresponds to the reserves addition of 710 mmboe including production. At year-end 2020, the Company's proved reserves life (SEC) or reserves-to-production ratio (R/P ratio) was 27 years.

As of 31 December 2020, the Company's total PRMS proved and probable reserves, including the Company's proportionate share in joint ventures, aggregated 29,318 mmboe, including 3,981 bcm of natural gas and 380 mmt of liquid hydrocarbons, with the total R/P ratio of 48 years. PRMS proved and probable hydrocarbon reserve replacement ratio reached 198%, which equals reserves addition of 1,201 mmboe, including production.

The reserves growth in 2020 was driven by positive exploration results at the Geofizicheskoye, Utrenneye, Nyakhartinskoye fields, production drilling at the Urengoyskoye field (Samburgskiy and Yevo-Yakhinskiy license areas), East-Tazovskoye, North-Russkoye, Utrenneye, South-Tambeyskoye fields, as well as recovery improvements at the Yurkharovskoye and Yarudeyskoye fields.

For the first time, the Trekhbugorniy field was included in the Company's PRMS reserves estimate.

The Company continues intensive exploration on the Gydan Peninsula with systematic introduction of new fields into development, thus contributing to successful implementation of future large-scale LNG projects in the Arctic and maintaining pipe gas production.

The high quality of the reserve base enables NOVATEK to maintain its position as one of the lowest cost producers in the global oil and gas industry.

SEC proved reserves as of 31 December 2020 (based on the Company's equity ownership interest in joint ventures) and duration of licenses

Field / license area	Participating interest	Duration of license	Natural gas reserves, bcm	Liquids reserves, mmt
Total reserves			**2,244**	**197**
South-Tambeyskoye	50.1% (59.97% of reserves)	2045	402	13
Utrenneye	60%	2120	308	12
Urengoyskoye (ARCTICGAS)	50%	2130	213	49
Geofizicheskoye	100%	2034	186	1
Verkhnetiuteyskoye+West-Seyakhinskoye	100%	2044	161	5
Yurkharovskoye	100%	2034	153	7
North-Russkoye	100%	2031	74	5
Yaro-Yakhinskoye	50%	2119	62	10
Soletsko-Khanaveyskoye	100%	2046	61	0.3
Kharbeyskoye	100%	2036	60	8
North-Chaselskoye	100%	lifetime of the field	57	2
East-Tarkosalinskoye	100%	2043	56	16
North-Urengoyskoye	50%	2038	55	4
Gydanskoye	100%	2044	51	4
Urengoyskoye (Ust-Yamsoveyskiy LA)	100%	2198	42	5
East-Tazovskoye	100%	2033	42	6
Beregovoy LA	100%	2070	41	3
Urengoyskoye (Yevo-Yakhinskiy LA)	100%	2034	34	8
Nyakhartinskoye	100%	2043	28	2
Olimpiyskiy license area	100%	2059	25	2
Samburgskoye	50%	2130	20	1
Yarudeyskoye	51% (100% of reserves)	2029	19	22
East-Urengoyskoye+North-Yesetinskoye (West-Yaroyakhinskiy LA)	100%	2025	17	2
Termokarstovoye	51%	2097	17	5
East-Urengoyskoye+North-Yesetinskoye fields (ARCTICGAS)	50%	2130	11	1
Khancheyskoye	100%	2044	6	1
Other	–	–	43	3

Geological Exploration

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

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

In 2020, NOVATEK mostly conducted geological exploration in the Yamal and Gydan peninsulas to ensure timely and efficient preparation of the resource base for future LNG projects.

Following seismic surveys and exploration drilling, the Utrenneye field's reserves are now estimated to be higher. The upside was primarily due to successful exploration of deeper Jurassic deposits. It was demonstrated the field's southern dome stretches further below the Ob Bay offshore area at the Cenomanian and Aptian-Albian layers. Our PRMS reserves (2P) increased by 1,919 million boe and totaled 1,434.3 bcm of natural gas and 89.8 mmt of condensate.

Two onshore exploration wells drilled and tested at the Geofizicheskoye field demonstrated significant productivity of the Cenomanian and Aptian-Albian deposits. The Geofizicheskoye field's PRMS reserves (2P) increased by 109 million boe and totaled 314.2 bcm of natural gas and 4.5 mmt of condensate. Exploration activities continue at the field.

We have fully ramped up the exploration activities under the Obsky LNG Project at the Verkhnetiuteyskiy+West-Seyakhinskiy license areas. An exploration well and two exploration sidetracks in production wells were drilled and tested. These helped demonstrate the productivity of the Aptian-Albian and Neocomian deposits with high condensate content and allowed us to acquire data on fluid composition for the purposes of LNG plant design.

The Gydanskoye and Soletsko-Khanaveiskoye fields remain in the active development stage. The fields have been covered with 2,780 sq. km of 3D seismic surveys. Data processing and interpretation demonstrated high prospectivity of the Achimov deposits. Three wells were drilled and tested to demonstrate the prospectivity of the Gydanskoye field's Cretaceous deposits. Three new gas condensate Cretaceous deposits and two gas condensate Achimov deposits were discovered. A prospecting well was spudded at the Soletsko-Khanaveyskoye field with the testing results confirming the field's resource potential.

Exploration of deeper Jurassic deposits and maturation of key development targets is ongoing at the South Tambeyskoye field. We commenced production for the first time from a Jurassic multi-frac horizontal exploration well with the initial gas flow rate of 453,000 cm/day and the initial condensate flow rate of 108 t/day.

In order to maintain the pipeline gas production level and the volumes sent to the Purovsky Plant, we carried out exploration within the fields and license areas located in the Purovskiy and Tazovskiy districts of Yamal Nenets Autonomous Region.

The Kharbeyskoye oil, gas and condensate field was prepared for development activities following the drilling and testing of two exploration wells. Production at the field is scheduled to start in 2021.

Further exploration is ongoing for target zones in the Yurkharovskiy cluster, including the Yurkharovskoye, West-Yurkharovskoye and Nyakhartinskoye fields. We ran 1,004 sq. km at these locations with 3D seismic surveys. The testing of an exploration well in the Nyakhartinskoye field demonstrated the productivity of the Neocomian and Cenomanian deposits.

Exploration is ongoing within the Samburgskiy and Osenniy license areas for the purposes of developing Achimov condensate-rich deposits.

In 2020, two exploration wells were completed within the Samburgskiy LA and we also ran 504 sq. km of 3D seismic surveys within the Osenniy LA.

Geological Exploration

	Units	2019	2020	Change
2D seismic	**linear km**	**–**	**757**	**n/a**
• Subsidiaries	linear km	–	757	n/a
• Joint ventures	linear km	–	–	n/a
3D seismic	**square km**	**4,643**	**5,893**	**26.9%**
• Subsidiaries	square km	4,555	3,784	(16.9%)
• Joint ventures	square km	88	2,109	n/a
Exploration drilling	**'000 m**	**32.8**	**45.4**	**38.4%**
• Subsidiaries	'000 m	28.6	22.8	(20.3%)
• Joint ventures	'000 m	4.2	22.6	438%

Field Development

In 2020, NOVATEK continued ongoing development activities at producing and prospective fields as well as building field infrastructure. In the reporting year, the Company's subsidiaries invested RR 91.7 bln in resource base development.

In 2020, production drilling, including joint ventures, totaled 640,000 m, which is a 5% decline year on year. Production drilling was conducted at the Utrenneye, Yarudeyskoye, South-Tambeyskoye, Urengoyskoye, Kharbeyskoye, East-Tarkosalinskoye, Yurkharovskoye, East-Urengoyskoye+North-Yesetinskoye, Yaro-Yakhinskoye, East-Seyakhinskoye, West-Yurkharovskoye, North-Urengoyskoye, Beregovoye, East-Tazovskoye and South-Khadyryakhinskoye fields.

A total of 144 production wells were brought onstream, including 100 natural gas and gas and condensate wells and 44 oil wells.

New facilities commissioned

In 2020, production began from the Valanginian deposits of the North-Russkoye field and we successfully launched the East-Tazovskoye and Dorogovskoye fields. We continued the development of the Kharbeyskoye field, Yevo-Yakhinskiy and Ust-Yamsoveyskiy license areas.

The third train of the gas condensate de-ethanization unit was launched at the Urengoyskoye field, and the third train of the gas condensate de-ethanization unit was also started at the Samburgskoye field. A pilot 3S (Super Sonic) separation unit was launched at the Yurkharovskoye field's gas treatment unit to remove residual LPG volumes from stripped gas. The Purovsky Plant's condensate stabilization and fractionation unit was also renovated. A booster compressor station was commissioned at the Beregovoye field as well as an integrated reinjection facility at the Yarudeyskoye field to maintain formation pressure.

Construction of Dry Dock No. 2 was completed at the LNG Construction Center in Belokamenka, Murmansk region as well as 13 residential buildings with 2,350 beds also started operation in Belokamenka. The construction of the Utrenniy airport for the Arctic LNG 2 project is near completion, and a test flight was performed. Construction of a 56-km-long road between Sabetta and the West-Seyakhinskoye field's gas treatment plant is near completion. In 2020, we continued construction of the hydrocracker unit at the Ust-Luga Complex.

Hydrocarbon Production

608 mmboe

Company's production including share in production by JVs

In 2020, NOVATEK carried out commercial hydrocarbon production at 23 fields. The Company's production, including our attributable share in the production of JVs, amounted to 608.2 mmboe, up 3.1% versus 2019. The key contributors to the production increase were the start of operations of North-Russkiy cluster of fields in late 2019 and Q3 2020 (the Cenomanian and Valanginian deposits of the North-Russkoye, East-Tazovskoye and Dorogovskoye fields), as well as the increased production of hydrocarbons from the Achimov deposits of the Urengoyskoye field by Arcticgas thanks to the expansion of the condensate treatment facilities in January 2020.

The production decline at mature fields of our subsidiaries and joint ventures was mainly due to natural drop in formation pressure within the current gas producing horizons.

Total production of natural gas including the Company's share in production of joint ventures aggregated 77.37 bcm, representing 83.2% of our total hydrocarbon output. The share of gas produced from gas condensate bearing layers (or "wet gas") in proportion to total gas production was 79.9%. Production of natural gas increased by 3.6%, as compared to 2019 volumes.

Production of liquid hydrocarbons including the Company's share in production of joint ventures totaled 12.237 mmt, of which gas condensate accounted for 60.5% of this volume and crude oil – for the remaining 39.5%. Marketable production of liquid hydrocarbons increased by 0.7%, as compared to 2019, with gas condensate production amounting to 7.407 mmt and crude oil production totaling 4.830 mmt.

In 2020, we continued to achieve some of the lowest lifting costs in the industry. The Company's lifting costs were RR 44.2 (USD 0.61) per boe this year.

Hydrocarbon production (including share in production by joint ventures)

	Units	2019	2020	Change
Total	**mmboe**	**589.9**	**608.2**	**3.1%**
Gas	mmcm	74,700	77,367	3.6%
	mmboe	488.5	506.0	
Liquid hydrocarbons	mt	12,148	12,237	0.7%
	mmboe	101.4	102.2	

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

	Gas, mmcm		Change	Liquids, mt		Change
	2019	2020		2019	2020	
Total	**74,700**	**77,367**	**3.6%**	**12,148**	**12,237**	**0.7%**
NOVATEK-Yurkharovneftegas' fields (100%)	26,247	23,857	(9.1%)	1,253	1,112	(11.3%)
NOVATEK-Tarkosaleneftegas' fields (100%)	9,036	12,890	42.7%	1,692	1,915	13.2%
Arcticgas' fields (50%)	13,787	15,383	11.6%	4,166	4,479	7.5%
South-Tambeyskoye (59.97%)	16,727	17,093	2.2%	826	701	(15.1%)
North-Urengoyskoye (50%)	3,529	2,931	(16.9%)	284	241	(15.1%)
Termokarstovoye (51%)	1,249	1,269	1.6%	392	383	(2.3%)
Yarudeyskoye (100%)	1,731	1,648	(4.8%)	3,311	3,139	(5.2%)
Other	2,394	2,296	(4.1%)	224	267	19.2%

Russia's first ship-to-ship LNG transshipment in the Kildin Strait of the Barents Sea.

LNG Projects

Yamal LNG Project

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

The South-Tambeyskoye field located in the North-East of the Yamal Peninsula is the resource base of the Project. As of 31 December 2020, the field's SEC proved reserves totaled 670 bcm of natural gas and 21 mmt of liquid hydrocarbons. According to the PRMS standards, the proved and probable reserves of the South-Tambeyskoye field as of the end of 2020 totaled 939 bcm of natural gas and 33 mmt of liquid hydrocarbons. The field is being developed with horizontal wells with total drilled lengths up to 5,000 meters and horizontal sections of up to 1,500 meters.

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

The first train started production in fourth quarter 2017, with the second and third trains became operational in July and November 2018, respectively. Yamal LNG reached its full capacity as early as in December 2018. In 2020, Yamal LNG produced 18.8 mmt of LNG, exceeding the three trains' design capacity by 14% or 2.3 mmt.

As of the end of 2020, the commissioning work of the fourth train based on the patented proprietary Arctic Cascade gas liquefaction technology with the nameplate capacity of 0.9 mmtpa was in progress. The fourth train provides for the use of the main equipment manufactured in Russia. To make the technology highly energy efficient, the liquefaction process will extract maximum benefits from the Arctic climate.

Fifteen unique Arc7 ice class LNG carriers were specifically designed and built for the Yamal LNG project, capable of navigating the Northern Sea Route (NSR) without icebreaker support. In 2020, 255 LNG cargos (18.6 mmt) and 24 stable gas condensate cargos (1.0 mmt) were shipped.

In May 2020 and January-February 2021, Yamal LNG's Arc7 ice-class tankers completed unique voyages along the NSR opening the navigation one month before and ending it two months after the end of the traditional navigation season.

18.8 mmt of LNG

In 2020, Yamal LNG produced 18.8 mmt of LNG, exceeding the three trains' design capacity by 14%

In November 2020, NOVATEK-Western Arctic, a wholly owned subsidiary, completed Russia's first ship-to-ship LNG transshipment in the Kildin Strait of the Barents Sea. The Arc7 ice-class LNG tanker "Nikolay Yevgenov" successfully reloaded an LNG cargo delivered from the Yamal LNG facility at Sabetta to the conventional tanker "Yamal Spirit".

Arctic LNG 2 Project

Arctic LNG 2 is the our second large-scale LNG project that we are presently constructing. The Utrenneye field, the resource base for Arctic LNG 2, is located in the Gydan Peninsula in YNAO approximately 70 km across the Ob Bay from the Yamal LNG project.

As of 31 December 2020, proved reserves of the field under the SEC reserves methodology totaled 513 bcm of gas and 20 mmt of liquid hydrocarbons. According to the PRMS reserve standards, the proved and probable reserves totaled 1,434 bcm of natural gas and 90 mmt of liquid hydrocarbons.

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

As of the end of 2020, the project's participants are NOVATEK (60%), TOTAL (10%), CNPC (10%), CNOOC (10%), and Japan Arctic LNG, a consortium of Mitsui & Co and JOGMEC (10%). In September 2019, the project participants made the Final Investment Decision.

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

NOVATEK is building an LNG Construction Center in Belokamenka near Murmansk to fabricate the GBSs, and assemble and install topside modules. The center's infrastructure comprises two dry docks and production facilities to build GBSs and topside modules. The center is a state-of-the-art technical foundation for LNG technologies in Russia, creates new jobs, and contributes to the economic development of the region. The plant's first train is scheduled to be launched in 2023, with trains 2 and 3 scheduled for launch in 2024 and 2026 respectively.

In 2020, Arctic LNG 2's ice-class tanker fleet formation was completed and long-term charter agreements were signed for 21 Arc7 ice-class LNG tankers: 15 tankers to be built at the Zvezda shipyard in Russia and 6 tankers to be built at Daewoo Shipbuilding & Marine Engineering in Korea. The state-of-the-art Arc7 ice-class gas tanker fleet together with Russia's new nuclear icebreakers will allow for year-round eastbound transport of LNG along the NSR to the Asia-Pacific Region.

In June and November 2020, the Project's partners held virtual meetings to discuss the status of Arctic LNG 2. Despite the COVID-19 pandemic, as of year-end 2020, the overall Project progress was estimated at 32%, with concrete casting of the first GBS platform estimated to be 74% completed. The module fabrication yards are working at full capacity and modules are expected to be completed and shipped according to schedule. The completion progress on the first GBS-based LNG train is estimated at 46%. In addition, 23 production wells have already been drilled at the Utrenneye field with three (3) drilling rigs in operation. The estimated completion of the Utrenniy Terminal is 69%. As of year-end 2020, more than 7.5 billion US dollars were financed by the Project's participants.

Cryogas-Vysotsk Project

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

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

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

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

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

In January 2021, Cryogas-Vysotsk produced its one millionth ton of LNG since the project commenced operations in 2019. During this period, Cryogas-Vysotsk has dispatched more than 200 LNG carriers and 1,200 trucks to a diverse geography including Finland, Sweden, Lithuania, the Netherlands, Estonia, Poland and Spain. The project supplied more than 80 trucks to the Russian domestic market as part of NOVATEK's commercial activities to provide clean-burning LNG for the consumers in the Murmansk Region and the Company's network of LNG fueling stations.

Obskiy LNG Project

The Company continued expanding its LNG portfolio: in 2020, we continued developing our Obskiy LNG project. Pre-FEED work has been carried out and the possibility of increasing the processing capacity of the LNG train is being studied.

The Verkhnetiuteyskoye+West-Seyakhinskoye fields located in the north-eastern part of the Yamal Peninsula are the project's resource base. As of 31 December 2020, proved reserves under the SEC reserves methodology totaled 161 bcm of gas and 5 mmt of gas condensate. According to the PRMS standards, the proved and probable reserves totaled 264 bcm of gas and 16 mmt of gas condensate.

One of our LNG strategic initiatives is to develop small- to medium-scale projects. This approach allows us to build premium marketing channels to sell our products in different markets. We see vast prospects in using LNG as marine fuel and motor fuel.

Processing of Gas Condensate

Purovsky Plant

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

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

In the reporting period, the Purovsky Plant processed 11,786 mt of de-ethanized gas condensate, representing a 9.1% increase compared to 2019. The processing capacity of the Purovsky Plant is in line with the total production capacity of NOVATEK and its joint ventures fields that supply feedstock to the Purovsky Plant. The 2020 output mix included 8,934 mt of stable gas condensate, 2,788 mt of NGL and LPG and 14.0 mt of regenerated methanol.

The Purovsky Plant is connected via its own railway line to the Russian rail network at Limbey rail station. Subsequent to the launch of the Ust-Luga Complex in 2013, most of the stable gas condensate volumes produced at the Purovsky Plant are delivered by rail to Ust-Luga for further processing or transshipment to exports, with the remaining volume of stable gas condensate sold directly from the plant to the domestic market.

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

Processing volumes and output of the Purovsky Plant, mt

	2019	2020	Change
Processing of de-ethanized condensate	**10,802**	**11,786**	**9.1%**
Output:			
• Stable gas condensate	8,215	8,934	8.8%
• NGL and LPG	2,538	2,788	9.9%
• Regenerated methanol	14.8	14.0	(5.4%)

75.6 bcm

Natural gas sales volumes, including LNG

Ust-Luga Complex

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

In the reporting year, the Ust-Luga Complex processed 7,007 mt of stable gas condensate into 6,837 mt of end products, including 4,385 mt of light and heavy naphtha, 1,036 mt of jet fuel and 1,416 mt of ship fuel component (fuel oil) and gasoil.

In 2019, the Ust-Luga Complex commenced constructing a hydrocracker unit. The launch will increase the depth of processing of stable gas condensate into higher grade value-added petroleum products.

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

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

Processing volumes and output of the Ust-Luga Complex, mt

	2019	2020	Change
Stable gas condensate processing	**6,902**	**7,007**	**1.5%**
Output:			
• Heavy naphtha	2,181	2,298	5.4%
• Light naphtha	2,118	2,087	(1.5%)
• Jet fuel	1,085	1,036	(4.5%)
• Ship fuel component (fuel oil)	753	749	(0.5%)
• Gasoil	605	667	10.2%

Natural Gas Sales

Our sales of natural gas in the Russian domestic market are mainly through trunk pipelines and regional distribution networks, as well as sales of LNG produced at our small-scale LNG plant in the Chelyabinsk Region through our refueling complexes. Our sales of natural gas on international markets are sales of LNG purchased primarily from our joint ventures, OAO Yamal LNG and OOO Cryogas-Vysotsk. In addition, we sell on the European market regasified liquefied natural gas arising during the transshipment of LNG (boil-off gas), as well as during the regasification of purchased LNG at our own regasification stations in Poland and Germany.

In 2020, natural gas sales volumes, including volumes of LNG sold, aggregated 75.62 bcm, representing a decrease of 3.6% as compared with 2019. The decline was mainly due to a decrease in LNG sales volumes purchased from our joint venture OAO Yamal LNG, as a result of an increase in the share of Yamal LNG's direct LNG sales under long-term contracts and the corresponding decrease in LNG spot sales to shareholders, including NOVATEK. Our natural gas revenues amounted to RR 359 billion, representing a decrease of 13.5%, as compared to 2019, largely due to a decline in LNG sales volumes on international markets and global commodity prices for hydrocarbons.

Sales in the Russian Federation

In 2020, the total volume of natural gas sold in the Russian Federation amounted to 66.69 bcm, increasing by 1.6% compared to the previous year.

NOVATEK has a key role in ensuring supplies of natural gas to the domestic market. During 2020, the Company supplied natural gas to 41 regions within the Russian Federation. Our end customers and traders were located primarily in the following regions: the Chelyabinsk, Moscow and Moscow regions, the Khanty-Mansiysk Autonomous Region, YNAO, Lipetsk and Tyumen regions, the Perm territory, Vologda, Nizhny Novgorod, Smolensk, Stavropol, Tula, Leningrad, Belgorod and Kostroma regions. The above regions accounted for more than 94% of our total gas sales in the Russian Federation.

In order to manage seasonal gas demand, NOVATEK has entered into an agreement with Gazprom for underground storage services. Natural gas inventories are accumulated during warmer periods when demand is lower and then used to meet increased demand during periods of colder weather. At year-end 2020, our inventories of natural gas amounted to 0.8 bcm.

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

In August 2020, the first small-scale LNG plant with a design capacity of 40 thousand tons per annum was launched in Magnitogorsk, located in the Chelyabinsk Region. The operator is our wholly owned subsidiary NOVATEK-Chelyabinsk. The LNG produced will be mainly used as motor fuel, and in future for autonomous gasification.

At the end of 2020, 11 LNG refueling stations for automobile transport were in operation in the Urals, as well as North-Western, Central and Volga Federal districts of Russia. These stations are located on the main federal highways, in cities and on the territory of industrial enterprises and allow to provide clean-burning fuel to commercial and municipal transport, as well as heavy haul and highway trucks.

Natural gas sales, mmcm

	2019	2020	Change
Total gas sales	**78,452**	**75,620**	**(3.6%)**
International sales	12,799	8,928	(30.2%)
Sales within the Russian Federation, including:	65,653	66,692	1.6%
• End customers	62,653	63,632	1.6%
• Traders	3,000	3,060	2.0%
Share of end customers in domestic gas sales	95.4%	95.4%	0 p.p.

Sales on international markets

During 2020, NOVATEK sold 8.9 bcm (6.4 mmt) of LNG. We sold 85 cargos of LNG (including 81 from Yamal LNG) with a total volume of 8.4 bcm (6.1 mmt). In the small- and medium-scale LNG markets we sold 0.4 bcm (0.3 mmt) of LNG, including 63 tanker shipments and more than 2,000 cargos by trucks (of which 61 tanker shipments and about than 900 cargoes by trucks were from Cryogas-Vysotsk). In 2019, our LNG sales volume amounted to 12.8 bcm (8.5 mmt), with 119 large-scale LNG tanker shipments, including 110 cargoes from Yamal LNG (8.2 mmt) and 65 tanker shipments and more than 400 cargoes by trucks in the small- and medium-scale LNG markets (total volume of 0.3 mmt), including 63 tanker shipments and 240 tanker cargos from Cryogas-Vysotsk.

The decrease in sales volumes on international markets was due to a decrease in purchases from our joint venture Yamal LNG. The decrease in LNG purchases resulted from an increase in the share of Yamal LNG's direct sales under long-term contracts and the corresponding decrease in LNG spot sales to shareholders, including NOVATEK.

One of our key priorities is to expand the geography of supplies and enhance our presence in main consumer markets. In the reporting year, Yamal LNG supplied its first LNG cargo to the United Arab Emirates market. NOVATEK also shipped its first cargo of LNG to Japan transported eastbound via the NSR by an Arc7 ice-class tanker. This LNG cargo is the Company's first successful experience of entering and unloading an Arc7 ice-class LNG tanker in a Japanese port, which allows us to increase the volume of LNG supplies to this country.

In 2020, our first small-scale LNG plant was launched in the Chelyabinsk Region (Magnitogorsk).

In the reporting year, we increased LNG deliveries to Asia-Pacific countries, including shipments via the NSR. During the 2020 summer navigation period, 34 cargos (2.4 mmt of LNG) were shipped from Yamal LNG along the NSR to the Asia-Pacific market, representing a twofold increase compared with the previous year. The use of the NSR eastbound in comparison with the traditional route through the Suez Canal enables the Company to reduce shipping times by 40% and decrease the transportation cost, a key importance to develop our licenses and fields on the Yamal and Gydan peninsulas.

In the reporting year, we continued to work on expanding the navigational season for LNG shipments from our Arctic projects along the Eastern route of the NSR. In May, the Arc7 ice-class LNG tanker "Christophe de Margerie" successfully transited the Eastbound ice-covered part of the NSR and reached the Bering Strait in only 12 days. The tanker passed the Ob Bay and a part of the Kara Sea without ice-breaker assistance and then met with Atomflot's nuclear icebreaker "Yamal", which escorted the tanker with ice navigation along the Eastern part of the NSR. The tanker delivered an LNG cargo produced at Yamal LNG to China. For the first time, the voyage took place before the traditional start of the summer navigation season in average ice conditions. Eastbound transportation of LNG along the NSR is not normally performed in May as this represents one of the most difficult months for navigation.

In January 2021, two months after the end of the traditional navigation season in the Eastern part of the Arctic, the Arc7 ice-class Arctic LNG tankers "Christophe de Margerie" and "Nikolay Yevgenov", chartered by the Yamal LNG project, successfully completed an independent passage along the Eastbound part of the NSR, having reached the Bering Strait in 11 days. Both LNG tankers delivered approximately 140 thousand tons of LNG produced at Yamal LNG to destinations in the Asia-Pacific Region.

Expanding the navigational period along the NSR by almost half the distance and time of LNG transport to the ports of the Asia-Pacific region compared to the traditional route through the Suez Canal allows us to reduce our carbon footprint and decrease carbon emissions by seven (7) thousand tons per round trip.

In 2020, the first ship-to-ship LNG transshipment on the territory of the Russian Federation was completed in the Kildin Strait of the Barents Sea. The Arc7 ice-class LNG tanker "Nikolay Yevgenov" successfully reloaded an LNG cargo delivered from the Yamal LNG facility at Sabetta to the conventional tanker "Yamal Spirit". The ship-to-ship transfer was conducted at a temporary LNG Offshore Transshipment Complex in the Murmansk Region within the seaport of Murmansk. The LNG Transshipment Complex will ensure uninterrupted year-round LNG transshipment from the ice-class tankers carrying LNG produced in the Russian Arctic to conventional LNG tankers.

Expanding the navigational period along the NSR by almost half the distance and time of LNG transport to the ports of the Asia-Pacific region compared to the traditional route through the Suez Canal allows us to reduce our carbon footprint and decrease carbon emissions by seven (7) thousand tons per round trip.

The ship-to-ship transshipment complex in the Murmansk Region represents another significant milestone in developing NOVATEK's LNG supply chain from the LNG facilities located in the Russian Arctic to the global natural gas consuming markets. The creation of the transshipment infrastructure allows the Company to develop its internal competencies to perform LNG transshipment in the Russian Federation, as well as optimizing the Arctic tanker fleet.

LNG sales to the world's main consumer markets, development and optimization of logistics solutions and the expansion of our supply geography confirm the high competitiveness of LNG deliveries from the Arctic all over the world. To date, according to our estimates, 29 countries became the end consumers of natural gas molecules from Yamal LNG since the launch of the project.

In 2020, together with Saibu Gas Co., Ltd. of Japan, we have successfully completed our first joint trial delivery of LNG in ISO containers to China's Tiger Gas for subsequent sales of LNG in China. The LNG was delivered by sea in Tiger Gas-owned ISO containers from the Japanese Hibiki container terminal to Shanghai, China under a spot contract. It is forecasted that ISO containers of LNG will exponentially increase over the upcoming decades, allowing us to diversify our customer base by including small-scale LNG consumers and entering the downstream markets in China and Japan.

In December 2020, our wholly owned subsidiary, Novatek Green Energy[1], launched its first carbon-neutral LNG fueling station in Rostock, Germany. Carbon neutral offsets from a carefully selected portfolio of emission reduction projects, including wind generation projects in developing countries, will be used to compensate for the LNG's carbon footprint sold to end-customers. The certification of emission reduction projects is performed in accordance with the international standard "Verified Carbon Standard".

NOVATEK's broader strategy as a natural gas and LNG producer implies greater involvement in the further development of natural gas as a motor fuel both in Russia and abroad. This market segment represents significant growth potential in the context of increasingly stringent environmental standards. Compared to diesel, LNG provides for a significant reduction of emissions of nitrogen oxides, carbon dioxide and almost complete elimination of particulate matter emissions.

As part of NOVATEK's long-term strategy, the Company plans to build a network of LNG fueling stations in Europe to provide heavy duty transport with clean fuel at key transport connecting points between Germany and Poland. At the end of January 2021, the Company owned a network of 9 LNG fueling stations in the European market as well as 21 regasification facilities.

Liquid Hydrocarbons Sales

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

In 2020, NOVATEK's liquids sales volumes reached 16,387 mt, or 0.2% more than in 2019. In 2020, our export sales volumes decreased by 3% as compared to 2019 and amounted to 9,269 mt.

1. Novatek Polska prior to 3 February 2020.

In 2020, our liquids sales revenues decreased to RR 341 billion, or by 22.1% as compared to 2019, mainly driven by lower global benchmark prices.

High-value added petroleum products from the Ust-Luga Complex accounted for a 41% share of our overall liquids sales volumes. We sold a total of 6,773 mt of stable gas condensate products, including 4,294 mt of naphtha, 1,061 mt of jet fuel and 1,418 mt of fuel oil and gasoil. The majority of petroleum products (97%) were exported. Export volumes were distributed as follows: Europe – 49%, Asia-Pacific – 34%, North America – 13% and Middle East - 4%. Most of our heavy naphtha was exported to Asia Pacific markets, light naphtha – to Northwest Europe and North America, and jet fuel, gasoil and fuel oil – to Northwest Europe.

Export and domestic sales of stable gas condensate continued in 2020. Condensate volumes purchased from Yamal LNG, were exported. Total stable gas condensate sales volumes amounted to 2,169 mt.

A portion of light hydrocarbons produced at the Purovsky Plant is processed on tolling terms at SIBUR's Tobolsk Petrochemical Complex into marketable LPG, which is then delivered to NOVATEK's customer base, while the rest of the light hydrocarbons volumes are sold to SIBUR. We sold 1,591 mt of light hydrocarbons in 2020.

Marketable LPG sales volumes totaled 1,368 mt in 2020, representing a 5% decrease compared to 2019. LPG export sales volumes amounted to 568 mt or 42% of the total LPG sales volumes. Novatek Green Energy[1], our wholly owned LPG trading company in Poland, sold all of our LPG export volumes.

In the domestic market, our LPG is sold through large wholesale channels as well as through our retail network and small wholesale stations. In 2020, large wholesale supplies to the domestic market stood at 632 mt, representing 79% of our domestic LPG sales. We also sold 168 mt of LPG via our retail network and small wholesale stations located mainly in the Chelyabinsk, Volgograd, Rostov and Astrakhan regions. As of the end of the year, sales were made through 85 retail gas stations and 7 gas filling stations.

Sales of crude oil in 2020 totaled 4,468 mt, which is 7.6% lower compared with 2019. We sold 65% of our crude oil volumes in the domestic market, with the remaining volumes exported to international markets.

Liquid hydrocarbons sales, mt

	2019	2020	Change
Total	**16,355**	**16,387**	**0.2%**
Petroleum products (Ust-Luga)	6,981	6,773	(3.0%)
Crude oil	4,834	4,468	(7.6%)
Stable gas condensate	1,739	2,169	24.7%
Light hydrocarbons	1,332	1,591	19.4%
LPG	1,445	1,368	(5.3%)
Other	24	18	(25.0%)

1. Novatek Polska prior to 3 February 2020.

Environmental and Social Responsibility

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

Environmental Protection

NOVATEK's core producing assets are located in the Far North, a harsh Arctic region with vast mineral resources and a fragile and vulnerable environment. The Company is committed to environmental protection in its operations. In 2020, the Company's overall expenses on environment protection and sustainable nature management amounted to RR 2.4 billion (including NOVATEK's share in joint ventures).

In August 2020, the NOVATEK Board of Directors approved the Company's Environmental and Climate Change targets for the period until 2030, which include the reduction of specific emissions, in particular methane emissions in upstream, processing and LNG production segments as well as greenhouse gas emissions in upstream and LNG. Moreover, the Company intends to improve its associated petroleum gas utilization rate as well as waste disposal and neutralization. In the reporting year, the Company continued its participation in the Carbon Disclosure Project (CDP), whereby information on greenhouse gas emissions and operations energy efficiency is disclosed, as well as in the CDP Water Disclosure Project to disclose data on the use of water resources. Taking part in these projects, the Company strives to achieve a balance between the climate change risks and efficiency of investment projects. The Company offers all stakeholders full access to its environmental information, including by publications in federal and local printed media, on its website, and social media.

In October 2020, NOVATEK joined the Methane Guiding Principles (MGP), one of the most important global oil and gas initiatives in the areas of climate neutrality and a low-carbon

economy. Under this initiative, controlled entities will implement a set of practices and procedures to account for, monitor and reduce methane emissions from production, transportation, storage, processing and use of hydrocarbons, as well as generate and disclose corporate reporting under MGP.

While developing oil reserves at the Yarudeyskoye field (operated by YARGEO), the reinjection of associated petroleum gas into deep absorbing horizons helped achieve major environmental benefits. Specifically, more than 357 mmcm were reinjected throughout 2020, reducing GHG emissions by 1.2 mmt of CO_2e.

The small-scale LNG plant in Magnitogorsk, Chelyabinsk Region, that was started up in 2020 became one of the highlights for the Russian fuel market and marked another milestone in replacing diesel fuel with more environmentally friendly and economical gas motor fuel.

Novatek Green Energy(1), a subsidiary of NOVATEK, owns a network of LNG retail stations in Europe designed to fuel trucks and in 2020 opened its first carbon-neutral fueling station as the carbon footprint of the LNG sold to consumers, including during its consumption, is fully compensated through carbon offsets. These activities contribute to the Company's long-term strategy of developing an LNG distribution network in Europe to provide heavy vehicles with environmentally friendly fuel at key transportation points. As of January 2021, Novatek Green Energy owned a network of 9 LNG retail stations and 21 regasification units in the European market.

With the majority of the Company's production facilities located in Russia's Arctic, the front-end engineering, design, construction and operation of buildings and facilities is performed with a particular focus on research, evaluation, forecast and monitoring of permafrost and cryogenic processes. Site facilities and linear infrastructure located within areas with confirmed presence of permafrost are subject to dedicated actions to preserve soil stability. In addition, we monitor soil temperature as well as movement of soil to monitor temperature and movement of both soil mass and facilities themselves (geotechnical monitoring). Across the lifecycle of its projects, the Company focuses particular emphasis on identifying and forecasting permafrost hazards considering the global and regional climatic trends. Advanced engineering technologies combined with thermal calculations, which are subsequently verified based on geotechnical monitoring data, enable a top-notch assessment of the permafrost and engineering facilities condition. Moreover, the (local) environmental monitoring program includes actions to identify areas with intensifying cryogenic processes. In 2020, these studies covered several license areas within the Yamal and Taz Districts in YNAO. Combined with the geotechnical monitoring results, the studies confirmed the stability of permafrost within the license areas.

In 2020, remedial fish stocking was performed in rivers belonging to the Ob-Irtysh (within Khanty-Mansiysk Autonomous Region and YNAO) and North-Western basins. Several subsidiaries were involved in releasing the fry of Siberian sturgeon, salmon and whitefishes (including muksun) into the water bodies to re-stock commercially important fish. More than 3 million fish fry were released in aggregate.

In 2020, the Company performed its first reforestation activities within identified areas for remedial forest plantation (mostly – thin forest and burned-out forest), planting trees from forest nurseries located in Khanty-Mansiysk Autonomous Region and the Sverdlovsk Region. In 2020, a total area of circa 120 hectares was covered with forest plantation in the Tarko-Sale forestry.

One of the Company's priorities is the rational usage of resources, including energy resources. The table below sets out the physical volumes and the Russian ruble equivalent of energy resources consumed by the Company in 2020.

1. Novatek Polska prior to 3 February 2020.

Energy Resource Consumption by NOVATEK in 2020 (including joint ventures)

	Units	Volume	RR mln, net of VAT
Natural gas	mmcm	5,259	5,441
Electricity	MW*h	2,942,585	15,150
Heating energy	Gcal	707,301	1,440
Oil	tons	596	7
Motor gasoline	tons	1,058	51
Diesel fuel	tons	10,204	551
Butane	tons	96,852	1,997
Other	tons	17,626	661

Industrial Safety and Occupational Health

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

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

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

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

Pursuant to effective legislation, workplaces undergo special working conditions certification. As of 31 December 2020, 9,254 workplaces were covered by the assessments. The assessment identified 7,947 (85.8%) workplaces to have permissible conditions. At workplaces with harmful working conditions, a set of measures to eliminate or mitigate harmful factors has been implemented. No workplaces with hazardous working conditions were identified.

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

The Company is engaged in exploration, production, transportation, processing and sales of natural gas and liquid hydrocarbons, which implies setting up complex technological processes for operating fire- and explosion hazardous facilities. Operation of fire- and explosion hazardous industrial facilities is carried out in compliance with industrial safety laws. Group entities have licenses to operate Hazard Class I, II and III fire, explosion and chemical hazardous industrial facilities.

In 2020, regional branches of Rostechnadzor registered 260 hazardous production facilities, including:

- Class I (extremely high hazard) – 13 facilities;
- Class II (high hazard) – 51 facilities;
- Class III (medium hazard) – 174 facilities;
- Class IV (low hazard) – 22 facilities.

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

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

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

Executives and specialists of subsidiaries and affiliates that are subject to Rostechnadzor supervision undergo routine certification on industrial safety rules performed by Rostechnadzor's regional commissions. From among these employees, industrial safety assessment commissions are set up to evaluate staff and permit them to independently work at hazardous production facilities using the Unified Testing Portal information system.

Occupational health training is mandatory for all categories of employees and is offered in all subsidiaries and affiliates. Unit managers, including top executives, take courses at training centers. To offer in-house training to white-collar employees, the Company has developed training programs and set up certification commissions to assess trainees' knowledge of occupational health regulations.

In 2020, 13,997 employees received HSE training and were certified in industrial safety, which is in line with the established training plan.

In 2020, standing safety and occupational health control commissions carried out 409 compliance checks in controlled entities. The results were documented in relevant reports and special measures were elaborated to eliminate identified incompliances. Employees in charge submit monthly remedial action reports to their respective health and safety units to further analyze risks of hazardous situations.

In 2020, NOVATEK continued its programs of targeted audits of controlled entities for compliance with occupational health, industrial, fire and environmental safety requirements by a Company committee. During the reporting year, targeted audit of NOVATEK-Chelyabinsk was performed. Based on the findings, a relevant report was produced, and remedial actions were developed.

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

To prevent accidents and incidents at hazardous operating facilities:

- each year the Company develops and consistently implements technical inspection, certification and test schedules for various types of technical equipment (external and internal inspection, hydrostatic and pneumatic tests, and industrial safety audits). In 2020, the Company performed industrial safety audits of 1,031 equipment items and extended their safe operating life.
- The Company organizes drills and exercises on possible accident containment and response scenarios and actions for the personnel involved in the maintenance of equipment items, buildings, and structures within hazardous production facilities. 5,782 training sessions were held in 2020.

In 2020, there were:

- 2 incidents:
  - there was a power outage at power lines, which caused a partial shutdown (for a short period of time) of technological and auxiliary equipment. The power outage occurred as a result of adverse weather conditions (thunderstorm with sharp gusts of wind). The shutdown did not affect production.
  - a driver (consumer), while refueling, got into the vehicle and, not having properly checked the disconnection of the dispensing sleeve, started driving. As a result, the dispenser's breakaway coupling was deformed. The filling station was temporarily turned off. The shutdown did not affect the sales volumes.
- 13 operations-related incidents, 8 of them related to movement of personnel and climate conditions (slipping and falling).

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

Employees' health protection

Healthcare management is an integral part of the HSE management system.

The healthcare management system used for NOVATEK employees' health protection, including prevention of diseases and promotion of the health of employees, is continuously improving. The system operates with the support of the leadership of NOVATEK, its subsidiaries and affiliates and rests on employees responsible for health protection, occupational safety specialists in subsidiaries and affiliates as well as medical institutions, including 80 health stations in subsidiaries, affiliates and contractors situated at personnel accommodation and operation sites.

With the help of coordinated efforts of all stakeholders in the healthcare management, the NOVATEK controlled entities were able to maintain their high work efficiency amid the COVID-19 pandemic during the reporting year.

With the help of coordinated efforts of all stakeholders in the healthcare management, the NOVATEK controlled entities were able to maintain their high work efficiency amid the COVID-19 pandemic during the reporting year.

In February 2020, an Action Plan to safeguard against the coronavirus was put in place at NOVATEK and its controlled entities to protect employees and prevent transmission and spread of coronavirus at the Company's facilities.

An emergency operations center was set up for prompt response and coordination of actions; we arranged cooperation with emergency operations centers of Russian regional and local government executive authorities at the location of the Company operational facilities.

The COVID-19 control actions were implemented in strict compliance with the Russian Government Decree No. 601 dated April 28, 2020 On Approval of Temporary Regulations for Rotation-Based Work, directives by Russia's Chief Public Health Officer as well as decrees by heads of the Russian Federation constituent entities.

Streamlined actions within NOVATEK as well as cooperation with state authorities, medical companies and various other entities all made it possible to respond promptly to disruptions caused by the pandemic:

- shift duration was extended;
- procedures for pre-shift observation were developed for new rotational personnel arriving to production sites as were logistics arrangements to transport the personnel, which enabled mitigating the risks of the coronavirus spreading into sites of operations;
- for rotation personnel, temporary accommodation along with medical observation and COVID-19 testing was arranged;
- systemic campaigns were organized to raise employees' awareness on prevention of acute respiratory viral infections, including COVID-19, alongside briefings to educate workers about the peculiarities of the novel infection;
- employee business trips were restricted;
- telecommuting procedure was defined along with the introduction of electronic interaction protocols and IT actions to enable telecommuting;
- COVID-19 testing of employees was arranged; and
- data on the epidemiological situation at operation sites was collected and analyzed.

Employees of controlled entities were provided with the necessary personal protective equipment as well as means and devices for room disinfection, hand sanitization and non-contact thermometers. We made sure that our contractors complied with the requirements.

Arranging medical response required reinforced healthcare services provision. Additional contracts were made with medical service providers to put in place prevention and epidemic control actions.

A stock of medications to treat those who fell ill has been created at production facilities in accordance with the Temporary Methodological Recommendations of the Ministry of Health of Russia; treatment of the specified infections were carried out. The number of doctors and nursing staff was increased to provide medical treatment and supervision.

NOVATEK was supporting municipal medical facilities, inter alia by purchasing diagnostic equipment (amplifier, CT scanner) for healthcare facilities in YNAO, treatment equipment (ventilators) as well as personal protective equipment for medical personnel.

Under the circumstances of the pandemic, the complete array of healthcare activities continued.

To prevent influenza, seasonal vaccination covered 15,376 employees, including 2,612 employees of NOVATEK and 12,764 contractor and subcontractor employees.

Emergency medical response plans for the subsidiaries' and affiliates' facilities are developed and timely updated, which include first aid and medical aid, timely evacuation, and regular training sessions to develop medical aid skills, to ensure preparedness for emergencies.

Preventive medical examinations are carried out to determine the employees' fitness to work and monitor the evolution of their health status in accordance with the applicable requirements.

During the reporting period 11,016 employees underwent medical examination and 4,095 persons took mental health examination.

To secure sanitary and epidemiological welfare at the facilities of our subsidiaries and affiliates, there is supervision over water supply and sewage, the sanitary and hygienic condition of public catering facilities, accommodation and industrial premises as well as waste disposal. In the reporting year, there were no cases of contagious diseases among employees, related to catering services or water supply.

Fire safety, civil defence and emergencies

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

In 2020, 8 controlled entities held active licenses to service firefighting equipment and 5 controlled entities to perform firefighting as well as emergency response and rescue operations, a large share of licensed fire safety services are outsourced to contractors. There are 27 professional emergency response and rescue teams to ensure the safety of the controlled entities operating hazardous production facilities that produce, collect, process and manufacture explosive and flammable substances. In addition, we have decided to build fire stations and establish emergency response and rescue teams within prospective field development and construction projects.

In 2020, the headcount of fire and emergency brigades serving the facilities on a 24-hour basis stood at 835 certified rescue workers. There were 38 engineers in the controlled entities who directly monitored and supervised the fire safety and emergency response preparedness at our facilities.

Inspections are regularly carried out at controlled entities to assess the emergency response preparedness of the Company's business units and personnel, and evaluate the capabilities of in-house and external professional emergency response and rescue teams. In 2020, there were 24,243 patrols around facility areas in order to continuously monitor safe operation conditions and 733 checks of outdoor fire water supply sources were carried out. Professional emergency response and rescue teams performed 18,053 control activities for safe hot work, fire- and gas-hazardous operations. The controlled entities' facilities implement a full-scale program to respond to oil, oil product, and other hydrocarbon spills. Materials and equipment available to the emergency response and rescue teams comply with all existing requirements. The Company ensures timely re-equipment of both basic and specialized fire vehicle fleets.

Fire safety, civil defense and emergency response training, as well as fire and emergency drills, are an important element of the overall system of fire safety and readiness to respond to fires and emergencies. In 2020, the Company organized 25,973 fire safety briefings that featured guidance materials and visual aids, as well as hands-on presentations. Basic fire safety training was provided to 8,735 people, with 2,416 tactical fire exercises performed as part of the Oil Spill Response Plan, Emergency Containment and Response Action Plan as well as evacuation drills. The emergency response and rescue teams are made up of 490 certified rescue workers. The number of certified rescue workers decreased year on year by 130 due to changes in legislation and non-professional emergency response teams being excluded from the total number. The Oil Spill Response Plan and Emergency Containment and Response Action Plan have been developed and implemented within the Company's production facilities. In 2020, a fire occurred at a non-production facility (warehouse). The combustion area was 15 sq. m, no one was injured as a result of the accident.

The Company fully complies with fire safety, civil defense and emergency response regulations: all of its facilities are equipped with automatic fire detection, alarm and extinguishing systems. NOVATEK Group's controlled entities are ready for localization and responding to fires and emergencies.

Human Resources

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

As of the end of 2020, NOVATEK and its subsidiaries had 16,821 employees, 33.6% of whom work in exploration and production, 24.8% in LNG production, 8.1% in processing, 13.4% in marketing, 4.4% in transportation, 7% in power supply, 6.3% are administrative personnel and 2.4% engaged in ancillary services. The predominant age of the personnel is between 30 and 50. The average age of the Company's employees is 40 years.

Personnel Training and Development

Amid the rapid development of technologies and management systems, our multilevel training and professional development program enable our employees to contribute to raising the Company's competitiveness. In 2020, the primary activities of training and professional development included:

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

NOVATEK Scientific and Technical Center (NOVATEK STC) has hosted an In-House Training Program since 2016. Due to the COVID-19 pandemic, in October 2020, our experts began converting 5 out of 13 developed courses into an online format: "General Course of Seismic Exploration", "Design of field development in conditions of low knowledge", "Complexing logging methods to address geological tasks. Basics of log interpretation and practical application (in NOVATEK Group projects)", "Complex interpretation of seismic and GIS data" and "Basics of hydraulic fracturing".

In 2020, NOVATEK continued its efforts to advance the professional capabilities of its employees, improve working conditions and train its personnel on safe working practices at its production facilities. A total of 46.7% of white- and blue-collar workers upgraded their skills. In 2020, the Corporate System for the Evaluation of Technical Competencies tested 429 employees across the Group, including 32 persons who were tested at recruitment and 67 persons at promotion.

In 2020, 98 young specialists participated in the Steps in Discovering Talents Program. We held our eighth class and 39 specialists graduated from the on-the-job adaptation and professional development program, while 38 young specialists guided by 33 mentors completed the first step of the program. In autumn 2020, another 21 young specialists and 20 mentors assigned to them joined the program. Young specialists received the Mentoring Culture training courses together with their mentors. In total, 18 mentors attended the training.

In December 2020, Moscow hosted the 15th Interregional Research-to-Practice Conference for the Company's young specialists attended by 86 employees from 16 subsidiaries and joint ventures. 65 projects were submitted. Based on the results of the competition, all the winners received cash prizes, while twelve (12) first place winners were also awarded a trip to visit oil & gas companies in Norway and the Netherlands.

In 2020, our subsidiary OOO YARGEO was awarded the Laureate Diploma of the International competition of scientific, technical and innovative solutions for the energy and mining sectors "For contribution to innovative development of the fuel and energy industry".

In 2017, the Innovator Corporate Idea Management System, an automated framework to collect and process employees' proposals on improving and developing business ideas including labor-saving proposals, was launched in NOVATEK and its 21 subsidiaries. More than 260 ideas on improving business operations, reduction of production costs and implementation of new work methods were submitted by the employees in 2020. More than 1,070 ideas have been submitted over the four years, of which 200 were approved for implementation and 89 ideas were implemented. They generated a positive economic effect of RR 4.3 million.

Social Programs

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

Voluntary medical insurance for employees

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

Therapeutic resort treatment

Employees and their families can purchase health resort vouchers at a discount. Under this program the NOVATEK employees may spend their vacations in 49 health resorts located in Russia's most picturesque settings.

Repayable Financial Aid Program

The special-purpose loans program has two focus areas:

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

Targeted compensation and social support payments

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

Pension Program

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

Along with providing an optimum social benefits package, the Company is also committed to creating opportunities for employees to play sports and get involved in sports and cultural events.

Social Policy and Charity

Social Policy and Charity make up an important part of NOVATEK's activities. In 2020, despite the COVID-19 pandemic, the Company continued to pay close attention to projects aimed at supporting the culture, preserving and revitalizing national values and spiritual legacy of Russia, developing mass and high-performance sports. NOVATEK continued to fulfill the Agreements with local governments in the regions where the Company operates, by further implementing the plan for promoting living standards and preserving distinctive cultural identity of indigenous communities of the North. One of the focal points in 2020 was contributing to local epidemic containment efforts through setting up PCR laboratories, purchasing equipment and materials for medical treatment, protective suits for medical personnel, etc.

In 2020, Social expenses and compensatory payments directly invested by NOVATEK and its subsidiaries on charitable projects and activities, cultural and educational programs, and support for indigenous communities amounted to RR4.1 billion, including RUB 671.8 million to assist the regions in their epidemic containment efforts.

Cooperation with the regions

Under the agreements signed with various regions, the Company was investing in the Yamal Nenets Autonomous Region and the Khanty Mansi Autonomous Region, the Tyumen, Chelyabinsk, Leningrad, Murmansk and Kostroma regions throughout 2020. The Company allocated funds for repairs and upgrades of social infrastructure facilities, sports institutions, and pre-school educational institutions, construction of a contemporary playground for children, repairs of a sewage pumping station in Tarko-Sale, purchase of incinerators to burn waste, solar panels including portable solar panels, and adaptation of residential space and public property in apartment blocks for people with limited mobility to develop accessible environment in Yamal Nenets Autonomous Region. Low-income families, people with disabilities, the elderly, veterans, critically ill and disabled children, as well as people who faced hardships received aid.

Since 2020, the Company together with the Government of the Yamal-Nenets Autonomous Region implements a unique "Teacher for Russia" program aimed at engaging graduates of Russia's

4.1 RR billion

Social expenses and compensatory payments directly invested by NOVATEK and its subsidiaries on charitable projects and activities, cultural and educational programs, and support for indigenous communities

leading universities to teaching in small regional schools and preparing young specialists for teaching, as well as ensuring equal educational opportunities for children in different regions of Russia. Seven participants of the "Teacher for Russia" program moved to the Yamal-Nenets Autonomous Region to teach in local schools for the next two years.

In order to further strengthen and expand cooperation with the key regions where NOVATEK operates and preserve existing economic ties, long-term agreements were concluded in 2020 with the Government of the Yamal Nenets Autonomous Region and the Government of Murmansk Region on financing of major projects aimed at improvement and development of the regions' integrated social and economic potential.

In 2020, NOVATEK financed renovation of the Murmansk State Technical University. As part of a pilot project for converting boiler houses in the Murmansk Region to liquefied natural gas, the supply of equipment for receiving, storing and regasification of LNG was financed for two boiler houses located in Murmansk and Severomorsk.

Cooperation with Indigenous Peoples of the Far North

During the reporting year, NOVATEK provided financial support to the Yamal for Descendants Association of indigenous peoples and its district branches.

We assisted indigenous peoples through financing the purchase of snowmobiles, gas-fired boilers and technical facilities and aids for clans, equipment and materials required for the work of fishermen and reindeer herders. NOVATEK financed petroleum, oils and lubricants purchases for air delivery of the nomadic population, food and fuel to remote areas. Some dedicated areas of support include taking part in organizing and staging ethnic festivals of indigenous peoples, supporting cultural heritage (financing of the Limbya Nomad Camp), performing emergency prevention archaeological activities at the Taz Metal-Casting Workshop cultural heritage site, as well as funding environmental campaigns.

NOVATEK also regularly provides financing for activities under the Public Program of Indigenous Minorities of the North in the Yamal-Nenets Autonomous Region, initiated by the Yamal Nenets Autonomous Region Governor based on the proposals from the local population.

Educational Programs

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

Recruitment and career guidance for promising employees start with the "Gifted Children" program implemented at School No. 8 in Novokuybyshevsk, school No. 2 in Tarko-Sale, school No. 81 in Tyumen and since 2018 – Secondary School No. 2 in Salekhard. Special classes are formed on a competitive basis from the most talented grade 10 and 11 students with above-average test scores.

In 2017, a resource center for industry-relevant student training – the Natural Science Center – was built and fully equipped in Tarko-Sale, Purovsky District, Yamal-Nenets Autonomous Region. The Center began to operate in 2018. The curriculum for pupils of 5^{th}-11^{th} grades includes: chemistry, biology, and physics. Activities in all subjects include solving of problems at the advanced level and training of pupils for national contests and competitions.

The Company is also implementing two Grants programs for schoolchildren and teachers living in Purovsky District, Yamal-Nenets Autonomous Region.

The Grants program for schoolchildren is aimed at academic and creative development and encouraging a responsible attitude towards studies. Under the program, pupils of 5^{th}-11^{th} grades are awarded grants from the Company. In 2020, the Company awarded 59 grants to students under this program. The Grants program for teachers is intended to raise the prestige of the teaching profession and create favorable conditions for developing new and talented teachers. In 2020, six teachers from the Purovsky District received grants under this program.

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

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

Preserving Cultural Heritage

In 2020, NOVATEK traditionally cooperated with Russia's leading cultural institutions and creative groups: the Moscow Museum of Modern Art (MMOMA), the State Tretyakov Gallery, the Russian State Museum, the Gogol-Center theater, and the Moscow Soloists Chamber Ensemble.

Because of the country's epidemic containment efforts, only limited attendance was allowed for the museum exhibitions. As a result, the museums had to extensively use both existing and new online technologies and innovative solutions. The audience was encouraged to participate in online lectures and meetings, video conferences, interactive educational programs and debates, virtual tours of museum spaces that made the museum exhibitions open and accessible.

The Seventh Moscow International Biennale of Contemporary Art was held with the support of the Company. The Biennale's website offered a video tour and a platform to discuss the event's educational program.

In cooperation with NOVATEK, MMOMA hosted the "Pavel Leonov's Fantasy" exhibition of Pavel Leonov whose name is included in the World Naive Art Encyclopedia as well as the "Countdown" retrospective of Moscow conceptual art leaders Igor Makarevich and Elena Elagina.

In St. Petersburg, the epidemic was contained well enough for the museums to re-open already in late 2020, and with the Company's support, the "Knowledge is Power" exhibition dedicated to publishing and educating posters, opened in the Russian Museum.

In autumn of 2020, NOVATEK participated in organizing Russian Creative Week by supporting the educational program dedicated to art. The event offered a discussion platform for Russia's creative community.

The company rendered financial support to the Gogol Center for the development of the theater, which premiered new productions and organized a benefit concert for the medical staff in gratitude for their courage and service in saving lives.

In 2020, the Company remained a General Partner of the Moscow Soloists Chamber Ensemble under the direction of Yuri Bashmet.

Sports Projects

NOVATEK attaches great importance to programs for the development of mass and high-performance sports. The Company, its subsidiaries and joint ventures regularly hold tournaments in the most popular and widespread sports: football, volleyball, swimming, ski, etc. In 2020, all tournaments were held in full compliance with the requirements of the Russian Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing (Rospotrebnadzor).

In the reporting year, the Company continued to promote the children and youth sports in the regions where it operates, and supported the pilot federal innovative project "Become a Champion" intended for identifying children's predisposition to certain sports through testing.

In 2020, pitches for five-a-side football were built and equipped for the schools whose teams won the "NOVATEK – Step to Bigger Football" 2019 Indoor Football Cup among secondary school teams: three in the Chelyabinsk Region and two in the Kostroma Region. The 2020 championship was held in Kostroma Region. In Chelyabinsk Region and Kamchatka Territory, the competition had to be postponed to a later date.

The Company continued to support the Student Basketball Association. Because of the restrictions associated with the COVID-19 pandemic, some of the competitions could not be held in person, and online tournaments and events had to be held instead.

With the support of the All-Russian Federation of Dance Sports and Acrobatic Rock'n'roll, the relevant corporate sport clubs continued their activities in the regions of the Company's operations. However, the All-Russian competition in Acrobatic Rock'n'roll among corporate clubs

"Rock'n'Roll & Co." could not be held in 2020 because of the restrictions.

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

Charity

In 2020, the Company continued to implement the projects aimed at helping children in dire need in the regions where the Company has its operations, in pursuance of NOVATEK's corporate charity policy.

Under the "Health Territory" project, leading doctors from the Russian Children's Clinical Hospital visited six towns: Tarko-Sale, Novy Urengoy, Kostroma, Chelyabinsk, Magnitogorsk, and Petropavlovsk-Kamchatsky. The project allowed 457 critically ill children to get medical help, and 97 children were taken to the Russian Children's Clinical Hospital and other federal medical centers. During examinations and consultations by the Russian Children's Clinical Hospital visiting teams, the necessary safety measures were taken; the Company also provided children, parents, and doctors with personal protective equipment.

In 2020, the work under the Telemedicine Center project (TMC) to equip and connect hospitals in Novy Urengoy, Tarko-Sale, Murmansk, and Kostroma to the unified telemedical network, was completed. Efforts were made to expand the TMC by connecting hospitals in Chelyabinsk and Tyumen to the Center. In 2021, hospitals in Petropavlovsk-Kamchatsky and Magnitogorsk are also going to be equipped and connected to the TMC. Currently, hospitals in these regions are connected to the TMC under a temporary arrangement, which also makes medical consultations possible.

In 2020, the TMC helped to conduct 626 video consultations, a series of five lectures on pediatric anesthesiology and intensive care in December 2020, as well as regular online meetings and medical councils with relevant experts of the Russian Children's Clinical Hospital.

As part of the Targeted Therapy project aimed at helping children with cancer undergoing treatment in the Dmitry Rogachev National Medical Research Center of Pediatric Hematology, Oncology and Immunology, 120 children received help in 2020.

The project to help children with vision impairments has also moved forward. In 2020, vision protection rooms were set up in specialized kindergartens in Murmansk and Kostroma, where 159 children with visual impairments underwent rehabilitation.

As part of the "High-Tech Equipment" project, the Company provided charitable assistance to the Mother and Child Health Center of Magnitogorsk in purchasing equipment for the neonatal intensive care unit.

Throughout the year, the Company provided targeted support to industry veterans, orphans and disabled children, and people with disabilities. In particular, the orphanages of Trinity Church in Kolomna and "Dunno's Town" in the Moscow Region, as well as "Rodnik" orphanage in the Ulyanovsk Region, received funds to purchase indoor air recirculation units and necessary medications. A muffle furnace was purchased for the Oktemsk school in Yakutia, which is used to fire ceramic products made by the students during classes. The Deaf-Blind Support Foundation "Con-nection" was allocated funds to improve the quality of life of its care recipients and to develop an implant.

Throughout 2020, NOVATEK traditionally supported projects aimed at preserving and increasing rare animal populations: the Siberian tiger and Amur leopard.

In 2020, the key activities of the volunteer movement "All Together" remained unchanged: support for orphans and children with various diseases, the elderly and the disabled.

Management and Corporate Governance

Corporate Governance System

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

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

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

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

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

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

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

General Meeting of Shareholders

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

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

On 24 April 2020, the Annual General Meeting of Shareholders approved the annual report, annual financial statements (in accordance with the Russian Accounting Standards), distribution of profit and the size of dividends based on the results of FY2019. The meeting also elected the Board of Directors and the Revision Commission and approved remuneration to members of the Board of Directors, Revision Commission and the Company's external auditor for 2020.

On 30 September 2020, the Extraordinary General Meeting of Shareholders approved the amount of interim dividend for the first half of 2020.

Board of Directors

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

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

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

The current members of the Board of Directors were elected at the Annual General Meeting of Shareholders on 24 April 2020. The Board of Directors is comprised of nine (9) members, of which eight (8) are non-executive directors, including three (3) directors who are considered to be independent. The Board Chairman is Alexander Natalenko. The Chairman is responsible for leading the Board and ensuring its effectiveness.

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

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

The Board of Directors membership (elected at the Annual General Meeting of Shareholders on 24 April 2020):

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

Board activities during the 2020 corporate year[1]

To ensure the Company's efficient performance, the Board meetings are convened on a regular basis at least once every two months. During corporate year 2020, the Board of Directors (BoD) met 13 times, of which three meetings were held in the form of joint attendance. The following key issues were discussed and respective decisions made:

- reviewed and approved the Company's 2020 full year operating and financial results;
- recommended an interim dividend payment for first half 2020, based on interim financial results for the period, and a full year dividend payment for 2020, based on full year financial results;
- made decisions to convene an Extraordinary and Annual General Meeting of shareholders. During the meetings in 2020, telecommunications facilities were used to provide shareholders with remote access to participate and to fill out an electronic ballot form;

1. From the Annual General Meeting of Shareholders on 24 April 2020 until April 2021.

- approved amendments to NOVATEK's Regulations on Dividend Policy;
- reviewed and approved NOVATEK's business plan for 2021;
- as part of the Arctic LNG 2 project, the Board of Directors made a number of decisions to provide the project with Arc7 ice class tankers;
- reviewed information on the progress of the implementation of the corporate strategy of PAO NOVATEK until 2030 in terms of:
  - markets analysis (internal and external), logistics, risks and their assessment, and targets;
  - approved environmental and climate change targets for the period up to 2030 within the Corporate Strategy;
- changed the composition of the Management Board;
- reviewed and approved NOVATEK's Sustainability Report 2019;
- reviewed the results of the Company's activities in Sustainable Development;
- made a decision on NOVATEK's participation in the Arctic Economic Council; and
- approved the plan of activities of the Internal audit Department of NOVATEK for 2021.

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

During corporate year 2020, a self assessment of the BoD activities was performed in accordance with the recommendations of the Russian Corporate Governance Code. Self-assessment of the BoD performance based on the results of the corporate year is carried out by filling out a questionnaire for each member of the Board of Directors.

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

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

Board and Committee Meetings Attendance in the 2020 Corporate Year

Member	Independence	Board of Directors	Audit Committee	Remuneration and Nomination Committee	Strategy Committee
Alexander E. Natalenko		13/13			4/4
Andrei I. Akimov		13/13			4/4
Tatiana A. Mitrova	independent	13/13	4/4	7/7	4/4
Michael Borrell		13/13			4/4
Robert Castaigne	independent	13/13	4/4	7/7	
Arnaud Le Foll		13/13			4/4
Leonid V. Mikhelson	executive	13/13			
Victor P. Orlov	independent	13/13	4/4	7/7	
Gennady N. Timchenko		13/13			4/4

Board Committees

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

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

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

Committees membership

	Audit Committee	Strategy Committee	Remuneration and Nomination Committee
Chairman	Robert Castaigne	Tatyana A. Mitrova	Victor P. Orlov
Members	Tatyana A. Mitrova	Andrei I. Akimov	Tatyana A. Mitrova
	Victor P. Orlov	Arnaud Le Foll	Robert Castaigne
		Michael Borrell	
		Alexander E. Natalenko	
		Gennady N. Timchenko	

Audit Committee

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

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

In corporate year 2020, the Audit Committee met four (4) times, including two meetings in presentia, where the members:

- held two meetings with the Company's external Auditor to discuss the Audit Plan and review an audit report of the Company's activities for the year end;
- reviewed the risk register of NOVATEK group;
- reviewed the reports on compliance with the Information policy and Anti-corruption policy;
- reviewed quarterly financial indicators of the Company and the impact of the COVID-19 coronavirus on the operations and investments of PAO NOVATEK;
- approved the reports on the activities of the Company's Internal Audit Department for the first six months and full year;
- made recommendations to the Board of Directors on approval of the Company's Annual Report and Internal Audit Plan;
- made recommendations on the Company's Auditor nominee and amount of remuneration;
- considered the conclusion of the Internal Audit Department on assessing the reliability and effectiveness of the risk management system, internal control system, and corporate governance; and
- considered other issues within the competence of the Audit Committee.

Remuneration and Nomination Committee

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

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

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

- annual review reports on industrial safety, environmental protection, climate impact, corporate governance and social activities, as well as review the Company's Sustainability Reports.

In corporate year 2020, the Remuneration and Nomination Committee met seven (7) times, including two meetings in presentia, where the members:

- reviewed NOVATEK's 2019 Sustainability Report and recommended for approval by the BoD;
- reviewed NOVATEK Group's 2019 HSE performance report;
- reviewed NOVATEK's Sustainability Report 2019;
- made recommendations in accordance with NOVATEK Group's Executive Bodies and Other Key Employees Remuneration and Expense Reimbursement Policy;
- reviewed NOVATEK's HR management policy performance report in 2020;
- reviewed the report on NOVATEK's social performance in the regions where the Company operated in 2020;
- made recommendations to the Board of Directors on the approval of environmental and climate targets as part of the implementation of the Corporate Strategy of PAO NOVATEK until 2030;
- made recommendations to the BoD to form the BoD's Committees in accordance with recommendations of the Corporate Governance Code a well as information about members of the BoD;
- made recommendations to the General Meeting of Shareholders on remuneration to the BoD members;
- reviewed the report on self-appraisal of NOVATEK's Board of Directors and BoD Committees' Performance;
- and considered other issues within the competence of the Committee.

Strategy Committee

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

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

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

In corporate year 2020, the Committee met four (4) times, including two meetings in presentia, where the members:

- made recommendations regarding the amount and form of dividend payment for the first half and full year 2019;
- preliminarily reviewed and made recommendations on approval of basic parameters of the NOVATEK (consolidated) business plan for 2021;
- reviewed information on the implementation of the Corporate Strategy of PAO NOVATEK for the period up to 2030 in terms of:
  - analysis of domestic and international markets, logistics, risks and their assessment, targets;
  - implementation of the Arctic LNG 2 project;
  - status and preparation progress of the hydrocarbon resource base for the Arctic LNG 1 project;
  - resource potential of the Jurassic deposits and technological challenges in the reserves preparation and fields' development;
  - formation and implementation of the development strategy for the icebreaking and tanker fleet and navigation management;
- made recommendations to the Board of Directors on the approval of amendments to NOVATEK's Regulations on Dividend Policy; and
- considered other issues within the competence of the Committee.

Management Board

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

Members of the Management Board are elected by the Board of Directors from among the Company's key employees. The Management Board is subordinated to the Board of Directors and the General Meeting of Shareholders. The Chairman of the Management Board is responsible for leading the Board and ensuring its effectiveness as well as organizing the Management Board meetings and implementing decisions of the General Meeting of Shareholders and the Board of Directors. The Management Board was elected by the Board of Directors on 25 August 2017 (Minutes No. 198 of 25 August 2017) with further amendments by resolution of the Board of Directors on 12 July 2018, 21 September 2018, 14 November 2018, 14 December 2018, 19 March 2019, 2 November 2020.

Management Board Members from 1 January 2020 to 31 December 2020:

- **Leonid V. Mikhelson** – Chairman
- **Lev V. Feodosyev** – First Deputy Chairman
- **Alexander M. Fridman** – First Deputy Chairman (the authorities were terminated on 2 November 2020)
- **Evgeniy N. Ambrosov** – Deputy Chairman of the Management Board – Director for Marine Operations, Shipping and Logistics (elected on 2 November 2020)
- **Vladimir A. Baskov** – Deputy Chairman of the Management Board
- **Viktor N. Belyakov** – Deputy Chairman of the Management Board for Economics and Finance
- **Eduard S. Gudkov** – Deputy Chairman of the Management Board
- **Mark A. Gyetvay** – Deputy Chairman of the Management Board
- **Evgeny A. Kot** – Deputy Chairman of the Management Board – LNG Director
- **Tatyana S. Kuznetsova** – Deputy Chairman of the Management Board
- **Denis B. Solovyov** – Deputy Chairman of the Management Board – Director of Communications Development Department
- **Sergey G. Solovyov** – Deputy Chairman of the Management Board – Director for Geology
- **Ilya V. Tafintsev** – Deputy Chairman of the Management Board
- **Sergey V. Vasyunin** – Deputy Chairman of the Management Board – Operations Director

Remuneration to Members of the Board of Directors and Management Board

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

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

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

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

Information on remuneration of members of NOVATEK's Board of Directors and Management Board in 2020, RR mln

	Board of Directors[1]	Management Board
Total paid, including:	**212.3**	**7,144.0**
Salaries		949.4
Bonuses	–	6,175.6
Fees	210.6	–
Other property advancements	1.7	19.0

Internal Control and Audit

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

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

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

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

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

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

In order to combat corruption, mitigate compliance, operational and reputation risks, the Company adopted the Anti-Corruption Policy approved by the Board of Directors on 1 September 2014 (Minutes No. 170 of 1 September 2014) and the Regulation on NOVATEK Risk Management and Internal Audit System approved by the Board of Directors on 1 September 2014 (Minutes No. 170 of 1 September 2014) with further alterations and amendments.

In order to comply with the Code of Business Conduct and Ethics approved by the the Board of Directors on 24 March, 2011 (Minutes No. 133 of 24 March 2011), any interested person can report known violations to the following address: **ethics@novatek.ru**, which is stated in the Contacts section of the Company's website. All applications are submitted to the Internal Audit department.

Revision Commission

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

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

In March 2021, the Revision Commission completed the on-site audit revision of financial and business activities of the Company for the year 2020. As a result, the conclusions about the reliability of the data contained in the Company's 2020 Financial Statements (under the Russian accounting standards), 2020 Annual Report and Report on interested-party transactions were prepared and submitted to the Annual General Meeting of Shareholders.

Internal Audit Division

In order to conduct a systematic, independent evaluation of the reliability and effectiveness of the risk management and internal control system as well as corporate governance practices the Company and its subsidiaries and affiliates perform internal audits of their operations.

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

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

The Division carries out its activities on the basis of an annual plan of inspections prepared with the use of a risk-oriented approach mainly and approved by the Board of Directors. The working plan for 2020 was completed in full within the established time frame. According to the results of audit inspections, it develops measures to eliminate identified risks and optimize financial and business activities. Implementation of the measures is monitored on a regular basis.

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

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

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

External Auditor

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

AO PricewaterhouseCoopers Audit (an internationally recognized audit firm) was chosen as the Company's external auditor to conduct the audit of the annual financial statements for 2020 under RAS, as well as independent reviews of the Company's quarterly consolidated financial statements and audit of the annual consolidated financial statements under IFRS.

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

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

NOVATEK's management is aware of and accepts recommendations on the independence of the external auditor by restricting such auditor's involvement in providing non-audit services.

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

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

Auditor's fees in 2020, RR mln

Audits of PAO NOVATEK (audit of the Group's consolidated financial statements and audit of statutory financial statements of PAO NOVATEK)	37
Other services	11
Total auditor's fees and services	**48**

Share Capital

Our share capital is RR 303,630,600 and consists of 3,036,306,000 ordinary shares, each with a nominal value of RR 0.1. As of 31 December 2020, NOVATEK did not have preference shares.

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

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

Our Global Depositary Receipts (GDR) are listed on the London Stock Exchange (symbol: NVTK), with each GDR representing 10 ordinary shares. As of 31 December 2020, NOVATEK's GDRs were issued on 567,447,540 ordinary shares comprising 18.69% of the Company's share capital.

Equity stakes in NOVATEK's share capital and the number of shares owned by members of the Board of Directors and Management Board[1]

	As of	Equity stake	Number of ordinary shares, including GDRs certifying rights of ordinary shares
Board of Directors			
Alexander E.Natalenko	31.12.2020	–	–
Andrei I. Akimov	31.12.2020	–	–
Burckhard Bergmann	24.04.2020	–	–
Michael Borrell	31.12.2020	–	–
Robert Castaigne	31.12.2020	–	–
Leonid V. Mikhelson	31.12.2020	0.0067	202,238
Victor P. Orlov	31.12.2020	–	–
Gennady N. Timchenko	31.12.2020	–	–
Arnaud Le Foll	31.12.2020	–	–
Management Board			
Vladimir A. Baskov	31.12.2020	0.0288	874,408
Viktor N. Belyakov	31.12.2020	–	–
Lev V. Feodosyev	31.12.2020	–	–
Alexander M. Fridman	02.11.2020	0.0817	2,481,049
Mark A. Gyetvay	31.12.2020	–	–
Eduard S. Gudkov	31.12.2020	–	–
Evgeny A. Kot	31.12.2020	–	–
Tatyana S. Kuznetsova	31.12.2020	0.1944	5,903,035
Denis B. Solovyov	31.12.2020	–	–
Sergey G. Solovyov	31.12.2020	0.0012	37,660
Ilya V. Tafintsev	31.12.2020	0.0012	35,000
Sergey V. Vasyunin	31.12.2020	0.0003	9,320

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

In 2020, Leonid V. Mikhelson, member of NOVATEK's Board of Directors, made transactions with NOVATEK's shares:

1. disposal of 49,923 GDRs under a REPO agreement (14 January 2020);
2. disposal of 21,894,162 shares under a REPO agreement (14 January 2020);
3. acquisition of 39,902 GDRs under a securities sales and purchase agreement (9 March 2020);
4. acquisition of 160,450 shares under a securities sales and purchase agreement (10 March 2020);
5. acquisition of 10,727 GDRs under a securities sales and purchase agreement (11 March 2020);
6. acquisition of 12,291 GDRs under a securities sales and purchase agreement (12 March 2020);
7. disposal of 62,920 GDRs under a REPO agreement (17 March 2020);
8. disposal of 160,450 shares under a REPO agreement (17 March 2020);
9. acquisition of 14,020 GDRs under a securities sales and purchase agreement (2 November 2020);
10. acquisition of 27,507 shares under a securities sales and purchase agreement (2 November 2020);
11. acquisition of 982 GDRs under a securities sales and purchase agreement (3 November 2020);
12. acquisition of 24,711 shares under a securities sales and purchase agreement (3 November 2020);

In 2020, Eduard S. Gudkov, member of NOVATEK's Management Board, made transactions with NOVATEK's shares:

1. acquisition of 1,000 GDRs under a securities sales and purchase agreement (26 March 2020);
2. disposal of 1,000 GDRs under a securities sales and purchase agreement (24 November 2020);

In 2020, Sergey G. Solovyov, member of NOVATEK's Management Board, made a transaction with NOVATEK's shares: acquisition of 20,000 shares under a securities sales and purchase agreement (30 April 2020);

In 2020, Ilya V. Tafintsev, member of NOVATEK's Management Board, made transactions with NOVATEK's shares:

1. acquisition of 1,000 GDRs under a securities sales and purchase agreement (12 March 2020);
2. acquisition of 1,500 GDRs under a securities sales and purchase agreement (18 March 2020).

Dividends

The Company's Dividend Policy is regulated by the Regulations on Dividend Policy of PAO NOVATEK, with its new amendments approved by the Board of Directors on 18 December 2020 (Minutes No. 236 of 18 December 2020). The new Dividend Policy increased the minimum target payout level from 30% to 50% of the adjusted consolidated net profit according to the International Financial Reporting Standards (IFRS), considering sustainably strong operating and financial results as well as significant growth in the scale of the Company's operations. The changes are aimed at strengthening NOVATEK's investment case and increasing total shareholder returns.

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

On 19 March 2021, the Board of Directors of PAO NOVATEK recommended to the Annual General Meeting of Shareholders to pay dividends for FY 2020 in the amount of RR 23.74 per ordinary share or RR 237.4 per one Global Depositary Receipt (GDR), exclusive of RR 11.82 of interim dividends per ordinary share or RR 118.2 per one GDR paid for the first six months of 2020.

Thus, should the General Meeting of Shareholders approve the recommended dividend, the dividends for 2020 will total RR 35.56 per ordinary share (RR 355.6 per one GDR), and the total amount of dividends payable for 2020 will be RR 107,971,041,360. This will represent a 10% increase in dividend per share compared to 2019.

Accrued and paid dividends on NOVATEK shares for the period 2015 to 2020

Dividend Accrual Period	Amount of dividends, RR per share	Total amount of dividends accrued, RR	Total amount of dividends paid, RR
2015	13.50	40,990,131,000	40,990,062,832
2016	13.90	42,204,653,400	42,204,606,695
2017	14.95	45,392,774,700	45,392,729,448
2018	26.06	79,126,134,360	78,746,615,378
2019	32.33	98,163,772,980	97,207,957,498
First half of 2020	11.82	35,889,136,920	35,498,258,173

The amount of paid dividends accrued for the years 2015 to 2019, and for the first six months of 2020 is reported as of 31 December 2020. Partial payment of the accrued dividends was made due to provision by shareholders of incorrect postal and/or banking details and insufficient information regarding banking or postal details of shareholders.

Information Transparency

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

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

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

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

In 2020, the effective implementation of the Regulations on NOVATEK's Information Policy allowed NOVATEK to build a steady goodwill as Russia's largest independent natural gas producer and one of the global leaders in LNG production.

Pursuant to the uniform information policy principles, NOVATEK is actively involved in relations with federal, foreign and regional media. In 2020, most of the news pieces with references to the Company (57%) traditionally came from the federal media. 32% of all pieces were publications in local media, and 11% came from the international media.

In 2020, NOVATEK was the center piece in 1 in 4 publications, which is a very good result for an energy company.

At the end of the reporting year, there were more than 62 thousand publications about the Company. The news topics included Arctic LNG 2 project development and LNG Construction Center progress, start of operation of a small-scale LNG plant in Magnitogorsk, development of the domestic LNG market and the network of retail stations, construction of Yamal LNG Train 4 based on the Arctic cascade process, entering new sales markets, local manufacturing content and Russian sourcing of LNG equipment, active involvement of the Company in development of the Arctic, and early start of navigation via the Northern Sea Route. In addition to the traditional topics, the 2020 agenda also included the Company's activities in the context of the coronavirus. The Company's social development projects to support the regions in which it operates were also widely covered in the media. The support for the medical sector was one of the focal points.

With new topics on the agenda, the number of channels, through which the information is circulated, increased. Main resources (federal, local and international media, social networks, etc.) were joined by the resources of local governments in the regions of the Company's operations, their official accounts in social networks as well as the contractors' information platforms.

In 2020, several in-person events were held with the participation of the Chairman of the Company's Management Board and media representatives: briefings following the World Economic Forum in Davos, the grand opening of a small-scale LNG plant in Magnitogorsk, and the opening ceremony for the power transmission line for the LNG Construction Center in Murmansk. Some of the events, however, had to be arranged online: the official signing ceremony for the agreement on joining the Priority Social and Economic Development Area with the Far East Development Corporation; the signing of agreements with the Government of the Murmansk Region; workshops with the leadership of the partners under the Arctic LNG 2 project; Leonid Mikhelson's online speech at the International LNG Producer-Consumer Conference in Japan; Leonid Mikhelson's online speech at the 13th Eurasian Economic Forum in Verona, and other events. Wider coverage of the Company's projects in all mass media was achieved through active interaction with federal, local and international journalists.

The Company's website was updated in 2020. It is now easier to use and navigate, contains more information, and includes new sections with detailed project descriptions. The new features enable the Company to share information in a more complete, transparent and convenient way.

The following corporate periodicals are published to inform the Company employees, their family members, and third parties of the Company's activities: the NOVATEK newspaper and the NOVATEK PLUS magazine, containing materials on production plans and results as well as on cultural, sports and charity programs and projects.

The main events of NOVATEK are published on the Company's official website and intranet portal. For interaction with public, NOVATEK makes use of up-to-date channels of information dissemination through social media. The Company keeps its accounts in English and Russian on Facebook, VKontakte, Twitter, Instagram, and Youtube, where the channel subscribers stay updated on the Company's activities. Over 47,200 posts and comments with references to NOVATEK were published in social media in 2020. More than 500 posts appeared in the Company's social media. As of the year end, the number of subscribers exceeded 33,700 people, which is a 25% increase year on year. NOVATEK also launched its Telegram channel in 2020, enabling to promptly circulate updates on the Company's activities, interact with different audiences, and post relevant content related to the fuel and energy sector.

Additional Information

Risk Management System

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

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

The Board of Directors' Audit Committee is responsible for the supervision over the reliability and efficiency of the risk management framework and review of the risk management policy. In the reporting year, the Audit Committee paid great attention to risk management in the Company and during the meetings after careful review and analysis of the information provided, it recognized NOVATEK's risk management activities as compliant with the risk management policy of the Company.

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

The Company undertakes all possible actions to monitor and prevent such risks. However, it cannot fully guarantee that the measures aimed at risk management will bring the probability of risk realization and potential impacts down to zero. In this context, since 2018 the Company has been developing business continuity plans in the event of emergencies and incidents risks. The plans define the most efficient measures to restart production as soon as possible and a procedure for the NOVATEK Group divisions and employees to interact between each other and with external stakeholders with a view to maintaining critical operations at an acceptable level and reducing possible costs in case of risk realization. The first plans were approved in 2019. In 2020, the development of business continuity plans continued.

Risk	Risk description	Risk management approaches used by the Company
OPERATIONAL RISKS		
Risks of emergencies and incidents	The Company's subsidiaries and joint ventures are subject to the risks of emergencies and incidents at hazardous production facilities, ship transport facilities for the transportation of liquid hydrocarbons and LNG, that may result in harm to life or health of employees or third parties, entail business interruption, hazardous emissions or spills, which in turn may have a negative effect on the Company's business reputation and financial performance.	The Company monitors compliance with industrial safety requirements on a continuous basis. The Company develops and implements organizational and technical measures aimed at mitigating the risks of emergencies and incidents and reducing potential losses as part of its existing integrated industrial safety management system in accordance with the requirements of the OHSAS 18001 (ISO 45001:2018) standard. The Company holds property and business interruption insurance policies, insures transported cargo and the charterer's liability. The Company adheres to the principle of responsible investments, which implies that new design solutions, technologies and equipment installed help significantly mitigate accident risks. The Central Dispatch Office (CDO) operates in the Company, one of its functions is to ensure prompt response to production incidents. The CDO ensures centralized monitoring of well construction and workover on top of the control of production, treatment and transportation processes.

Risk	Risk description	Risk management approaches used by the Company
Monopoly risks	The Company depends on monopoly suppliers of transport services (such as Gazprom, Russian Railways, or Transneft). The Company has no influence on the capacity of transport facilities of the above monopolies and rates established by a federal body.	The Company enters into long-term agreements and in a timely manner arranges for interaction with monopolies regarding hydrocarbon transportation by pipeline and railway transport. To reduce its dependency on monopolies, the Company concludes agreements enabling it to use alternative methods of product transportation (an agreement with SIBUR for the supply of light hydrocarbons to Tobolsk Petrochemical Complex). NOVATEK is actively developing its own pipeline system for transporting gas condensate.
Competitive risks	The Company operates in an environment of tough competition with Russian and international oil and gas companies in the following areas: • obtaining of subsoil licenses and acquisition of companies holding subsoil licenses; • selling gas and LNG in the Russian and global markets; • selling liquid hydrocarbons in the Russian and global markets; • access to transportation infrastructure which has technological limitations; • chartering of special-purpose vessels for transportation of liquid hydrocarbons and LNG; • employment of highly qualified specialists to work for the Company, its subsidiaries and joint ventures; and • improvement of the investment projects and production processes efficiency.	The Company monitors commercially available assets with regard to the objectives of its long-term development strategy, enabling the Company to make an objective assessment of its competitive positions and to take the maximum benefit of its competitive advantages that include extensive regional work experience and synergy with the existing producing, transport, processing and distribution infrastructure. The Company pursues an active marketing policy and takes efforts to monitor, expand and balance its customer base, and strives to enter into long-term agreements with buyers. To diversify its natural gas marketing portfolio, throughout the reporting period the Company was engaged in trading in the Natural Gas Section of the St. Petersburg International Mercantile Exchange. The Company expands its footprint in the global LNG market, increases its customer base and makes spot, mid-term and long-term LNG sale and purchase agreements, time charter parties for carriers, optimizes its supplies through swaps and diversions, which enables mitigating risks associated with a specific market or counterparty. The company continuously monitors supply and demand in the LNG and special-purpose vessels market to be able to engage shipping capacity or sub-charter the existing capacities in order to optimize shipments and maximize profits. In a changing market environment, based on data from a number of internationally recognized analytical agencies, the Company's units develop plans to strengthen the Company's marketing strategy, coordinate activities of trading subsidiaries, update risk management activities, develop and implement a risk hedging policy. Through its subsidiary Novatek Gas & Power Asia Pte. Ltd., the Company is a member of the International Group of Liquefied Natural Gas Importers (GIIGNL), which includes 88 major international companies, whose activities are directly related to LNG. Apart from access to annual LNG industry overviews and information on the latest cutting-edge trends in LNG production, delivery, and sales, membership in GIIGNL is a positive reputational factor for the Company because of GIIGNL's high credibility among all participants in the global LNG market. By participating in the development of integrated LNG projects in the global markets, NOVATEK is able to secure guaranteed access to LNG infrastructure and develop gas consumption markets, ensuring direct access to the premium end consumer segment. The ability to control the entire value chain of integrated LNG projects helps mitigate competitive risks. The Company implements an active HR policy and applies efficient mechanisms to recruit and develop highly qualified employees.

Risk	Risk description	Risk management approaches used by the Company
		The Company applies state-of-the-art technologies, develops its own technologies and implements innovative ones, which helps in building up its competitive advantages. The Group's research and development center (NOVATEK NTC, LLC) has been active since 2010 to improve the efficiency of geological exploration, reserve replacement, drilling, field development, engineering services during field development, establish a unified knowledge and skills accumulation center and ensure constant professional development of employees for the benefit of the Group.
Risks in Procurement of Materials and Equipment, Works and Services	Failure by counterparties to perform their obligations (quality and timing of materials and equipment supply, works execution and services provision)	The Company has introduced a procedure to qualify counterparties and control performance of obligations. The Company has put in place and is keeping up to date a Certified Potential Contractors Database, contractors develop and implement relevant mitigation plans if necessary in order to systemically develop the suppliers' markets. The Company encourages its counterparties to improve their production capabilities, while making long-term agreements with strategic counterparties. As part of the control over performance of contractors' obligations under the contracts, the Company implemented comprehensive approaches to control quality and schedule, including inspections of fabrication plants during equipment manufacturing and testing, as well as offloading control and incoming inspection at the Company facility. The Company is continuously monitoring potential risks that may affect the contract performance. Whenever appropriate, we use bank bonds as an additional security under contracts. To ensure control over the intended use of monetary funds transferred to contractors as advance payments to purchase Materials and Equipment, decrease their cost and obtain updated information on the quantities of the ordered Materials and Equipment, payments for fabrication and supply of Materials and Equipment are made where appropriate through a special account based on the payment control system provided by a bank.

Risk	Risk description	Risk management approaches used by the Company
	Procurement of Materials and Equipment, works and services at prices higher than the market ones	In 2018, the Company introduced a set of measures to optimize procurement activities, aiming to enhance control over the efficiency of spending on investment and operations, as well as to shorten counterparty selection procedures, and to ensure completeness and quality of procurement documentation, enabling prompt and efficient decisions. Counterparties are as far as possible selected on a competitive basis. Mechanisms have been implemented to control the conformity of major equipment prices with market prices. The company implements a strategic approach to the most critical and expensive Materials and Equipment items, which includes long-term contracting strategies that ensure maximum procurement efficiency and timely satisfaction of needs. In its procurement activities, the Company seeks to expand the competitive environment. To cut the supply chain and rule out overpricing, the procedure to work directly with Materials and Equipment manufacturers has been implemented and procurement procedures are performed using an electronic bidding platform. By consolidating the demands of its subsidiaries and affiliates, the Company is able to obtain the most cost-effective procurement terms and conditions. The Company is developing and implementing company standards (CSs) and technical specifications (TUs) for critical and high-cost procurement items in order to harmonize technical requirements for products and materials applied under investment projects and in production activities, shorten the procurement and delivery time, and ensure transparent pricing during products procurement.
	Competition restriction and malpractice by employees	Procedures are developed within the Company that provide for an objective, timely and transparent process of counterparty certification and selection. The Company develops certification and technical requirements to counterparties and procurement items without any discrimination or unwarranted restriction of competition across the design and certification stages as well as during counterparty selection. The internal regulations in place provide for a maximum transparency procedure of counterparty selection with an adequate system of control over the actions of employees. Open competitive ways to select counterparties are mostly used. Procurement procedures are performed using an electronic bidding platform. Given the volatility in international relations with the countries providing sophisticated oil & gas equipment, the Company pursues import substitution policies where it is appropriate.
Commodity price risks	As an independent natural gas producer, NOVATEK is not subject to state regulation of natural gas prices. Nevertheless, the Company's prices are strongly influenced by the prices established by a Federal body.	State regulation of gas prices significantly reduces the risk of price volatility on the Russian gas market.

Risk	Risk description	Risk management approaches used by the Company
	Moreover, the Company is exposed to the current pricing environment in the Russian and international liquid hydrocarbons and LNG markets as it has no power over the global oil and gas prices, price indexes which form the base price of short- and long-term contracts. A drop in prices for liquid hydrocarbons and LNG may have a negative effect on the Company's financial performance.	The Company monitors changes in the current Russian and global pricing environment, and the forecast trends in the global oil, gas and LNG markets, negotiates with buyers, and strives to make efficient sale and purchase agreements with protective pricing mechanisms (e.g., the presence of S-curves in oil-linked contracts) in order to reduce the volatility of sales prices. The Company constantly monitors LNG and gas prices on the international energy market, carries out timely planning and management of deliveries, continuously evaluates its portfolio and analyzes its sensitivity to changes in macro-parameters, updates risk management measures in a timely manner, and develops and implements a risk hedging policy. From time to time, the Company may use derivative financial instruments to reduce the risk of negative price movements. Reduction of risks related to changes in liquid hydrocarbons and LNG prices is ensured, among other things, by vertical integration of the production chain. The Company strives to maximize the output of high value added products by using its hydrocarbon deeper conversion capacities (the Purovsky Plant and Ust-Luga Complex).
Geological risks	Prospecting and exploration drilling is associated with multiple risks, including the risk of non-confirmation of commercial hydrocarbons reserves. Information on the Company's hydrocarbons reserves is estimated and depends on a number of factors and assumptions. Actual production volumes across fields, along with the cost-effectiveness of reserve exploitation may deviate from estimates.	Risk management in the Company includes stages of analysis of geological and geophysical data, identification and elimination or mitigation of geological risks. Analysis is performed using a comprehensive approach based on the review of regional and detailed study results, creation of geotechnical models of fields using cutting-edge software technologies and modern methodological approaches. Uncertainty evaluation is performed for main geological and geophysical parameters. Programs are prepared to study and mitigate risks in the conditions of natural, technical and technological restrictions. Research programs are developed taking into account specific features of each license area or field and aimed at obtaining complete and high-quality source data. To conduct geological exploration activities, those contractors are engaged who meet the Company's technical requirements and use advanced technologies and equipment. Technical audits of contractors are conducted annually. Quality control and analysis of the data obtained is performed by our own research and development (NOVATEK-NTC). As part of the work, Russian and foreign experts in various areas are involved. The Company makes an annual assessment and evaluation of its reserves based on the exploration and production drilling and other research information. An independent international adviser estimates the Company's reserves according to international standards on an annual basis.

Risk	Risk description	Risk management approaches used by the Company
Risk of early termination, suspension or restriction of the right to use subsurface mineral resources	Exploration and production of hydrocarbons in Russia is subject to licensing. The Company is thus exposed to the risk of early termination, suspension or restriction of its right to use subsurface mineral resources.	The Company strives to comply, and maintains a continuous monitoring of its compliance with the license agreements and the subsoil use laws, and submits timely requests for adjusting the terms of its license agreements.
Environmental risks	The Company is subject to the probability of events having adverse consequences for the environment and caused by a negative impact of its economic and other activities, as well as natural and technology-related emergencies.	The Company has an environmental management system according to the ISO 14001 standard to ensure rational use of resources and to minimize the adverse effect the Company's operation may have on the environment. The Company adheres to the principle of responsible investment in operations, which implies that new design solutions, technologies and equipment installed help minimize environmental impact, as well as stays ready to react to emergencies. Implementation of projects in the Russian Federation Arctic area is accompanied with comprehensive monitoring of marine and terrestrial ecosystems, as well as subsurface environment, including permafrost soils and cryogenic processes, to confirm efficiency and sufficiency of nature-protection design solutions and to receive prompt information on changes of environmental conditions in the Company's regions of operation. Environmental support of LNG projects with participation of joint ventures is based on both Russian environmental laws and international standards and best available practices in the industry. As part of the Russian Federation Climate Doctrine, the Company developed a corporate Greenhouse Gas Emission Management System (to account for, and plan actions to reduce, greenhouse gas emissions, inter alia by introducing innovative technologies to curb greenhouse gas emissions). In particular, in August 2020, the Company's Board of Directors approved environmental and climatic goals of the Company until 2030, including emission reduction, rational use of associated petroleum gas and waste disposal.
Project risks	Volatile exchange rates of the national currency and unstable lending conditions, drop in hydrocarbon demand and prices, precarious financial position of contractors and oil and gas equipment suppliers, introduction or modification of technical requirements related to engineering, construction and operation may affect the Company's investment program leading to delays in project execution and/or rising project costs.	The Company implements expert review of projects at the project development stage. Investments are only channeled into the projects that are most likely to help the Company achieve its strategic objectives. The Regulation on Investment Projects Preparation, Coordination, Approval, Monitoring and Updating has been in place in the Company since 2016. The project risks are evaluated at every stage of its implementation. The Company follows a strategy of LNG projects standardization by developing its own standards based on the lessons learned from the previously implemented projects. When awarding contracts and supply agreements for oil&gas equipment, all relevant documents are thoroughly checked and field audits are performed at manufacturing facilities as necessary. There are dedicated criteria in place to help understand whether a supplier has the technical capability, technology and resources to manufacture and deliver certain materials and equipment. The Company also monitors suppliers' operations, witnesses manufacturing and testing of purchased process equipment, and performs inspections during shipment and upon delivery.

Risk	Risk description	Risk management approaches used by the Company
Strategic risks	There is a risk that the Company will fail to meet its strategic goals and objectives due to significant changes in external environment, realization of individual, or a group of, operational, financial and legal risks.	The Company strives to prudently accomplish strategic goals and objectives and applies the approaches described in this section to manage each of the risks. In order to efficiently manage its project portfolio and to ensure sustainable development, the Company regularly monitors market trends as well as takes into account risks and opportunities of the current and anticipated external environment. The Company applies a scenario-based approach to financial and economic forecasting to assess the possibility of achieving strategic and operational goals and adherence to credit covenants. The decision making process in strategic management includes such elements as: assessment of project execution risks, evaluation of resources required for their successful execution, including analysis of whether additional financial, material and personnel resources are sufficient and/or justified.
Ethical risks	The Company is exposed to the risks of disturbed relationships within the Company and with its subsidiaries and joint ventures, shareholders, investors, the government, the public, consumers or suppliers or other corporate entities or individuals, including the risk of fraud, corruption, and conflict of interest, as well as the risk of human rights violations.	In 2011, in order to minimize ethical risks, the Company introduced a Code of Business Conduct and Ethics. To exclude ethical risks with respect to its shareholders and investors, the Company is governed by the provisions of the internal Code of Business Ethics and the applicable Russian Federation and UK laws in terms of public company regulation. To exclude ethical risks in its relations with third parties, the Company carries out tender procedures to select counterparties and has a well established internal control and audit system. An Anti-Corruption Policy has been in place since 2014, which established key principles and standards of anti-corruption practices for employees and stipulates a set of corruption prevention measures. As part of the Anti-Corruption Policy implementation, a Security Hotline is in operation 24/7. Since 2016, the Company has had a procedure for notification and management of conflicts of interest that employees may come across in performing their job duties. In 2020, the Company adopted the NOVATEK Group's Supplier Code of Conduct, which contains recommendations and principles related to business ethics and human rights that NOVATEK expects its suppliers to follow.
Social risks	The Company is subject to the following risks of a social nature: • internal risks associated with a possible incompliance of social programs implemented by the Company with the industry's average level that may lead to a higher labor turnover; • external risks associated with potential impediments in normal production activities caused by communities living in proximity to the production facilities.	The Company strives to ensure compliance of its social programs with the industry's average level and uses the most up-to-date mechanisms for attracting and retaining highly professional employees. The Company's production facilities are located outside densely populated territories, and the Company monitors compliance with the rules and regulations while operating its facilities. The risks related to possible military conflicts, announcement of a state of emergency, or strikes, are insignificant, as the Company operates in economically and socially stable regions.
Terrorism risks	The Company is subject to risks of unlawful interference acts and terrorist threat concerning operation of fuel and energy facilities, transport and other facilities (areas).	The Company implements all necessary measures to fully comply with legislative requirements in the area of security and counter-terrorism measures at fuel and energy facilities, transport and other facilities (areas). A complex of organizational and practical measures is constantly in place to ensure security of facilities, including linear ones.

Risk	Risk description	Risk management approaches used by the Company
Country risk	NOVATEK is a Russian company with its core operations in a number of Russian regions. Country risk is defined by the fact that Russia is still an emerging economy, the economic environment of which is not sufficiently stable and is subject to external macro-economic impacts. The Company is involved in foreign projects related to LNG transportation and sales, and in projects aimed at enlarging its geographic footprint in hydrocarbon exploration, production and transportation. Legislative and political changes in the countries where the Company operates may affect financial performance and the cost of such projects.	Active marketing and financial policies enable the Company to mitigate the country risk. Moreover, the Company's management continuously analyzes the macro-economic environment and makes prompt decisions to mitigate potential risks. The Company continuously monitors legislative changes in the countries where it operates, analyzes the political situation, takes part in negotiations and builds up long-term partner relations with state authorities and various stakeholders.
Regional risk	The Company produces and processes hydrocarbons within Western Siberia, a region with a challenging climate.	The Company's vulnerability to region-specific impacts on the shore is taken into account by the Company's management when engineering and operating onshore upstream facilities by making sure that equipment and personnel are protected from the negative impact of harsh weather conditions.
	The Company uses the Northern Sea Route (NSR) for LNG and gas condensate shipping. Severe weather and ice conditions in vessel voyage areas, ports, and cargo transshipment points may lead to longer vessel return voyages, a disruption of marketable products offtake, and tank tops, as well as may result in default on obligations to buyers in terms of timely cargo delivery.	To mitigate such risks, the Company implements the following measures: • coordinates day-to-day tanker management with structural units in charge of fleet planning and positioning, operations and sales, and adjusts production and supply schedules where necessary; • cooperates with Atomflot, Rosmorport, Northern Sea Route Administration and government authorities to ensure necessary icebreaker support along the NSR; • incorporates requirements in all time charter parties that the vessel's officers have necessary experience in ice navigation and that the crews take special training courses and programs with regards to ice navigation; and • engages ice pilots and representatives of special institutions and companies when passing through difficult ice areas.
Risks of information technology and information security (cyber-risks)	The Company is exposed to the risks in the area of information technology and information security, such as • the risk of confidential information leaks; • the risk of business interruption and the risk of an emergency situation as a result of computer-generated incidents.	The Company pursues a policy aimed at continuous improvement of the information security processes and ensuring their compliance with law, international standards and best practices in order to improve information protection and enhance the trust of contractors, partners, and investors. One of the priorities is to maintain confidentiality, security and reliability when handling confidential information, including personal data, trade secret, insider information, confidential information of partners and other organizations that the Company has lawfully become aware of. In accordance with the requirements of Federal Law No. 187-FZ dated July 26, 2017, essential elements of the Company's critical information infrastructure were broken down into categories and the relevant centralized information security system was designed. The information technology development strategy of the NOVATEK Group was developed and approved to ensure the Group's sustainable development.

Risk	Risk description	Risk management approaches used by the Company
Climate risks	The Company's business may be affected by the following climate risks: • Transitional risks are risks arising during transition to economic activities with lower carbon emissions, e.g due to changes in stakeholder behavior, changes in legislation, and other changes. If they materialize, these risks can cause additional expenses, hydrocarbon prices below the forecast, reduced revenue, and limited development opportunities; • Physical risks are risks that directly affect facilities and are caused by a major short-term impact (e.g an act of God) and long-term climate change (permafrost degradation, global sea level change, periods of abnormally high temperatures, etc.).	Risks and opportunities associated with climate change are taken into account in the Company's Business Strategy. The Company constantly monitors market trends, keeps track of changes in legislation regulating greenhouse gas emissions, assesses the impact of such changes and updates its plans accordingly, invests into development of innovative energy-efficient zero-emission technologies, considers risks and opportunities of current and expected environmental conditions to efficiently manage the project portfolio and maintain sustainable development. The Company places much importance on risks related to climate change and greenhouse gas emissions. The Company's risk management system allows to factor in climate risks both when making management decisions and in routine activities. The Company has developed the Standard for Greenhouse Gas Emission Control System and follows it. Pursuant to the standard, GHG emission qualification and reporting are included in the Integrated Management System. The Company develops a GHG emission reporting system and uses efficient modern technologies for emission reduction during production, processing and transportation of hydrocarbon gases and liquids, natural gas liquefaction, power generation and other processes. The Company sets ambitious targets, which when achieved would help reduce GHG emissions in accordance with the global initiatives, and climate change action is among the Company's sustainable development priorities. In August 2020, the Company's Board of Directors approved NOVATEK's environmental and climate targets until 2030, including emission reduction, rational use of associated petroleum gas and waste disposal. The Company assesses climate risks of physical impact and climate change implications both at the engineering and the operation phases, and makes appropriate provisions. NOVATEK constantly performs cryological monitoring, which shows that the risk of permafrost thawing and degradation is low at the moment and has no significant impact on the Company's operations. In order to prevent potential negative implications of climate changes and assess the condition of permafrost soil and the temperature range at all of the Company's facilities, NOVATEK uses advanced technologies and equipment for thermal stabilization of soil where foundation piles are driven already during the construction phase. The Company holds property and business interruption insurance policies in case of the specified risks materialization.

Risk	Risk description	Risk management approaches used by the Company
Epidemic risks / COVID-19	The spread of the novel coronavirus (COVID-19) caused financial and economic tensions in the markets around the world, and this is beyond the Group management's control. To ensure uninterrupted operations in a pandemic environment, specific measures had to be introduced to enable business continuity and protect the health and safety of the Company's employees and other stakeholders. The magnitude and duration of these events remain indefinite and may continue to affect the Group's revenues, cash flows and financial standing.	The Company assesses potential impact of COVID-19 on employees and operations, and developed appropriate response plans. For instance, the Company is investing in tools enabling efficient remote work for the staff. The Group's management takes all necessary precautions to preserve the health and safety of employees, counterparties and families from the spread of the coronavirus and at the same time fulfill its obligations to supply energy resources domestically and internationally. The Group maintains close cooperation with federal, regional, and local authorities, as well as with partners to contain the spread of the coronavirus, and takes necessary action to minimize potential disruptions. NOVATEK implements all recommended measures to contain the pandemic. Additional sanitary protection measures have been implemented in the Company's offices and facilities: frequent sanitary cleaning is conducted at the Company's premises, and additional disinfectant dispensers are installed, the employees are provided with masks and gloves for obligatory use at workplaces. Many employees in the regions of our operation began working remotely, business trips were limited, and all our employees received detailed instructions on prevention measures. In the regions of operation, the Company organizes regular testing of its employees, purchases personal protective equipment, and helps with providing diagnostic laboratories and hospitals with necessary equipment, reagents, and medical supplies.
FINANCIAL RISKS		
Credit risk	The Company is exposed to a risk of losses related to a failure by counterparties to perform their contractual financial obligations when due, and in particular depends on the reliability of banks in which the Company deposits its available cash.	When selling natural gas on the domestic market, the Company continuously monitors the financial soundness of its consumers and takes actions in case there are overdue payments. Most of NOVATEK's international LNG and liquid sales are made to major customers with independent external ratings. Domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis. All long-, mid- and short-term LNG SPAs made in the international markets include the provision of buyer credit support. Credit support is usually provided in the form a parent company guarantee, letter of credit and/or bank bond to be issued by a bank with an acceptable credit rating. All new counterparties undergo a mandatory Know Your Customer procedure and creditworthiness assessment. All current counterparties regularly provide updates under the KYC procedure with the latest company information, including creditworthiness status. When selecting banks, the Company is governed by the bank's reliability confirmed by international ratings.
Reinvestment risk	The Company's business requires substantial investments into field exploration and development, followed by the production, transportation, and processing of natural gas, oil, gas condensate and petroleum products. Insufficient funding for these and other expenditures may affect the Company's financial standing and performance.	The Company's capital investment plans are defined in its long-term development strategy, are revised on an annual basis and are generally in line with the Company's ability to generate cash flow from operations taking into account the need to pay dividends and service its debt.

Risk	Risk description	Risk management approaches used by the Company
Interest risks	As a major borrower, the Company is subject to risks associated with an increase in interest rates. Interest rates on some of the Company's loans may be linked to floating international and Russian base rates, the dynamics of which are hard to predict. Volatile interest rates may restrict the use of borrowed capital as a source of funding for the Company's investment activity and may increase interest expenses.	The Company pursues a balanced fundraising policy and strives to maximize the share of long-term liabilities with fixed rates in its debt portfolio. The Company strives to maintain flexibility in its investment program.
Currency risks	Part of the Company's liabilities is denominated in foreign currency, which may lead to losses in the event of ruble depreciation. On the other hand, part of the Company's proceeds is also denominated in foreign currency, which may lead to losses in the event of ruble appreciation.	The liabilities expressed in foreign currency on the one hand, and export proceeds on the other generally compensate each other and are a natural mechanism of currency risk hedging. As part of the currency risk assessment, scenario analysis is run.
Liquidity risk	Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.	The Company's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. In managing its liquidity risk, NOVATEK maintains an adequate ratio between cash reserves and debt, monitors forecast and actual cash flows and matches the financial assets and liabilities maturity profiles. The Company uses various short-term borrowings. The Company may use credit facilities and bank overdrafts to satisfy its short-term finance needs. To satisfy its needs for cash on a permanent basis, NOVATEK will normally raise long-term loans in the available markets. In order to be able to raise funds from capital markets on beneficial terms and have more potential investors, the Group has investment grade credit ratings assigned by three leading international rating agencies (Moody's, Standard & Poor's and Fitch) and the Russian rating agency Expert RA. To maintain and improve the credit ratings, the Group has set financial targets and coverage ratios that are regularly monitored.
Inflation risk	Changes in the consumer price index have an impact on NOVATEK's profitability and, as a consequence, its financial standing and ability to pay on liabilities and securities. Significant currency depreciation can cause a surge in inflation rates, which are impossible to accurately predict.	NOVATEK may not be able to predict the inflation level, since, apart from the consumer price level, it is necessary to take into account the change in the real purchasing power of the Russian ruble, the pricing conditions in liquid hydrocarbon and LNG export markets, and government policy in relation to tariffs for natural gas. NOVATEK monitors the consumer price index and accordingly acts to mitigate its costs. As part of the inflation risk assessment, scenario analysis is run.

Risk	Risk description	Risk management approaches used by the Company
LEGAL RISKS		
Risk of law changes	The Company is subject to a risk of facing consequences of changes in legislation in the following areas: • currency laws (in areas concerning export/import and borrowing operations) • tax laws (in areas regulating taxation systems and rates applicable to companies in general, and to companies producing and marketing natural gas and liquid hydrocarbons, specifically) • customs laws (in areas concerning the export of liquid hydrocarbons, including petroleum products); and • licensing requirements for natural resource extraction. • competition laws (in areas regulating natural gas sales market); • laws in fuel and energy complex regulation; • laws in corporate governance; and • laws in respect of business operations in the Arctic and greenhouse gas emissions	The company constantly monitors changes in legislation, is a member of the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security, as well as a number of technical committees for standardization, the Society for Gas as a Marine Fuel and the SEA\LNG Association, develops proposals for and contributes to the development of bills, implements regulations that are beneficial for the Company, performs impact assessment for such changes, and updates its plans accordingly.
Litigation risks	The Company may be involved as a defendant or plaintiff in a number of proceedings arising in the normal course of its business.	When conducting its business, the Company adheres to the principle of prudence. As of the approval date of the Annual Report, the Company was not involved in any material litigation and the associated risks are insignificant.

Risk	Risk description	Risk management approaches used by the Company
Risk of sanctions	In 2014, the Company was included in the US sectoral sanctions list. As a result, US persons are prohibited from participating in the financing of the Company with a maturity of over 60 days. The sanctions imposed restrict the Company's ability to refinance its debt. Furthermore, there is a risk of tougher US sanctions and risk of the Company being included in other countries' sanctions lists, which may undermine the Company's performance.	The Company follows a balanced financial policy enabling it to minimize its fundraising needs. Moreover, the Company still has a full access to the Russian capital market and limited access to the international market. In case the US sanctions are toughened and the Company is included in other countries' sanctions lists, the Company management will make every possible effort to minimize the negative impact on the Company's business operations and financial standing. Given the volatility in international relations with the countries providing sophisticated oil & gas equipment, the Company pursues the policies of replacing imported technologies and equipment where it is appropriate: invests in creating its own technologies and localizing equipment in the Russian Federation, contributes to the efforts of federal executive authorities in identifying and achieving priority targets in terms of mastering technology and equipment using state support mechanisms. The key priority area of these programs is large-scale LNG production. The Company uses proven LNG technologies and equipment, so import replacement is subject to positive references, or is used under pilot projects to gain necessary experience. The Company invests in setting up its own production facilities to build liquefaction trains and in developing its proprietary liquefaction technologies as well as works systematically with Russian and foreign manufacturers to ensure transfer of technology and mastering of equipment and materials fabrication for LNG projects. The risk of sanctions also affects IT hardware and software. When considering new IT solutions, the Company examines alternatives available in the market, including software from the Unified Register of Programs for Electronic Computers and Databases of the Ministry of Digital Development, Communications and Mass Media of the Russian Federation.

Risk Insurance

Risk insurance is an integral part of NOVATEK's risk management system. In 2020, the insurance coverage guaranteed adequate protection against the risks of damage to the business of the Company or its subsidiaries and joint ventures. Insurance is provided by reputable insurance companies that have high ratings by the leading rating agencies (Standard & Poor's, Fitch Ratings, Expert RA, A.M. Best,) with partial reinsurance of risks by major international insurance and reinsurance companies.

Obligatory Risk Insurance

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

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

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

Optional Risk Insurance

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

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

Since 2013, the Company has implemented a comprehensive program of property and business risk insurance with respect to its and its subsidiaries' and joint venture's key assets. The cumulative insured amount for the risks of property damage and business interruption as at the end of 2020 was RR 910 billion. The implemented program is viewed by the Company's management as an efficient measure for mitigating the consequences of potential accidents and provides additional guarantees for the attainment of the expected net profit and key indicators of the Company's performance. Beyond the scope of the comprehensive program, given the project's scale, Yamal LNG is insured against property damage and business interruption.

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

For more than 15 years the Company has maintained directors', officers' and companies' liability insurance (D&O insurance) covering the Group, top management of the Company and its subsidiaries against possible third-party claims for any losses incurred through any wrong action (or decision) made by its governance bodies as well as in connection with claims against the Company under its securities. The overall insurance coverage limit is EUR 120 million. The existing insurance coverage is in line with international insurance standards in terms of the scope of risk cover and limits of indemnity.

Information on Members of NOVATEK's Board of Directors

MR. ALEXANDER E. NATALENKO

Chairman of NOVATEK's Board of Directors
Member of NOVATEK's Strategy Committee
Born in 1946

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

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

MR. ANDREI I. AKIMOV

Member of NOVATEK's Board of Directors
Member of NOVATEK's Strategy Committee
Born in 1953

Mr. Akimov graduated from the Moscow Financial Institute in 1975 where he specialized in international economics. Between 1974 and 1987, Mr. Akimov held various executive positions in the Bank for Foreign Trade of the USSR. From 1985 to 1987 he served as Deputy Chief General Manager of the Bank for Foreign Trade branch in Zurich (Switzerland) and between 1987 and 1990, Mr. Akimov was the Chairman of the Management Board of Donau Bank in Vienna (Austria). From 1991 to 2002 he was Managing Director of financial company, IMAG Investment Management & Advisory Group AG (Austria). Since 2003, Mr. Akimov has been the Chairman of the Management Board, and the Deputy Chairman of the Board of Directors of Gazprombank (OAO). He is a member of the Board of Directors of PAO Gazprom, AO Rosneftegaz.

MR. MICHAEL BORRELL

Member of NOVATEK's Board of Directors
Member of NOVATEK's Strategy Committee
Born in 1962

Mr. Borrell graduated from the University of Cambridge with a degree in Chemical and Mechanical Engineering (Master of Science – 1993, Bachelor – 1984). He joined TOTAL in 1985. Mr. Borrell worked with the affiliated companies of the concern; from 1995 he held a number of senior management positions in TOTAL. From 2003, he worked in the position of Vice-President for Corporate Planning and Business Development at Total E&P Indonesia. In July 2006, he was appointed President and CEO of TOTAL E&P Canada in Calgary. From September 2009 to June 2010, he was Vice President of the Caspian Area and Central Asia for TOTAL Exploration and Production. From July 2010, he served as First Vice President of Continental Europe and Central Asia. From January 2015 to September 2017, he worked as Senior Vice-President of Europe and Central Asia. From September 2017 to July 2020 he held the position of Senior Vice President North Sea and Russia, which comprises the United Kingdom, Norway, Denmark, the Netherlands and Russia.

MR. ROBERT CASTAIGNE

Independent member of NOVATEK's Board of Directors
Chairman of NOVATEK's Audit Committee
Member of NOVATEK's Remuneration and Nomination Committee
Born in 1946

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

MR. ARNAUD LE FOLL

Member of NOVATEK's Board of Directors
Member of NOVATEK's Strategy Committee
Born in 1978

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

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

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

On January 1, 2018 Arnaud Le Fall became General Director, Total E&P Russie. From July 2020, he has been appointed Senior Vice President North Sea and Russia, which comprises the United Kingdom, Norway, Denmark, the Netherlands and Russia.

MR. LEONID V. MIKHELSON

Member of NOVATEK's Board of Directors
Chairman of NOVATEK's Management Board
Born in 1955

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

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

MS. TATYANA A. MITROVA

Independent member of NOVATEK's Board of Directors
Chairman of NOVATEK's Strategy Committee
Member of NOVATEK's Audit Committee
Member of NOVATEK's Remuneration and Nomination Committee
Born in 1974

In 1995, Ms. Mitrova graduated from the Department of Economics, the Lomonosov Moscow State University. From 1993 to 2002, Ms. Mitrova worked for consulting companies in the energy sector. In 2002, Ms. Mitrova joined the Energy Research Institute of the Russian Academy of Science (ERI RAS) where she held various positions from a researcher to the Head of Research Group. Since 2011, she has led the Global and Russian Energy Outlook Until 2040 Project. Since 2008, Ms. Mitrova has been an associate professor at the Gubkin Russian State University of Oil and Gas. Ms. Mitrova has been a Visiting Professor at the Institute of Political Studies, School of International Affairs (Sciences Po, France) since 2014. Ms. Mitrova has been a Senior Researcher of Oxford Institute of Energy Studies (OIES) since 2015. Since 2016, Ms. Mitrova has been a Visiting Researcher of the Center on Global Energy Policy, Columbia University (CGEP, USA). In 2016-2017, she was a Visiting Researcher at the King Abdullah Petroleum Studies and Research Center (KAPSARC, Saudi Arabia).

Since 2017, she has held the position of Director, Energy Centre, the Moscow School of Management SKOLKOVO. From 2020 – Professor, Head of Research, SKOLKOVO Energy Centre. Between 2014 and 2017, Ms. Mitrova was a member of Unipro's Board of Directors (E.ON Russia before June 2016), and from July 2018 she served on the Board of Directors of Schlumberger NV, a global oilfield services company.

Ms. Mitrova has been member of the International Supervisory Board of Energy Academy Europe since 2013. Ms. Mitrova has written more than 200 articles in scientific and business journals and digests focused on energy issues as well as co-authored 10 monographs.

Since July 2020, she has been the Chairman of the Supervisory Board of the association of energy industry professionals "WOMEN IN ENERGY".

MR. VICTOR P. ORLOV

Independent member of NOVATEK's Board of Directors
Chairman of NOVATEK's Remuneration and Nomination Committee
Member of NOVATEK's Audit Committee
Born in 1940

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

Ministers, with a specialty in "Economics and Management of a National Economy".

From 1957 to 1963, he worked at a coal mine and served in the Soviet Army. From 1968 to 1975, he was head of geological survey, prospecting and exploration works in the geological organizations of Western Siberia, held positions of geologist, chief geologist, chief of geological exploration crew. 1975-1978 – Consultant on geological exploration works in Iran. 1979-1981 – Deputy Head of the Geological Division of the Production Geological Association of central areas of Russia (Tsentrgeologiya). 1981-1986 – Deputy Head of Geology and Production departments of the Ministry of Geology of the RSFSR. 1986-1990 – CEO of Tsentrgeologiya. 1990-1992 – Deputy Minister of Geology of the USSR, First Deputy Chairman of the RSFSR State Committee for Geology and Use of Energy and Mineral Resources. 1992-1996 – Chairman of the Russian Federation Committee on Geology and Mineral Resources. 1996-1999 – Minister of Natural Resources of the Russian Federation. 2001-2012 – Member of the Federation Council of the Federal Assembly of the Russian Federation. 2001-2004 – First Deputy Chairman of the Federation Council Committee on Natural Resources and Environmental Protection. 2004-2011 – Chairman of the Federation Council Committee on Natural Resources and Environmental Protection. From 1998 to present – President of "Russian Geological Society" public organization. Author and co-author of over 300 scientific publications.

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

MR. GENNADY N. TIMCHENKO

Member of NOVATEK's Board of Directors
Member of NOVATEK's Strategy Committee
Born in 1952

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

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

ZULMIRA A. RAZAKOVA

NOVATEK's Corporate Secretary

Ms. Razakova holds a higher legal education degree and began working for NOVATEK in 2004. Between 2007 and 2012, Ms. Razakova held the position of lead specialist of the Management Board and Board of Directors staff. In April 2012, Ms. Razakova was elected as Secretary of the Board of Directors. Since 2014, Ms. Razakova has been NOVATEK's Corporate Secretary.

Information on Members of NOVATEK's Management Board

MR. LEONID V. MIKHELSON

Chairman of NOVATEK's Management Board
Member of NOVATEK's Board of Directors
Born in 1955

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

MR. EVGENIY N. AMBROSOV

Deputy Chairman of NOVATEK's Management Board – Director for Marine Operations, Shipping and Logistics
Born in 1957

In 1979, Mr. Ambrosov graduated from the Navigation Department, Admiral Nevelskoy Far Eastern Higher Marine Engineering College, where he specialized in the operation of water transport. After graduating, he was employed by the Far Eastern Shipping Company where he rose through the ranks from a cargo officer to Deputy General Director – Director of the Core Operations Department. In January 2000, Mr. Ambrosov was appointed First Deputy General Director of Sovcomflot. In September 2002, he was approved as the General Director and Chairman of the Management Board, Far Eastern Shipping Company. In 2008-2009, Mr. Ambrosov worked as President of the FESCO Transportation Group Management Company and Chairman of the Management Board, Far Eastern Shipping Company. Since 2009, he has been the First Deputy General Director, Member of the Management Board of Sovcomflot. Since 2014, Mr. Ambrosov has been Deputy Chairman and Member of the Executive Committee of the Arctic Economic Council. Mr. Ambrosov received the following state and industry awards: Honorary Maritime Fleet Worker; Honorary Transportation Worker of Russia; Traditions and Standards badge of honor from the Russian Chamber of Shipping, the Star of Seafarers from the Russian Fleet Support Foundation, the Russian Ministry of Transportation. He was also awarded with the following medals: 300th Anniversary of the Russian Navy, Admiral Gorshkov, Russian Shipowners Association medal, the Medal For Maritime Excellence by the Russian Government and the Russian Government Marine Board; For Merits in Developing Russia's Transportation Industry, as well as the Order For Naval Merits awarded by a Russian Presidential Executive Decree. He was elected a member of the Management Board of PAO NOVATEK in November 2020.

MR. VLADIMIR A. BASKOV

Deputy Chairman of NOVATEK's Management Board
Born in 1960

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

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

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

MR. VIKTOR N. BELYAKOV

Deputy Chairman of NOVATEK's Management Board for Economics and Finance
Born in 1973

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

From 2004 until 2014 Mr. Belyakov worked for PAO Uralkali, where he successively held the positions of Head of Division, Deputy Chief Financial Officer, Chief Financial Officer, Vice President for Finance, Deputy General Director, Executive Director. In 2015, he was appointed Vice President for Economics and Finance of PAO Far East Shipping Company (FESCO group). In February 2016, Viktor Belyakov joined PAO NOVATEK in the position of Deputy Chairman of the Management Board for Economics and Finance.

MR. MARK A. GYETVAY

Deputy Chairman of NOVATEK's Management Board
Born in 1957

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

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

Mr. Gyetvay is a Certified Public Accountant (inactive status), a member of the American Institute of Certified Public Accountants and an associate member of the Society of Petroleum Engineers. He is a recognized expert in the oil and gas industry, a frequent speaker at various industry and investor conferences, has published numerous articles on various oil and gas industry topics and was a former member of PwC's Petroleum

Thought Leadership team. He has been recognized by Investor Relations Magazine as one of the best CFO's in Russia and the CIS, and by Institutional Investor magazine as one of the Top Five CFO's in Europe's Oil and Gas sector. Institutional Investor voted him as the Best CFO in the EMEA Oil and Gas category for 2017 and 2018. Finance Monthly magazine named Mark Gyetvay the Best CFO in Russia for the consecutive years of 2015 to 2019, and he received the Game Changer 2017 and 2018 Award for Russia.

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

MR. SERGEY V. VASYUNIN

Deputy Chairman of NOVATEK's Management Board – Operations Director
Born in 1967

In 1993, Sergey Vasyunin graduated from the Ufa Oil Institute, specializing in the Development and Operation of Oil and Gas Fields. Between 1993 and 1997, Mr. Vasyunin was employed with Condor as deputy director, Stroykomplekt as head of sales department, and with OAO Spetsnefteenergomontazhavtomatika – as marketing engineer. From 1998, he worked in the Urengoygazprom industrial association of OAO Gazprom where he served in the capacity of an oil, gas and condensate production foreman. Between 2002 and 2017, Mr. Vasyunin was employed in the positions of Gas Condensate Production Shop Manager, Deputy General Director for operations, and First Deputy General Director – Chief Engineer of OOO NOVATEK-YURKHAROVNEFTEGAS. In April 2017, he was appointed Deputy Chairman of the Management Board – Director for Operations of NOVATEK.

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

MR. EDUARD S. GUDKOV

Deputy Chairman of NOVATEK's Management Board
Born in: 1980

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

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

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

MR. EVGENY A. KOT

Deputy Chairman of NOVATEK's Management Board – Director for LNG
Born in: 1974

Mr. Kot graduated from the Tyumen State Academy of Architecture and Civil Engineering. He received a Ph.D. in Economics from the Saint Petersburg State University of Engineering and Economics.

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

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

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

MS. TATYANA S. KUZNETSOVA

Deputy Chairman of NOVATEK's Management Board
Born in 1960

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

MR. DENIS B. SOLOVYOV

Deputy Chairman of NOVATEK's Management Board – Director of Corporate Communications Department
Born in: 1978

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

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

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

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

MR. SERGEY G. SOLOVYOV

Deputy Chairman of the Management Board – Director for Geology
Born in: 1977

Graduated from the Gubkin Russian State University of Oil and Gas in 2001 with a degree in the Oil and Gas Fields Development and Operation, in 2003 – with a degree in Economics and Management in Oil and Gas Industry. From 2002 to 2004, he worked at Nortgas as a well diagnostics operator and well diagnostics foreman. From 2004 to 2005, he worked at Yurkharovneftegas as an engineer and lead engineer in the Field Development Group. In 2005, he was employed by NOVATEK where he worked as chief specialist and the head of the Field Development Analysis Group. In 2007, he was transferred to NOVATEK-YURKHAROVNEFTEGAS to the position of Deputy General Director – Chief Geologist. From 2009, he held the position of managing director of OOO NEU, in 2010 he became the general director of ZAO Investgeoservis. In 2011, he was elected General Director of NOVATEK-YURKHAROVNEFTEGAS. In 2014, he was elected General Director of Arctic LNG 2. In 2017, he became the General Director of Cryogas-Vysotsk.

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

MR. ILYA V. TAFINTSEV

Deputy Chairman of the NOVATEK's Management Board
Born in 1985

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

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

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

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

MR. LEV V. FEODOSYEV

First Deputy Chairman of NOVATEK's Management Board
Born in 1979

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

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

MR. ALEXANDER M. FRIDMAN
First Deputy Chairman of NOVATEK's Management Board (Authorities terminated from 2 November 2020)
Born in 1951

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

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

The list of transactions made by the Company in the reporting year, recognized in accordance with the Federal Law "On Joint Stock Companies" as major transactions and (or) interested-party transactions, is not disclosed in accordance with Resolution of the Government of the Russian Federation No. 400 dated 4 April 2019.

Corporate Governance Code Compliance Report

This Corporate Governance Code Compliance Report (hereinafter "the Report") was reviewed at the meeting of PAO NOVATEK's Board of Directors on 19 March 2021 (Minutes No.240).

The Board of Directors certifies that data in this Report contain full and reliable information on compliance by the Company with the principles and recommendations of the Corporate Governance Code for 2020.

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

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

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1	**The Company should ensure equitable and fair treatment of every shareholder exercising their right to take part in managing the Company.**			
1.1.1	The Company ensures the most favorable conditions for its shareholders to participate in the general meeting, develop an informed position on agenda items of the general meeting, coordinate their actions, and voice their opinions on items considered.	1. The Company's internal document approved by the general meeting of shareholders and governing the procedures for holding the general meeting is publicly available. 2. The Company provides accessible means of communication via hotline, e-mail or an online forum for shareholders to voice their opinions and submit questions on the agenda in preparing for the general meeting. The Company performed the above actions in advance of each general meeting held in the reporting period.	This principle is complied with.	–

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1.2	The procedure for giving notice of, and providing relevant materials for, the general meeting enables shareholders to properly prepare for attending the general meeting.	1. The notice of an upcoming general meeting of shareholders is posted (published) online at least 30 days prior to the date of the general meeting. 2. The notice of an upcoming meeting specifies the meeting venue and documents required for admission. 3. Shareholders were given access to the information on who proposed the agenda items and who proposed nominees to the company's board of directors and the revision commission.	This principle is complied with.	–
1.1.3	In preparing for, and holding of, the general meeting, shareholders were able to receive clear and timely information on the meeting and related materials, put questions to the company's executive bodies and the board of directors, and to communicate with each other.	1. In the reporting period, shareholders were able to put questions to members of executive bodies and members of the board of directors before and during the annual general meeting	This principle is complied with.	–
		2. The position of the board of directors (including dissenting opinions entered into the minutes) on each agenda item of general meetings held in the reporting period was included in the materials to the general meeting of shareholders.	This principle is not fully complied with.	When convening General Meetings of Shareholders, the board of directors reviews all agenda items of the relevant meeting and presents them to the Meeting for consideration or provides necessary advice. Materials to the General Meeting of Shareholders include recommendations of the board of directors as required by law. In accordance with paragraph 1 of Art. 54 of the Russian Federal Law "On Joint Stock Companies", the list of information (materials) provided to shareholders in preparation for the General Meeting of Shareholders is determined by the Board of Directors. Accordingly, the Board of Directors is entitled to include its position on the issues on the agenda of the general meeting of shareholders, if it deems it necessary. The Company considers the established procedure to be balanced, not bearing any risks for the Company and its shareholders, and does not plan to change the existing approach.

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
		3. The Company gave duly authorized shareholders access to the list of persons entitled to attend the General Meeting, as from the date of its receipt by the Company, for all general meetings held in the reporting period.	This principle is complied with.	–
1.1.4	There were no unjustified difficulties preventing shareholders from exercising their right to request that a General Meeting be convened, to propose nominees to the Company's governing bodies, and to make proposals for the agenda of the General Meeting.	1. In the reporting period, shareholders were able to submit, within at least 60 days after the end of the relevant calendar year, proposals for the agenda of the Annual General Meeting. 2. In the reporting period, the Company did not reject any proposals for the agenda or nominees to the company's governing bodies due to misprints or other insignificant flaws in the shareholder's proposal.	This principle is complied with.	–
1.1.5	Each shareholder was able to freely exercise their voting right in the simplest and most convenient way.	1. An internal document (internal policy) of the Company provides that each participant of the General Meeting may request a copy of the ballot filled out by them and certified by the counting commission before the end of the relevant meeting.	This principle is complied with.	–
1.1.6	The procedure for holding a General Meeting set by the Company provides equal opportunities for all persons attending the Meeting to voice their opinions and ask questions.	1. General Meetings of Shareholders held in the reporting period in the form of a meeting (i.e. joint presence of shareholders) provided for sufficient time for making reports on and for discussing agenda items.	This principle is complied with.	–
		2. Nominees to the Company's governing and control bodies were available to answer questions of shareholders at the Meeting at which their nominations were put to vote.	This principle is complied with.	–
		3. When passing resolutions on preparing and holding General Meetings of Shareholders, the board of directors considered using telecommunication means for remote access of shareholders to General Meetings in the reporting period.	This principle is complied with.	–

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.2	**Shareholders are given equal and fair opportunities to share profits of the Company in the form of dividends.**			
1.2.1	The Company has designed and put in place a transparent and clear mechanism to determine the dividend amount and payout procedure.	1. The Company has drafted and disclosed a dividend policy approved by the board of directors. 2. If the Company's dividend policy uses reporting figures to determine the dividend amount, then relevant provisions of the dividend policy take into account the consolidated financial statements.	This principle is complied with.	–
1.2.2	The Company does not resolve to pay out dividends if such payout, while formally compliant with law, is economically unjustified and may lead to a false representation of the Company's performance.	1. The Company's dividend policy clearly identifies financial / economic circumstances under which the Company shall not pay out dividends.	This principle is complied with.	–
1.2.3	The Company does not allow for dividend rights of its existing shareholders to be impaired.	1. In the reporting period, the Company did not take any actions that would lead to the impairment of the dividend rights of its existing shareholders.	This principle is complied with.	–
1.2.4	The Company makes every effort to prevent its shareholders from using other means to profit (gain) from the Company other than dividends and liquidation value.	1. To prevent shareholders from using other means to profit (gain) from the Company other than dividends and liquidation value, the Company's internal documents provide for controls to timely identify and approve deals with affiliates (associates) of the Company's substantial shareholders (persons entitled to use votes attached to voting shares) where the law does not formally recognize such deals as related-party transactions.	This principle is not complied with.	This principle is not complied with as the Company believes that statutory controls are sufficient for relevant purposes. The Company does not transact with persons under control by substantial shareholders, which prevents substantial shareholders from profiting (gaining) from the Company. The Company does not see any risks in the established practice, as the system of procurement procedures introduced in the Company ensures the conclusion of contracts on market terms.
1.3	**Corporate governance framework and practices should ensure equality for the shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equitable treatment by the Company.**			
1.3.1	The Company has created conditions for fair treatment of each shareholder by the Company's governing and control bodies, including conditions that rule out abuse by major shareholders against minority shareholders.	1. In the reporting period, procedures for management of potential conflicts of interest among substantial shareholders were efficient, while the board of directors paid due attention to conflicts, if any, between shareholders.	This principle is complied with.	–

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

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

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

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.3.3	The board of directors has a balanced membership, including in terms of directors' qualifications, experience, expertise and business qualities, and enjoys its shareholders' trust.	1. As part of assessment of the board of directors' performance run in the reporting period, the board of directors reviewed its requirements to professional qualifications, experience and business skills.	This principle is complied with.	–
2.3.4	The company has a sufficient number of directors to organize the board of directors' activities in the most efficient way, including ability to set up committees of the board of directors and enable the company's substantial minority shareholders to elect a nominee to the board of directors for whom they vote.	1. As part of assessment of the board of directors' performance run in the reporting period, the board of directors considered whether the number of directors met the company's needs and shareholders' interests.	This principle is complied with.	–
2.4	**The board of directors includes a sufficient number of independent directors.**			
2.4.1	An independent director is a person who is sufficiently professional, experienced and independent to develop their own position, and capable of making unbiased judgements in good faith, free of influence by the company's executive bodies, individual groups of shareholders or other stakeholders. It should be noted that a nominee (elected director) who is related to the company, its substantial shareholder, substantial counterparty or competitor of the company, or related to the government, may not be considered as independent under normal circumstances.	1. In the reporting period, all independent directors met all independence criteria set out in Recommendations 102–107 of the Code or were deemed independent by the board of directors.	This principle is complied with.	–

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.4.2	The company assesses compliance of nominees to the board of directors and reviews compliance of independent directors with independence criteria on a regular basis. In such assessment, substance should prevail over form.	1. In the reporting period, the board of directors (or its nomination committee) made a judgement on independence of each nominee to the board of directors and provided its opinion to shareholders. 2. In the reporting period, the board of directors (or its nomination committee) reviewed, at least once, the independence of incumbent directors listed by the company as independent directors in its annual report. 3. The company has in place procedures defining the actions to be taken by a member of the board of directors if they cease to be independent, including the obligation to timely notify the board of directors thereof.	This principle is complied with.	–
2.4.3	Independent directors make up at least one third of the elected board members.	1. Independent directors make up at least one third of the board members.	This principle is complied with.	–
2.4.4	Independent directors play a key role in preventing internal conflicts in the company and in ensuring that the company performs material corporate actions.	1. Independent directors (with no conflicts of interest) run a preliminary assessment of material corporate actions implying a potential conflict of interests and submit the results to the board of directors.	This principle is not fully complied with.	In accordance with the Company's Articles of Association, the Regulations on the Board of Directors and the Regulations on the Committees of the Board of Directors, a large block of issues related to significant corporate actions is preliminarily considered by the Audit Committee and the Remuneration Committee consisting of independent directors. In addition, most of such decisions shall be approved by the Board of Directors, if 8 out of 9 directors voted for the corresponding decision. Thus, any two independent directors may block the adoption of an undesirable decision in their opinion. The Company believes that independent directors have sufficient capacity to assess significant corporate actions.

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.5	**The chairperson of the board ensures that the board of directors discharges its duties in the most effective and efficient way.**			
2.5.1	The board of directors is chaired by an independent director, or a senior independent director supervising the activities of other independent directors and interacting with the chairman of the board of directors is chosen from among the elected independent directors.	1.The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors. 2. The role, rights and duties of the chairman of the board of directors (and, if applicable, of the senior independent director) are duly set out in the company's internal documents.	This principle is not fully complied with.	The role of independent directors on the Company's Board of Directors is very important, since the Audit Committee and the Remuneration and Nomination Committee of the Board of Directors are comprised of independent directors only. Formally, the Chairman of the Board of Directors is not an Independent Director. However, the Chairman of the Board of Directors meets all independence criteria, except for his tenure on the Board of Directors. For chairmanship purposes, the directors elected the most experienced of the Board members who is not an independent director. The Company considers the established procedure to be balanced and does not plan to change the existing approach.
2.5.2	The chairman of the board of directors maintains a constructive environment at meetings, enables free discussion of agenda items, and supervises the execution of resolutions passed by the board of directors.	1. Performance of the chairman of the board of directors was assessed as part of assessment of the board of directors' performance in the reporting period.	This principle is complied with.	–
2.5.3	The chairman of the board of directors takes all steps necessary for the timely provision to members of the board of directors of information required to pass resolutions on agenda items.	1. The company's internal documents set out the duty of the chairman of the board of directors to take all steps necessary for the timely provision to members of the board of directors with materials on agenda items of the board meeting	This principle is complied with.	–

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

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.7	**Meetings of the board of directors, preparation for such meetings and participation of board members therein ensure efficient performance by the board of directors.**			
2.7.1	Board meetings are held as needed, taking into account the scale of operations and goals of the company at a particular time.	1. The board of directors held at least six meetings in the reporting year.	This principle is complied with.	–
2.7.2	The company's internal regulations stipulate the procedure to prepare for and hold the board's meetings, enabling the directors to make proper preparations for them:	1. The company has an approved internal document that describes the procedure for arranging and holding meetings of the board of directors and sets out, in particular, that the notice of the meeting shall be given, as a rule, at least five days prior to such meeting.	This principle is complied with.	–
2.7.3	The format of the meeting of the board of directors is determined taking into account the importance of items on the agenda. The most important matters are dealt with at meetings of the board of directors held in person.	1. The company's charter or internal document provides for the most important matters (as per the list set out in Recommendation 168 of the Code) to be passed at in-person meetings of the board of directors.	This principle is complied with.	–

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.7.4	Resolutions on most important matters relating to the company's operations are passed at a meeting of the board of directors by a qualified majority or by a majority of all elected board members.	1. The company's charter provides for the most important matters set out in Recommendation 170 of the Code to be passed at a meeting of the board of directors by a qualified majority of at least three quarters or by a majority of all elected board members.	This principle is not fully complied with.	The Company's Articles of Association do not provide for resolutions of the Board to be passed by qualified majority on the following matters: – submission to the General Meeting of matters relating to the Company's liquidation – submission to the General Meeting of matters relating to amendments to the Company's Articles of Association – review of material issues relating to operations of legal entities controlled by the Company. The Company deems sufficient the existing norm stipulated in the legislation and the Articles of Association according to which decisions on amendments and additions in the Company's Articles of Association, including approval of the latter in a new wording, as well as on Company's liquidation, appointment of a winding up commission and approval of the interim and final liquidation balance shall be made by the general shareholders meeting by the three-fourths majority of the votes of shareholders holding the voting shares and taking part in the general shareholders meeting. The Company considers the established procedure to be balanced, not bearing any risks, and does not plan to change the existing approach.

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.8	**The board of directors sets up committees for preliminary consideration of the most important issues related to the business of the company.**			
2.8.1	To preview matters related to controlling the company's financial and business activities, it is recommended to set up an audit committee comprised of independent directors.	1. The board of directors has set up an audit committee comprised solely of independent directors. 2. The company's internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code. 3. At least one member of the audit committee represented by an independent director has experience and knowledge of preparing, analyzing, assessing and auditing accounting (financial) statements. 4. Meetings of the audit committee were held at least once a quarter during the reporting period.	This principle is complied with.	–
2.8.2	To preview matters related to adopting an efficient and transparent remuneration scheme, a remuneration committee is set up, comprised of independent directors and headed by an independent director who is not the chairman of the board of directors.	1. The board of directors has set up a remuneration committee comprised solely of independent directors. 2. The remuneration committee is headed by an independent director who is not the chairman of the board of directors. 3. The company's internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.	This principle is complied with.	–
2.8.3	To preview matters related to talent management (succession planning), professional composition and efficiency of the board of directors, a nomination (HR) committee is set up, predominantly comprised of independent directors.	1. The board of directors has set up a nomination committee (its tasks listed in Recommendation 186 of the Code are fulfilled by another committee, the Remuneration and Nomination Committee) predominantly comprised of independent directors. 2. The company's internal documents set out the tasks of the nomination committee (or the tasks of the committee with combined functions), including those listed in Recommendation 186 of the Code.	This principle is complied with.	–
2.8.4	Taking into account the company's scope of business and level of risks, the company's board of directors made sure that the composition of its committees is fully in line with company's business goals. Additional committees were either set up or not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.).	1. In the reporting period, the board of directors considered whether the composition of its committees was in line with the board's tasks and the company's business goals. Additional committees were either set up or not deemed necessary.	This principle is complied with.	–
2.8.5	Committees are composed so as to enable comprehensive discussions of matters under review, taking into account the diversity of opinions.	1. Committees of the board of directors are headed by independent directors. 2. The company's internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee and the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee.	This principle is complied with.	–
2.8.6	Committee chairmen inform the board of directors and its chairman on the work of their committees on a regular basis.	1. During the reporting period, committee chairmen reported to the board of directors on the work of committees on a regular basis.	This principle is complied with..	–
2.9	**The board of directors ensures performance assessment of the board of directors, its committees and members of the board of directors.**			
2.9.1	The board of directors' performance assessment is aimed at determining the efficiency of the board of directors, its committees and members, consistency of their work with the company's development requirements, as well as bolstering the work of the board of directors and identifying areas for improvement.	1. Self-assessment or external assessment of the board of directors' performance carried out in the reporting period included performance assessment of the committees, individual members of the board of directors and the board of directors in general. 2. Results of self-assessment or external assessment of the board of directors' performance carried out in the reporting period were reviewed at the in-person meeting of the board.	This principle is complied with..	–

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.9.2	Performance of the board of directors, its committees and directors is assessed on a regular basis at least once a year. An external organization (advisor) is engaged at least once in three years to conduct an independent assessment of the board of directors' performance.	1. The company engaged an external advisor to conduct an independent assessment of the board of directors' performance at least once over the last three reporting periods.	This principle is complied with.	–
3.1	**The company's corporate secretary ensures efficient ongoing interaction with shareholders, coordinates the company's efforts to protect shareholder rights and interests and supports the activities of the board of directors.**			
3.1.1	The corporate secretary has the knowledge, experience and qualifications sufficient to perform his/her duties, as well as an impeccable reputation and the trust of shareholders.	1. The company has adopted and published an internal document – regulations on the corporate secretary. 2. The biographical data of the corporate secretary are published on the corporate website and in the company's annual report with the same level of detail as for members of the board of directors and the company's executives.	This principle is complied with.	–
3.1.2	The corporate secretary is sufficiently independent of the company's executive bodies and has the powers and resources required to perform his/her tasks.	The board of directors approves the appointment, removal and additional remuneration of the corporate secretary.	This principle is complied with.	–
4.1	**Remuneration paid by the company is sufficient to attract, motivate and retain persons who have competencies and qualifications required by the company. Directors, executive body members and other key managers are remunerated as per the company's remuneration policy.**			
4.1.1	The amount of remuneration paid by the company to members of the board of directors, executive bodies and other key executives creates sufficient incentives for them to work efficiently, while enabling the company to engage and retain competent and qualified specialists. At the same time, the company avoids unnecessarily high remuneration, as well as unjustifiably large gaps between remunerations of the above persons and the company's employees.	1. The company has in place an internal document (internal documents) – the policy (policies) on remuneration of members of the board of directors, executive bodies and other key executives, which clearly defines (define) the approaches to remuneration of the above persons.	This principle is complied with.	–

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.1.2	The company's remuneration policy is developed by the remuneration committee and approved by the board of directors. The board of directors, assisted by the remuneration committee, ensures control over the introduction and implementation of the company's remuneration policy, revising and amending it as required.	1. During the reporting period, the remuneration committee considered the remuneration policy (policies) and the practical aspects of its (their) introduction and presented relevant recommendations to the board of directors as required.	This principle is complied with.	–
4.1.3	The company's remuneration policy includes transparent mechanisms for determining the amount of remuneration due to members of the board of directors, executive bodies and other key executives of the company, and regulates all types of expenses, benefits and privileges provided to such persons.	1. The company's remuneration policy (policies) includes (include) transparent mechanisms for determining the amount of remuneration due to members of the board of directors, executive bodies and other key executives of the company, and regulates (regulate) all types of expenses, benefits and privileges provided to such persons.	This principle is complied with.	–
4.1.4	The company defines a policy on reimbursement (compensation) of costs detailing a list of reimbursable expenses and specifying service levels that members of the board of directors, executive bodies and other key executives of the company can claim. Such policy can make part of the company's remuneration policy.	1. The remuneration policy (policies) defines (define) the rules for reimbursement of costs incurred by members of the board of directors, executive bodies and other key executives of the company.	This principle is complied with.	–

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.2	**Directors' remuneration ensureS that their financial interests are aligned with long-term financial interests of shareholders.**			
4.2.1	The company pays fixed annual remuneration to members of the board of directors. The company does not pay remuneration for attending particular meetings of the board of directors or its committees. The company does not apply any form of short-term motivation or additional financial incentive for members of the board of directors.	1. Fixed annual remuneration was the only form of monetary remuneration payable to members of the board of directors for their service on the board of directors during the reporting period.	This principle is complied with.	–
4.2.2	Long-term ownership of the company's shares helps align the financial interests of members of the board of directors with the long-term interests of shareholders to the utmost. At the same time, the company does not link the right to dispose of shares to performance targets, and members of the board of directors do not participate in stock option plans.	1. If the company's internal document(s) – the remuneration policy (policies) stipulates (stipulate) provision of the company's shares to members of the board of directors, clear rules for share ownership by board members are defined and disclosed, aimed at stimulating long-term ownership of such shares.	This principle is complied with.	Not applicable, since the Regulations on Remuneration and Compensations Payable to Members of PAO NOVATEK board of directors do not provide for remuneration of the directors with company shares.
4.2.3	The company does not provide for any extra payments or compensations in the event of early termination of office of members of the board of directors resulting from the change of control or any other reasons whatsoever.	1. The company does not provide for any extra payments or compensations in the event of early termination of office of members of the board of directors resulting from the change of control or any other reasons whatsoever.	This principle is complied with.	–

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.3	**Remuneration of executive body members and other key managers is linked to the company's results and their personal contribution thereto.**			
4.3.1	Remuneration due to members of executive bodies and other key executives of the company is determined in a manner providing for a reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's performance and the employee's personal contribution.	1. In the reporting period, annual performance results approved by the board of directors were used to determine the amount of the variable part of remuneration due to members of executive bodies and other key executives of the company. 2. During the latest assessment of the system of remuneration for members of executive bodies and other key executives of the company, the board of directors (remuneration committee) made sure that the company applies an efficient ratio of the fixed and variable parts of remuneration. 3. The company has in place a procedure that guarantees return to the company of bonus payments illegally received by members of executive bodies and other key executives of the company.	This principle is not fully complied with.	The procedure for defining and payment of bonuses to members of the Management Board and other key executives existing in the Company does not allow illegal receipt of bonus payments by the persons named. The Company believes the executive bodies' members' civil liability norms set out in the applicable law to be sufficient.
4.3.2	The company put in place a long-term incentive programme for members of executive bodies and other key executives of the company with the use of the company's shares (options and other derivative instruments where the company's shares are the underlying asset).	1. The company has in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company's shares (financial instruments based on the company's shares). 2. The long-term incentive program for members of executive bodies and other key executives of the company implies that the right to dispose of shares and other financial instruments used in this program takes effect at least three years after such shares or other financial instruments are granted. The right to dispose of such shares or other financial instruments is linked to the company's performance targets.	This principle is not complied with.	Currently, the Company does not consider necessary implementing a long-term incentive program for members of executive bodies and other key executives of the company with the use of the Company's shares (financial instruments based on the Company's shares).

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.3.3	The compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, does not exceed the double amount of the fixed part of their annual remuneration.	1. In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of the powers of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed part of their annual remuneration.	This principle is complied with.	–
5.1	**The company put in place an effective risk management and internal control system to guarantee, in a reasonable manner, fulfillment of the company's goals.**			
5.1.1	The board of directors of the Company has defined the Company's risk management and internal control principles and approaches.	1. Functions of different management bodies and divisions of the company in the risk management and internal controls are clearly defined in the company's internal documents /relevant policy approved by the board of directors.	This principle is complied with.	–
5.1.2	The company's executive bodies ensure establishment and continuous operation of efficient risk management and internal controls in the company.	1. The company's executive bodies ensured the distribution of functions and powers related to risk management and internal controls between the heads (managers) of divisions and departments accountable to them.	This principle is complied with.	–
5.1.3	The company's risk management and internal controls ensure an objective, fair and clear view of the current state and future prospects of the company, the integrity and transparency of the company's reporting, as well as reasonable and acceptable risk exposure.	1. The company has in place an approved anti-corruption policy. 2. The company established an accessible method of notifying the board of directors or the board's audit committee of breaches of any violations of the law, the company's internal procedures and code of ethics.	This principle is complied with.	–
5.1.4	The company's board of directors shall take necessary measures to make sure that the company's risk management and internal controls are consistent with the principles of, and approaches to, its setup determined by the board of directors, and that the system is functioning efficiently.	1. In the reporting period, the board of directors or the Board's audit committee assessed the efficiency of the company's risk management and internal controls. Key results of this assessment are included in the company's annual report.	This principle is complied with.	–

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
5.2	**The company arranges for an internal audit, to assess reliability and performance of the risk management and internal control system on a regular and independent basis.**			
5.2.1	The company set up a separate business unit or engaged an independent external organization to carry out internal audits. Functional and administrative reporting lines of the internal audit department are delineated. The internal audit unit functionally reports to the board of directors.	1. To perform internal audits, the company set up a separate business unit – internal audit division, functionally reporting to the board of directors or to the audit committee, or engaged an independent external organization with the same line of reporting.	This principle is complied with.	–
5.2.2	The internal audit division assesses the performance of the internal controls, risk management, and corporate governance. The company applies generally accepted standards of internal audit.	1. In the reporting period, the performance of the internal controls and risk management was assessed as part of the internal audit procedure. 2. The company applies generally accepted approaches to internal audit and risk management.	This principle is complied with.	–
6.1	**The company and its operations are transparent for its shareholders, investors and other stakeholders.**			
6.1.1	The company has developed and implemented an information policy ensuring an efficient exchange of information by the company, its shareholders, investors, and other stakeholders.	1. The company's board of directors approved an information policy developed in accordance with the Code's recommendations. 2. The board of directors (or its committee) reviewed the company's compliance with its information policy at least once in the reporting period.	This principle is complied with.	–
6.1.2	The company discloses information on its corporate governance and practice, including detailed information on compliance with the principles and recommendations of the Code.	1. The company discloses information on its corporate governance and general principles of corporate governance, including disclosure on its website. 2. The company discloses information on the membership of its executive bodies and board of directors, independence of the directors and their membership in the board's committees (as defined by the Code). 3. If the company has a controlling person, the company publishes a memorandum of the controlling person setting out this person's plans for the company's corporate governance.	This principle is complied with.	–

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.2	**The company discloses up-to-date, complete and reliable information on its operations in due time, to enable its shareholders and investors to make informed decisions.**			
6.2.1	The company discloses information based on the principles of regularity, consistency and promptness, as well as availability, reliability, completeness and comparability of disclosed data.	1. The company's information policy sets out approaches to, and criteria for, identifying information that can have a material impact on the company's evaluation and the price of its securities, as well as procedures ensuring timely disclosure of such information. 2. If the company's securities are traded on foreign organized markets, the company ensured concerted and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting year. 3. If foreign shareholders hold a material portion of the company's shares, information was disclosed both in the Russian language and one of the most widely used foreign languages in the reporting period.	This principle is complied with.	–
6.2.2	The company avoids a formalistic approach to information disclosure and discloses material information on its operations, even if disclosure of such information is not required by law.	1. In the reporting period, the company disclosed annual and 6M financial statements prepared under the IFRS. The company's annual report for the reporting period included annual financial statements prepared under the IFRS, along with the auditor's report. 2. The company discloses full information on its capital structure in accordance with Recommendation 290 of the Code both in the annual report and on the company's website.	This principle is not fully complied with.	The Company discloses its capital structure to the extent required by the applicable laws.
6.2.3	The company's annual report, as one of the most important tools of its information exchange with shareholders and other interested parties, contains information enabling assessment of the company's annual performance results.	1. The company's annual report contains information on the key aspects of its operating and financial performance. 2. The company's annual report contains information on the environmental and social aspects of the company's operations.	This principle is complied with.	–

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

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
7.1.2	The board of directors plays a key role in passing resolutions or making recommendations on material corporate actions, relying on the opinions of the company's independent directors.	1. The company has in place a procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof.	This principle is not fully complied with.	Relevant comments are provided in items 2.4.4. and 2.5.1 hereof.
7.1.3	When taking material corporate actions which would affect rights or legitimate interests of shareholders, equal terms and conditions are guaranteed for all shareholders; if the statutory procedure designed to protect shareholders' rights proves insufficient, additional measures are taken to protect their rights and legitimate interests. In doing so, the company is guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements.	1. Due to specifics of the company's operations, the company's charter contains less stringent criteria for material corporate actions than required by law. 2. All material corporate actions in the reporting period were duly approved before they were taken.	This principle is complied with.	–
7.2	**The company provides a procedure for taking material corporate actions that would enable its shareholders to receive full information about such actions in due time and influence them, and also guarantee that the shareholder rights are observed and duly protected when such actions are taken.**			
7.2.1	Information about material corporate actions is disclosed with explanations of the grounds, circumstances and consequences.	1. In the reporting period, the company disclosed information about its material corporate actions in due time and in detail, including the grounds for, and timelines of, such actions.	This principle is complied with.	–

Item No.	Corporate Governance Principles	Compliance criteria	Compliance status	Reasons for non-compliance
7.2.2	Rules and procedures related to material corporate actions taken by the company are set out in the company's internal documents.	1. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of assets either disposed of or acquired in a major transaction or a related-party transaction 2. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of shares acquired and redeemed by the company. 3. The company's internal documents provide for an expanded list of grounds on which the company's directors and other persons as per the applicable law are deemed to be related parties to the company's transactions.	This principle is not complied with.	The need to involve an appraiser for the valuation of the purchase price of the Company's shares is provided by the current legislation. There is no need to duplicate this requirement in the internal documents of the Company.

Forward–looking Statements

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

- changes in the balance of oil and gas supply and demand in Russia and Europe;
- the effects of domestic and international oil and gas price volatility and changes in regulatory conditions, including prices and taxes;
- the effects of competition in the domestic and export oil and gas markets;
- our ability to successfully implement any of our business strategies;
- the impact of our expansion on our revenue potential, cost basis and margins;
- our ability to produce target volumes in the event, among other factors, of restrictions on our access to transportation infrastructure;
- the effects of changes to our capital expenditure projections on the growth of our production;
- potentially lower production levels in the future than currently estimated by our management and/or independent petroleum reservoir engineers;
- inherent uncertainties in interpreting geophysical data;
- changes to project schedules and estimated completion dates;
- our success in identifying and managing risks to our businesses;
- the effects of changes to the Russian legal framework concerning currently held and any newly acquired oil and gas production licenses;
- changes in political, social, legal or economic conditions in Russia and the CIS;
- the effects of technological changes;
- the effects of changes in accounting standards or practices.

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

Terms and Abbreviations

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

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

Conversion Factors

1000 cubic meters of gas = 6.54 boe.

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

PAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

AND INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

To the Shareholders and Board of Directors of PAO NOVATEK:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PAO NOVATEK and its subsidiaries (together – the "Group") as at 31 December 2020, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

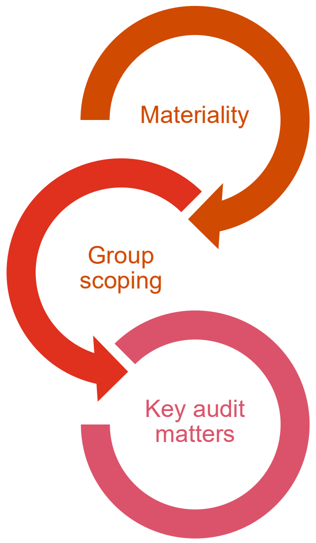
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



- Overall group materiality: Russian Roubles ("RUB") 6,200 million which represents 4% of adjusted profit before tax excluding currency exchange differences, net gain on disposal of interests in subsidiaries and joint ventures and the Group's share of joint ventures' currency exchange differences net of income tax.

- We conducted audit work covering all significant components in Russia, Switzerland, Singapore and Republic of Cyprus.
- Our audit scope addressed more than 99% of the Group's revenues and more than 99% of absolute value of income and expense items forming the Group's underlying profit before tax.

- Impairment of production assets and investments in joint ventures.

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

Materiality

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

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

AO PricewaterhouseCoopers Audit
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T: +7 (495) 967-6000, F:+7 (495) 967-6001, www.pwc.ru

Overall Group materiality	RUB 6,200 million
How we determined it	4% of adjusted profit before tax excluding currency differences, net gain on disposal of interests in subsidiaries and joint ventures and share of joint ventures' currency differences net of income tax.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. The use of adjusted profit before tax mitigates the effect of volatility (that could be material) caused by non-recurring factors such as gains on disposals of assets and foreign exchange differences and provides a more stable basis for determining materiality, focusing on the underlying profitability of the Group. We chose 4% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector and prior year approach.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of production assets and investments in joint ventures Due to the lower demand for crude oil, natural gas and oil products and a fall in global hydrocarbon commodity prices there is a possibility that property, plant and equipment, as well as investments in joint ventures may not be recoverable. We focused on this area due to the significance of the carrying values of property, plant and equipment and of the investments in joint ventures for the Group, and due to the nature of judgements and assumptions management is required to make in determining whether there are any impairment triggers or impairments.	We analyzed management's assessment of the impairment triggers, including decrease in estimated hydrocarbon reserves for particular fields where applicable, and agreed that impairment triggers existed as of the reporting date. We engaged our valuation experts to form our conclusion on the assumptions and methodology that were used in the impairment assessment. We evaluated impairment models for production assets and investments in joint ventures prepared by management to identify recoverable amount as value-in-use using discounted cash flows models. Specific work that we performed over the assessment of the impairment models prepared by management included: • evaluation of the methodology used by the Group management for the impairment test;

Key audit matter	How our audit addressed the key audit matter
There was no impairment charge identified as a result of the impairment test performed as disclosed in Note 5 of the consolidated financial statements.	• comparing the assumptions used within the impairment review models to approved plans and models of the Group, which we found to be consistent; • benchmarking some of the key assumptions including commodity prices, discount rates and inflation rates against available reliable external sources and our industry-specific expertise, which we found to be consistent; • performing sensitivity analysis over key assumptions in the models in order to assess the potential impact of reasonably possible changes in key assumptions and of a range of possible outcomes on the carrying value of underlying assets / cash-generating units; and • challenged management on inclusion of cash flows from all appropriate assets and liabilities in the cash-generating units. For investments in joint ventures we also reconciled adjustments for the Group's share in carrying amount of assets and liabilities of joint venture with respective financial reporting items.

How we tailored our Group audit scope

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

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

The Group's consolidated financial statements disclosures and a number of financial statement line items are audited directly by the PAO NOVATEK audit engagement team. Our procedures included, among others, the assessment of accounting estimates and judgements applied by management in respect of fair values and classification of financial assets and liabilities, deferred income tax asset recognition, estimation of oil and gas reserves, expected credit loss allowance of financial assets and impairment of non-financial assets, pension obligations and asset retirement obligations.

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

Other information

Management is responsible for the other information. The other information comprises report "Management's discussion and analysis of financial condition and results of operations of PAO NOVATEK for the years ended 31 December 2020 and 2019" (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and "Quarterly Issuer's Report of PAO NOVATEK for the first quarter of 2021" as well as "Annual Report Review of PAO NOVATEK for 2020", which are expected to be made available to us after that date.

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

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

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

When we read the "Annual Report Review of PAO NOVATEK for 2020" and "Quarterly Issuer's Report of PAO NOVATEK for the first quarter of 2021", if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

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

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

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

pwc

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

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

AO PricewaterhouseCoopers Audit

16 February 2021
Moscow, Russian Federation

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

Audited entity: PAO NOVATEK

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

Taxpayer Identification Number: 6316031581

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

Taxpayer Identification Number 7705051102

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

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

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

	Notes	At 31 December 2020	At 31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	5	729,407	556,798
Investments in joint ventures	6	450,632	585,340
Long-term loans and receivables	7	391,053	231,898
Other non-current assets	8	125,152	142,335
Total non-current assets		**1,696,244**	**1,516,371**
Current assets			
Inventories	9	10,723	12,263
Current income tax prepayments		302	3,819
Trade and other receivables	10	71,255	229,581
Prepayments and other current assets	11	98,071	113,841
Short-term bank deposits with original maturity more than three months		62,876	83,752
Cash and cash equivalents	12	119,707	53,240
Total current assets		**362,934**	**496,496**
Total assets		**2,059,178**	**2,012,867**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	13	168,988	139,852
Long-term lease liabilities	25	6,670	7,516
Deferred income tax liabilities	24	64,132	62,146
Asset retirement obligations		14,397	12,372
Other non-current liabilities		6,568	6,792
Total non-current liabilities		**260,755**	**228,678**
Current liabilities			
Current portion of long-term debt	13	53,152	12,246
Current portion of long-term lease liabilities	25	3,798	2,947
Trade payables and accrued liabilities	15	83,995	86,728
Current income tax payable		3,048	2,140
Other taxes payable		16,003	13,052
Total current liabilities		**159,996**	**117,113**
Total liabilities		**420,751**	**345,791**
Equity attributable to PAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(20,386)	(12,308)
Additional paid-in capital		31,297	31,297
Currency translation differences		2,652	3,814
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		1,600,391	1,618,696
Total equity attributable to PAO NOVATEK shareholders	16	**1,619,964**	**1,647,509**
Non-controlling interest		**18,463**	**19,567**
Total equity		**1,638,427**	**1,667,076**
Total liabilities and equity		**2,059,178**	**2,012,867**

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

L. Mikhelson
Chairman of the Management Committee

M. Gyetvay
Chief Financial Officer

16 February 2021

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

	Notes	Year ended 31 December: 2020	2019
Revenues			
Oil and gas sales	17	699,750	852,232
Other revenues		12,062	10,571
Total revenues		**711,812**	**862,803**
Operating expenses			
Purchases of natural gas and liquid hydrocarbons	18	(235,224)	(330,818)
Transportation expenses	19	(154,757)	(151,651)
Taxes other than income tax	20	(54,501)	(61,981)
Depreciation, depletion and amortization	5	(39,238)	(32,230)
Materials, services and other	21	(29,577)	(25,183)
General and administrative expenses	22	(26,795)	(24,568)
Exploration expenses	5	(9,103)	(8,386)
Impairment (expenses) reversals, net		(254)	(162)
Changes in natural gas, liquid hydrocarbons and work-in-progress		(2,613)	(5,484)
Total operating expenses		**(552,062)**	**(640,463)**
Gain on disposal of interests in subsidiaries and joint ventures, net	4	69	682,733
Other operating income (loss), net	25	(46,807)	(35,484)
Profit from operations		**113,012**	**869,589**
Finance income (expense)			
Interest expense	23	(4,939)	(4,491)
Interest income	23	25,440	20,699
Change in fair value of non-commodity financial instruments	25	(7,397)	12,827
Foreign exchange gain (loss), net	23	147,461	(44,747)
Total finance income (expense)		**160,565**	**(15,712)**
Share of profit (loss) of joint ventures, net of income tax	6	(143,981)	149,238
Profit before income tax		**129,596**	**1,003,115**
Income tax expense			
Current income tax expense		(52,016)	(97,832)
Deferred income tax benefit (expense), net		1,006	(21,822)
Total income tax expense	24	**(51,010)**	**(119,654)**
Profit		**78,586**	**883,461**
Profit attributable to:			
Non-controlling interest		10,754	17,984
Shareholders of PAO NOVATEK		67,832	865,477
Basic and diluted earnings per share (in Russian roubles)		22.58	287.39
Weighted average number of shares outstanding (in millions)		*3,004.5*	*3,011.5*

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

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

	Notes	Year ended 31 December: 2020	2019
Profit		**78,586**	**883,461**
Other comprehensive income (loss)			
Items that will not be reclassified subsequently to profit (loss)			
Remeasurement of pension obligations	14	(92)	(976)
Share of remeasurement of pension obligations of joint ventures		(80)	(205)
		(172)	**(1,181)**
Items that may be reclassified subsequently to profit (loss)			
Currency translation differences		(43)	4,860
Share of currency translation differences of joint ventures		(1,119)	656
		(1,162)	**5,516**
Other comprehensive income (loss)		**(1,334)**	**4,335**
Total comprehensive income		**77,252**	**887,796**
Total comprehensive income attributable to:			
Non-controlling interest		10,754	17,984
Shareholders of PAO NOVATEK		66,498	869,812

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

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2020	2019
Profit before income tax		**129,596**	**1,003,115**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		39,238	32,230
Impairment expenses (reversals), net		254	162
Foreign exchange loss (gain), net		(147,461)	44,747
Gain on disposal of interests in subsidiaries and joint ventures, net	4	(69)	(682,733)
Interest expense		4,939	4,491
Interest income		(25,440)	(20,699)
Share of loss (profit) of joint ventures, net of income tax	6	143,981	(149,238)
Change in fair value of non-commodity financial instruments		7,397	(12,827)
Revaluation of commodity derivatives and contingent consideration through profit or loss	25	49,512	34,304
Other adjustments		1,940	(294)
Decrease (increase) in long-term advances given		6,013	5,740
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(13,766)	(21,498)
Decrease (increase) in inventories		2,565	7,560
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		(8,615)	6,086
Increase (decrease) in taxes payable, other than income tax		2,927	(2,115)
Total effect of working capital changes		**(16,889)**	**(9,967)**
Dividends and cash received from joint ventures		11,420	46,050
Interest received		8,442	47,413
Income taxes paid excluding actual payments relating to disposal of interests in subsidiaries and joint ventures	24	(40,977)	(35,061)
Net cash provided by operating activities		**171,896**	**307,433**
Cash flows from investing activities			
Purchases of property, plant and equipment	5	(181,195)	(144,186)
Payments for mineral licenses	5	(434)	(7,827)
Purchases of materials for construction		(17,039)	(12,413)
Purchases of intangible assets		(1,264)	(1,146)
Capital contributions to joint ventures	6	-	(298)
Proceeds from disposal of interests in subsidiaries and joint ventures, net of cash disposed	4	195,479	136,541
Actual income tax payments relating to disposal of interests in subsidiaries and joint ventures	4, 24	(23)	(64,540)
Interest paid and capitalized	5	(6,343)	(5,903)
Net decrease (increase) in bank deposits with original maturity more than three months		43,057	(58,945)
Guarantee fees paid		(855)	(1,427)
Loans provided to joint ventures	7	(120,798)	(29,664)
Repayments of loans provided to joint ventures	7	41,543	20,764
Net cash used for investing activities		**(47,872)**	**(169,044)**

	Notes	Year ended 31 December: 2020	2019
Cash flows from financing activities			
Proceeds from long-term debt		45,395	-
Repayments of long-term debt		(5,935)	(2,176)
Proceeds from short-term debt with original maturity more than three months		441	1,000
Repayments of short-term debt with original maturity more than three months		(441)	(1,000)
Increase (decrease) in short-term debt with original maturity three months or less, net		36	-
Loan commitment fee		(534)	-
Interest on debt paid		(2,402)	(2,237)
Dividends paid to shareholders of PAO NOVATEK	16	(89,857)	(93,468)
Dividends paid to non-controlling interest		(11,858)	(16,758)
Payments of lease liabilities		(4,649)	(2,944)
Purchases of treasury shares	16	(8,271)	(1,865)
Net cash used for financing activities		**(78,075)**	**(119,448)**
Net effect of exchange rate changes on cash and cash equivalents		20,518	(7,173)
Net increase (decrease) in cash and cash equivalents		**66,467**	**11,768**
Cash and cash equivalents at the beginning of the period		53,240	41,472
Cash and cash equivalents at the end of the period		**119,707**	**53,240**

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

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

	Number of ordinary shares (in millions)	Ordinary share capital	Treasury shares	Additional paid-in capital	Currency translation differences	Asset revaluation surplus on acquisitions	Retained earnings	Equity attributable to PAO NOVATEK shareholders	Non-controlling interest	Total equity
At 1 January 2019	***3,012.9***	**393**	**(10,445)**	**31,297**	**(1,702)**	**5,617**	**843,094**	**868,254**	**18,341**	**886,595**
Profit	-	-	-	-	-	-	865,477	865,477	17,984	883,461
Other comprehensive income (loss)	-	-	-	-	5,516	-	(1,181)	4,335	-	4,335
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**5,516**	**-**	**864,296**	**869,812**	**17,984**	**887,796**
Dividends (Note 16)	-	-	-	-	-	-	(93,468)	(93,468)	(16,758)	(110,226)
Effect from other changes in joint ventures' net assets (Note 6)	-	-	-	-	-	-	4,774	4,774	-	4,774
Purchase of treasury shares (Note 16)	*(1.7)*	-	(1,863)	-	-	-	-	(1,863)	-	(1,863)
At 31 December 2019	***3,011.2***	**393**	**(12,308)**	**31,297**	**3,814**	**5,617**	**1,618,696**	**1,647,509**	**19,567**	**1,667,076**
Profit	-	-	-	-	-	-	67,832	67,832	10,754	78,586
Other comprehensive loss	-	-	-	-	(1,162)	-	(172)	(1,334)	-	(1,334)
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(1,162)**	**-**	**67,660**	**66,498**	**10,754**	**77,252**
Dividends (Note 16)	-	-	-	-	-	-	(89,857)	(89,857)	(11,858)	(101,715)
Effect from other changes in joint ventures' net assets (Note 6)	-	-	-	-	-	-	3,892	3,892	-	3,892
Purchase of treasury shares (Note 16)	*(8.4)*	-	(8,078)	-	-	-	-	(8,078)	-	(8,078)
At 31 December 2020	***3,002.8***	**393**	**(20,386)**	**31,297**	**2,652**	**5,617**	**1,600,391**	**1,619,964**	**18,463**	**1,638,427**

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

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

In August 2020, the Group's subsidiary OOO NOVATEK-Chelyabinsk launched its first small-scale LNG plant in the Chelyabinsk Region with a nameplate capacity of 40 thousand tons per annum. The LNG produced is sold primarily as natural gas motor fuel at the Group's branded refueling complexes for passenger, cargo transport and mining equipment in the Chelyabinsk Region and the neighboring areas.

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

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

2 BASIS OF PREPARATION

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

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

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

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

2 BASIS OF PREPARATION (CONTINUED)

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

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

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

	At 31 December:		Average rate for the year ended 31 December:	
Russian roubles to one currency unit	2020	2019	2020	2019
US dollar (USD)	73.88	61.91	72.15	64.74
Euro (EUR)	90.68	69.34	82.45	72.50
Polish zloty (PLN)	20.01	16.24	18.54	16.87

Significant accounting policies. The principal accounting policies are disclosed in Note 30. In 2020, the Group adopted all IFRS, amendments and interpretations which are effective 1 January 2020 and relevant to its operations. None of them had material impact on the Group's consolidated financial statements. In particular, the following amendments to standards were adopted by the Group starting from 1 January 2020:

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Consolidated financial statements prepared in accordance with IFRS require management to make estimates which the Group's management reviews on a continuous basis, by reference to past experience and other factors considered as reasonable. Adjustments to accounting estimates and assumptions are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both are affected. The Group's management also makes certain judgments, apart from those involving estimations, in the process of applying the Group's accounting policies.

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

For commodity derivative contracts where observable information is not available, fair value estimations are determined using mark-to-market analysis and other acceptable valuation methods, for which the key inputs include future prices, volatility, price correlation, counterparty credit risk and market liquidity. Fair values of the Group's commodity derivative contracts and sensitivities are presented in Note 25.

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

Fair value estimation of shareholders' loans to joint ventures is determined using benchmark interest rates adjusted for the borrower credit risk and free cash flows from the borrower's strategic plans approved by the shareholders of the joint ventures. Fair values of the shareholders' loans to joint ventures and sensitivities are presented in Note 25.

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

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

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

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

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

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

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

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

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

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

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

4 ACQUISITIONS AND DISPOSALS

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

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

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

- *cash payments to the Group* of USD 1,300 million equivalent, of which USD 600 million equivalent was paid upon the transaction closing date and the remaining amount was paid within twelve months from that date, in the first quarter of 2020;
- *contingent cash consideration to the Group* consisting of tranches in total of up to USD 800 million equivalent depending on average crude oil benchmark prices level for the year preceding each payment. The contingent payments dates are linked to the dates of launching the Project's LNG trains;

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

- *capital contributions to OOO Arctic LNG 2 (in the form of contributions to the assets)* ranging from USD 363 million to USD 863 million equivalent (these amounts are presented, in particular, taking into account revisions made upon the entry of the three additional participants to the Project in July 2019, see below) with the terms and payment amounts depending on the Project's capital expenditure program determined upon the results of the Final Investment Decision and the date of production launch at the Project's first LNG train.

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

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

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

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

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

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

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;

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

- future capital expenditure over the Project's life has been estimated based on preliminary engineering and cost estimates. If the level of capital expenditure were to be one percent higher in the cash flow projection then, assuming that other parameters remain unchanged, the fair value of the retained interest in Arctic LNG 2 and the gain on the transaction would be reduced by RR 8,871 million and RR 887 million, respectively; and
- the discount rate was assumed to be 9.4 percent (in US dollar terms). If the discount rate was increased by half of one percent (to 9.9 percent) then, assuming that other parameters remain unchanged, the fair value of the retained interest in Arctic LNG 2 and the gain on the transaction would be reduced by RR 152,748 million and RR 15,275 million, respectively.

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

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

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

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

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

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

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

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

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

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

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

Reorganization of AO Arcticgas

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

Under this agreement, in February 2019, the Group made a contribution of 100 percent participation interest in OOO NOVATEK-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.

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

Reorganization transactions were completed in October 2019. The Group recognized a gain of RR 7.8 billion from the reorganization recorded in the line item "Gain on disposal of interests in subsidiaries and joint ventures" in the consolidated statement of income:

	RR million
Fair value of investments in new subsidiaries	19,650
Less: carrying value of the net assets of NOVATEK-Yarsaleneftegas	(2,163)
Less: Group's share in a decrease in the net assets of Arcticgas	(9,722)
Gain on reorganization	**7,765**

The fair value of investments in new subsidiaries has been allocated to property, plant and equipment, primarily to the licences cost, and respective deferred tax liabilities (See Note 5).

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

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

Disposal of OOO Chernichnoye

In the fourth quarter of 2020, the Group sold a 100 percent participation interest in OOO Chernichnoye to the Group's joint venture ZAO Terneftegas for RR 730 million. Chernichnoye is a holder of the license for exploration and production of hydrocarbons within the Chernichniy license area located in YNAO. The carrying value of the net assets of Chernichnoye at the disposal date was RR 591 million. The Group's gain on the disposal after the elimination of an unrealized gain on the consolidation level amounted to RR 69 million, before associated income tax of RR 23 million.

5 PROPERTY, PLANT AND EQUIPMENT

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

	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	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	6,676	170,309	-	176,985
Transfers	58,000	(62,993)	4,993	-
Reorganisation (see Note 4)	18,605	3,165	-	21,770
Change in asset retirement costs	3,552	-	-	3,552
Depreciation, depletion and amortization	(30,805)	-	(1,066)	(31,871)
Reclassification to assets held for sale (see Note 4)	-	(18,761)	(386)	(19,147)
Disposals, net	(489)	(893)	(119)	(1,501)
Currency translation differences	(1,124)	(37)	(30)	(1,191)
Cost	609,958	168,743	22,294	800,995
Accumulated depreciation, depletion and amortization	(238,633)	-	(5,564)	(244,197)
Net book value at 31 December 2019	**371,325**	**168,743**	**16,730**	**556,798**
Additions	3,267	206,770	-	210,037
Transfers	124,504	(130,369)	5,865	-
Disposal of subsidiary (see Note 4)	(613)	(19)	(1)	(633)
Change in asset retirement costs	1,352	-	-	1,352
Depreciation, depletion and amortization	(36,852)	-	(1,691)	(38,543)
Disposals, net	(5)	(1,739)	(108)	(1,852)
Currency translation differences	1,962	230	56	2,248
Cost	737,953	243,616	28,107	1,009,676
Accumulated depreciation, depletion and amortization	(273,013)	-	(7,256)	(280,269)
Net book value at 31 December 2020	**464,940**	**243,616**	**20,851**	**729,407**

Included in additions to property, plant and equipment for the year ended 31 December 2019 are costs of RR 19,147 million related to the Arctic LNG 2 project and incurred until the date of the disposal of a 10 percent participation interest in OOO Arctic LNG 2 to TOTAL S.A. group (see Note 4).

Included in additions to property, plant and equipment for the years ended 31 December 2020 and 2019 are capitalized interest and foreign exchange differences of RR 10,624 million and RR 5,903 million, respectively.

5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 66,415 million and RR 44,070 million at 31 December 2020 and 2019, respectively.

In 2019, as a result of the reorganization of AO Arcticgas, the Group consolidated the assets relating to the North Chaselsky and Yevo Yakhinsky license areas and recorded a disposal of assets relating to the Malo Yamalsky license area. The respective net increase in the carrying value of property, plant and equipment amounted to RR 21,770 million (see Note 4).

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

In August 2019, the Group won an auction for oil and gas exploration and production license for the license area including the Soletskoye-Khanaveyskoye field located on the Gydan peninsula in the YNAO for a payment of RR 2,586 million, which was included within oil and gas properties and equipment.

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

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

	At 31 December 2020	At 31 December 2019
Proved properties acquisition costs	103,002	100,495
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(21,856)	(20,463)
Unproved properties acquisition costs	10,924	10,997
Total acquisition costs	**92,070**	**91,029**

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

Reconciliation of depreciation, depletion and amortization (DDA):

	Year ended 31 December: 2020	2019
Depreciation, depletion and amortization of property, plant and equipment	38,543	31,871
Add: DDA of intangible assets	1,091	714
Less: DDA capitalized in the course of intra-group construction services	(396)	(355)
DDA as presented in the consolidated statement of income	**39,238**	**32,230**

At 31 December 2020 and 2019, no property, plant and equipment were pledged as security for the Group's borrowings. No impairment was recognized in respect of oil and gas properties and equipment for the years ended 31 December 2020 and 2019.

Capital commitments are disclosed in Note 26.

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

5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Leases. Included in property, plant and equipment at 31 December 2020 and 2019 are the right-of-use assets primarily related to long-term agreements on time chartering of marine tankers. Movements in the carrying amounts of the right-of-use assets are as follows:

	Oil and gas properties and equipment	Other	Total
Net book value at 1 January 2019	**8,996**	**574**	**9,570**
Additions	4,196	95	4,291
Depreciation, depletion and amortization	(2,278)	(180)	(2,458)
Other movements	(1,169)	(23)	(1,192)
Net book value at 31 December 2019	**9,745**	**466**	**10,211**
Additions	547	409	956
Depreciation, depletion and amortization	(2,864)	(264)	(3,128)
Other movements	1,755	45	1,800
Net book value at 31 December 2020	**9,183**	**656**	**9,839**

The maturity analysis of lease liabilities is disclosed in Note 25.

Included in property, plant and equipment at 31 December 2020 and 2019 are the assets subject to operating lease agreements where the Group is a lessor with cost of RR 39,328 million and accumulated depreciation, depletion and amortization of RR 1,415 million (2019: cost of RR 3,618 million, accumulated depreciation, depletion and amortization of RR 235 million). These operating lease agreements primarily relate to leasing of facilities of the Group's LNG construction center located in the Murmansk region, used for the construction of LNG plants, as soon as these facilities become ready for their intended use.

Revenues from operating lease are recognized in the line item "Other revenues" in the consolidated statement of income, and for the years ended 31 December 2020 and 2019 were RR 5,668 million and RR 2,941 million, respectively.

At 31 December 2020, future undiscounted lease payments under the Group's operating lease agreements, where the Group is a lessor, for period up to their maturity (mainly up to the end of 2025) amount to RR 73 billion (2019: RR 75 billion).

Exploration for and evaluation of mineral resources. The amounts of assets, liabilities, expense and cash flows arising from the exploration and evaluation of mineral resources comprise the following:

	Year ended 31 December 2020	Year ended 31 December 2019
Net book value of assets at 1 January	**20,382**	**19,311**
Additions	10,998	18,526
Write off to exploration expenses	(1,372)	-
Reorganisation (see Note 4)	-	(1,176)
Reclassification to proved properties and development expenditures	(14,698)	(16,279)
Net book value of assets at 31 December	**15,310**	**20,382**
Liabilities	190	1,375
Cash flows used for operating activities	8,466	8,807
Cash flows used for investing activities	10,453	17,944

For the years ended 31 December 2020 and 2019, the Group has recognized exploration expenses within operating expenses in the amount of RR 9,103 million and RR 8,368 million, respectively. These expenses included employee compensations in the amount of RR 621 million and RR 431 million, respectively.

6 INVESTMENTS IN JOINT VENTURES

	At 31 December 2020	At 31 December 2019
Joint ventures:		
OOO Arctic LNG 2	250,470	247,450
AO Arcticgas	151,886	132,399
ZAO Nortgas	43,805	44,372
ZAO Terneftegas	4,157	6,394
Rostock LNG GmbH	286	225
OOO SMART LNG	28	46
OAO Yamal LNG	-	150,943
OOO Cryogas-Vysotsk	-	3,511
Total investments in joint ventures	**450,632**	**585,340**

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

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

In July 2019, the Group sold a 30 percent participation interest in OOO Arctic LNG 2 to CNPC, CNOOC Limited and Japan Arctic LNG B.V. (10 percent each) (see Note 4).

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

In accordance with the equity method of accounting, investment in Arctic LNG 2 at 31 December 2020 was reduced for the Group's share of loss of the joint venture for the year ended 31 December 2020 in the amount of RR 17,955 million. This loss was generated mainly as a result of negative exchange rate differences of the joint venture, in which the Group's share amounted to RR 24,314 million.

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

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

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

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

OOO SMART LNG. The Group holds a 50 percent participation interest in OOO SMART LNG, its joint venture with PAO Sovcomflot. SMART LNG will lease Arctic ice-class LNG tankers to transport LNG from the Arctic LNG 2 project.

At 31 December 2020, the Group's 50 percent participation interest in SMART LNG was pledged in connection with lease agreements for Arctic ice-class LNG tankers entered into by SMART LNG.

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

6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

OAO Yamal LNG. The Group holds a 50.1 percent ownership in Yamal LNG, along with TOTAL S.A. (20 percent), CNPC (20 percent) and Silk Road Fund Co. Ltd. (9.9 percent). Yamal LNG undertakes a project on natural gas production, liquefaction and shipping based on the feedstock resources of the South-Tambeyskoye field located in YNAO (the "Yamal LNG project"). Annual nameplate capacity of the liquefaction plant after the launch of the first three LNG trains is 16.5 million tons of LNG (5.5 million tons each) and up to 1.2 million tons of stable gas condensate. In addition, the fourth liquefaction train with an annual nameplate capacity of 0.9 million tons is currently in the commissioning phase.

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

The Group's investment in Yamal LNG at 31 December 2020 was valued at RR nil in the consolidated statement of financial position due to the Group's proportionate share of accumulated losses exceeding the Group's cost of investment. The unrecognized share of loss of Yamal LNG for the year ended 31 December 2020 was RR 27,763 million and resulted from significant non-cash foreign exchange losses.

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

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

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

The Group's investment in Cryogas-Vysotsk at 31 December 2020 was valued at RR nil in the consolidated statement of financial position due to the Group's proportionate share of accumulated losses exceeding the Group's cost of investment. The unrecognized share of loss of Cryogas-Vysotsk for the year ended 31 December 2020 was RR 2,483 million and resulted mainly from significant non-cash foreign exchange losses.

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

	Year ended 31 December:	
	2020	2019
At 1 January	**585,340**	**244,500**
Share of profit from operations	113,952	139,065
Share of finance income (expense)	(325,707)	40,432
Share of total income tax benefit (expense)	37,529	(30,259)
Unrecognized share of losses of joint ventures	30,245	-
Share of profit (loss) of joint ventures, net of income tax	**(143,981)**	**149,238**
Share of other comprehensive income (loss) of joint ventures	(1,198)	451
Group's costs capitalized in investments	1,173	1,457
Effect from initial measurement of loans provided by the Group to joint ventures (see Note 25) net of deferred income tax	17,418	1,992
Effect from other changes in joint ventures' net assets	3,892	4,774
Capital contributions	-	298
Dividends and cash from joint ventures	(10,920)	(46,550)
Sale of interests in subsidiaries resulting in the recognition of investments in joint ventures (see Note 4)	(71)	147,366
Sale of interests in joint ventures (see Note 4)	-	93,053
Reorganization (see Note 4)	-	(9,722)
Elimination of the Group's share in unrealized profits of joint ventures from balances of hydrocarbons purchased from joint ventures	(1,021)	(1,517)
At 31 December	**450,632**	**585,340**

6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

For the years ended 31 December 2020 and 2019, the Group recorded commission fees in the amount of RR 1,173 million and RR 1,457 million, respectively, for the guarantee received from the State Corporation VEB.RF (see Note 26) as an increase to the investment in Yamal LNG.

For the year ended 31 December 2020, the capital of OOO Arctic LNG 2 was increased by RR 57,647 million through the cash contributions made by the other participants in the form of contributions to the assets representing a part of the consideration for the disposal of a 40 percent participation interest in OOO Arctic LNG 2 (see Note 4). The difference between the Group's share in the contributions made and the amount previously recognized within the investment in OOO Arctic LNG 2 comprised RR 4,512 million and was recorded as an increase in the investment in OOO Arctic LNG 2, with the corresponding effect recognized in the consolidated statement of changes in equity in accordance with the Group's accounting policy. The Group's participation interest in OOO Arctic LNG 2 did not change as a result of these transactions.

For the year ended 31 December 2019, the capital of OOO Arctic LNG 2 was increased by RR 107,938 million through the cash contributions made by other participants in the form of contributions to the assets representing a part of the consideration for the disposal of a 40 percent participation interest in OOO Arctic LNG 2 (see Note 4). The difference between the Group's share in the contributions made and the amount previously recognized within the investment in OOO Arctic LNG 2 comprised RR 1,789 million and was recorded as an increase in the investment in OOO Arctic LNG 2, with the corresponding effect recognized in the consolidated statement of changes in equity in accordance with the Group's accounting policy. The Group's participation interest in OOO Arctic LNG 2 did not change as a result of these transactions.

For the years ended 31 December 2020 and 2019, the Group recorded a decrease in equity in the amount of RR 949 million and an increase in the amount RR 2,985 million, respectively, from initial measurement of the loans (net of deferred income tax) provided to OOO Arctic LNG 2 by the other participants.

In 2019, the capital of Rostock LNG GmbH was increased through proportional contributions by its participants totaling RR 506 million, of which RR 248 were contributed by the Group.

In 2020, Arcticgas declared and paid dividends in the total amount of RR 20.5 billion, of which RR 10.25 billion were attributable to NOVATEK.

In 2019, Arcticgas declared dividends in the total amount of RR 92 billion, of which RR 46 billion were attributable to NOVATEK. Dividends in the amount of RR 91 billion, of which RR 45.5 billion were attributable to NOVATEK, were paid in 2019, and the remaining amount was paid in January 2020.

For the year ended 31 December 2020, Terneftegas transferred cash in the amount of RR 670 million distributed in favor of the Group.

In 2019, Nortgas declared and paid dividends in the amount of RR 1,100 million, of which RR 550 million were attributable to NOVATEK.

The Group eliminates its share in unrealized profits of joint ventures from the balances of natural gas and liquid hydrocarbons purchased from the joint ventures.

The summarized statements of financial position and statements of comprehensive income (loss) for the Group's principal joint ventures as at and for the year ended 31 December 2020 are as follows (100 percent base):

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

6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

At 31 December 2020	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Property, plant and equipment and materials for construction	802,388	411,279	2,470,727	120,307
Other non-current non-financial assets	118	6	27,561	28
Non-current financial assets	937	63	12,619	12
Total non-current assets	**803,443**	**411,348**	**2,510,907**	**120,347**
Cash and cash equivalents	2,001	6,123	22,812	81
Other current financial assets	1,551	22,581	24,813	1,699
Current non-financial assets	14,180	14,930	34,137	343
Total current assets	**17,732**	**43,634**	**81,762**	**2,123**
Non-current financial liabilities	(373,463)	(30,000)	(2,339,045)	(3,860)
Non-current non-financial liabilities	(40,436)	(55,991)	(4,421)	(23,057)
Total non-current liabilities	**(413,899)**	**(85,991)**	**(2,343,466)**	**(26,917)**
Trade payables and accrued liabilities	(29,934)	(14,479)	(13,795)	(975)
Other current financial liabilities	(4,359)	(36,151)	(290,541)	(5,821)
Current non-financial liabilities	(478)	(14,590)	(313)	(1,147)
Total current liabilities	**(34,771)**	**(65,220)**	**(304,649)**	**(7,943)**
Net assets	**372,505**	**303,771**	**(55,446)**	**87,610**

For the year ended 31 December 2020	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Revenues	330	171,076	328,640	15,296
Depreciation, depletion and amortization	(20)	(30,645)	(109,950)	(6,938)
Profit (loss) from operations	**(2,015)**	**73,677**	**151,821**	**(485)**
Interest expense	(103)	(3,061)	(162,618)	(980)
Change in fair value of non-commodity financial instruments	(681)	-	31,172	-
Foreign exchange gain (loss), net	(40,523)	(45)	(444,213)	-
Profit (loss) before income tax	**(43,268)**	**70,923**	**(423,780)**	**(1,393)**
Income tax benefit (expense)	13,343	(11,376)	66,976	260
Profit (loss), net of income tax	**(29,925)**	**59,547**	**(356,804)**	**(1,133)**
Ownership	60%	50%	50.1%	50%
Total based on ownership interest	**(17,955)**	**29,774**	**(178,662)**	**(567)**
Elimination of the Group's share in unrealized profits of joint ventures from balances of hydrocarbons purchased from joint ventures	-	819	(1)	107
Unrecognized share of losses of joint ventures	-	-	27,763	-
Share of profit (loss) of joint ventures, net of income tax	**(17,955)**	**30,593**	**(150,900)**	**(460)**

6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

Reconciliation of the summarized financial information presented to the Group's share in net assets of the joint ventures:

As at and for the year ended 31 December 2020	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Net assets at 1 January 2020	**317,347**	**264,798**	**301,446**	**88,744**
Profit (loss), net of income tax	(29,925)	59,547	(356,804)	(1,133)
Other comprehensive income (loss)	(11)	(74)	(2,430)	(1)
Capital contributions	57,647	-	-	-
Other equity movements	27,447	-	2,342	-
Dividends	-	(20,500)	-	-
Net assets at 31 December 2020	**372,505**	**303,771**	**(55,446)**	**87,610**
Ownership	60%	50%	50.1%	50%
Group's share in net assets	**223,503**	**151,886**	**(27,763)**	**43,805**
Unrecognized share of losses of joint ventures	-	-	27,763	-
Future capital contributions (see Note 4)	26,967	-	-	-
Investments in joint ventures	**250,470**	**151,886**	**-**	**43,805**

At 31 December 2020, the Group's investment in OOO Arctic LNG 2 totaled RR 250,470 million, which differed from its share in the net assets of Arctic LNG 2. This difference of RR 26,967 million related to the Group's share in the future cash payments in the form of capital contributions by other participants representing a part of the consideration for the disposal of a 40 percent interest in OOO Arctic LNG 2 (see Note 4).

The summarized statements of financial position and statements of comprehensive income (loss) for the Group's principal joint ventures as at and for the year ended 31 December 2019 are as follows (100 percent base):

At 31 December 2019	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Property, plant and equipment and materials for construction	415,122	400,614	2,392,117	125,638
Other non-current non-financial assets	122	13	1,341	34
Non-current financial assets	-	69	-	13
Total non-current assets	**415,244**	**400,696**	**2,393,458**	**125,685**
Cash and cash equivalents	58,601	5,265	23,281	1,266
Other current financial assets	125	21,737	25,821	2,146
Current non-financial assets	19,561	9,625	33,470	374
Total current assets	**78,287**	**36,627**	**82,572**	**3,786**
Non-current financial liabilities	(126,606)	(66,197)	(1,958,446)	(9,654)
Non-current non-financial liabilities	(39,823)	(51,296)	(44,542)	(23,186)
Total non-current liabilities	**(166,429)**	**(117,493)**	**(2,002,988)**	**(32,840)**
Trade payables and accrued liabilities	(9,579)	(15,760)	(15,386)	(551)
Other current financial liabilities	(75)	(28,804)	(152,757)	(5,821)
Current non-financial liabilities	(101)	(10,468)	(3,453)	(1,515)
Total current liabilities	**(9,755)**	**(55,032)**	**(171,596)**	**(7,887)**
Net assets	**317,347**	**264,798**	**301,446**	**88,744**

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

6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

For the year ended 31 December 2019	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Revenues	36	196,191	324,018	21,137
Depreciation, depletion and amortization	-	(22,523)	(102,403)	(7,893)
Profit (loss) from operations	**(485)**	**103,573**	**164,106**	**3,765**
Interest expense	(77)	(5,389)	(126,627)	(1,709)
Change in fair value of non-commodity financial instruments	(581)	-	(9,231)	-
Foreign exchange gain (loss), net	1,702	1	213,509	-
Profit (loss) before income tax	**574**	**99,400**	**242,139**	**2,216**
Income tax benefit (expense)	(120)	(16,337)	(41,309)	(447)
Profit (loss), net of income tax	**454**	**83,063**	**200,830**	**1,769**
Ownership	60%	50%	50.1%	50%
Total based on ownership interest	**272**	**41,532**	**100,561**	**885**
Elimination of the Group's share in unrealized profits of joint ventures from balances of hydrocarbons purchased from joint ventures	-	1,207	18	142
Share of profit (loss) of joint ventures, net of income tax	**272**	**42,739**	**100,579**	**1,027**

Reconciliation of the summarized financial information presented to the Group's share in net assets of the joint ventures:

As at and for the year ended 31 December 2019	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Net assets at 1 January 2019	**-**	**293,263**	**96,614**	**88,128**
Profit (loss), net of income tax	454	83,063	200,830	1,769
Other comprehensive income (loss)	(11)	(84)	1,092	(53)
Sale of interests in subsidiaries (see Note 4)	200,673	-	-	-
Capital contributions	107,938	-	-	-
Reorganization (see Note 4)	-	(19,444)	-	-
Other equity movements	8,293	-	2,910	-
Dividends	-	(92,000)	-	(1,100)
Net assets at 31 December 2019	**317,347**	**264,798**	**301,446**	**88,744**
Ownership	60%	50%	50.1%	50%
Group's share in net assets	**190,408**	**132,399**	**150,943**	**44,372**
Future capital contributions (see Note 4)	57,042	-	-	-
Investments in joint ventures	**247,450**	**132,399**	**150,943**	**44,372**

At 31 December 2019, the Group's investment in OOO Arctic LNG 2 totaled RR 247,450 million, which differed from its share in the net assets of Arctic LNG 2. This difference of RR 57,042 million related to the Group's share in the future cash payments in the form of capital contributions by other participants representing a part of the consideration for the disposal of a 40 percent interest in OOO Arctic LNG 2 (see Note 4).

7 LONG-TERM LOANS AND RECEIVABLES

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

	At 31 December 2020	At 31 December 2019
Long-term loans receivable	431,880	282,310
Other long-term receivables	426	403
Total	**432,306**	**282,713**
Less: current portion of long-term loans receivable	(41,253)	(50,815)
Total long-term loans and receivables	**391,053**	**231,898**

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

	At 31 December 2020	At 31 December 2019
OOO Arctic LNG 2	215,336	76,085
OAO Yamal LNG	209,637	199,623
OOO Cryogas-Vysotsk	6,907	6,521
ZAO Terneftegas	-	81
Total long-term loans receivable	**431,880**	**282,310**

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

Subsequent to the balance sheet date, in January 2021, the Group provided RR 37,547 million to Arctic LNG 2 under these credit line facilities.

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

For the years ended 31 December 2020 and 2019, Yamal LNG repaid to the Group a part of the loans and accrued interest in the total amount of RR 48,297 million and RR 65,210 million, respectively.

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

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

No provisions for expected credit losses for long-term loans and receivables were recognized at 31 December 2020 and 2019. The carrying values of long-term loans and receivables approximate their respective fair values.

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

8 OTHER NON-CURRENT ASSETS

	At 31 December 2020	At 31 December 2019
Financial assets		
Contingent consideration (see Note 25)	76,918	101,391
Commodity derivatives	13	749
Other financial assets	13	8
Non-financial assets		
Deferred income tax assets	22,694	14,800
Materials for construction	18,341	12,552
Long-term advances	3,536	9,549
Intangible assets, net	2,820	2,644
Other non-financial assets	817	642
Total other non-current assets	**125,152**	**142,335**

At 31 December 2020 and 2019, the "Long-term advances" line item represented advances to OAO Russian Railways. The advances were paid in accordance with the Strategic Partnership Agreement signed with Russian Railways in 2012.

9 INVENTORIES

	At 31 December 2020	At 31 December 2019
Natural gas and liquid hydrocarbons	7,055	8,685
Materials and supplies (net of provision of RR 4 million and RR 5 million at 31 December 2020 and 2019)	3,609	3,550
Other inventories	59	28
Total inventories	**10,723**	**12,263**

No inventories were pledged as security for the Group's borrowings or payables at both dates.

10 TRADE AND OTHER RECEIVABLES

	At 31 December 2020	At 31 December 2019
Trade receivables (net of provision of RR 506 million and RR 362 million at 31 December 2020 and 2019, respectively)	64,073	48,539
Other receivables (net of provision of RR 305 million and RR 317 million at 31 December 2020 and 2019, respectively)	7,182	181,042
Total trade and other receivables	**71,255**	**229,581**

Trade receivables in the amount RR 14,568 million and RR 16,996 million at 31 December 2020 and 2019, respectively, are secured by letters of credit, issued by banks with investment grade ratings. The Group does not hold any other collateral as security for trade and other receivables (see Note 25 for credit risk disclosures).

At 31 December 2019, other receivables included RR 173,336 million of receivables in relation to the sale of a 40 percent participation interest in OOO Arctic LNG 2 (see Note 4). These receivables were fully paid in 2020.

At 31 December 2020, other receivables included RR 575 million of receivables in relation to the sale of OOO Chernichnoye.

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 25.

10 TRADE AND OTHER RECEIVABLES (CONTINUED)

Movements in the Group's provision for expected credit losses for trade receivables are as follows:

	Year ended 31 December: 2020	2019
At 1 January	**362**	**349**
Additional provision recorded	295	113
Receivables written off as uncollectible	(115)	(72)
Provision reversed	(36)	(28)
At 31 December	**506**	**362**

The provision for expected credit losses for trade and other receivables has been included in the consolidated statement of income in "Impairment (expenses) reversals, net" line item.

11 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 December 2020	At 31 December 2019
Financial assets		
Current portion of long-term loans receivable (see Note 7)	41,253	50,815
Commodity derivatives	13,041	16,966
Other financial assets	1,316	622
Non-financial assets		
Value-added tax receivable	15,703	22,401
Recoverable value-added tax	10,767	6,026
Prepayments and advances to suppliers	9,088	9,879
Deferred transportation expenses for liquid hydrocarbons	1,996	1,784
Deferred transportation expenses for natural gas	1,779	2,064
Deferred export duties for liquid hydrocarbons	649	1,218
Prepaid customs duties	616	530
Other non-financial assets	1,863	1,536
Total prepayments and other current assets	**98,071**	**113,841**

12 CASH AND CASH EQUIVALENTS

	At 31 December 2020	At 31 December 2019
Cash at current bank accounts	41,247	22,736
Bank deposits with original maturity of three months or less	78,460	30,504
Total cash and cash equivalents	**119,707**	**53,240**

All deposits are readily convertible to known amounts of cash and are not subject to significant risk of change in value (see Note 25 for credit risk disclosures).

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

13 LONG-TERM DEBT

	At 31 December 2020	At 31 December 2019
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	73,820	61,833
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	48,012	40,209
Loan from Silk Road Fund	46,076	42,115
Bank loans	54,232	7,941
Total	**222,140**	**152,098**
Less: current portion of long-term debt	(53,152)	(12,246)
Total long-term debt	**168,988**	**139,852**

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

In February 2011, the Group issued US dollar denominated Eurobonds in the amount of USD 650 million. The US dollar denominated Eurobonds were issued with an annual coupon rate of 6.604 percent, payable semi-annually. The Eurobonds have a ten-year tenor and were fully repaid according to their maturity schedule after the reporting date in February 2021.

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

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

In June 2020, the Group obtained a credit line facility from a Russian bank in the amount up to EUR 1.5 billion with a variable interest rate available to withdraw until March 2022. Interest is paid on a quarterly basis. At the reporting date EUR 500 million were withdrawn under the credit line facility, repayable until September 2025. The credit line facility includes the maintenance of certain restrictive financial covenants.

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

The fair value of long-term debt including its current portion was RR 235,473 million and RR 164,310 million at 31 December 2020 and 2019, respectively. The fair value of the corporate bonds was determined based on market quote prices (Level 1 in the fair value measurement hierarchy described in Note 25). 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 25).

Scheduled maturities of long-term debt are disclosed in Note 25.

Available credit line facilities. In addition to disclosed above, at 31 December 2020, the Group had available long-term bank credit line facilities with credit limits for the total amount of RR 160 billion, as well as a short-term bank credit line facility with credit limit of RR 20 billion. The facilities include the maintenance of certain restrictive financial covenants.

14 PENSION OBLIGATIONS

Defined contribution plan. For the years ended 31 December 2020 and 2019, total amounts recognized as an expense in respect of payments made by employer on behalf of employees to the Pension Fund of the Russian Federation were RR 3,907 million and RR 3,190 million, respectively.

14 PENSION OBLIGATIONS (CONTINUED)

Defined benefit plan. The Group operates a post-employment benefit program for its retired employees. Under the current terms of the pension program, employees who are employed and retire from the Group on or after the statutory retirement age will receive from the Group pension benefits in the form of a lump sum retirement benefit and/or monthly life payments unless they are reemployed. The type and amounts of payments to be disbursed depend on the employee's average salary, duration and location of employment.

The program represents an unfunded defined benefit plan and is accounted for as such under provisions of IAS 19, *Employee Benefits*. The present value of the defined benefit obligation is included in "Other non-current liabilities" line item in the consolidated statement of financial position. The impact of the program on the consolidated financial statements is disclosed below.

The movements in the present value of the defined benefit obligation are as follows:

	Year ended 31 December:	
	2020	2019
At 1 January	**5,111**	**4,174**
Interest cost	242	269
Current service cost	423	340
Past service cost	-	(496)
Benefits paid	(181)	(152)
Actuarial gains (losses) arising from:		
- changes in financial assumptions	(238)	1,064
- changes in demographic assumptions	(91)	68
- experience adjustments	421	(156)
At 31 December	**5,687**	**5,111**

Defined benefit plan costs were recognized in:

	Year ended 31 December:	
	2020	2019
Materials, services and other (as employee compensation)	390	76
General and administrative expenses (as employee compensation)	275	37
Other comprehensive loss	92	976

The principal actuarial assumptions used are as follows:

	At 31 December 2020	At 31 December 2019
Weighted average discount rate	6.4%	5.6%
Projected annual increase in employee compensation	5.1%	4.0%
Expected increases to pension benefits	5.0%	4.0%

The discount rate was determined by reference to Russian rouble denominated bonds issued by the Government of the Russian Federation chosen to match the duration of the post-employment benefit obligations.

The assumed average salary and pension payment increases for Group employees have been calculated on the basis of inflation forecasts, analysis of increases of past salaries and the general salary policy of the Group.

Mortality assumptions are based on the Russian mortality tables published by the Federal State Statistics Service from the year 2018 adjusted for estimates of mortality improvements in the future periods.

The Group's management has assessed that reasonable changes in the principal significant actuarial assumptions will not have a significant impact on the consolidated statement of income or the consolidated statement of comprehensive income or the liability recognized in the consolidated statement of financial position.

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

15 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 December 2020	At 31 December 2019
Financial liabilities		
Trade payables	55,149	50,048
Commodity derivatives	14,278	16,450
Interest payable	1,529	1,291
Other payables	3,786	3,188
Non-financial liabilities		
Advances from customers	4,245	4,253
Salary payables	1,042	915
Other liabilities and accruals	3,966	10,583
Total trade payables and accrued liabilities	**83,995**	**86,728**

The carrying values of trade payables and accrued liabilities approximate their respective fair values. Trade and other payables were categorized as Level 3 in the fair value measurement hierarchy described in Note 25.

During the years ended 31 December 2020 and 2019, advances from customers in the amount of RR 4,194 million and RR 4,570 million, respectively, remained at the beginning of the respective period were recognized as revenue.

16 SHAREHOLDERS' EQUITY

Ordinary share capital. Share capital issued and paid in consisted of 3,036,306,000 ordinary shares with a par value of RR 0.1 each at 31 December 2020 and 2019. The total authorized number of ordinary shares was 10,593,682,000 shares at both dates.

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

During the years ended 31 December 2020 and 2019, the Group purchased 8.4 million and 1.7 million ordinary shares at a total cost of RR 8,078 million and RR 1,863 million, respectively. At 31 December 2020 and 2019, the Group held in total 33.5 million and 25.1 million ordinary shares at a total cost of RR 20,386 million and RR 12,308 million, respectively. The Group has decided that these shares do not vote.

Dividends. Dividends (including tax on dividends) declared and paid were as follows:

	Year ended 31 December:	
	2020	2019
Dividends payable at 1 January	-	-
Dividends declared [(*)]	89,857	93,468
Dividends paid [(*)]	(89,857)	(93,468)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year (in Russian roubles)	29.92	31.04
Dividends per GDR declared during the year (in Russian roubles)	299.20	310.40

[(*)] – excluding treasury shares.

16 SHAREHOLDERS' EQUITY (CONTINUED)

The Group declares and pays dividends in Russian roubles. Dividends declared in 2020 and 2019 were as follows:

Final for 2019: RR 18.10 per share or RR 181.00 per GDR declared in April 2020	54,957
Interim for 2020: RR 11.82 per share or RR 118.20 per GDR declared in September 2020	35,889
Total dividends declared in 2020	**90,846**
Final for 2018: RR 16.81 per share or RR 168.10 per GDR declared in April 2019	51,040
Interim for 2019: RR 14.23 per share or RR 142.30 per GDR declared in September 2019	43,207
Total dividends declared in 2019	**94,247**

Distributable retained earnings. The basis for distribution of profits of a company to shareholders is defined by Russian legislation as net profit presented in its statutory financial statements prepared in accordance with the Regulations on Accounting and Reporting of the Russian Federation, which may differ significantly from amounts calculated on the basis of IFRS. At 31 December 2020 and 2019, NOVATEK's closing balances of the accumulated profit including the respective year's net statutory profit totaled RR 981 billion and RR 695 billion, respectively.

17 OIL AND GAS SALES

	Year ended 31 December:	
	2020	2019
Natural gas	359,040	414,844
Naphtha	112,963	144,541
Crude oil	78,381	114,641
Other gas and gas condensate refined products	58,913	88,010
Liquefied petroleum gas	48,725	47,668
Stable gas condensate	41,728	42,528
Total oil and gas sales	**699,750**	**852,232**

18 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Year ended 31 December:	
	2020	2019
Natural gas	125,844	175,023
Unstable gas condensate	102,568	138,092
Other liquid hydrocarbons	12,221	21,775
Reverse excise	(5,409)	(4,072)
Total purchases of natural gas and liquid hydrocarbons	**235,224**	**330,818**

The Group purchases not less than 50 percent of the natural gas volumes produced by its joint venture ZAO Nortgas, some volumes of natural gas produced by its joint venture AO Arcticgas, all volumes of natural gas produced by its joint venture ZAO Terneftegas and some volumes of liquefied natural gas produced by its joint ventures OAO Yamal LNG and OOO Cryogas-Vysotsk (see Note 28).

The Group purchases all volumes of unstable gas condensate produced by its joint ventures Nortgas, Arcticgas and Terneftegas at ex-field prices primarily based on benchmark reference crude oil prices, as well as some volumes of stable gas condensate produced by its joint venture Yamal LNG (see Note 28).

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

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

19 TRANSPORTATION EXPENSES

	Year ended 31 December: 2020	2019
Natural gas transportation by trunk and low-pressure pipelines	100,594	97,371
Stable gas condensate and liquefied petroleum gas transportation by rail	34,198	32,674
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	10,283	8,589
Crude oil transportation by trunk pipelines	8,042	9,639
Other	1,640	3,378
Total transportation expenses	**154,757**	**151,651**

20 TAXES OTHER THAN INCOME TAX

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

	Year ended 31 December: 2020	2019
Unified natural resources production tax	50,204	57,935
Property tax	3,929	3,658
Other taxes	368	388
Total taxes other than income tax	**54,501**	**61,981**

21 MATERIALS, SERVICES AND OTHER

	Year ended 31 December: 2020	2019
Employee compensation	14,027	11,273
Repair and maintenance	3,294	2,778
Preparation and processing of hydrocarbons	2,323	2,431
Materials and supplies	1,833	1,945
Electricity and fuel	1,702	1,551
Liquefied petroleum gas volumes reservation expenses	1,205	1,157
Fire safety and security expenses	1,152	1,051
Transportation services	1,140	924
Labor safety expenses	703	91
Rent expenses	592	591
Insurance expenses	462	366
Other	1,144	1,025
Total materials, services and other	**29,577**	**25,183**

22 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December: 2020	2019
Employee compensation	17,849	17,905
Social expenses and compensatory payments	4,128	2,503
Legal, audit, and consulting services	1,289	975
Repair and maintenance expenses	947	228
Advertising expenses	599	531
Fire safety and security expenses	581	509
Business travel expense	187	720
Rent expenses	184	189
Other	1,031	1,008
Total general and administrative expenses	**26,795**	**24,568**

Auditor's fees. AO PricewaterhouseCoopers Audit has served as the independent external auditor of PAO NOVATEK for each of the reported financial years. The independent external auditor is subject to appointment at the Annual General Meeting of shareholders based on the recommendations from the Board of Directors. The aggregate fees for audit and other services rendered by PricewaterhouseCoopers Audit to the parent company of the Group included within legal, audit, and consulting services are as follows:

	Year ended 31 December: 2020	2019
Audits of PAO NOVATEK (audit of the Group's consolidated financial statements and audit of statutory financial statements of PAO NOVATEK)	37	37
Other services	11	12
Total auditor's fees and services	**48**	**49**

23 FINANCE INCOME (EXPENSE)

Interest expense (including transaction costs)	Year ended 31 December: 2020	2019
Interest expense on fixed rate debt	9,879	9,079
Interest expense on variable rate debt	172	33
Total	**10,051**	**9,112**
Less: capitalized interest	(6,641)	(5,903)
Interest expense on debt	**3,410**	**3,209**
Provisions for asset retirement obligations: effect of the present value discount unwinding	960	738
Interest expense on lease liabilities	566	544
Other interest expense	3	-
Total interest expense	**4,939**	**4,491**

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

23 FINANCE INCOME (EXPENSE) (CONTINUED)

Interest income	Year ended 31 December: 2020	2019
Interest income on loans receivable classified as at amortised cost	936	963
Interest income on loans receivable classified as at fair value through profit or loss	20,329	15,319
Interest income on cash, cash equivalents, deposits and other assets	4,175	4,417
Total interest income	**25,440**	**20,699**

Foreign exchange gain (loss)	Year ended 31 December: 2020	2019
Gains	340,662	37,683
Losses	(193,201)	(82,430)
Total foreign exchange gain (loss), net	**147,461**	**(44,747)**

24 INCOME TAX

Reconciliation of income tax. The table below reconciles actual income tax expense and theoretical income tax, determined based on the applicable rates for each of the Group's entities and their accounting profit before income tax.

	Year ended 31 December: 2020	2019
Profit before income tax	129,596	1,003,115
Theoretical income tax expense at applicable rate of the Group's entities	21,079	192,157
Increase (decrease) due to:		
Permanent differences in respect of the Group's share of loss (profit) of joint ventures	29,000	(29,544)
Permanent differences in respect of disposal of interests in subsidiaries and joint ventures	-	(44,507)
Other differences	931	1,548
Total income tax expense	**51,010**	**119,654**

Domestic and foreign components of current income tax expense were:

	Year ended 31 December: 2020	2019
Russian Federation income tax	50,602	95,590
Foreign income tax	1,414	2,242
Total current income tax expense	**52,016**	**97,832**

Effective income tax rate. The Russian statutory income tax rate for 2020 and 2019 was 20 percent. A number of the Group's investment projects were included by the government authorities in the list of priority projects, in respect of them the Group was able to apply a reduced income tax rate. Profits of the Group's foreign subsidiaries are taxed at rates applicable in accordance with legislation of the respective jurisdiction.

24 INCOME TAX (CONTINUED)

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

Without the effect of net profit (loss) from joint ventures and effects from disposal of interests in subsidiaries and joint ventures (initial recognition of gain on disposal and subsequent non-monetary revaluation of contingent consideration), the effective income tax rate for the years ended 31 December 2020 and 2019 was 18.8 percent and 16.7 percent, respectively.

For the year ended 31 December 2019, the Group paid income tax in the amount of RR 99.6 billion, inclusive of a payment of RR 40 billion to a government-controlled entity under an agreement to finance infrastructure facilities in federal ownership in YNAO, to which an investment tax credit was applied.

In respect of PAO NOVATEK and the majority of its Russian subsidiaries, the Group submits a single consolidated income tax return in accordance with Russian tax legislation (see Note 30).

Deferred income tax. Differences between IFRS and tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes.

Deferred income tax balances are presented in the consolidated statement of financial position as follows:

	At 31 December 2020	At 31 December 2019
Long-term deferred income tax assets (other non-current assets)	22,694	14,800
Long-term deferred income tax liabilities	(64,132)	(62,146)
Net deferred income tax liabilities	**(41,438)**	**(47,346)**

Deferred income tax assets expected to be realized within twelve months as at 31 December 2020 and 2019 were RR 6,194 million and RR 4,031 million, respectively. Deferred tax liabilities expected to be reversed within twelve months as at 31 December 2020 and 2019 were RR 1,420 million and RR 1,521 million, respectively.

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

24 INCOME TAX (CONTINUED)

Movements in deferred income tax assets and liabilities during the years ended 31 December 2020 and 2019 were as follows:

	At 31 December 2019	Statement of Income effect	Other Comprehensive Income effect	Statement of Financial Position effect	At 31 December 2020
Property, plant and equipment	(44,931)	(9,345)	(4)	(10)	(54,290)
Contingent consideration	(20,278)	4,895	-	-	(15,383)
Other	(1,845)	510	(85)	-	(1,420)
Deferred income tax liabilities	**(67,054)**	**(3,940)**	**(89)**	**(10)**	**(71,093)**
Less: deferred tax assets offset	*4,908*	*2,053*	-	-	*6,961*
Total deferred income tax liabilities	**(62,146)**	**(1,887)**	**(89)**	**(10)**	**(64,132)**
Tax losses carried forward	8,241	2,686	2	(7)	10,922
Property, plant and equipment	3,545	299	-	-	3,844
Asset retirement obligations	2,542	352	-	1	2,895
Inventories	1,950	3,681	(4)	-	5,627
Trade payables and accrued liabilities	1,412	(1,257)	20	-	175
Loans receivable	1,349	(451)	2,414	2,488	5,800
Other	669	(364)	87	-	392
Deferred income tax assets	**19,708**	**4,946**	**2,519**	**2,482**	**29,655**
Less: deferred tax liabilities offset	*(4,908)*	*(2,053)*	-	-	*(6,961)*
Total deferred income tax assets	**14,800**	**2,893**	**2,519**	**2,482**	**22,694**
Net deferred income tax liabilities	**(47,346)**	**1,006**	**2,430**	**2,472**	**(41,438)**

	At 31 December 2018	Statement of Income effect	Other Comprehensive Income effect	Statement of Financial Position effect	At 31 December 2019
Property, plant and equipment	(36,895)	(3,732)	-	(4,304)	(44,931)
Contingent consideration	-	(20,278)	-	-	(20,278)
Other	(1,483)	(405)	34	9	(1,845)
Deferred income tax liabilities	**(38,378)**	**(24,415)**	**34**	**(4,295)**	**(67,054)**
Less: deferred tax assets offset	*8,451*	*(3,543)*	-	-	*4,908*
Total deferred income tax liabilities	**(29,927)**	**(27,958)**	**34**	**(4,295)**	**(62,146)**
Tax losses carried forward	4,943	3,634	-	(336)	8,241
Property, plant and equipment	3,509	(33)	-	69	3,545
Asset retirement obligations	1,708	843	-	(9)	2,542
Inventories	2,304	(24)	2	(332)	1,950
Trade payables and accrued liabilities	1,234	190	(13)	1	1,412
Loans receivable	1,009	(2,460)	989	1,811	1,349
Other	230	443	(3)	(1)	669
Deferred income tax assets	**14,937**	**2,593**	**975**	**1,203**	**19,708**
Less: deferred tax liabilities offset	*(8,451)*	*3,543*	-	-	*(4,908)*
Total deferred income tax assets	**6,486**	**6,136**	**975**	**1,203**	**14,800**
Net deferred income tax liabilities	**(23,441)**	**(21,822)**	**1,009**	**(3,092)**	**(47,346)**

24 INCOME TAX (CONTINUED)

At 31 December 2020, the Group had recognized deferred income tax assets of RR 10,922 million (31 December 2019: RR 8,241 million) in respect of unused tax loss carry forwards of RR 54,752 million (31 December 2019: RR 41,456 million). In accordance with tax legislation of Russian Federation effective 1 January 2017, taxable profits can be reduced in the amount of tax losses carried forward for relief during unlimited period of time, at the same time in 2017 to 2021 tax losses carried forward cannot exceed 50 percent of taxable profits. In determining future taxable profits and the amount of tax benefits that are probable in the future, the Group's management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

25 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 December 2020		At 31 December 2019	
Financial assets	Non-current	Current	Non-current	Current
At amortised cost				
Long-term loans receivable	11,558	6,017	11,408	2,878
Trade and other receivables	426	71,255	403	229,581
Short-term bank deposits with original maturity more than three months	-	62,876	-	83,752
Cash and cash equivalents	-	119,707	-	53,240
Other	13	1,316	8	622
At fair value through profit or loss				
Long-term loans receivable	379,069	35,236	220,087	47,937
Contingent consideration	76,918	-	101,391	-
Commodity derivatives	13	13,041	749	16,966
Total financial assets	**467,997**	**309,448**	**334,046**	**434,976**
Financial liabilities				
At amortised cost				
Long-term debt	168,988	53,152	139,852	12,246
Long-term lease liabilities	6,670	3,798	7,516	2,947
Interest payable	-	1,529	-	1,291
Trade and other payables	-	58,935	-	53,236
At fair value through profit or loss				
Commodity derivatives	880	14,278	1,680	16,450
Total financial liabilities	**176,538**	**131,692**	**149,048**	**86,170**

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

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

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

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

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

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

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

Commodity derivatives	**At 31 December 2020**	**At 31 December 2019**
Within other non-current and current assets	13,054	17,715
Within other non-current and current liabilities	(15,158)	(18,130)

	Year ended 31 December:	
Included in other operating income (loss)	**2020**	**2019**
Operating realized income (loss)	1,479	(1,072)
Change in fair value	(1,689)	238

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

	Year ended 31 December:	
Effect on the fair value	**2020**	**2019**
Increase by ten percent	(985)	(1,478)
Decrease by ten percent	985	1,478

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.

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

	Year ended 31 December:	
	2020	**2019**
At 1 January	**268,024**	**263,345**
Loans provided	120,552	24,441
Repayment of loans and accrued interest	(48,380)	(66,352)
Initial measurement at fair value allocated		
to increase the Group's investments in joint ventures (see Note 6)	(19,906)	(3,803)
Recognition of loans, classified previously		
as intercompany, due to disposal of a subsidiary (see Note 4)	-	58,329
Subsequent remeasurement		
at fair value recognized in profit or loss as follows:		
– Interest income (using the effective interest rate method)	20,329	15,319
– Foreign exchange gain (loss), net	81,083	(36,082)
– Remaining effect from changes in fair value		
(attributable to free cash flows of the borrowers and interest rates)	(7,397)	12,827
At 31 December	**414,305**	**268,024**

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.

	Year ended 31 December:	
Effect on the fair value	**2020**	**2019**
Increase by one percent	(15,975)	(7,752)
Decrease by one percent	16,909	8,142

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

Under IFRS 9, *Financial Instruments*, this contingent consideration contains a commodity based embedded derivative and was classified as a financial asset measured at fair value through profit or loss. Interest income, foreign exchanges differences and the remaining effect from fair value remeasurement of the contingent consideration (included in "Other operating income (loss)" line item) are disclosed separately in the consolidated statement of income.

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

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

	Year ended 31 December: 2020	2019
At 1 January	**101,391**	**-**
Initial recognition of the contingent consideration (see Note 4)	-	137,499
Subsequent remeasurement at fair value recognized in profit or loss as follows:		
– Interest income (using the effective interest rate method)	2,730	2,269
– Foreign exchange gain (loss), net	20,620	(3,835)
– Remaining effect from changes in fair value (attributable to crude oil benchmark prices forecast)	(47,823)	(34,542)
At 31 December	**76,918**	**101,391**

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

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

Effect on the fair value	Year ended 31 December: 2020	2019
Increase by one percent	5,048	4,492
Decrease by one percent	(5,321)	(4,551)

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

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

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

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

(a) Foreign exchange risk

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

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

At 31 December 2020	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
Long-term loans receivable	6,907	14,227	369,493	-	390,627
Trade and other receivables	348	-	-	78	426
Contingent consideration	-	76,918	-	-	76,918
Commodity derivatives	-	-	13	-	13
Other	-	-	-	13	13
Current					
Trade and other receivables	33,089	26,963	9,758	1,445	71,255
Current portion of long-term loans receivable	-	35,166	6,087	-	41,253
Commodity derivatives	-	-	13,041	-	13,041
Short-term bank deposits with original maturity more than three months	-	62,876	-	-	62,876
Cash and cash equivalents	13,056	78,812	26,519	1,320	119,707
Other	908	-	408	-	1,316
Financial liabilities					
Non-current					
Long-term debt	-	(114,755)	(54,233)	-	(168,988)
Long-term lease liabilities	(276)	(3,706)	(2,367)	(321)	(6,670)
Commodity derivatives	-	-	(880)	-	(880)
Current					
Current portion of long-term debt	-	(53,152)	-	-	(53,152)
Current portion of long-term lease liabilities	(260)	(2,220)	(1,162)	(156)	(3,798)
Interest payable	-	(1,528)	(1)	-	(1,529)
Trade and other payables	(47,568)	(4,487)	(6,500)	(380)	(58,935)
Commodity derivatives	-	-	(14,278)	-	(14,278)
Net exposure	**6,204**	**115,114**	**345,898**	**1,999**	**469,215**

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

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

The Group chooses to provide information about market risk and potential exposure to hypothetical loss from its use of financial instruments through sensitivity analysis disclosures in accordance with IFRS requirements.

The sensitivity analysis depicted in the table below reflects the hypothetical profit (loss) that would occur assuming a ten percent increase in exchange rates and no changes in the portfolio of instruments and other variables at 31 December 2020 and 2019, respectively:

		Year ended 31 December:	
Effect on profit before income tax	Increase in exchange rate	2020	2019
RUB / USD	10%	11,511	32,613
RUB / EUR	10%	34,590	20,432

The effect of a corresponding ten percent decrease in exchange rate is approximately equal and opposite.

(b) Commodity price risk

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

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

Wholesale natural gas prices for sales to all customer categories (excluding residential customers) on the domestic market were increased by the Regulator by 1.4 percent effective 1 July 2019 and further by 3 percent effective 1 August 2020.

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

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

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

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

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

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

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

(c) Cash flow and fair value interest rate risk

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

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

	At 31 December 2020		At 31 December 2019	
	RR million	Percentage	RR million	Percentage
At fixed rate	176,623	80%	152,098	100%
At variable rate	45,517	20%	-	-
Total debt	**222,140**	**100%**	**152,098**	**100%**

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

The Group's financial results are sensitive to changes in interest rates on the floating rate portion of the Group's debt portfolio. If the interest rates applicable to floating rate debt were to increase by 100 basis points (one percent) at the reporting dates, assuming all other variables remain constant, it is estimated that the Group's profit before taxation would decrease by the amounts shown below:

	Year ended 31 December	
Effect on profit before income tax	2020	2019
Increase by 100 basis points	455	-

The effect of a corresponding 100 basis points decrease in interest rate is approximately equal and opposite.

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.

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25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

The table below highlights the Group's trade and other receivables to published credit ratings of its counterparties and/or their parent companies:

Moody's, Fitch and/or Standard & Poor's	At 31 December 2020	At 31 December 2019
Investment grade rating	47,210	199,446
Non-investment grade rating	205	328
No external rating	23,840	29,807
Total trade and other receivables	**71,255**	**229,581**

The table below highlights the Group's cash, cash equivalents and short-term bank deposits with original maturity more than three months to published credit ratings of its banks and/or their parent companies:

Moody's, Fitch and/or Standard & Poor's	At 31 December 2020	At 31 December 2019
Investment grade rating	182,542	131,049
Non-investment grade rating	34	5,915
No external rating	7	28
Total cash, cash equivalents and short-term bank deposits with original maturity more than three months	**182,583**	**136,992**

Investment grade ratings classification referred to as Aaa to Baa3 for Moody's Investors Service, and as AAA to BBB- for Fitch Ratings and Standard & Poor's.

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

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

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

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

At 31 December 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt					
Principal	53,159	88,083	60,758	25,696	227,696
Interest	8,322	6,416	7,690	3,194	25,622
Lease liabilities	3,949	3,819	3,436	71	11,275
Trade and other payables	58,935	-	-	-	58,935
Total financial liabilities	**124,365**	**98,318**	**71,884**	**28,961**	**323,528**

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

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

At 31 December 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Cash inflow	155,732	18,975	-	174,707
Cash outflow	(156,944)	(19,843)	-	(176,787)
Net cash flows	**(1,212)**	**(868)**	**-**	**(2,080)**
At 31 December 2019				
Cash inflow	113,918	43,034	15,146	172,098
Cash outflow	(113,402)	(43,649)	(15,462)	(172,513)
Net cash flows	**516**	**(615)**	**(316)**	**(415)**

Reconciliation of liabilities arising from financing activities. The movements in the Group's liabilities arising from financing activities were as follows:

	Long-term debt and interest payable	Long-term lease liabilities	Total
At 1 January 2019	**173,614**	**9,798**	**183,412**
Cash flows	(10,316)	(2,944)	(13,260)
Non-cash movements			
Non-cash additions	-	4,291	4,291
Interest accrued	9,112	544	9,656
Foreign exchange movements	(19,021)	(1,226)	(20,247)
At 31 December 2019	**153,389**	**10,463**	**163,852**
Cash flows [*]	30,751	(3,849)	26,902
Non-cash movements			
Non-cash additions	-	956	956
Interest accrued	10,051	566	10,617
Foreign exchange movements	29,478	2,332	31,810
At 31 December 2020	**223,669**	**10,468**	**234,137**

[*] – Excluding prepayments under lease agreements, in respect of which lease liabilities were not recognized.

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

At 31 December 2020, the Group had investment grade ratings of BBB by Standard & Poor's, BBB by Fitch Ratings and Baa2 by Moody's Investors Service. The Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis to maintain its credit ratings.

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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 50 percent of the Group's consolidated net profit determined according to IFRS, adjusted for one-off profits or losses (until December 2020, the minimum dividend payout level was set at 30 percent of the Group's adjusted consolidated net profit). The dividend payment for a specific year is determined after taking into consideration the Group's development strategy. 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 2020. At 31 December 2020 and 2019, the Group's capital totaled RR 1,660 billion and RR 1,663 billion, respectively.

26 CONTINGENCIES AND COMMITMENTS

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

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

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

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

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

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

26 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Contractual commitments. At 31 December 2020, the Group had contractual capital expenditures commitments aggregating approximately RR 248 billion (at 31 December 2019: RR 223 billion) mainly for development of LNG projects (through 2025), and for development at the Kharbeyskoye field (through 2023), the Ust-Yamsoveyskiy (through 2023), the North-Russkiy (through 2021), the Yevo-Yakhinskiy (through 2023) license areas and the Yarudeyskoye field (through 2023) all in accordance with duly signed agreements as well as for construction of a hydrocracker unit at the Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea (through 2022).

At 31 December 2020 and 31 December 2019, the Group was a participant of joint operations on exploration and production in Montenegro (50 percent participation interest) and in Republic of Lebanon (20 percent participation interest) under the agreements concluded with the State of Montenegro and the Ministry of Energy and Water of Republic of Lebanon, respectively. Jointly with other participants of these agreements, the Group committed to conduct mandatory work program exploration activities during the established periods, as stipulated by these agreements. The maximum amount to be paid by the Group in case of non-performance of work program exploration activities at 31 December 2020 is EUR 42.5 million to the State of Montenegro and EUR 5.8 million to the Republic of Lebanon (at 31 December 2019: EUR 42.5 million and EUR 12.7 million, respectively). The Group expects that mandatory exploration work programs under its joint operations will be performed and, therefore, no provision for these contingent liabilities was recognized in the consolidated financial statements.

The Group has entered into a number of agreements, relating to time chartering of marine tankers and bareboat chartering of floating gas storage units with service terms from 20 to 29 years under which provision of the services has not yet commenced. At 31 December 2020, the Group's future minimum payments under these charter agreements amounted to RR 234 billion (at 31 December 2019: RR 110 billion). Of this amount RR 196 billion relate to agreements which management plans to transfer to Group's joint ventures involved into LNG projects (at 31 December 2019: RR 81 billion).

Guarantees issued. At 31 December 2019, the aggregated amount of non-financial guarantees in respect of the Yamal LNG project issued by the Group to a number of third parties totaled USD 1.4 billion and EUR 8.5 billion. At 31 December 2020, these guarantees have been withdrawn after passing the tests proving successful project completion.

Simultaneously, in accordance with the project financing agreements of OAO Yamal LNG, the Group issued new guarantees, financial and non-financial, which cover only limited specific risks of the project. Non-financial guarantees represent undertakings to provide repayable funds to the project to the extent necessary for the project to fulfil its obligations to creditors, upon occurrence of limited events, and may not exceed USD 5.9 billion. Payments under financial guarantees may be claimed only upon Yamal LNG's default on its obligations to creditors, and the amount of these financial guarantees in most cases depends on macroeconomic factors (benchmark hydrocarbon prices, foreign exchange rates), but may not exceed USD 2.4 billion and EUR 1.0 billion. At 31 December 2020, based on the current estimations and long-term macroeconomic forecasts of the Group's management, the likelihood of claims under these financial guarantees is remote.

At 31 December 2019, with regard to the Group's obligations under the non-financial guarantee issued to the banks providing project financing to Yamal LNG, the State Development Corporation VEB.RF issued in favor of the banks a counter guarantee for the amount not exceeding the equivalent of USD 3 billion. The guarantee was terminated in September 2020 simultaneously with the termination of the Group's non-financial guarantee.

The aggregated amount of non-financial guarantees issued by the Group to a Russian bank in respect of the Group's joint venture Cryogas-Vysotsk totaled EUR 276 million at 31 December 2020 (at 31 December 2019: EUR 277 million).

The aggregated amount of non-financial guarantees issued by the Group in respect of its joint venture Arctic LNG 2 relating to LNG tanker time charter agreements, under which provision of the services has not yet commenced, totaled USD 2.0 billion at 31 December 2020.

In 2020, the Group issued non-financial performance guarantees to OOO Arctic LNG 2 in respect of the obligations of the joint venture OOO SMART LNG relating to provision of services under long-term LNG tanker time charter agreements, to the extent of the Group's participation interest in OOO SMART LNG.

26 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

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

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

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

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

26 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

Field	License holder	License expiry date
	Subsidiaries:	
Geofizicheskoye	OOO Arctic LNG 1	2034
Soletskoye+Khanaveyskoye	OOO Arctic LNG 1	2046
Gydanskoye	OOO Arctic LNG 1	2044
Verhnetiuteyskoye and West Seyakhinskoye	OOO Obskiy LNG	2044
Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2034
Urengoyskoye (within the Yevo-Yakhinsky and Ust-Yamsoveysky license areas)	OOO NOVATEK-Yurkharovneftegas	2034/2198
Nyakhartinskoye	OOO NOVATEK-Yurkharovneftegas	2043
East Urengoyskoye+North Yesetinskoye (within the Yevo-Yakhinsky and West Yaro Yakhinsky license areas)	OOO NOVATEK-Yurkharovneftegas	2034/2025
West Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2029
Yevo-Yakhinskoye	OOO NOVATEK-Yurkharovneftegas	2034
North Russkoye	OOO NOVATEK-Tarkosaleneftegas	2031
East Tarkosalinskoye	OOO NOVATEK-Tarkosaleneftegas	2043
Kharbeyskoye	OOO NOVATEK-Tarkosaleneftegas	2036
East Tazovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
Urengoyskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
Dorogovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
Khancheyskoye	OOO NOVATEK-Tarkosaleneftegas	2044
Dobrovolskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
South Khadyryakhinskoye	OOO NOVATEK-Tarkosaleneftegas	2031
North Khancheyskoye + Khadyryakhinskoye	OOO NOVATEK-Tarkosaleneftegas	2029
Sterkhovoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
North Chaselskoye	AO NOVATEK-Pur	Life of field
Beregovoye	AO NOVATEK-Pur	2070
Syskonsyninskoye	AO NOVATEK-Pur	2027
Yarudeyskoye	OOO Yargeo	2029
	Joint ventures:	
South-Tambeyskoye	OAO Yamal LNG	2045
Salmanovskoye (Utrenneye)	OOO Arctic LNG 2	2120
Urengoyskoye (within the Samburgskiy license area)	AO Arcticgas	2130
Yaro-Yakhinskoye	AO Arcticgas	2119
Samburgskoye	AO Arcticgas	2130
East Urengoyskoye +North Esetinskoye (within the Samburgskiy license area)	AO Arcticgas	2130
North Urengoyskoye	ZAO Nortgas	2038
Termokarstovoye	ZAO Terneftegas	2097

Management believes the Group has the right to extend its licenses beyond the initial expiration date under the existing legislation and intends to exercise this right on all of its fields.

26 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

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

27 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

The principal subsidiaries and joint ventures of the Group and respective effective ownership in the ordinary share capital at 31 December 2020 and 2019 are set out below:

	Ownership percent at 31 December:		Country of incorporation	Principal activities
	2020	2019		
Subsidiaries:				
OOO NOVATEK-Yurkharovneftegas	100	100	Russia	Exploration and production
OOO NOVATEK-Tarkosaleneftegas	100	100	Russia	Exploration and production
OOO Yargeo	51	51	Russia	Exploration, development and production
AO NOVATEK-Pur	100	100	Russia	Exploration and production
OOO Arctic LNG 1	100	100	Russia	Exploration and development
OOO Arctic LNG 3	100	100	Russia	Exploration and development
OOO NOVATEK-NTC	100	100	Russia	Scientific and technical support of exploration and development
OOO NOVATEK-Murmansk	100	100	Russia	Construction of large-scale offshore structures
OOO NOVATEK-Purovsky ZPK	100	100	Russia	Gas Condensate Processing Plant
OOO NOVATEK-Transervice	100	100	Russia	Transportation services
OOO NOVATEK-Ust-Luga	100	100	Russia	Fractionation and Transshipment Complex
OOO NOVATEK-AZK	100	100	Russia	Wholesale and retail trading
OOO NOVATEK-Chelyabinsk	100	100	Russia	Trading and marketing
OOO NOVATEK-Kostroma	100	100	Russia	Trading and marketing
OOO NOVATEK-Perm	100	100	Russia	Trading and marketing
OOO NOVATEK Moscow Region	100	100	Russia	Trading and marketing
OOO Arctic Transshipment	100	100	Russia	Construction of offshore LNG transshipment complexes
Novatek Gas & Power GmbH	100	100	Switzerland	Trading and marketing
Novatek Gas & Power Asia Pte. Ltd.	100	100	Singapore	Trading and marketing
Novatek Green Energy Sp. z o.o. (before February 2020 Novatek Polska Sp. z o.o.)	100	100	Poland	Trading and marketing

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

27 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES (CONTINUED)

	Ownership percent at 31 December: 2020	2019	Country of incorporation	Principal activities
Joint ventures:				
OAO Yamal LNG	50.1	50.1	Russia	Exploration and development, production of LNG
OOO Arctic LNG 2 (subsidiary until March 2019)	60	60	Russia	Exploration and development, construction of LNG plant
AO Arcticgas	50	50	Russia	Exploration and production
ZAO Nortgas	50	50	Russia	Exploration and production
ZAO Terneftegas	51	51	Russia	Exploration and production
OOO Cryogas-Vysotsk	51	51	Russia	Operation of medium-scale LNG plant
OOO SMART LNG	50	50	Russia	Leasing of LNG tankers
Rostock LNG GmbH	49	49	Germany	Construction of LNG transshipment terminal

28 RELATED PARTY TRANSACTIONS

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

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

Related parties – joint ventures	Year ended 31 December: 2020	2019
Transactions		
Revenues from oil and gas sales	4,136	3,210
Other revenues	7,375	5,304
Purchases of natural gas and liquid hydrocarbons	(214,228)	(296,442)
Transportation expenses	(283)	(73)
Materials, services and other	(214)	(164)
Materials, services and other (capitalized within property, plant and equipment)	(437)	(60)
Purchases of property, plant and equipment and materials for construction	(160)	(4)
Interest income	21,170	16,158
Dividends declared and cash received	10,920	46,550

Related parties – joint ventures	At 31 December 2020	At 31 December 2019
Balances		
Long-term loans receivable	390,627	231,495
Current portion of long-term loans receivable	41,253	50,815
Trade and other receivables	2,974	1,426
Trade payables and accrued liabilities	27,532	27,034

28 RELATED PARTY TRANSACTIONS (CONTINUED)

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

The Group issued guarantees in favor of its joint ventures as described in Note 26.

Related parties – entities with significant influence and their subsidiaries	Year ended 31 December: 2020	2019
Transactions		
Revenues from oil and gas sales	36,436	38,325
Other revenues	-	106
Purchases of natural gas and liquid hydrocarbons	(443)	-
Gain on disposal of interests in subsidiaries and joint ventures, net	-	308,578
Other operating income (loss), net	(10,789)	(7,842)
Interest income	741	899

Related parties – entities with significant influence and their subsidiaries	At 31 December 2020	At 31 December 2019
Balances		
Trade and other receivables	8,943	43,910
Contingent consideration	21,470	26,513
Trade payables and accrued liabilities	114	359

Related parties – parties under control of key management personnel	Year ended 31 December: 2020	2019
Transactions		
Purchases of construction services (capitalized within property, plant and equipment)	(18,268)	(14,555)
Transportation expenses	(10,815)	(10,114)

Related parties – parties under control of key management personnel	At 31 December 2020	At 31 December 2019
Balances		
Advances for construction	4,768	4,773
Prepayments and other current assets	585	487
Trade payables and accrued liabilities	2,126	1,898

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

Related parties – members of the key management personnel	Year ended 31 December: 2020	2019
Board of Directors	211	166
Management Committee	7,125	4,134
Total compensation	**7,336**	**4,300**

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)

29 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, France, Poland, Denmark, Belgium, the United Kingdom, Finland, Spain, Estonia, Germany, Sweden, Norway, Lithuania, Italy, Latvia and Montenegro)* – sales of natural gas, naphtha, stable gas condensate, gas condensate refined products, liquefied petroleum gas, crude oil and exploration activities within joint operations;
- *Countries of the Asia-Pacific region (primarily, China, including Taiwan, South Korea, Japan, Malaysia, Singapore, Philippines, Thailand and India)* – sales of natural gas, naphtha, stable gas condensate and crude oil;
- *Countries of North America (primarily, the USA)* – sales of naphtha, stable gas condensate refined products and crude oil;
- *Countries of the Middle East (primarily, the United Arab Emirates, Saudi Arabia, Oman, Turkey and Lebanon)* – sales of natural gas, naphtha, crude oil and exploration activities within joint operations.

Geographical information of the Group's oil and gas sales for the years ended 31 December 2020 and 2019 is as follows:

	Year ended 31 December:	
	2020	**2019**
Russia	393,358	403,639
Europe	178,245	303,564
Asia-Pacific Region	108,142	120,802
North America	25,434	41,205
The Middle East	12,133	16,217
Other	2	-
Less: export duties	(17,564)	(33,195)
Total outside Russia	306,392	448,593
Total oil and gas sales	**699,750**	**852,232**

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

Major customers. For the years ended 31 December 2020 and 2019, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 16 percent (RR 113.7 billion) and 13.4 percent (RR 115.9 billion) of total external revenues, respectively. The Group's major customer resides within the Russian Federation.

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation. These consolidated financial statements present the assets, liabilities, equity, income, expenses and cash flows of PAO "NOVATEK" and its subsidiaries as those of a single economic entity. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvements with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Accounting policies of the Group's subsidiaries have been changed where necessary to ensure consistency with the Group's policies.

Joint arrangements. The Group undertakes a number of business activities through joint arrangements, which exist when two or more parties have joint control. Joint arrangements are classified as either joint operations or joint ventures, based on the contractual rights and obligations between the parties to the arrangement.

Interests in joint ventures are accounted for using the equity method. With regard to joint operations, the Group records its share of assets, liabilities, revenues and expenses of its joint operations in the consolidated financial statements on a line-by-line basis.

Under the equity method, an investment in a joint venture is initially recognized at cost. The difference between the cost of an acquisition and the share of the fair value of the joint venture's identifiable net assets represents goodwill upon acquiring the joint venture.

Post-acquisition changes in the Group's share of net assets of a joint venture are recognized as follows: (a) the Group's share of profits or losses is recorded in the consolidated profit or loss for the year as share of financial result of joint ventures; (b) the Group's share of other comprehensive income or loss is recognized in other comprehensive income or loss and presented separately; (c) dividends received or receivable from a joint venture are recognized as a reduction in the carrying amount of the investment; (d) all other changes in the Group's share of the carrying value of net assets of a joint venture are recognized within retained earnings in the consolidated statement of changes in equity.

After application of the equity method, including recognizing the joint venture's losses, the entire carrying amount of the investment is tested for impairment as a single asset whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures. The interest in a joint venture is the carrying amount of the investment in the joint venture together with any long-term interests that, in substance, form part of the Group's net investment in the joint venture, including receivables and loans for which settlement is neither planned nor likely to occur in the foreseeable future.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in joint ventures; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Business combinations. The acquisition method of accounting is used to account for acquisitions of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognized in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The consideration transferred for the acquiree is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to control a subsidiary as a result of its contribution to a joint venture, a joint operation or an associate, the subsidiary is deconsolidated and the retained interest in the entity is remeasured to its fair value only to the extent of the unrelated investors' interest in the joint venture, the joint operation or the associate, with the change in carrying amount recognized in profit or loss.

If the ownership interest in a joint venture is reduced but joint control is retained or replaced with significant influence, the Group continues to apply the equity method and does not remeasure the retained interest.

Extractive activities. The Group follows the successful efforts method of accounting for its oil and gas properties and equipment whereby property acquisitions and development costs are capitalized, and exploration costs (geological and geophysical expenditures, expenditures associated with the maintenance of non-proven reserves and other expenditures relating to exploration activity), excluding exploratory drilling expenditures and exploration license acquisition costs, are recognized within operating expenses in the consolidated statement of income as incurred.

Exploration license acquisition costs and exploratory drilling costs are recognized as exploration assets within property, plant and equipment until it is determined whether proved reserves justifying their commercial development have been found. If no proved reserves are found, the relevant costs are charged to the consolidated statement of income. When proved reserves are determined, exploration license acquisition costs are reclassified to proved properties acquisition costs and exploratory drilling costs are reclassified to development expenditure categories within property, plant and equipment. Exploration license acquisition costs and exploratory drilling costs recognized as exploration assets are reviewed for impairment on an annual basis.

The costs of 3-D seismic surveys used to assist production, increase total recoverability and determine the desirability of drilling additional development wells within proved reservoirs are capitalized as development costs. All other seismic costs are expensed as incurred.

Production costs and overheads are charged to expense as incurred.

Property, plant and equipment. Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation, depletion, amortization and impairment.

The cost of self-constructed assets includes the cost of direct materials, direct employee related costs, a pro-rata portion of depreciation of assets used for construction and an allocation of the Group's overhead costs.

Depreciation, depletion and amortization of oil and gas properties and equipment is calculated using the unit-of-production method for each field based upon total proved reserves for costs associated with acquisitions of proved properties and common infrastructure facilities, and proved developed reserves for other development costs, including wells. Where unit-of-production method does not reflect useful life and pattern of consumption of particular oil and gas assets, such as processing facilities serving several properties, those assets are depreciated on a straight-line basis.

Property, plant and equipment, other than oil and gas properties and equipment, are depreciated on a straight-line basis over their estimated useful lives. Land and assets under construction are not depreciated.

The estimated useful lives of the Group's property, plant and equipment depreciated on a straight-line basis are as follows:

	Years
Machinery and equipment	5-15
Processing facilities	20-30
Buildings	25-50

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At each reporting date management assesses whether there is any indication of impairment in respect of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less selling costs and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the respective period. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Borrowing costs. Interest costs on borrowings and exchange differences arising from foreign currency borrowings (to the extent that they are regarded as an adjustment to interest costs) used to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are recognized in the consolidated statement of income.

Asset retirement obligations. An asset retirement obligation is recognized when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment whose construction is substantially completed. The obligation is recognized when incurred at the present value of the estimated costs of dismantling the assets, including abandonment and site restoration costs, and are included within the carrying value of property, plant and equipment.

Changes in the asset retirement obligation relating to a change in the expected pattern of settlement of the obligation, or in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the current period. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability. Changes in the obligation resulting from the passage of time are recognized in the consolidated statement of income as interest expense.

Leases. A contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use assets are initially measured at cost and depreciated by the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The cost of right-of-use assets comprises of initial measurement of the lease liability, any lease payments made before or at the commencement date and initial direct costs. After the commencement date, the right-of-use assets are carried at cost less accumulated depreciation and impairment losses in accordance with IAS 16, *Property, Plant and Equipment*.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and subsequently measured at amortised cost with the interest expense recognized within finance income (expense) in the consolidated statement of income.

In accordance with IFRS 16, *Leases*, the Group elected not to apply accounting requirements under this standard to short-term leases.

Lease contracts where the Group acts as the lessor are classified as operating leases when substantially all the risks and rewards incidental to ownership do not transfer to the lessee. Lease payments under such contracts are recognized on a straight-line basis within other revenue in the consolidated statement of income.

Non-current assets held for sale. Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and the sale within a year from the date of classification is highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment are not depreciated once classified as held for sale.

The Group ceases to use the equity method of accounting in relation to an interest in a joint venture or an associate classified as an asset held for sale.

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories. Natural gas, gas condensate, crude oil and gas condensate refined products are valued at the lower of cost or net realizable value. The cost of natural gas and liquid hydrocarbons includes direct cost of materials, direct operating costs, and related production overhead expenses and is recorded on weighted average cost basis. Net realizable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

Materials and supplies are carried at amounts which do not exceed their respective recoverable amounts in the normal course of business.

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

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

Certain shareholders' loans provided by the Group to its joint ventures include embedded derivatives that modify cash flows of the loans based on financial (market interest rates) and non-financial (interest rate on borrowings of the lender and free cash flows of the borrower) variables. The risks relating to these variables are interrelated; therefore, terms and conditions of each of these loans related to those variables were defined as a single compound embedded derivative. The Group classified these loans as financial assets at fair value through profit or loss (see Note 25).

The difference between the loans provided and the fair value at initial recognition is recorded as the Group's investment in the joint ventures. Subsequently, the loans are measured at fair value at each reporting date with recognition of the revaluation through profit or loss. Interest income (calculated using the effective interest method), foreign exchanges differences and the remaining effect from fair value remeasurement of such loans are disclosed separately in the consolidated statement of income.

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

The Group's non-derivative financial liabilities are measured at amortised cost. Derivatives are classified as at fair value through profit or loss. The Group does not apply hedge accounting.

Where there is an active market for a commodity, commodity contracts are accounted for as derivatives except for contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a commodity in accordance with the Group's expected purchase, sale or usage requirements. Gains or losses arising from changes in the fair value of commodity derivatives are recognized within other operating income (loss) in the consolidated statement of income (see Note 25).

An allowance for expected credit losses ("ECL") shall be recorded for financial assets classified as at amortised cost. Loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument.

For trade receivables, the Group measures loss allowances applying a simplified approach at an amount equal to lifetime ECLs. To measure the expected credit losses, expected loss rates are applied to trade receivables grouped based on the days past due. For other financial assets classified as at amortised cost, including some shareholders' loans provided, loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

The effective interest rate is the rate that exactly discounts future cash payments and receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying value of the financial asset or financial liability.

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Provisions for liabilities and charges. Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are reassessed at each reporting date, and those changes in the provisions resulting from the passage of time are recognized in the consolidated statement of income as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Pension obligations. The Group performs mandatory contributions to the Pension Fund of the Russian Federation on behalf of its employees based on gross salary payments. These contributions represent a defined contribution plan, are expensed when incurred and are included in the employee compensation in the consolidated statement of income.

The Group also operates a non-contributory post-employment defined benefit plan based on employees' years of service and average salary (see Note 14).

The liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the balance sheet date. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method.

Actuarial gains and losses on assets and liabilities arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. They are not reclassified to profit or loss in subsequent periods. Past-service costs are recognized in profit or loss in the period when a plan is amended or curtailed.

Guarantees issued. The Group issued a number of guarantees, financial and non-financial, for the obligations of its joint ventures.

Non-financial guarantees contracts issued by the Group meet the definition of insurance contracts and are accounted in accordance with IFRS 4, *Insurance Contracts*. Liabilities in respect of non-financial guarantee contracts are recognized when an outflow of funds (economic benefits) required to settle the liability is probable. Liabilities are recognized based on the best estimate of such an outflow.

Financial guarantees contracts issued are initially recognized as a liability at fair value. They are subsequently measured at the higher of two amounts: the amount of the loss allowance determined in accordance with IFRS 9, *Financial Instruments*, and the amount initially recognized less, where applicable, the accumulated income recognized in accordance with IFRS 15, *Revenue from Contracts with Customers*.

Income taxes. The income tax charge or benefit comprises current tax and deferred tax and is recognized in the consolidated statement of income unless it relates to transactions that are recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Russian tax legislation allows to prepare and file a single, consolidated income tax declaration by the taxpayers' group comprised of a holding company and any number of entities with at least 90 percent ownership in each (direct or indirect). Eligible taxpayers' group must be registered with tax authorities and meet certain conditions and criteria. The tax declaration can be submitted then by any member of the group. The Group prepares a consolidated tax return for the taxpayers' group including the Company and majority of its subsidiaries in Russia.

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax assets and liabilities are recognized on temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or when the tax loss carry forwards will be utilized. The Group applies a net-basis accounting in respect of temporary differences arising from right-of-use assets and long-term lease liabilities. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes balances relate to the same taxation authority and the same taxable entity, consolidated tax group of entities or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only with respect to individual companies of the Group (for companies outside the consolidated tax group of companies) and within the consolidated tax payers' group of companies.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognize deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Treasury shares. Where any Group company purchases PAO NOVATEK's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to PAO NOVATEK shareholders until the shares are cancelled or reissued or disposed. Where such shares are subsequently reissued or disposed, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to PAO NOVATEK shareholders. Treasury shares are recorded at weighted average cost. Gains or losses resulting from subsequent sales of shares are recorded in the consolidated statement of changes in equity, net of associated costs including taxation.

Dividends. Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed or declared after the balance sheet date but before the consolidated financial statements are authorized for issue.

Revenue recognition. Revenues represent the fair value of consideration received or receivable for the sale of goods and services in the normal course of business, net of discounts, export duties, value-added tax, excise and fuel taxes.

Revenues from oil and gas sales are recognized when control over such products has transferred to a customer, which refers to ability to direct the use of, and obtain substantially all of the remaining benefits from the products. The Group considers indicators of the transfer of control, which include, but are not limited to the following: the Group has a present right to payment for the products; the Group has transferred physical possession of the products; the customer has legal title to the products; the customer has the significant risks and rewards of ownership of the products; the customer has accepted the products. Not all of the indicators have to be met for management to conclude that control has transferred and revenue could be recognized. Management uses judgment to determine whether factors collectively indicate that the customer has obtained control over the products. Revenues from services are recognized in the period in which the services are rendered.

When the consideration includes a variable amount, minimum amounts must be recognized that are not at significant risk of reversal. If sales contract includes the variability associated with market price it represents a separated embedded derivative that is treated as part of revenue. Accordingly, at the date of sale the sales price is determined on a provisional basis, and the fair value of the final sales price adjustment is re-estimated continuously with changes in fair value recognized as an adjustment to revenue.

Trade receivables are recognized when the goods are transferred as this is the point in time that the consideration is unconditional and only the passage of time is required before the payment is due. No significant element of financing is deemed present as the sales are made with short-term credit terms consistent with market practice.

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General and administrative expenses. General and administrative expenses represent overall corporate management and other expenses related to the general management and administration of the business unit as a whole. They include management and administrative compensation, legal and other advisory expenses, insurance of administrative buildings, social expenses and compensatory payments of general nature not directly linked to the Group's oil and gas activities, charity and other expenses necessary for the administration of the Group.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to PAO NOVATEK shareholders by the weighted average number of shares outstanding during the reporting period.

Consolidated statement of cash flows. Cash and cash equivalents comprises cash on hand, cash deposits held with banks and short-term highly liquid investments which are readily convertible to known amounts of cash and which are not subject to significant risk of change in value and have an original maturity of three months or less.

The Group reports cash receipts and the repayments of short-term borrowings which have a maturity of three months or less on a net basis in the consolidated statement of cash flows.

31 NEW ACCOUNTING PRONOUNCEMENTS

The following amendments to standards have been issued, and the Group has decided to early adopt them starting from the annual period beginning on 1 January 2021:

Amendments to IAS 16, *Property, Plant and Equipment* (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022). These amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognized in profit or loss. The Group assessed that the adoption of these amendments did not have a material impact on the Group's consolidated financial position as at the date of transition.

The following amendments to standards have been issued, which the Group has not early adopted:

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

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In the absence of specific IFRS guidance for the oil and gas industry, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with norms established for companies in the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities but excludes disclosures regarding the standardized measures of discounted cash flows related to oil and gas activities.

The Group's exploration and production activities are mainly within the Russian Federation; therefore, the majority of the information provided in this section pertains to this country. The Group operates through various oil and gas production subsidiaries, and also has an interest in oil and gas companies that are accounted for under the equity method.

Oil and Gas Exploration and Development Costs

The following tables set forth information regarding oil and gas acquisition, exploration and development activities. The amounts reported as costs incurred include both capitalized costs and costs charged to expense, and are presented comprising amounts classified as assets held for sale and amounts allocated to fair values of the identified assets in acquisitions of subsidiaries (see Note 4), except for the effects from non-monetary transactions. These costs do not include LNG liquefaction and transportation operations (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2020	2019
Costs incurred in exploration and development activities		
Acquisition of unproved properties	317	5,217
Acquisition of proved properties	58	3,420
Exploration costs	21,156	25,604
Development costs	112,213	68,681
Total costs incurred in exploration and development activities	**133,744**	**102,922**
The Group's share in joint ventures' cost incurred in exploration and development activities	52,630	47,563

	At 31 December 2020	At 31 December 2019
Capitalized costs relating to oil and gas producing activities		
Proved and unproved properties	113,926	111,492
Wells, related equipment and facilities	348,900	287,447
Support equipment and facilities	176,171	158,732
Uncompleted wells, related equipment and facilities	106,086	86,758
Total capitalized costs relating to oil and gas producing activities	**745,083**	**644,429**
Less: accumulated depreciation, depletion and amortization	(246,111)	(218,316)
Net capitalized costs relating to oil and gas producing activities	**498,972**	**426,113**
The Group's share in joint ventures' capitalized costs relating to oil and gas producing activities	565,843	536,413

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Results of Operations for Oil and Gas Producing Activities

Results of operations for oil and gas producing activities of the Group's subsidiaries and the Group's share in the results of operations of joint ventures are shown below (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2020	2019
Subsidiaries		
Revenues from oil and gas sales (less transportation)	204,417	235,156
Lifting costs	(18,732)	(16,045)
Taxes other than income tax	(54,024)	(61,225)
Depreciation, depletion and amortization	(30,235)	(25,280)
Exploration expenses	(9,103)	(8,386)
Social expenses and charity (1)	(1,926)	(268)
Other operating expenses (2)	(537)	(433)
Total operating expenses	**(114,557)**	**(111,637)**
Results of operations for oil and gas producing activities before income tax	**89,860**	**123,519**
Less: related income tax expenses	(16,987)	(23,088)
Results of operations for oil and gas producing activities of the Group's subsidiaries	**72,873**	**100,431**
Group's share in joint ventures		
Revenues from oil and gas sales (less transportation)	167,334	192,421
Lifting costs	(7,193)	(5,897)
Taxes other than income tax	(34,994)	(39,237)
Depreciation, depletion and amortization	(25,959)	(23,620)
Exploration expenses	(2,225)	(731)
Social expenses and charity (1)	(32)	(42)
Other operating expenses (2)	(433)	(113)
Total operating expenses	**(70,836)**	**(69,640)**
Results of operations for oil and gas producing activities before income tax	**96,498**	**122,781**
Less: related income tax expenses	(16,049)	(20,415)
Group's share in results of operations for oil and gas producing activities of joint ventures	**80,449**	**102,366**
Total results of operations for oil and gas producing activities of the Group's subsidiaries and joint ventures	**153,322**	**202,797**

(1) Represent social expenses and compensatory payments related mainly to continued support of charities and social programs in the regions where production and development activities are performed.
(2) Represent mainly materials, services and other expenses, as well as administrative expenses being by nature operating expenses relating to fields in exploration and development stage.

The results of operations for hydrocarbons producing activities are presented only for volumes produced by the Group's subsidiaries and joint ventures and do not include general corporate overheads, processing costs incurred after saleable hydrocarbons are received, such as stable gas condensate processing costs and natural gas liquefaction costs. Revenues from oil and gas sales are calculated based on hydrocarbons production volumes and netback prices determined at the point of marketable products production and do not include export duties, transportation expenses to customers, storage, sales and other similar expenses.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Operating expenses include only the amounts directly related to the extraction of natural gas, gas condensate and crude oil, such as lifting costs (materials, services and other expenses, as well as administrative expenses being by nature operating expenses of oil and gas producing activities), taxes other than income tax, depreciation, depletion and amortization and other expenses. Income tax expense is calculated based on income tax rates applicable to each Group's subsidiary and joint venture.

Proved Oil and Gas Reserves

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2020 and 2019.

The Group estimates its oil and gas reserves in accordance with rules promulgated by the Securities and Exchange Commission (SEC) for proved reserves.

The Group's oil and gas reserves estimation and reporting process involves an annual independent third party reserve appraisal as well as internal technical appraisals of reserves. The Group maintains its own internal reserve estimates that are calculated by qualified engineers and technical staff working directly with the oil and gas properties. The Group's technical staff periodically updates reserve estimates during the year based on evaluations of new wells, performance reviews, new technical information and other studies.

The oil and gas reserve estimates reported below are determined by the Group's independent petroleum reservoir engineers, DeGolyer and MacNaughton ("D&M"). The Group provides D&M annually with engineering, geological and geophysical data, actual production histories and other information necessary for the reserve determination. The Group's and D&M's technical staffs meet to review and discuss the information provided, and upon completion of this process, senior management reviews and approves the final reserve estimates issued by D&M.

The following reserve estimates were prepared using standard geological and engineering methods generally accepted by the petroleum industry. The method or combination of methods used in the analysis of each reservoir is tempered by experience with similar reservoirs, stages of development, quality and completeness of basic data, and production history.

Extensions of production licenses are assumed to be at the discretion of the Group. Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group's production licenses. The principal licenses of the Group for exploration and production expire between 2029 and 2130. Legislation of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Management intends to extend its licenses for properties expected to produce beyond the license expiry dates.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves which are expected to be recovered through existing wells with existing equipment and operating methods. Undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to re-complete existing wells and/or install facilities to collect and deliver the production.

Net reserves exclude quantities due to others when produced.

The reserve quantities below include 100 percent of the net proved reserve quantities attributable to the Group's consolidated subsidiaries and the Group's ownership percentage of the net proved reserves quantities of the joint ventures including volumes of natural gas consumed in hydrocarbons production and development activities. Production and reserves of the South-Tambeyskoye field of Yamal LNG are reported at 60 percent including an additional 9.9 percent interest not owned by the Group, since the Group assumes certain economic and operational risks related to this interest.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

For convenience, reserves estimates are provided both in English and Metric units.

Net proved reserves of natural gas are presented below:

	Net proved reserves		Group's share in joint ventures		Total net proved reserves	
	Billions of cubic feet	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*
At 31 December 2018	**47,707**	**1,351**	**29,174**	**826**	**76,881**	**2,177**
Changes attributable to:						
Revisions of previous estimates	(1,296)	(37)	494	14	(802)	(23)
Extension and discoveries	5,030	143	2,611	74	7,641	217
Acquisitions (1)	3,698	105	-	-	3,698	105
Disposals (2)	(5,884)	(167)	-	-	(5,884)	(167)
Reclassifications (3)	(7,267)	(206)	7,267	206	-	-
Production	(1,391)	(40)	(1,247)	(35)	(2,638)	(75)
At 31 December 2019	**40,597**	**1,149**	**38,299**	**1,085**	**78,896**	**2,234**
Changes attributable to:						
Revisions of previous estimates	471	13	(603)	(17)	(132)	(4)
Extension and discoveries	1,075	30	2,018	57	3,093	87
Acquisitions (1)	138	4	-	-	138	4
Production	(1,435)	(40)	(1,297)	(37)	(2,732)	(77)
At 31 December 2020	**40,846**	**1,156**	**38,417**	**1,088**	**79,263**	**2,244**
Net proved developed reserves (included above)						
At 31 December 2018	12,187	345	14,103	399	26,290	744
At 31 December 2019	11,527	326	18,612	527	30,139	853
At 31 December 2020	12,128	343	17,922	508	30,050	851
Net proved undeveloped reserves (included above)						
At 31 December 2018	35,520	1,006	15,071	427	50,591	1,433
At 31 December 2019	29,070	823	19,687	558	48,757	1,381
At 31 December 2020	28,718	813	20,495	580	49,213	1,393

(1) Relate to an additional 50 percent interest in reserves of the North-Chaselskiy and Yevo-Yakhinskiy license areas acquired by the Group as a result of the reorganization of Arcticgas in 2019 (part of reserves was estimated in 2020). In 2019 also relate to reserves of the Soletskoye-Khanaveyskoye field acquired in the third quarter of 2019.

(2) Represent reserves attributable to the disposal of a 40 percent participation interest in OOO Arctic LNG 2 in 2019.

(3) Represent reclassification of reserves attributable to the Group's retained 60 percent participating interest in Arctic LNG 2, which after the sale of a 40 percent participating interest in 2019 is accounted for as an investment in a joint venture. This item also includes reclassification of a 50 percent interest in reserves of the North-Chaselskiy and Yevo-Yakhinskiy license areas which were transferred to the Group as a result of the reorganization of Arcticgas in 2019.

The net proved reserves of natural gas reported in the table above included reserves attributable to a non-controlling interest in a Group's subsidiary of 337 billion cubic feet (10 billion cubic meters) and 231 billion cubic feet (seven billion cubic meters) at 31 December 2020 and 2019, respectively, and reserves attributable to an additional 9.9 percent interest in Yamal LNG not owned by the Group (see above) of 2,341 billion cubic feet (66 billion cubic meters) and 2,413 billion cubic feet (68 billion cubic meters) at 31 December 2020 and 2019, respectively.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Net proved reserves of crude oil, gas condensate and natural gas liquids are presented below:

	Net proved reserves		Group's share in joint ventures		Total net proved reserves	
	Millions of barrels	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*
At 31 December 2018	**792**	**93**	**759**	**88**	**1,551**	**181**
Changes attributable to:						
Revisions of previous estimates	(4)	-	(7)	(1)	(11)	(1)
Extension and discoveries	150	17	82	9	232	26
Acquisitions (1)	39	5	-	-	39	5
Disposals (2)	(56)	(6)	-	-	(56)	(6)
Reclassifications (3)	(47)	(5)	47	5	-	-
Production	(52)	(6)	(49)	(6)	(101)	(12)
At 31 December 2019	**822**	**98**	**832**	**95**	**1,654**	**193**
Changes attributable to:						
Revisions of previous estimates	30	3	(16)	(2)	14	1
Extension and discoveries	50	6	66	8	116	14
Acquisitions (1)	5	1	-	-	5	1
Production	(52)	(6)	(50)	(6)	(102)	(12)
At 31 December 2020	**855**	**102**	**832**	**95**	**1,687**	**197**
Net proved developed reserves (included above)						
At 31 December 2018	340	42	387	44	727	86
At 31 December 2019	335	42	457	52	792	94
At 31 December 2020	349	43	439	50	788	93
Net proved undeveloped reserves (included above)						
At 31 December 2018	452	51	372	44	824	95
At 31 December 2019	487	56	375	43	862	99
At 31 December 2020	506	59	393	45	899	104

(1) Relate to an additional 50 percent interest in reserves of the North-Chaselskiy and Yevo-Yakhinskiy license areas acquired by the Group as a result of the reorganization of Arcticgas in 2019 (part of reserves was estimated in 2020). In 2019 also relate to reserves of the Soletskoye-Khanaveyskoye field acquired in the third quarter of 2019.

(2) Represent reserves attributable to the disposal of a 40 percent participation interest in OOO Arctic LNG 2 in 2019.

(3) Represent reclassification of reserves attributable to the Group's retained 60 percent participating interest in Arctic LNG 2, which after the sale of a 40 percent participating interest in 2019 is accounted for as an investment in a joint venture. This item also includes reclassification of a 50 percent interest in reserves of the North-Chaselskiy and Yevo-Yakhinskiy license areas which were transferred to the Group as a result of the reorganization of Arcticgas in 2019.

The net proved reserves of crude oil, gas condensate and natural gas liquids reported in the table above included reserves attributable to a non-controlling interest in a Group's subsidiary of 82 million barrels (11 million metric tons) and 75 million barrels (10 million metric tons) at 31 December 2020 and 2019, respectively, and reserves attributable to an additional 9.9 percent interest in Yamal LNG not owned by the Group (see above) of 19 million barrels (two million metric tons) and 20 million barrels (two million metric tons) at 31 December 2020 and 2019, respectively.

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

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PAO NOVATEK

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

FOR THE YEAR ENDED 31 DECEMBER 2020

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GENERAL PROVISIONS

You should read the following discussion and analysis of our financial condition and results of operations as of 31 December 2020 and for the year then ended in conjunction with our audited consolidated financial statements as of and for the year ended 31 December 2020. The consolidated financial statements and the related notes thereto have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial and operating information contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" comprises information of PAO NOVATEK, its consolidated subsidiaries and joint ventures (hereinafter jointly referred to as "we" or the "Group").

OVERVIEW

We are Russia's second largest natural gas producer and one of the world leaders in terms of proved natural gas reserves under the Petroleum Resources Management System ("PRMS") and the Securities and Exchange Commission ("SEC") reserve reporting methodologies.

Our exploration and development, production and processing of natural gas, gas condensate and crude oil are conducted mainly within the Russian Federation.

The natural gas assets of our subsidiaries and joint ventures include projects where we sell natural gas through the Unified Gas Supply System in the Russian domestic market and liquefied natural gas ("LNG") delivered mainly to international markets.

The Group's LNG producing projects are Yamal LNG, Cryogas-Vysotsk and an LNG plant in the Chelyabinsk region.

The Group through its joint venture OAO Yamal LNG undertakes a project on natural gas production, liquefaction and shipping based on the feedstock resources of the South-Tambeyskoye field located in YNAO (the "Yamal LNG project"). Annual nameplate capacity of the LNG plant after the launch of the first three LNG trains aggregates 16.5 million tons of LNG (5.5 million tons each) and up to 1.2 million tons of stable gas condensate. In addition, the fourth train with annual nameplate capacity of 0.9 mln tons of LNG is in the commissioning phase. Yamal LNG is one of the largest suppliers of LNG to international markets and one of the lowest in greenhouse gas emissions per ton of produced LNG globally. We purchase a part of the LNG volumes produced by Yamal LNG and sell these volumes to international markets via tankers under long-term contracts and on a spot basis.

In 2019, our joint venture OOO Cryogas-Vysotsk commissioned its medium-scale LNG plant located at the Russian port of Vysotsk on the Baltic Sea. We purchase a part of the LNG volumes produced at the project and sell these volumes mainly to international markets via tankers and trucks, as well as sell LNG used for marine bunkering.

In the third quarter 2020, we launched our first small-scale domestic LNG plant in the Chelyabinsk region. The LNG is sold through the Group's refueling complexes in the Chelyabinsk region and neighboring areas, as well as directly from the LNG plant without incurring additional transportation expenses.

In addition, through our joint venture OOO Arctic LNG 2 we are presently constructing an LNG plant on the Gydan peninsula that will eventually utilize the hydrocarbon resources of the Salmanovskoye (Utrenneye) field (the "Arctic LNG 2 project"). The project includes the construction of an LNG plant built on gravity-based platforms with an annual capacity of 19.8 million tons of LNG per annum (three processing trains of 6.6 million tons of LNG each) and up to 1.6 million tons of stable gas condensate. The launch of the first train is expected to be in 2023, with the launches of the second and third trains – in 2024 and 2026, respectively.

We deliver unstable gas condensate produced by our subsidiaries and our joint ventures Arcticgas, Nortgas and Terneftegas to our Purovsky Gas Condensate Plant (the "Purovsky Plant") for processing into stable gas condensate and natural gas liquids ("NGL"). The Purovsky Plant allows us to process more than 12 million tons of unstable gas condensate per annum.

Most of our stable gas condensate is sent for further processing to our Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea (the "Ust-Luga Complex"). The Ust-Luga Complex processes our stable gas condensate into light and heavy naphtha, jet fuel, gasoil and fuel oil, nearly all of which we sell to the international markets allowing us to increase the added value of our liquid hydrocarbons sales. The Ust-Luga Complex allows us to process about seven million tons of stable gas condensate annually.

The excess volumes of stable gas condensate received from the processing at the Purovsky Plant over volumes sent for further processing to the Ust-Luga Complex are sold on both the domestic and international markets (by rail and from the port of Ust-Luga on the Baltic Sea by tankers).

A significant part of our NGL volumes produced at the Purovsky Plant is dispatched via pipeline for further processing at the Tobolsk petrochemical complex of PAO SIBUR Holding group (the "Tobolsk Refining Facilities"). The remaining volumes are sold directly from the Purovsky Plant without incurring additional transportation expenses. After processing at the Tobolsk Refining Facilities we receive liquefied petroleum gas ("LPG") with higher added value, the majority of which are transported by rail to our end-customers in the domestic and international markets with the remaining portion sold directly from the Tobolsk Refining Facilities without incurring additional transportation expenses. NGL sold directly from the Purovsky Plant and sales of LPG received from the processing at the Tobolsk Refining Facilities are presented within LPG sales in this report.

We deliver our crude oil to both domestic and international markets.

RECENT DEVELOPMENTS

Arctic LNG 2 project

The Group, jointly with international partners TOTAL S.A., China National Petroleum Corporation ("CNPC"), CNOOC Limited and Japan Arctic LNG B.V. (a joint venture of Mitsui & Co., Ltd and Japan Oil, Gas and Metals National Corporation ("JOGMEC")), through its joint venture OOO Arctic LNG 2 undertakes an integrated project on natural gas production, liquefaction and shipping based on the hydrocarbon resources of the Salmanovskoye (Utrenneye) field on the Gydan peninsula (the "Arctic LNG 2 project").

The Arctic LNG 2 plant will be built on gravity-based platforms and consist of three processing trains with an annual capacity of 6.6 million tons of LNG each, or an aggregated capacity of 19.8 million tons of LNG per annum, and up to 1.6 million tons of stable gas condensate. The final investment decision (FID) on the Arctic LNG 2 project was made in September 2019. The launch of the first train is expected to be in 2023, the launches of the second and third trains – in 2024 and 2026, respectively.

Gravity-based platforms and other major units for the plant will be produced at our own LNG construction center in the Murmansk region (the "Murmansk yard"), which will also be used for the Group's subsequent LNG projects. At present, facilities of workshop complex and the concrete plant necessary to produce gravity-based platforms are completed. Two dry docks, where the casting of gravity-based platforms is performed, were constructed. The topsides fabrication complex for LNG plants is in process of construction.

The use of gravity-based platforms technology for the plant construction, as well as localizing production in the Russian Federation will contribute to lower LNG liquefaction costs compared to other LNG projects and allows to minimize the impact on the environment.

The Salmanovskoye (Utrenneye) field's development is ongoing. Two power plants were completed with initial production wells drilled to supply their operation. The fuel depot was launched. Construction of the first gas treatment plant necessary for the launch and ongoing exploitation of the first train of the LNG plant, was commenced. Construction of two of the three sites for berthing facilities necessary for installation of gravity-based platforms is completed. These berthing facilities are currently used to unload the supplies simultaneously from six vessels.

In 2020, despite the challenging international LNG markets conditions, the Group signed the first series of long- and short-term agreements with Asian and European customers to supply LNG from the Arctic LNG 2 project. At present, we continue active negotiations on long-term LNG supply contracts with major players in the LNG industry.

To ensure LNG deliveries from the Arctic LNG 2 project, at present, construction contracts for 21 Arc7 ice-class tankers were signed: 15 tankers will be built by the Shipbuilding Complex Zvezda in Russia and six – by Daewoo Shipbuilding & Marine Engineering in South Korea.

Yamal LNG project

The Group, through its joint venture OAO Yamal LNG, undertakes a project on natural gas production, liquefaction and shipping based on the feedstock resources of the South-Tambeyskoye field located in YNAO (the "Yamal LNG project"). The total annual nameplate capacity of the liquefaction plant is 17.4 million tons of LNG, including first three LNG trains with an annual capacity of 5.5 million tons for each and the fourth train with an annual capacity of 0.9 million tons, and up to 1.2 million tons of stable gas condensate. The first three LNG trains of the liquefaction plant were launched in 2017 and in 2018. The fourth train is currently commissioning.

In total, during the reporting period, 18.8 million tons of LNG were produced (18.6 million tons were shipped from the port of Sabetta) exceeding the project capacity of the first three trains in aggregate by 2.3 million tons, or 13.9%. Volumes of stable gas condensate produced and shipped aggregated to 1.0 million tons.

In 2020, Yamal LNG delivered 2.4 million tons of LNG eastbound via the Northern Sea Route to the Asia-Pacific Region utilizing our Arc7 ice-class LNG tankers. In addition, in January 2021, three voyages were completed via the Northern Sea Route without icebreaker escort: two voyages eastbound from the port of Sabetta laden with LNG and one in the opposite direction to the port of Sabetta in ballast. These voyages took place in average ice conditions, two months after the end of the traditional navigation season in the Eastern part of the Arctic Ocean, which usually ends in November. Shipping via the Northern Sea Route reduces the LNG voyage period by more than one third as compared to the traditional route via the Suez Canal and the Strait of Malacca.

Obskiy LNG project

In 2019, the Group established OOO Obskiy LNG, a wholly owned subsidiary, to implement an LNG project based on the feedstock resources of the Verhnetiuteyskoye and the West-Seyakhinskoye fields located in YNAO (the "Obskiy LNG project"). The Obskiy LNG project envisages the construction of an LNG plant near the port of Sabetta. Currently, the Group is preparing infrastructure for the field development and the front-end engineering design (FEED) for the LNG plant construction.

Small-scale LNG production at the Chelyabinsk region

In August 2020, we launched our first small-scale domestic LNG plant in the Chelyabinsk region with a nameplate capacity of 40 thousand tons per annum. The LNG produced is used primarily as natural gas motor fuel and is delivered through the Group's refueling complexes for passenger, cargo transport and mining machinery in the Chelyabinsk region and neighboring areas.

Increasing our production facilities

In December 2019, the Group launched the North-Russkoye field and commenced natural gas production from the Cenomanian deposits and, in August 2020, started exploitation of the gas condensate deposits. In August 2020, we also launched the East-Tazovskoye field and commenced natural gas and gas condensate production at this field. In addition, in 2020, we launched the Dorogovskoye field and commenced natural gas production. The estimated annual production capacity of these three fields will total approximately eight billion cubic meters of natural gas and about one million tons of gas condensate. The North-Russkoye, East-Tazovskoye and Dorogovskoye fields belong to the North-Russkiy cluster, which also includes the Kharbeyskoye field scheduled for launch in 2021. It is expected that the cumulative gas production capacity from the North-Russkiy cluster will total more than 13 billion cubic meters per annum.

In the first quarter 2020, our joint venture AO Arcticgas expanded the gas condensate treatment facility by 1.2 million tons per annum, thereby increasing natural gas and gas condensate production at the Achimov horizons of the Urengoyskoye field.

Disposal of OOO Chernichnoye to a joint venture

In the fourth quarter 2020, the Group sold a 100% participation interest in OOO Chernichnoye to our joint venture ZAO Terneftegas for RR 730 million and recognized profit on disposal in the amount of RR 69 million before associated income tax of RR 23 million. Chernichnoye is a holder of the license for exploration and production of hydrocarbons within the Chernichniy license area located in YNAO, which will be developed using infrastructure of the Termokarstovoye field of Terneftegas.

Approval of a new Dividend Policy

In December 2020, the Board of Directors of PAO NOVATEK approved a new version of the Regulations on Dividend Policy, which increased the minimum target dividend payout level from 30% to 50% of the adjusted consolidated net profit under IFRS. The new Dividend Policy is aimed to strengthen the Group's investment case and increase total shareholder returns.

Negative macro-economic environment and COVID-19

The spread of the COVID-19 virus in 2020 has caused financial and economic stress to the global markets that is out of the Group's management control. In particular, the COVID-19 pandemic has led to lower demand for crude oil, natural gas and oil products, which combined with the increase in the supply of crude oil due to the cancellation of the OPEC+ production agreement in March 2020 has led to a fall in global hydrocarbon commodity prices.

Global economic activity had begun a gradual recovery during the second quarter 2020 following the partial removals of restrictions aimed at preventing the epidemic spread, as well as a partial recovery in benchmark crude oil prices following the new OPEC+ production agreement reached and the compliance to the target cuts. This recovery has continued throughout the second half of 2020. Nevertheless, crude oil benchmark prices still have not reached their pre-crisis levels, the scale and duration of these events remain uncertain and may continue to influence our future earnings, cash flows and financial position.

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

BASIS OF PRESENTATION

Oil and gas production and reserves in the current report are calculated based on 100% of our subsidiaries production and reserves and our proportionate share in the production and reserves of our joint ventures including volumes of natural gas consumed in oil and gas producing and development activities. Meanwhile, production costs per barrel of oil equivalent are calculated based on production volumes net of the volume of consumed natural gas. Production and reserves of the South-Tambeyskoye field developed by the Group's joint venture OAO Yamal LNG are reported at 60% including an additional 9.9% interest not owned by the Group, since the Group assumes certain economic and operational risks related to this interest.

Our oil and gas revenues and average realized net prices are presented net of VAT, export duties, and fuel taxes, where applicable, and excise on fuel oil sales on the domestic market and hydrocarbons sales in Poland. The Group also accrues excise tax on raw oil and claims the double excise tax deduction. The net result, or so-called "reverse excise", is reported as a deduction to our "Purchases of natural gas and liquid hydrocarbons" in our consolidated statement of income (see "Our tax burden and obligatory payments" below).

SELECTED DATA

millions of Russian roubles except as stated	Year ended 31 December: 2020	2019	Change %
Financial results			
Total revenues [1]	711,812	862,803	(17.5%)
Operating expenses	(552,062)	(640,463)	(13.8%)
Normalized EBITDA [2],[3]	392,008	461,157	(15.0%)
Normalized profit attributable to shareholders of PAO NOVATEK [3]	106,044	302,418	(64.9%)
Normalized profit attributable to shareholders of PAO NOVATEK [3], excluding the effect of foreign exchange gains (losses) [4]	169,020	245,002	(31.0%)
Normalized earnings per share [3] (in Russian roubles)	35.30	100.42	(64.9%)
Normalized earnings per share [3], excluding the effect of foreign exchange gains (losses) [4] (in Russian roubles)	56.26	81.35	(30.9%)
Net debt [5]	39,557	15,106	161.9%
Production volumes [6]			
Hydrocarbons production (million barrels of oil equivalent)	608.2	589.9	3.1%
Daily production (million barrels of oil equivalent per day)	1.66	1.62	2.8%
Sales volumes			
Natural gas sales volumes (million cubic meters)	75,620	78,452	(3.6%)
Crude oil sales volumes (thousand tons)	4,468	4,834	(7.6%)
Naphtha sales volumes (thousand tons)	4,294	4,511	(4.8%)
Liquefied petroleum gas sales volumes (thousand tons)	2,959	2,777	6.6%
Other stable gas condensate refined products (thousand tons)	2,479	2,470	0.4%
Stable gas condensate sales volumes (thousand tons)	2,169	1,739	24.7%
Oil and gas SEC reserves [6]			
Total proved reserves (billion barrels of oil equivalent)	16.4	16.3	0.6%
Total natural gas proved reserves (trillion cubic meters)	2.24	2.23	0.4%
Total liquids proved reserves (million tons)	197	193	2.1%
Cash flow results			
Net cash provided by operating activities	171,896	307,433	(44.1%)
Cash used for capital expenditures [7]	204,577	162,502	25.9%
Free cash flow [8]	(32,681)	144,931	n/a

(1) Net of VAT, export duties, excise and fuel taxes, where applicable.
(2) EBITDA represents profit (loss) adjusted for the add-back of depreciation, depletion and amortization, net impairment expenses (reversals), finance income (expense), income tax expense, as well as income (loss) from changes in fair value of derivative financial instruments. EBITDA includes EBITDA from subsidiaries and our proportionate share in the EBITDA of our joint ventures.
(3) Excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration).
(4) Excluding the effect of foreign exchange gains (losses) of subsidiaries and our proportionate share in foreign exchange gains (losses) of our joint ventures (see "Profit attributable to shareholders and earnings per share" below).
(5) Net debt represents our total debt net of cash, cash equivalents and bank deposits with original maturity more than three months.
(6) Oil and gas production and reserves are calculated based on 100% of production and reserves of our subsidiaries and our proportionate share in the production and reserves of our joint ventures including fuel gas. Production and reserves of the South-Tambeyskoye field of Yamal LNG are reported at 60% (see "Basis of presentation" above).
(7) Cash used for capital expenditures represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries.
(8) Free cash flow represents the difference between Net cash provided by operating activities and Cash used for capital expenditures. For the analysis of factors that impacted our free cash flow, please refer to "Net cash provided by operating activities" and "Capital expenditures" below.

The Groups' financial results in 2020 were negatively impacted by the financial and economic stress in the global markets caused by the COVID-19 pandemic that is out of the Group's management control. This resulted in a decrease in our hydrocarbon sales prices and the recognition of substantial foreign exchange effects due to the Russian rouble depreciation relative to the US dollar and Euro by 19.3% and 30.8%, respectively. Foreign exchange losses primarily related to the revaluation of foreign currency denominated loans in our joint venture Yamal LNG. We assess that the impact of foreign currency risk relating to the debt portfolio of Yamal LNG is largely mitigated by the fact that all produced LNG and stable gas condensate are delivered to international markets and its revenues are denominated in foreign currencies.

In addition, in both years, we recorded the effects from the disposal of interests in the Arctic LNG 2 project by recognizing a gain in the aggregate amount of RR 675.0 billion from the disposal of a 40% participation interest in the Arctic LNG 2 project in 2019 and recognizing in 2019 and 2020 losses in the amount of RR 34.5 billion and RR 47.8 billion, respectively, related to the subsequent non-cash revaluation of contingent consideration on these transactions. In 2019, we also recognized a gain from the reorganization of our joint venture AO Arcticgas in the amount of RR 7.8 billion.

As a result, in 2020, we recorded a profit attributable to shareholders of PAO NOVATEK in the amount of RR 67,832 million while in 2019 we recorded a profit of RR 865,477 million. Excluding the effects from the disposal of interests in subsidiaries and joint ventures and foreign exchange gains (losses), our normalized profit attributable to shareholders of PAO NOVATEK amounted to RR 169,020 million in 2020 compared to RR 245,002 million in 2019.

Reconciliation of normalized EBITDA is as follows:

millions of Russian roubles	Year ended 31 December: 2020	2019	Change %
Profit	**78,586**	**883,461**	**(91.1%)**
Depreciation, depletion and amortization	39,238	32,230	21.7%
Impairment expenses (reversals), net	254	162	56.8%
Loss (income) from changes in fair value of commodity derivative instruments	1,689	(238)	n/a
Total finance expense (income)	(160,565)	15,712	n/a
Total income tax expense	51,010	119,654	(57.4%)
Share of loss (profit) of joint ventures, net of income tax	143,981	(149,238)	n/a
EBITDA from subsidiaries	**154,193**	**901,743**	**(82.9%)**
Net gain on disposal of interests in subsidiaries and joint ventures	(69)	(682,733)	(100.0%)
Changes in fair value of contingent consideration reported within the "Other operating income (loss)"	47,823	34,542	38.4%
Normalized EBITDA from subsidiaries	**201,947**	**253,552**	**(20.4%)**
Share in EBITDA of joint ventures	**190,061**	**207,605**	**(8.5%)**
including:			
OAO Yamal LNG	131,085	133,478	(1.8%)
AO Arcticgas	52,885	64,088	(17.5%)
others	6,091	10,039	(39.3%)
Normalized EBITDA	**392,008**	**461,157**	**(15.0%)**

SELECTED MACRO-ECONOMIC DATA

Exchange rate, RR for one foreign currency unit [1]	1Q 2020	1Q 2019	2Q 2020	2Q 2019	3Q 2020	3Q 2019	4Q 2020	4Q 2019	Year 2020	Year 2019	Change Y-o-Y, %
US dollar (USD)											
Average for the period	66.38	66.13	72.36	64.56	73.56	64.57	76.22	63.72	72.15	64.74	11.4%
At the beginning of the period	61.91	69.47	77.73	64.73	69.95	63.08	79.68	64.42	61.91	69.47	(10.9%)
At the end of the period	77.73	64.73	69.95	63.08	79.68	64.42	73.88	61.91	73.88	61.91	19.3%
Depreciation (appreciation) of RR to US dollar	25.6%	(6.8%)	(10.0%)	(2.5%)	13.9%	2.1%	(7.3%)	(3.9%)	19.3%	(10.9%)	n/a
Euro											
Average for the period	73.23	75.17	79.65	72.52	85.97	71.83	90.81	70.54	82.45	72.50	13.7%
At the beginning of the period	69.34	79.46	85.74	72.72	78.68	71.82	93.02	70.32	69.34	79.46	(12.7%)
At the end of the period	85.74	72.72	78.68	71.82	93.02	70.32	90.68	69.34	90.68	69.34	30.8%
Depreciation (appreciation) of RR to Euro	23.7%	(8.5%)	(8.2%)	(1.2%)	18.2%	(2.1%)	(2.5%)	(1.4%)	30.8%	(12.7%)	n/a

(1) Based on the data from the Central Bank of Russian Federation (CBR). The average rates for the period are calculated as the average of the daily exchange rates on each business day (rate is announced by the CBR) and on each non-business day (rate is equal to the exchange rate on the previous business day).

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Average for the period	1Q 2020	1Q 2019	2Q 2020	2Q 2019	3Q 2020	3Q 2019	4Q 2020	4Q 2019	Year 2020	Year 2019	Change Y-o-Y, %
Benchmark natural gas prices, USD per mmbtu [2]											
NBP (National Balancing Point)	3.2	6.3	1.6	4.1	2.7	3.4	5.4	4.1	3.2	4.4	(27.3%)
TTF (Title Transfer Facility)	3.1	6.1	1.7	4.3	2.7	3.3	5.1	4.1	3.2	4.5	(28.9%)
Benchmark crude oil prices [3]											
Brent, USD per barrel	50.1	63.1	29.6	68.9	42.9	62.0	44.2	63.1	41.8	64.2	(34.9%)
Urals, USD per barrel	48.0	63.2	31.6	67.9	43.0	61.3	44.5	61.4	41.9	63.4	(33.9%)
Urals, RR per barrel	3,186	4,179	2,287	4,384	3,163	3,958	3,392	3,912	3,023	4,105	(26.4%)
Benchmark crude oil prices excluding export duties [4]											
Urals, USD per barrel	37.8	51.3	28.5	53.6	37.0	48.3	38.6	49.2	35.6	50.6	(29.6%)
Urals, RR per barrel	2,509	3,392	2,062	3,460	2,722	3,119	2,942	3,135	2,569	3,276	(21.6%)
Benchmark oil products [5] **and liquefied petroleum gas** [6] **prices, USD per ton**											
Naphtha Japan	437	519	276	542	397	495	408	539	381	524	(27.3%)
Naphtha CIF NWE	411	497	240	527	376	477	393	519	357	505	(29.3%)
Jet fuel	484	625	242	646	336	629	374	627	360	632	(43.0%)
Gasoil	467	586	281	603	353	578	365	579	367	586	(37.4%)
Fuel oil	348	396	196	414	268	387	301	408	279	401	(30.4%)
Liquefied petroleum gas	322	363	240	404	362	339	388	446	331	387	(14.5%)
Export duties, USD per ton [7]											
Crude oil, stable gas condensate	74.2	87.0	22.4	104.1	44.1	95.0	43.2	88.7	46.0	93.7	(50.9%)
Naphtha	40.7	47.8	12.3	57.2	24.2	52.2	23.7	48.7	25.2	51.5	(51.1%)
Jet fuel, gasoil	22.2	26.1	6.7	31.2	13.2	28.5	12.9	26.5	13.7	28.1	(51.2%)
Fuel oil	74.2	87.0	22.4	104.1	44.1	95.0	43.2	88.7	46.0	93.7	(50.9%)
Liquefied petroleum gas	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	n/a

(2) Based on spot natural gas prices at natural gas hubs in the United Kingdom (NBP) and the Netherlands (TTF).
(3) Based on Brent (dtd) and Russian Urals CIF Rotterdam spot assessments prices.
(4) Export duties per barrel were calculated based on export duties per ton divided by the coefficient 7.3.
(5) Based on Naphtha C+F (cost plus freight) Japan, Naphtha CIF NWE, Jet CIF NWE, Gasoil 0.1% CIF NWE, Fuel Oil 1.0% CIF NWE prices.
(6) Based on spot prices for propane-butane mix at the Belarusian-Polish border (DAF, Brest).
(7) Export duties are determined by the Russian Federation government in US dollars and are paid in Russian roubles (see "Our tax burden and obligatory payments" below).

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Current economic environment

Commodity price volatility continues to exert significant influence on financial and operational results in the global oil and gas industry. Our financial results are obviously impacted by these global developments as our export sales are linked to the specific underlying benchmark commodity prices, but we believe our business model, representing one of the lowest cost producers in the world, insulates us from severe financial and operational stress. In each reporting period, the Group demonstrated sustainable operating and financial results.

The declines in hydrocarbon prices on commodity markets in 2020 have negatively impacted oil and gas companies. The main reasons for the financial and economic stress on the global commodity markets were the spread of COVID-19 and its negative effect on economic activities, as well as the cancellation of the OPEC+ production agreement in the first quarter 2020. Starting from the second quarter, following the partial removals of restrictions aimed at preventing the epidemic spread of the COVID-19 virus, there has been a gradual recovery in global economic activity. Moreover, the new OPEC+ production agreement and the members compliance with these production targets has resulted in a partial recovery of benchmark crude oil prices. Nevertheless, hydrocarbon benchmark prices remain lower than their pre-crisis levels. These factors are out of the Group's management control, and their scale and duration are difficult to assess. Currently, the Group's management is taking necessary precautions to provide the uninterrupted delivery of our hydrocarbons to our customers and to protect the safety and well-being of our employees, contractors and families (see "Recent developments" above).

Management continues to closely monitor the economic and political environment in Russia and abroad, including the domestic and international capital markets, to determine if any further corrective and/or preventive measures are required to sustain and grow our business. We also closely monitor the present commodity price environment and its impact on our business operations. We do not expect any asset impairments or write-offs resulting from a lower commodity price environment.

We conduct regular reviews of our capital expenditure program and existing debt obligations. In our opinion, the Group's financial position is stable and expected operating cash flows are sufficient to service and repay our debt, as well as to execute our planned capital expenditure programs.

Political events in Ukraine in the beginning of 2014 have prompted a negative reaction by the world community, including economic sanctions levied by the United States of America, Canada and the European Union against certain Russian individuals and legal entities. In July 2014, NOVATEK was included on the OFAC's Sectoral Sanctions Identification List (the "List"), which imposed sanctions that prohibit individuals or legal entities registered or working on the territory of the United States from providing new credit facilities to the Group for longer than 60 days.

Despite the inclusion on the List, the Group may conduct any other activities, including financial transactions, with U.S. investors and partners. NOVATEK was included on the List even though the Group does not conduct any business activities in Ukraine, nor does it have any impact on the political and economic processes taking place in this country. Management has assessed the impact of the sanctions described above on the Group's activities taking into consideration the current state of the world economy, the condition of domestic and international capital markets, the Group's business, and long-term projects with foreign partners. We have concluded that the inclusion on the List does not significantly impede the Group's operations and business activities in any jurisdiction, nor does it affect the Group's assets and debt, and does not have a material effect on the Group's financial position.

We together with our international partners are undertaking all necessary actions to implement our joint investment projects on time as planned, including, but not limited to, attracting financing from domestic and non-US capital markets.

Natural gas prices

Our sales of natural gas in the Russian domestic market are mainly natural gas sales through trunk pipelines and regional distribution networks, as well as sales of LNG produced at our small-scale LNG plant in the Chelyabinsk region through our refueling complexes. Our sales of natural gas on international markets are sales of LNG purchased primarily from our joint ventures, OAO Yamal LNG and OOO Cryogas-Vysotsk. In addition, we sell on the European market regasified liquefied natural gas arising during the transshipment of LNG (boil-off gas), as well as during the regasification of purchased LNG at our own regasification stations in Poland and Germany.

The Group's natural gas prices in Russia are strongly influenced by the prices set by the Federal Anti-Monopoly Service, a federal executive agency of the Russian Federation that carries out governmental regulation of prices and tariffs for products and services of natural monopolies in energy, utilities and transportation (the "Regulator"), as well as present market conditions.

In 2019, wholesale natural gas prices for sales to all customer categories (excluding residential customers) on the domestic market were increased by the Regulator by 1.4% effective 1 July 2019 and remained unchanged through the end of July 2020. The wholesale prices increased by 3.0% effective 1 August 2020.

In September 2020, the Ministry of Economic Development of the Russian Federation published the "Forecast of Socio-economic Development of the Russian Federation for 2021 and the planned period 2022 and 2023" stating that wholesale natural gas prices for sales to all customer categories (excluding residential customers) will be increased from July 2021 to 2023 by an average of 3.0% on an annual basis. The Russian Federation government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth rates on the domestic market.

The specific terms for delivery of natural gas affect our average realized prices. The majority of our natural gas volumes on the domestic market are sold directly to end-customers in the regions of natural gas consumption, so transportation tariff to the end-customer's location is included in the contract sales price. The remaining volumes of natural gas are sold "ex-field" to wholesale gas traders, in which case the buyer is responsible for the payment of further gas transportation tariff. Sales to wholesale gas traders allow us to diversify our natural gas sales without incurring additional commercial expenses.

We deliver natural gas to residential customers in the Chelyabinsk and Kostroma regions of the Russian Federation at regulated prices through our subsidiaries OOO NOVATEK-Chelyabinsk and OOO NOVATEK-Kostroma, respectively. We disclose such residential sales within our end-customers category.

In addition, we periodically sell natural gas at the Saint-Petersburg International Mercantile Exchange based on market conditions. We disclose such sales within our sales to end-customers category.

The Group's prices for LNG sold in Russia are based on oil products prices on the domestic market.

The Group's natural gas prices on international markets are influenced by many factors, such as the balance between supply and demand fundamentals, weather, the geography of sales, and the delivery terms to name a few. The Group sells LNG on international markets under short- and long-term contracts with prices based on the prices for natural gas at major natural gas hubs and on benchmark crude oil prices. We sell boil-off gas in Europe at prices linked to natural gas prices at major European natural gas hubs. The Group's prices for regasified LNG sold as natural gas on the Polish market are based on the prices regulated by the Energy Regulatory Office of Poland.

The following table shows our aggregate average realized natural gas sales prices on the domestic and international markets (excluding VAT, where applicable):

	Year ended 31 December: 2020	2019	Change %
Average natural gas price, RR per mcm	4,748	5,288	(10.2%)
Average natural gas price, USD per mcm [(1)]	65.9	81.6	(19.2%)

[(1)] Operations initially priced in Russian roubles were translated into US dollars using the average exchange rate for the period.

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In 2020, our aggregate average price for natural gas in Russian roubles decreased by 10.2% due to a decrease in LNG prices on international markets, as well as a decrease in the share of LNG sales volumes in our total natural gas sales volumes, which was partially offset by Russian rouble average exchange rate depreciation relative to the US dollar and Euro and an increase in the regulated Russian domestic price (by 1.4% effective 1 July 2019 and by 3.0% effective 1 August 2020). The decrease in our share of LNG sales volumes was primarily due to a decrease in LNG purchases from our joint venture Yamal LNG resulting from an increase in the share of Yamal LNG direct sales under long-term contracts and the corresponding decrease in LNG spot sales to shareholders, including the Group.

Stable gas condensate and refined products, crude oil and liquefied petroleum gas prices

Crude oil, stable gas condensate, LPG and oil products prices on international markets have historically been volatile depending on, among other things, the balance between supply and demand fundamentals, the ability and willingness of oil producing countries to sustain or change production levels to meet changes in global demand and potential disruptions in global crude oil supplies due to war, geopolitical developments, terrorist activities, natural disasters or pandemics.

The actual prices we receive for our liquid hydrocarbons on both the domestic and international markets are dependent on many external factors beyond the control of management. Among many other factors volatile movements in benchmark crude oil and oil products prices can have a positive and/or negative impact on the contract prices we receive for our liquids sales volumes.

In addition, our actual realized net export prices for crude oil, stable gas condensate and its refined products are affected by the so-called "export duty lag effect". This lag effect is due to the differences between actual crude oil prices for a certain period and crude oil prices based on which export duty rate is calculated for the same period (see "Our tax burden and obligatory payments" below). In periods when crude oil prices are rising, the duty lag effect normally has a positive impact on the Group's financial results, as the export duty rates are set on the basis of lower crude oil prices compared to the actual prices. Conversely, in periods of declining crude oil prices, the export duty rate is calculated based on higher prices compared to the actual prices, resulting in a negative financial impact.

Most of our liquid hydrocarbons sales prices on both the international and domestic markets include transportation expenses in accordance with the specific terms of delivery. The remaining portion of our liquids volumes is sold without additional transportation expenses (ex-works sales of liquefied petroleum gas from the Purovsky Plant and the Tobolsk Refining Facilities, as well as certain other types of sales).

We commonly sell our stable gas condensate and refined products, as well as liquefied petroleum gas to the international markets with a premium to the respective international benchmark reference products prices. We export SILCO (low-sulfur "Siberian Light Crude Oil") and ESPO ("East Siberia – Pacific Ocean") grades of crude oil to international markets with a premium or a discount to the benchmark Brent and Dubai crude oil depending on current market situation.

The following table shows our average realized net stable gas condensate and refined products, crude oil and LPG sales prices. Average realized net prices are shown net of VAT, export duties, excise and fuel taxes, where applicable:

Russian roubles or US dollars per ton (1)	Year ended 31 December: 2020	2019	Change %
Naphtha			
Average net price, RR per ton	26,311	32,043	(17.9%)
Average net price, USD per ton	368	494	(25.5%)
Other stable gas condensate refined products			
Average net price, RR per ton	23,426	35,213	(33.5%)
Average net price, USD per ton	328	543	(39.6%)
Crude oil			
Average net price, RR per ton	17,541	23,716	(26.0%)
Average net price, USD per ton	245	367	(33.2%)
LPG			
Average net price, RR per ton	16,467	17,166	(4.1%)
Average net price, USD per ton	228	265	(14.0%)
Stable gas condensate			
Average net price, RR per ton	19,239	24,452	(21.3%)
Average net price, USD per ton	264	379	(30.3%)

(1) Operations initially priced in Russian roubles were translated into US dollars using the average exchange rate for the period.

In 2020, our weighted-average realized net prices for our liquid hydrocarbons decreased compared to the prior year period due to a decrease in the underlying benchmark prices for these products excluding export duties (see "Selected macro-economic data" above).

The dynamics of our weighted average realized net prices for each product category also reflects changes in volumes sold within periods and changes in the geography of shipments that may significantly impact our average prices in periods of high benchmark prices volatility on international markets. In addition, the specifics of pricing mechanism for each particular product (such as time lag of international benchmark crude oil prices and export duty rates used in price calculation, price setting on an individual transaction basis for some deliveries and other factors) also have an impact on the dynamics of our weighted-average realized net prices.

Transportation tariffs

Natural gas by pipelines

We transport our natural gas within the Russian Federation territory through our own pipelines into the Unified Gas Supply System ("UGSS"), which is owned and operated by PAO Gazprom, a Russian Federation Government controlled monopoly. Transportation tariffs charged to independent producers for the use of the Gas Transmission System ("GTS"), as part of the UGSS, are set by the Regulator (see "Terms and abbreviations" below).

In accordance with the existing methodology of calculating transportation tariffs for natural gas produced in the Russian Federation for shipments to consumers located within the customs territory of the Russian Federation and the member states of the Customs Union Agreement (Belarus, Kazakhstan, Kyrgyzstan and Tajikistan), the transportation tariff consists of two parts: a rate for the utilization of the trunk pipeline and a transportation rate per mcm per 100 kilometers (km). The rate for utilization of the trunk pipeline is based on an "input/output" function, which is determined by where natural gas enters and exits the trunk pipeline and includes a constant rate for end-customers using Gazprom's gas distribution systems. The constant rate is deducted from the utilization rate for end-customers using non-Gazprom gas distribution systems.

In 2019 and 2020, the average tariff for natural gas transportation through the trunk pipeline did not change. The transportation rate amounted to RR 13.04 per mcm per 100 km (excluding VAT), and the rate for utilization of the trunk pipeline was set in the range from RR 62.57 to RR 2,014.16 per mcm (excluding VAT).

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According to the Forecast of the Ministry of Economic Development of the Russian Federation published in September 2019, the increase in tariffs for natural gas transportation through the trunk pipeline beginning in 2021 through 2024 will not exceed the growth rate for wholesale natural gas prices (see "Natural gas prices" above). The Russian Federation Government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth on the domestic market.

Stable gas condensate and LPG by rail

Substantially all of our stable gas condensate and LPG (excluding volumes sold ex-works from the Purovsky Plant and the Tobolsk Refining Facilities) we transport by rail owned by Russia's state-owned monopoly railway operator – OAO Russian Railways ("RZD").

The railroad transportation tariffs are set by the Regulator and vary depending on the type of product, and the direction and the length of the transport route. In addition, the Regulator sets the range of railroad tariffs as a percentage of the regulated tariff within which RZD may vary railroad transportation tariffs within the Russian Federation territory based on the type of product, direction and length of the transportation route taking into account current railroad transportation and market conditions.

Effective January 2020, railroad freight transportation tariffs for all types of hydrocarbons were increased by 3.5% relative to the 2019 tariffs and did not change until the end of 2020. In January 2021, the Regulator increased the aforementioned tariffs by 3.7% relative to the 2020 tariffs.

In 2019 and 2020, we applied the discount coefficient of 0.94 to the existing railroad transportation tariffs for stable gas condensate deliveries from the Limbey rail station to the port of Ust-Luga and to end-customers on the domestic and international markets. The discount coefficient is set by the decision of the Management Board of RZD as part of the Strategic Partnership Agreement between the Group and RZD.

Effective April 2020, we started applying discount coefficients to the existing railroad transportation tariffs for LPG deliveries within the Russian Federation territory from the Tobolsk rail station. These discount coefficients were introduced to maintain freight volumes in the current unfavorable macroeconomic environment and were in effect until the end of 2020. During the second quarter, these discount coefficients were initially set at 0.75 and 0.872 depending on the transportation distance and, from mid-June, a single discount coefficient of 0.6 was set to the existing railroad tariffs.

Stable gas condensate, refined products and liquefied natural gas by tankers

We deliver part of our stable gas condensate and substantially all stable gas condensate refined products, as well as liquefied natural gas (excluding volumes purchased and sold to customers in the same location) to international markets by chartered tankers. In addition to time chartering expenses, we also may incur transshipment, bunkering, port charges and other expenses depending on the delivery terms, which are included in the transportation by tankers expense category. The distance to the final port of destination, tanker availability, seasonality of deliveries and other factors also influence our tanker transportation expenses.

Crude oil

We transport nearly all of our crude oil through the pipeline network owned by PAO Transneft, Russia's state-owned monopoly crude oil pipeline operator. The Regulator sets tariffs for transportation of crude oil through Transneft's pipeline network, which includes transport, dispatch, pumping, loading, charge-discharge, transshipment and other related services. The Regulator sets tariffs for each separate route of the pipeline network, so the overall expense for the transport of crude oil depends on the length of the transport route from the producing fields to the ultimate destination, transportation direction and other factors.

Effective 1 January 2020, crude oil transportation tariffs through the pipeline network within the Russian Federation territory were increased by an average of 3.4% relative to the 2019 tariffs and remained unchanged until the end of 2020. Effective 1 January 2021, transportation tariffs were increased by an average of 3.6% relative to the 2020 tariffs.

Our tax burden and obligatory payments

We are subject to a wide range of taxes imposed at the federal, regional, and local levels, many of which are based on revenue or volumetric measures. In addition to income tax, significant taxes and obligatory payments to which we are subject include VAT, unified natural resources production tax ("UPT", commonly referred as "MET" – mineral extraction tax), export duties, excise, property tax and social contributions to non-budget funds.

In practice, Russian tax authorities often have their own interpretation of tax laws that rarely favors taxpayers, who have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations and other documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to an inspection of their activities for a period of three calendar years immediately preceding the year in which the audit is conducted. Previous audits do not completely exclude subsequent claims relating to the audited period. In addition, in some instances, new tax regulations may have a retroactive effect.

We have not employed any tax minimization schemes using offshore or domestic tax zones in the Russian Federation.

Detailed information regarding UPT, export duties, excise and social contributions to non-budget funds is described below based on the current versions of the Tax Code of the Russian Federation and the law "On Customs Tariff".

In 2019, the completion stage of the tax maneuver in the oil and gas industry in the Russian Federation began and will continue until the end of 2024. The tax maneuver envisages a gradual decrease in export duties for crude oil and oil products with a respective increase in unified production taxes for crude oil and gas condensate, as well as the introduction of excise tax for raw oil and the double deductions for this tax.

The legislation changes aimed at the completion of the tax maneuver, with other factors being equal, influence line items in our consolidated financial statements by increasing our liquids net prices and revenues due to a gradual decrease in export duties, increasing our UPT expenses and our hydrocarbons purchases. The increase in our UPT expenses and cost of hydrocarbons purchases is offsetting by excise tax deductions for raw oil.

Export duties

Procedure for calculation and payment of export duties is set in the Law of the Russian Federation "On Customs Tariff". According to this law, we are subject to export duties on our exports of liquid hydrocarbons (stable gas condensate and refined products, LPG and crude oil).

Crude oil export duty rate formulas are set by the Russian Federation Government and are based on the average Urals crude oil price (Mediterranean and Rotterdam) for the so called "monitoring period" (the period from the 15th calendar day in the previous month to the 14th calendar day of the current month):

Average Urals crude oil price for the monitoring period, USD per ton (P)	**Formula for export duty rate calculation**
less 109.5 (inclusive)	Zero rate
between 109.5 and 146 (inclusive)	K × [0.35 × (P – 109.5)]
between 146 and 182.5 (inclusive)	K × [0.45 × (P – 146) + 12.78]
above 182. 5	K × [0.3 × (P – 182.5) + 29.2]

K – adjusting coefficient

The adjusting coefficient (K) will gradually decrease on an annual basis from 0.833 in 2019 to zero in 2024, thus gradually decreasing the export duty rate for crude oil to zero by 2024. For 2020, the adjusting coefficient was set at 0.667; in 2021, the coefficient is set at 0.5.

We pay export duties for our stable gas condensate export sales volumes at the export duty rate for crude oil.

The export duty rates for oil products are calculated based on the export duty rate for crude oil adjusted by a coefficient (discount) set for each category of oil products. The export duty rates for our exported stable gas condensate refined products as a percentage of the crude oil export duty rate are presented below:

	% from the crude oil export duty rate
Naphtha	55%
Jet fuel	30%
Gasoil	30%
Fuel oil	100%

The export duty rate for LPG for the next calendar month is calculated based on the average LPG price at the Polish border (DAF, Brest) for the current monitoring period and is calculated using the formula presented in the table below:

Average LPG price, USD per ton (P)	**Formula for export duty rate calculation**
less 490 (inclusive)	Zero rate
between 490 and 640 (inclusive)	0.5 × (P – 490)
between 640 and 740 (inclusive)	75 + 0.6 × (P – 640)
above 740	135 + 0.7 × (P – 740)

We record export duties as a deduction to our revenues in the consolidated statement of income.

UPT – natural gas

We pay UPT for natural gas on a monthly basis. The UPT rate for natural gas is set in Russian roubles per one mcm of extracted natural gas.

The UPT rate for natural gas is calculated as a product of the base UPT rate (RR 35 per mcm), the base value of a standard fuel equivalent and a coefficient characterizing the difficulty of extracting natural gas and gas condensate from each particular field. The result is then increased by a parameter characterizing natural gas transportation costs (was set at zero in both reporting periods).

The base value of a standard fuel equivalent is calculated by a taxpayer based on a combination of factors including natural gas prices, Urals crude oil prices and crude oil export duty rate.

UPT – crude oil

We pay UPT for crude oil on a monthly basis. The UPT rate for crude oil is set in Russian roubles per ton of extracted crude oil.

The UPT rate is calculated as a product of a coefficient characterizing the dynamics of world crude oil prices and the base UPT rate (RR 919 per ton) adjusted for parameters characterizing crude oil production peculiarities (the reserves' depletion, complexity of extraction, the region, crude oil properties). The result is then increased by a fixed amount (RR 428 per ton in both reporting periods). Further, the UPT rate for crude oil is gradually increased by the amount of the corresponding decrease in the crude oil export duty rate due to the completion of the tax maneuver (see "Export duties" above).

In both reporting periods, we applied a reduced UPT rate for crude oil produced at our East-Tarkosalinskoye, Khancheyskoye and Yarudeyskoye fields since these fields are located fully or partially to the north of the 65th degree of the northern latitude fully or partially in the YNAO. Therefore, the adjusted base UPT rate for crude oil produced at these fields for the Group amounted to RR 360 per ton.

Where the average export alternative prices for petrol and diesel fuel exceed the regulated wholesale prices for these products on the Russian domestic market, the UPT rate for crude oil is also increased by the so called "petrol and diesel fuel premiums" (set at RR 125 and RR 110 per ton, respectively, from 1 January to 30 September 2019, at RR 200 and RR 185 per ton, respectively, from 1 October to 31 December 2019, and at RR 105 and RR 92 per ton, respectively, starting from 1 January 2020). The petrol and diesel fuel premiums are payable by all crude oil producers regardless of whether the extracted crude oil volumes will be further sold or refined.

UPT – gas condensate

We pay UPT for gas condensate on a monthly basis. The UPT rate for gas condensate is set in Russian roubles per ton of extracted gas condensate.

The UPT rate for gas condensate is calculated as a product of the base UPT rate (RR 42 per ton), the base value of a standard fuel equivalent, a coefficient characterizing the difficulty of extracting natural gas and gas condensate from each particular field and an adjusting coefficient of 6.5. The base value of a standard fuel equivalent is calculated by a taxpayer based on the combination of factors including natural gas prices, Urals crude oil prices and crude oil export duty rate.

The Group reduces its overall UPT expense accrued for gas condensate production volumes by applying a UPT tax deduction on gas condensate volumes produced for processing into NGL. The amount of the tax deduction is calculated monthly by multiplying a coefficient of NGL recovery from gas condensate processing, the quantity of gas condensate produced and processed, and the tax deduction rate in Russian roubles per ton of NGL derived. The tax deduction rate was set at RR 147 per ton for January 2018 and since then was increasing monthly by the same amount until the end of 2020. Starting from December 2020, the tax deduction rate is fixed at RR 5,280 per ton of produced NGL.

The UPT rate for gas condensate is increased by 75% of the decrease in the crude oil export duty rate. The share of 75% is deemed to represent volumes of produced gas condensate excluding the share of NGL received from gas condensate processing.

Excise for raw oil

Starting from January 2019, a new excisable type of product was introduced in the Russian Federation – “raw oil”, which represents a mixture of hydrocarbons composed of one or more components of crude oil, stable gas condensate, vacuum gasoil, tar, and fuel oil. The tax base for raw oil excise tax is the volume of raw oil sent by the owner for processing.

The amount of excise tax accrued on raw oil volumes may be claimed for deduction at a double rate. This deduction is introduced to compensate economic losses of oil and gas refining companies arising as a result of the tax maneuver and the transfer of tax burden from export duties to the UPT in the amount of full export duty rate for crude oil while export duties for oil products are paid at a discount to crude oil export duty rate.

The excise tax rate for raw oil is calculated based on the average Urals crude oil prices, the mix of processed products, region of processing, and the adjusting coefficient, which will be gradually increased on an annual basis from 0.167 in 2019 to 1.0 in 2024 as part of the completion stage of the tax maneuver in the oil and gas industry. For 2020, the adjusting coefficient was set at 0.333; in 2021, the coefficient is set at 0.5.

We accrue excise tax on volumes of stable gas condensate sent for processing to our Ust-Luga Complex on a monthly basis and simultaneously claim the double excise tax deduction. The net result, or so called “reverse excise”, is reported as a deduction to our “Purchases of natural gas and liquid hydrocarbons” in our consolidated statement of income as most of our unstable gas condensate volumes used to produce stable gas condensate we purchase from our joint ventures.

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Social contributions

The Group makes contributions to the Pension Fund, the Federal Compulsory Medical Insurance Fund and the Social Insurance Fund on behalf of employees in Russia. The base for social contributions accrual is the amount of salaries and similar employee compensation stipulated by the employment contracts.

The rates for social contributions depend on the fund and the employee's annual income:

	2019		2020		2021	
	Base, RR thousand	**Rate, %**	**Base, RR thousand**	**Rate, %**	**Base, RR thousand**	**Rate, %**
Pension Fund of the Russian Federation	less 1,150 above 1,150	22.0% 10.0%	less 1,292 above 1,292	22.0% 10.0%	less 1,465 above 1,465	22.0% 10.0%
Federal Compulsory Medical Insurance Fund	No limit	5.1%	No limit	5.1%	No limit	5.1%
Social Insurance Fund of the Russian Federation	less 865 above 865	2.9% 0.0%	less 912 above 912	2.9% 0.0%	less 966 above 966	2.9% 0.0%

OIL AND GAS RESERVES

We do not file with the Securities and Exchange Commission ("SEC") nor we are obliged to report our reserves in compliance with these standards. However, we have consistently disclosed proved oil and gas reserves as unaudited supplemental information in the Group's IFRS audited consolidated financial statements. The Group's total proved reserves, comprised of proved developed and proved undeveloped reserves, as of 31 December 2020 and 2019, are provided using the SEC reserves reporting classification. We also provide additional information about our hydrocarbon reserves based on the widely-industry accepted PRMS reserves reporting classification, which in addition to total proved reserves discloses information on our probable and possible reserves.

The Group's reserves are located in the Russian Federation, primarily in the Yamal-Nenets Autonomous Region (Western Siberia), thereby representing one geographical area.

The Group's oil and gas estimation and reporting process involves an annual independent external appraisal, as well as internal technical appraisals of reserves. The internal technical appraisals of reserves are performed by the Group's qualified technical staff working directly with the oil and gas reserves and are periodically updated during the year based on evaluations of new wells, performance reviews, new technical information and other studies.

The annual independent external appraisal of our reserves is performed by independent petroleum engineers, DeGolyer and MacNaughton ("D&M"). The Group provides D&M annually with engineering, geological and geophysical data, actual production histories and other information necessary for reserves appraisal. The method or combination of methods used in the analysis of each reservoir is tempered by experience with similar reservoirs, stages of development, quality and completeness of basic data, and production history. Our reserves estimates were prepared using standard geological and engineering methods generally accepted in the oil and gas industry. The Group and D&M's technical staffs meet to review and discuss the information provided, and upon completion of the process, senior management reviews and approves the final reserves estimates issued by D&M.

The Reserves Management and Assessment Group ("RMAG") is comprised of qualified technical staff from various departments responsible for geology and geophysics, gas and liquids commercial operations, engineering and capital construction, production, and long-term financial planning, and also includes representatives from the Group's subsidiaries, which are the principal holders of the mineral licenses for geological research works, exploration and production of hydrocarbons. The person responsible for overseeing the work of the RMAG is a member of the Management Board.

The approval of the final reserve estimates is the sole responsibility of the Group's senior management.

The information below about the Group's oil and gas production and reserves under SEC and PRMS reserve classifications is presented based on 100% of production and reserves attributable to all consolidated subsidiaries (whether or not wholly owned) and our proportionate share in the production and reserves in companies accounted for by the equity method based on our equity ownership interest, including volumes of natural gas consumed in oil and gas production and development activities (primarily, as fuel gas). Production and reserves of the South-Tambeyskoye field of Yamal LNG are reported at 60% including an additional 9.9% interest not owned by the Group, since the Group assumes certain economic and operational risks related to this interest (see "Basis of presentation" above).

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The table below provides proved oil and gas reserves under SEC reserve classification and the change in reserves in metric units and on a total barrel of oil equivalent basis:

	As of and for the year ended 31 December:		Change
	2020	2019	%
Natural gas, billions of cubic meters	**2,244**	**2,234**	**0.4%**
Subsidiaries	1,156	1,149	0.6%
Share in joint ventures	1,088	1,085	0.3%
Liquids, millions of metric tons	**197**	**193**	**2.1%**
Subsidiaries	102	98	4.1%
Share in joint ventures	95	95	0.0%
Combined reserves, millions of boe	**16,366**	**16,265**	**0.6%**
Change in total reserves, millions of boe	**101**	**476**	
Production	(608)	(590)	
Acquisitions [(1)]	31	724	
Disposals [(2)]	-	(1,145)	
Organic growth [(3)]	678	1,487	
Reserves replacement ratio [(4)], %	**117%**	**181%**	
Normalized reserves replacement ratio [(4), (5)], %	**112%**	**252%**	

(1) In both reporting periods include the effect from changes in the Groups' reserves due to the reorganization of Acticgas conducted in 2019 (a part of these reserves were appraised in 2020) and, in 2019, also include reserves of the acquired Soletskoye-Khanaveyskoye field.

(2) Represent reserves attributable to the sale of a 40% participation interest in Arctic LNG 2 project in 2019.

(3) Represent change due to extensions and discoveries, revisions of previous estimates.

(4) The reserves replacement ratio is calculated as the change in reserves increased for the production for the year divided by production for the year.

(5) Excluding reserves acquisitions and disposals.

The Groups' total proved reserves under the SEC reserve classification methodology as at the end of 2020 increased by 101 million boe, or 0.6%, to 16,366 million boe, representing a reserve replacement ratio of 117%.

The increase in total proved hydrocarbons reserves under the SEC reserve classification was primarily due to successful exploration works and production drilling at our subsidiaries and joint ventures.

Our subsidiaries obtained positive exploration results at the Geofizicheskoye and Nyakhartinskoye fields, successfully performed production drilling at the Urengoyskoye field of the Yevo-Yakhinskiy license area, East-Tazovskoye and North-Russkoye fields, as well as increased recovery rates at the Yurkharovskoye and Yarudeyskoye fields. Additions to the reserves of our joint ventures were due to successful exploration and production drilling at the Salmanovskoye (Utrenneye) field of OOO Arctic LNG 2, as well as production drilling at the Urengoyskoye field of the Samburgskiy license area of Arcticgas and South-Tambeyskoye field of Yamal LNG.

The following table provides for the Group's PRMS proved, proved and probable, and proved, probable and possible reserves in metric units and on a total barrel of oil equivalent basis:

	Natural gas, billions of cubic meters		Liquid hydrocarbons, millions of metric tons		Combined reserves, millions of boe	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Proved reserves (1P reserves)	2,477	2,390	227	213	18,148	17,456
Proved and probable reserves (2P reserves)	3,981	3,901	380	373	29,318	28,725
Proved, probable and possible reserves (3P reserves)	5,257	5,065	529	514	38,986	37,581

As we continue to invest capital into the development of our fields, we anticipate that we will increase our resource base, as well as migrate reserves among the reserve categories.

The below table contains information about reserve to production ratios as of 31 December 2020 and 2019 under both reserves reporting methodologies:

	SEC		PRMS	
	At 31 December:		At 31 December:	
Number of years	2020	2019	2020	2019
Total proved reserves to production	27	28	30	30
Total proved and probable reserves to production	-	-	48	49
Total proved, probable and possible reserves to production	-	-	64	64

OPERATIONAL HIGHLIGHTS

Oil and gas production costs per unit of production

Oil and gas production costs on a barrel of oil equivalent basis are calculated by dividing oil and gas production costs by the barrel of oil equivalent of hydrocarbons produced during the year.

Oil and gas production costs include only the amounts directly related to the extraction of natural gas, gas condensate and crude oil and exclude processing costs incurred after saleable hydrocarbons are received, such as stable gas condensate processing costs and natural gas liquefaction costs, as well as transportation and other marketing expenses. Oil and gas production costs comprise of lifting costs (materials, services and other expenses, as well as administrative expenses being by nature operating expenses of oil and gas producing activities), taxes other than income tax and depreciation, depletion and amortization which are disclosed in the "Unaudited Supplemental Oil and Gas Disclosures" in the consolidated financial statements.

Natural gas, gas condensate and crude oil volumes produced are converted to a barrel of oil equivalent based on the relative energy content of each fields' hydrocarbons. Natural gas production volumes used for calculation of production costs per boe differ from the volumes presented in the section "Natural gas production volumes" as the former excludes volumes of natural gas consumed in oil and gas production and development activities (see "Basis of presentation" above).

The following tables set forth information with respect to oil and gas production costs on a barrel of oil equivalent basis of our subsidiaries and joint ventures, as well as combined weighted average oil and gas production costs for the Group's subsidiaries and joint ventures for the reporting periods in Russian roubles and US dollars.

	Year ended 31 December:		Change
RR per boe	2020	2019	%
Subsidiaries			
Production costs per boe:			
Lifting costs	61.2	53.6	14.2%
Taxes other than income tax	176.0	204.5	(13.9%)
Total production costs before DDA per boe	**237.2**	**258.1**	**(8.1%)**
Depreciation, depletion and amortization	97.4	83.9	16.1%
Total production costs of subsidiaries per boe	**334.6**	**342.0**	**(2.2%)**
Joint ventures			
Production costs per boe:			
Lifting costs	26.1	22.1	18.1%
Taxes other than income tax	121.9	141.4	(13.8%)
Total production costs before DDA per boe	**148.0**	**163.5**	**(9.5%)**
Depreciation, depletion and amortization	94.6	90.2	4.9%
Total weighted average production costs of joint ventures per boe (1)	**242.6**	**253.7**	**(4.4%)**
Subsidiaries and joint ventures			
Production costs per boe:			
Lifting costs	44.2	38.5	14.8%
Taxes other than income tax	149.8	174.1	(14.0%)
Total production costs before DDA per boe	**194.0**	**212.6**	**(8.7%)**
Depreciation, depletion and amortization	96.0	86.9	10.5%
Total weighted average production costs of subsidiaries and joint ventures per boe (2)	**290.0**	**299.5**	**(3.2%)**

(1) Calculated based on the Group's share in the production of each joint venture.

(2) Calculated based on 100% of the Group's subsidiaries production and our share in the production of each joint venture.

USD per boe [1]	Year ended 31 December: 2020	2019	Change %
Subsidiaries			
Production costs per boe:			
Lifting costs	0.85	0.83	2.4%
Taxes other than income tax	2.44	3.16	(22.8%)
Total production costs before DDA per boe	**3.29**	**3.99**	**(17.5%)**
Depreciation, depletion and amortization	1.35	1.29	4.7%
Total production costs of subsidiaries per boe	**4.64**	**5.28**	**(12.1%)**
Joint ventures			
Production costs per boe:			
Lifting costs	0.36	0.34	5.9%
Taxes other than income tax	1.69	2.18	(22.5%)
Total production costs before DDA per boe	**2.05**	**2.52**	**(18.7%)**
Depreciation, depletion and amortization	1.31	1.40	(6.4%)
Total weighted average production costs of joint ventures per boe [2]	**3.36**	**3.92**	**(14.3%)**
Subsidiaries and joint ventures			
Production costs per boe:			
Lifting costs	0.61	0.59	3.4%
Taxes other than income tax	2.08	2.69	(22.7%)
Total production costs before DDA per boe	**2.69**	**3.28**	**(18.0%)**
Depreciation, depletion and amortization	1.33	1.35	(1.5%)
Total weighted average production costs of subsidiaries and joint ventures per boe [3]	**4.02**	**4.63**	**(13.2%)**

(1) Production costs in US dollars per boe were translated from Russian roubles amounts using the average exchange rate for the period (see "Selected macro-economic data" above).
(2) Calculated based on the Group's share in the production of each joint venture.
(3) Calculated based on 100% of the Group's subsidiaries production and our share in the production of each joint venture.

Hydrocarbon production and sales volumes

Our total natural gas and liquids production including the proportionate share in the production of our joint ventures increased by 3.6% and 0.7%, respectively. The main factors positively impacting our production growth were the launch of the fields within the North-Russkiy cluster at the end of 2019 and in the third quarter 2020 (the Cenomanian and Valanginian horizons of the North-Russkoye field, and the East-Tazovskoye and Dorogovskoye fields), as well as an increase in hydrocarbon production from the Achimov horizons at Arcticgas's Urengoyskoye field. An increase in the production at these fields completely offset a decline in production at mature fields of our subsidiaries and joint ventures.

In 2020, our total natural gas sales volumes decreased by 2,832 mmcm, or 3.6%, primarily due to a decrease in LNG sales volumes purchased mainly from our joint venture OAO Yamal LNG for subsequent sale on international markets. We reduced our purchases of spot LNG volumes as Yamal LNG increased direct sales under long-term contracts. Natural gas volumes sold on the domestic market increased by 1.6% due to the launch of additional production facilities.

In 2020, our liquids sales volumes insignificantly increased by 32 thousand tons, or 0.2%.

Natural gas production volumes

The following table presents natural gas production of the Group's subsidiaries by major production fields and our proportionate share in natural gas production of joint ventures by entities:

millions of cubic meters if not stated otherwise	Year ended 31 December: 2020	2019	Change %
Production by subsidiaries from:			
Yurkharovskoye field	23,104	25,590	(9.7%)
East-Tarkosalinskoye field	5,305	5,956	(10.9%)
North-Russkiy cluster [1]	4,831	84	n/a
Beregovoye field	1,905	1,927	(1.1%)
Yarudeyskoye field	1,648	1,731	(4.8%)
Khancheyskoye field	1,312	1,581	(17.0%)
Olimpiyskiy license area [2]	1,055	1,097	(3.8%)
East-Urengoyskoye + North-Esetinskoye field (West-Yaroyakhinskiy license area)	530	613	(13.5%)
Other fields	957	810	18.1%
Total natural gas production by subsidiaries [3],[4]	**40,647**	**39,389**	**3.2%**
Group's proportionate share in the production of joint ventures:			
Yamal LNG [5]	17,093	16,727	2.2%
Arcticgas	15,383	13,787	11.6%
Nortgas	2,931	3,529	(16.9%)
Terneftegas	1,269	1,249	1.6%
Arctic LNG 2	44	19	131.6%
Total Group's proportionate share in the natural gas production of joint ventures [3],[4]	**36,720**	**35,311**	**4.0%**
Total natural gas production including proportionate share in the production of joint ventures	**77,367**	**74,700**	**3.6%**
Average daily natural gas production including proportionate share in the production of joint ventures	*211.4*	*204.7*	*3.3%*
Total LNG production including proportionate share in the production of joint ventures (thousands of tons) [5]	*11,553*	*11,228*	*2.9%*

(1) Including production at the North-Russkoye, the East-Tazovskoye and the Dorogovskoye fields.
(2) Including production at the Urengoyskoye, the Dobrovolskoye and the Sterkhovoye fields.
(3) Excluding natural gas volumes injected to maintain reservoir pressure.
(4) Natural gas production includes natural gas volumes consumed in oil and gas production and development activities (primarily, as fuel gas):

in subsidiaries	1,785	1,635	9.2%
in joint ventures (Group's proportionate share)	491	378	29.9%

(5) Natural gas and LNG production at Yamal LNG are reported at 60% (see "Basis of presentation" above).

In 2020, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 2,667 mmcm, or 3.6%, to 77,367 mmcm from 74,700 mmcm in 2019.

The main factors positively impacting our production growth were the field launches within the North-Russkiy cluster at the end of 2019 and in the third quarter 2020 (the Cenomanian and Valanginian horizons of the North-Russkoye field, the East-Tazovskoye and Dorogovskoye fields), as well as an increase in the production of hydrocarbons from the Achimov horizons at Arcticgas' Urengoyskoye field due to the expansion of the gas condensate treatment facility in January 2020 (see "Recent developments" above). These factors fully compensated the production declines at mature fields of our subsidiaries (the Yurkharovskoye, the East-Tarkosalinskoye and the Khancheyskoye fields) and at our joint venture Nortgas, which resulted mainly from natural declines in the reservoir pressure at the current gas producing horizons.

Natural gas sales volumes

In 2020, our total natural gas sales volumes decreased by 2,832 mmcm, or 3.6%, to 75,620 mmcm from 78,452 mmcm in 2019.

	Year ended 31 December:		Change
millions of cubic meters	**2020**	**2019**	**%**
Production by subsidiaries	40,647	39,389	3.2%
Purchases from the Group's joint ventures	28,870	31,296	(7.8%)
Other purchases	7,597	8,544	(11.1%)
Total production and purchases	**77,114**	**79,229**	**(2.7%)**
Own usage (1)	(1,920)	(1,763)	8.9%
Decrease (increase) in natural gas inventory balance	426	986	(56.8%)
Total natural gas sales volumes	**75,620**	**78,452**	**(3.6%)**
Sold to end-customers	*63,632*	*62,653*	*1.6%*
Sold ex-field	*3,060*	*3,000*	*2.0%*
Subtotal sold in the Russian Federation	***66,692***	***65,653***	***1.6%***
Sold on international markets	***8,928***	***12,799***	***(30.2%)***

(1) Own usage represents volumes of natural gas consumed in oil and gas producing and development activities (primarily, as fuel gas), as well as used to maintain the refining process at the Purovsky Plant and production of LNG and methanol.

In 2020, natural gas purchases from our joint ventures decreased by 2,426 mmcm, or 7.8%, to 28,870 mmcm from 31,296 mmcm in 2019 primarily due to a decrease in spot LNG purchases from our joint venture Yamal LNG. The decrease in LNG purchases resulted from an increase in the share of Yamal LNG's direct sales under long-term contracts and the corresponding decrease in LNG spot sales to shareholders, including the Group.

Other natural gas purchases are included in our natural gas volumes for sale, which allows us to coordinate sales across geographic regions as well as to optimize our end-customers portfolios. In the years ended 31 December 2020 and 2019, we purchased from third parties 7,169 mmcm and 7,613 mmcm of natural gas, respectively, on the Russian domestic market, and 428 mmcm and 931 mmcm, respectively, on international markets.

At 31 December 2020, our cumulative natural gas inventory balance, mainly representing our inventory balances of natural gas in the UGSF, aggregated 797 mmcm and decreased by 426 mmcm during the year as compared to a decrease by 986 mmcm in 2019. Natural gas inventory balances tend to fluctuate period-to-period depending on the Group's demand for natural gas withdrawal from the UGSF for the sale in the subsequent periods.

Liquids production volumes

The following table presents liquids production of the Group's subsidiaries by major production fields and our proportionate share in the liquids production of joint ventures by entities:

	Year ended 31 December:		Change
thousands of tons	**2020**	**2019**	**%**
Production by subsidiaries from:			
Yarudeyskoye field	3,139	3,311	(5.2%)
East-Tarkosalinskoye field	1,294	1,438	(10.0%)
Yurkharovskoye field	1,021	1,178	(13.3%)
North-Russkiy cluster (1)	392	-	n/a
Beregovoye field	267	223	19.7%
Khancheyskoye field	162	176	(8.0%)
Other fields	158	154	2.6%
Total liquids production by subsidiaries	**6,433**	**6,480**	**(0.7%)**
including crude oil	*4,355*	*4,696*	*(7.3%)*
including gas condensate	*2,078*	*1,784*	*16.5%*
Group's proportionate share in the production of joint ventures:			
Arcticgas	4,479	4,166	7.5%
Yamal LNG (2)	701	826	(15.1%)
Terneftegas	383	392	(2.3%)
Nortgas	241	284	(15.1%)
Total Group's proportionate share in the liquids production of joint ventures	**5,804**	**5,668**	**2.4%**
Total liquids production including proportionate share in the production of joint ventures	**12,237**	**12,148**	**0.7%**
Average daily liquids production including proportionate share in the production of joint ventures	*33.4*	*33.3*	*0.5%*

(1) Including production at the North-Russkoye and the East-Tazovskoye fields.

(2) Production at the South-Tambeyskoye field of Yamal LNG is reported at 60% (see "Basis of presentation" above).

In 2020, our total liquids production (including our proportionate share in the production of joint ventures) increased by 89 thousand tons, or 0.7%, to 12,237 thousand tons from 12,148 thousand tons in 2019.

An increase in the production at Arcticgas combined with the commencement of gas condensate extraction at the North-Russkiy cluster (see above) fully offset a decrease in production at mature fields of our subsidiaries and joint ventures, which was mainly due to natural declines in the concentration of liquids as a result of decreasing reservoir pressure at the current producing horizons. The increase in the production at Arcticgas was due to the expansion of gas condensate treatment facility for further development of the Achimov horizons at the Urengoyskoye field in January 2020.

Liquids sales volumes

In 2020, our total liquids sales volumes increased marginally by 32 thousand tons, or 0.2%, to 16,387 thousand tons from 16,355 thousand tons in 2019.

thousands of tons	Year ended 31 December: 2020	2019	Change %
Production by subsidiaries	6,433	6,480	(0.7%)
Purchases from the Group's joint ventures	10,028	9,566	4.8%
Other purchases	141	242	(41.7%)
Total production and purchases	**16,602**	**16,288**	**1.9%**
Losses (1) and own usage (2)	(215)	(201)	7.0%
Decreases (increases) in liquids inventory balances	-	268	n/a
Total liquids sales volumes	**16,387**	**16,355**	**0.2%**
Naphtha export	*4,294*	*4,511*	*(4.8%)*
Other stable gas condensate refined products export (3)	*2,259*	*2,268*	*(0.4%)*
Other stable gas condensate refined products domestic (3)	*220*	*202*	*8.9%*
Subtotal stable gas condensate refined products	***6,773***	***6,981***	***(3.0%)***
Crude oil export	*1,559*	*1,869*	*(16.6%)*
Crude oil domestic	*2,909*	*2,965*	*(1.9%)*
Subtotal crude oil	***4,468***	***4,834***	***(7.6%)***
LPG export	*568*	*591*	*(3.9%)*
LPG domestic	*2,391*	*2,186*	*9.4%*
Subtotal LPG	***2,959***	***2,777***	***6.6%***
Stable gas condensate export	*589*	*332*	*77.4%*
Stable gas condensate domestic	*1,580*	*1,407*	*12.3%*
Subtotal stable gas condensate	***2,169***	***1,739***	***24.7%***
Other oil products	***18***	***24***	***(25.0%)***

(1) Losses associated with processing at the Purovsky Plant, the Ust-Luga Complex and the Tobolsk Refining Facilities, as well as during railroad, trunk pipeline and tanker transportation.

(2) Own usage associated primarily with the maintaining of refining process at the Ust-Luga Complex, as well as bunkering of chartered tankers.

(3) Other stable gas condensate refined products include jet fuel, gasoil and fuel oil received from the processing of stable gas condensate at the Ust-Luga Complex.

Our sales volumes of naphtha and other stable gas condensate refined products fluctuate from period-to-period depending on changes in inventory balances, with volumes of the products received from processing at the Ust-Luga Complex staying relatively flat. Our sales volumes of stable gas condensate represent the volumes remaining after we deliver most of our stable gas condensate for further processing to our Ust-Luga Complex, as well as volumes purchased by the Group for subsequent sale on international markets, including purchases from our joint venture Yamal LNG.

As of 31 December 2020 and 2019, our cumulative liquid hydrocarbons inventory balances, recognized as inventory in transit or in storage, did not change and amounted to 801 thousand tons.

RESULTS OF OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2020 COMPARED TO THE YEAR ENDED 31 DECEMBER 2019

The following table and discussion are a summary of our consolidated results of operations for the years ended 31 December 2020 and 2019. Each line item is also shown as a percentage of our total revenues.

millions of Russian roubles	Year ended 31 December: 2020	% of total revenues	2019	% of total revenues
Total revenues (1)	**711,812**	***100.0%***	**862,803**	***100.0%***
including:				
natural gas sales	359,040	*50.4%*	414,844	*48.1%*
liquids sales	340,710	*47.9%*	437,388	*50.7%*
Operating expenses	(552,062)	*(77.6%)*	(640,463)	*(74.2%)*
Gain on disposal of interests in subsidiaries and joint ventures, net	69	*n/a*	682,733	*79.1%*
Other operating income (loss)	(46,807)	*(6.6%)*	(35,484)	*(4.1%)*
Profit from operations	**113,012**	***15.9%***	**869,589**	***100.8%***
Normalized profit from operations (2)	**160,766**	***22.6%***	**221,398**	***25.7%***
Finance income (expense)	160,565	*22.6%*	(15,712)	*(1.8%)*
Share of profit (loss) of joint ventures, net of income tax	(143,981)	*(20.2%)*	149,238	*17.3%*
Profit before income tax	**129,596**	***18.2%***	**1,003,115**	***116.3%***
Total income tax expense	(51,010)	*(7.2%)*	(119,654)	*(13.9%)*
Profit	**78,586**	***11.0%***	**883,461**	***102.4%***
Less: profit (loss) attributable to non-controlling interest	(10,754)	*(1.5%)*	(17,984)	*(2.1%)*
Profit attributable to shareholders of PAO NOVATEK	**67,832**	***9.5%***	**865,477**	***100.3%***
Normalized profit attributable to shareholders of PAO NOVATEK (2), excluding the effect of foreign exchange gains (losses)	**169,020**	***23.7%***	**245,002**	***28.4%***

(1) Net of VAT, export duties, excise and fuel taxes, where applicable.

(2) Excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration).

Total revenues

The following table sets forth our sales (excluding VAT, export duties, excise and fuel taxes, where applicable) for the years ended 31 December 2020 and 2019:

	Year ended 31 December:		Change	Change [(1)]		
millions of Russian roubles	2020	2019	%	Total	Due to volume [(2)]	Due to price [(3)]
Natural gas sales	359,040	414,844	(13.5%)	(55,804)	(14,974)	(40,830)
Stable gas condensate refined products sales	171,038	231,536	(26.1%)	(60,498)	(6,667)	(53,831)
Naphtha	*112,963*	*144,541*	*(21.8%)*	*(31,578)*	*(6,970)*	*(24,608)*
Other refined products	*58,075*	*86,995*	*(33.2%)*	*(28,920)*	*303*	*(29,223)*
Crude oil sales	78,381	114,641	(31.6%)	(36,260)	(8,669)	(27,591)
Liquefied petroleum gas sales	48,725	47,668	2.2%	1,057	3,125	(2,068)
Stable gas condensate sales	41,728	42,528	(1.9%)	(800)	10,507	(11,307)
Other products sales	838	1,015	(17.4%)	(177)	n/a	n/a
Total oil and gas sales	**699,750**	**852,232**	**(17.9%)**	**(152,482)**	**n/a**	**n/a**
Other revenues	12,062	10,571	14.1%	1,491	n/a	n/a
Total revenues	**711,812**	**862,803**	**(17.5%)**	**(150,991)**	**n/a**	**n/a**

(1) The figures reflect the impact of sales volumes and average realized net prices factors on the change in total revenues from hydrocarbons sales in millions of Russian roubles for the respective periods.

(2) The amount of the change in total revenues due to sales volumes is calculated for each product category as a product of the average realized net price for the previous reporting period and the change in sales volumes.

(3) The amount of the change in total revenues due to average realized net prices is calculated for each product category as a product of the volume sold in the current reporting period and the change in average realized net prices.

Natural gas sales

Revenues from natural gas sales represent our revenues from natural gas sales in the Russian Federation (to end-customers and wholesale traders), and revenues from LNG sales to international and domestic markets, as well as revenues from sales of regasified LNG to customers in Europe.

In 2020, our total revenues from natural gas sales decreased by RR 55,804 million, or 13.5%, compared to 2019 primarily due to a decrease in LNG sales volumes and lower gas prices on international markets. The decrease in our LNG sales volumes was due to a decrease in LNG purchases from our joint venture Yamal LNG resulting from an increase in the share of Yamal LNG direct sales under long-term contracts and the corresponding decrease in LNG spot sales to shareholders, including the Group. The impact of these factors was partially offset by an increase in sales prices and volumes in the Russian domestic market (see "Natural gas prices" and "Natural gas sales volumes" above).

Stable gas condensate refined products sales

Stable gas condensate refined products sales represent revenues from sales of naphtha, jet fuel, gasoil and fuel oil produced from our stable gas condensate at the Ust-Luga Complex.

In 2020, our revenues from sales of stable gas condensate refined products decreased by RR 60,498 million, or 26.1%, to RR 171,038 million from RR 231,536 million in 2019 mainly due to a decrease in average realized prices (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" and "Liquids sales volumes" above).

Revenues from sales of naphtha decreased by RR 31,578 million, or 21.8%, as compared to 2019. In the years ended 31 December 2020 and 2019, we exported 4,294 thousand tons and 4,511 thousand tons of naphtha, respectively, mainly to the APR, and the European and North American markets. Our average realized net price, excluding export duties, where applicable, decreased by RR 5,732 per ton, or 17.9%, to RR 26,311 per ton from RR 32,043 per ton in 2019.

Revenues from sales of jet fuel, gasoil and fuel oil decreased by RR 28,920 million, or 33.2%, as compared to 2019. In the years ended 31 December 2020 and 2019, we exported in aggregate 2,259 thousand tons and 2,268 thousand tons of these products mainly to the European markets, or 91.1% and 91.8% of total sales volumes (on both the domestic and export markets), respectively. Our average realized net price, excluding export duties, where applicable, decreased by RR 11,787 per ton, or 33.5%, to RR 23,426 per ton from RR 35,213 per ton in 2019.

Crude oil sales

In 2020, our revenues from crude oil sales decreased by RR 36,260 million, or 31.6%, compared to 2019 mainly due to a decrease in average realized prices and, to a lesser extent, a decrease in sales volumes.

We sold 2,909 thousand tons, or 65.1% of our total crude oil sales volumes, domestically as compared to sales of 2,965 thousand tons, or 61.3%, in 2019 (see "Liquids sales volumes" above). The remaining 1,559 thousand tons of crude oil, or 34.9% of our total crude oil sales volumes, in 2020, and 1,869 thousand tons, or 38.7%, in 2019 were sold to customers with destination points in the APR, the European, the Middle East and the North American (only in 2019) markets.

Our average realized net price, excluding export duties, where applicable, decreased by RR 6,175 per ton, or 26.0%, to RR 17,541 per ton from RR 23,716 per ton in 2019 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Liquefied petroleum gas sales

In 2020, our revenues from sales of LPG increased by RR 1,057 million, or 2.2%, compared to 2019 due to an increase in sales volumes, the effect of which was offset by a decrease in average realized prices.

We sold 2,391 thousand tons of LPG, or 80.8% of our total LPG sales volumes, on the domestic market compared to sales of 2,186 thousand tons, or 78.7%, in 2019 (see "Liquids sales volumes" above). The remaining 568 thousand tons of LPG, or 19.2% of our total LPG sales volumes, in 2020 and 591 thousand tons, or 21.3%, in 2019 were sold primarily to the Polish market.

Our average realized LPG net price, excluding export and import duties, excise and fuel taxes expense, where applicable, in 2020 decreased by RR 699 per ton, or 4.1%, to RR 16,467 per ton from RR 17,166 per ton in 2019 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Stable gas condensate sales

In 2020, our revenues from sales of stable gas condensate decreased by RR 800 million, or 1.9%, compared to 2019 due to a decrease in average realized prices that was almost offset by an increase in volumes sold.

We sold 1,580 thousand tons of stable gas condensate, or 72.8% of our total stable gas condensate sales volumes, on the domestic market as compared to sales of 1,407 thousand tons, or 80.9%, in 2019 (see "Liquids sales volumes" above). The remaining 589 thousand tons of stable gas condensate, or 27.2% of our total stable gas condensate sales volumes, in 2020, and 332 thousand tons, or 19.1%, in 2019 were sold to the European, APR and Middle East (only in 2020) markets.

Our average realized net price, excluding export duties, where applicable, decreased by RR 5,213 per ton, or 21.3%, to RR 19,239 per ton from RR 24,452 per ton in 2019 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Other products sales

Other products sales represent our revenues from sales of purchased oil products (diesel fuel and petrol) through our retail stations, as well as sales of other liquid hydrocarbons, including methanol from our own production. In 2020, our revenues from other products sales decreased by RR 177 million, or 17.4%, to RR 838 million from RR 1,015 million in 2019.

Other revenues

Other revenues include revenue from transportation, geological and geophysical research services, repair and maintenance of energy equipment services, rent and other services.

In 2020, other revenues increased by RR 1,491 million, or 14.1%, to RR 12,062 million from RR 10,571 million in 2019 primarily due to an increase in revenues from leasing of facilities of our LNG construction center located in the Murmansk region, used for the construction of the LNG plant at our Arctic LNG 2 project.

Operating expenses

In 2020, our total operating expenses decreased by RR 88,401 million, or 13.8%, to RR 552,062 million compared to RR 640,463 million in 2019 mainly due to a decrease in average purchase prices for hydrocarbons resulted from a decline in commodity prices on international markets and a decrease in volumes of LNG purchased from our joint venture Yamal LNG due to the reallocation of Yamal LNG sales volumes in favor of long-term contracts sales (see "Purchases of natural gas and liquid hydrocarbons" below).

	Year ended 31 December:			
millions of Russian roubles	2020	% of total revenues	2019	% of total revenues
Purchases of natural gas and liquid hydrocarbons	235,224	*33.0%*	330,818	*38.3%*
Transportation expenses	154,757	*21.7%*	151,651	*17.6%*
Taxes other than income tax	54,501	*7.7%*	61,981	*7.2%*
Depreciation, depletion and amortization	39,238	*5.5%*	32,230	*3.7%*
Materials, services and other	29,577	*4.2%*	25,183	*2.9%*
General and administrative expenses	26,795	*3.8%*	24,568	*2.8%*
Exploration expenses	9,103	*1.3%*	8,386	*1.0%*
Impairment expenses (reversals), net	254	*n/a*	162	*n/a*
Changes in natural gas, liquid hydrocarbons and work-in-progress	2,613	*0.4%*	5,484	*0.6%*
Total operating expenses	**552,062**	***77.6%***	**640,463**	***74.2%***

Purchases of natural gas and liquid hydrocarbons

In 2020, our purchases of natural gas and liquid hydrocarbons decreased by RR 95,594 million, or 28.9%, to RR 235,224 million from RR 330,818 million in 2019.

	Year ended 31 December:		Change
millions of Russian roubles	2020	2019	%
Natural gas	125,844	175,023	(28.1%)
Unstable gas condensate	102,568	138,092	(25.7%)
Other hydrocarbons	12,221	21,775	(43.9%)
Reverse excise	(5,409)	(4,072)	32.8%
Total purchases of natural gas and liquid hydrocarbons	**235,224**	**330,818**	**(28.9%)**

Purchases of natural gas decreased by RR 49,179 million, or 28.1%, as compared to 2019 due to a decrease in LNG purchase prices that are based on natural gas prices at major natural gas hubs and benchmark crude oil prices (see "Selected macro-economic data" above) and a decrease in volumes of LNG purchased from our joint venture OAO Yamal for subsequent sale on international markets. The decrease in LNG purchase volumes from Yamal LNG was due to an increase in the share of direct sales of Yamal LNG under long-term contracts and the corresponding decrease in the share of LNG spot sales to shareholders, including the Group.

Purchases of unstable gas condensate from our joint ventures decreased by RR 35,524 million, or 25.7%, as compared to 2019 due to a decrease in purchase prices, which are primarily impacted by international crude oil and LPG prices excluding export duties (see "Selected macro-economic data" above). The impact of this factor was partially offset by an increase in volumes purchased from Arcticgas due to an increase in hydrocarbon production from the Achimov horizons at the Urengoyskoye field (see "Liquids production volumes" above).

Other hydrocarbon purchases represent our purchases of crude oil, LPG, stable gas condensate, oil products and methanol for subsequent resale depending on the demand for these types of products. Purchases of other hydrocarbons decreased by RR 9,554 million, or 43.9%, as compared to 2019 mainly due to a decrease in volumes of stable gas condensate purchased from Yamal LNG for subsequent sale on international markets, as well as a decrease in hydrocarbon purchase prices resulted from a decline in commodity prices on international markets (see "Selected macro-economic data" above).

We accrue excise tax on volumes of stable gas condensate sent for processing to our Ust-Luga Complex on a monthly basis and simultaneously claim the double excise tax deduction (see "Our tax burden and obligatory payments" above). The net result from these operations is reported as a deduction to our purchases of natural gas and liquid hydrocarbons expenses in the line "Reverse excise" above as most of our unstable gas condensate volumes used to produce stable gas condensate we purchase from our joint ventures.

Transportation expenses

In 2020, our total transportation expenses increased by RR 3,106 million, or 2.0%, to RR 154,757 million as compared to RR 151,651 million in 2019.

millions of Russian roubles	Year ended 31 December: 2020	2019	Change %
Natural gas transportation by trunk and low-pressure pipelines	100,594	97,371	3.3%
Stable gas condensate and liquefied petroleum gas transportation by rail	34,198	32,674	4.7%
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	10,283	8,589	19.7%
Crude oil transportation by trunk pipelines	8,042	9,639	(16.6%)
Other	1,640	3,378	(51.5%)
Total transportation expenses	**154,757**	**151,651**	**2.0%**

Expenses for natural gas transportation by trunk and low-pressure pipelines increased by RR 3,223 million, or 3.3%, to RR 100,594 million from RR 97,371 million in 2019 due to an increase in the proportion of sales to our end-customers located at more distant regions from our production fields in the current reporting period as compared to the previous year and a 1.6% increase in our natural gas sales volumes to our end-customers, for which we incurred transportation expenses.

Expenses for stable gas condensate and LPG transportation by rail increased by RR 1,524 million, or 4.7%, to RR 34,198 million from RR 32,674 million in 2019 mainly due to a 4.8% increase in volumes of liquids sold and transported via rail.

Transportation expenses for our hydrocarbons delivered by tankers to international markets increased by RR 1,694 million, or 19.7%, to RR 10,283 million from RR 8,589 million in 2019. The increase was due to a 11.4% depreciation of the Russian rouble average exchange rate relative to the US dollar since all our tankers transportation expenses are US dollar denominated, as well as changes in the LNG delivery terms and points of destination.

Expenses for crude oil transportation to customers by trunk pipeline decreased by RR 1,597 million, or 16.6%, to RR 8,042 million from RR 9,639 million in 2019 due to an increase in the proportion of sales to our domestic customers located at closer regions from our production fields in the current reporting period as compared to the previous year and a 7.6% decrease in sales volumes.

Other transportation expenses mainly include our short-term vessels time charter expenses related to our revenues from hydrocarbons transportation by tankers rendered to our joint ventures and third parties (see "Other revenues" above), as well as expenses for hydrocarbons transportation by trucks. Short-term vessels time charter expenses decreased to RR 1,436 million from RR 3,078 million in 2019 in line with a dynamics of our revenues from tanker transportation.

Taxes other than income tax

In 2020, taxes other than income tax decreased by RR 7,480 million, or 12.1%, to RR 54,501 million from RR 61,981 million in 2019 due to a decrease in unified natural resources production tax expense.

millions of Russian roubles	Year ended 31 December: 2020	2019	Change %
Unified natural resources production tax (UPT)	50,204	57,935	(13.3%)
Property tax	3,929	3,658	7.4%
Other taxes	368	388	(5.2%)
Total taxes other than income tax	**54,501**	**61,981**	**(12.1%)**

Unified natural resources production tax expense decreased by RR 7,731 million, or 13.3%, to RR 50,204 million from RR 57,935 million in 2019 primarily due to a decline in benchmark crude oil prices, which are used for UPT rates calculation.

Property tax expense increased by RR 271 million, or 7.4%, to RR 3,929 million from RR 3,658 million in 2019 due to the launch of new production assets at the end of 2019 and in the third quarter 2020 (see "Recent developments" above).

Depreciation, depletion and amortization

In 2020, our depreciation, depletion and amortization ("DDA") expense increased by RR 7,008 million, or 21.7%, to RR 39,238 million from RR 32,230 million in 2019 primarily due to additions of new assets: launch of the fields within the North-Russkiy cluster and production facilities of our LNG construction center located in the Murmansk region, used for construction of LNG plant at our Arctic LNG 2 project. We accrue depreciation and depletion on oil and gas assets using the "units-of-production" method and straight-line method for other facilities.

Materials, services and other

In 2020, our materials, services and other expenses increased by RR 4,394 million, or 17.4%, to RR 29,577 million compared to RR 25,183 million in 2019.

millions of Russian roubles	Year ended 31 December: 2020	2019	Change %
Employee compensation	14,027	11,273	24.4%
Repair and maintenance	3,294	2,778	18.6%
Preparation and processing of hydrocarbons	2,323	2,431	(4.4%)
Materials and supplies	1,833	1,945	(5.8%)
Electricity and fuel	1,702	1,551	9.7%
Liquefied petroleum gas volumes reservation expenses	1,205	1,157	4.1%
Fire safety and security expenses	1,152	1,051	9.6%
Transportation services	1,140	924	23.4%
Labor safety expenses	703	91	n/a
Rent expenses	592	591	0.2%
Insurance expense	462	366	26.2%
Other	1,144	1,025	11.6%
Total materials, services and other	**29,577**	**25,183**	**17.4%**

Employee compensation relating to operating personnel increased by RR 2,754 million, or 24.4%, to RR 14,027 million compared to RR 11,273 million in 2019 due to an increase in average number of employees resulting from the launch of new production assets and servicing new assets of our joint ventures (mainly, Arctic LNG 2, and Arcticgas).

Repair and maintenance services expenses increased by RR 516 million, or 18.6%, to RR 3,294 million compared to RR 2,778 million in 2019 mainly due to an increase in current repair works performed on production facilities at our core production subsidiaries. Repair expenses fluctuate period-to-period depending on the assets repair schedule at our production subsidiaries.

Electricity and fuel expenses increased by RR 151 million, or 9.7%, to RR 1,702 million compared to RR 1,551 million in 2019 due to higher electricity prices in 2020, and an increase in the consumption at our core production subsidiaries, resulted, inter alia, from the launch of the fields within the North-Russkiy cluster.

Transportation services and fire safety and security expenses also increased mainly due to the recent launch of new fields.

Labor safety expenses increased by RR 612 million to RR 703 million compared to RR 91 million in 2019 due to necessary precautions taken to protect the safety and well-being of our employees in light of the COVID-19 virus spread.

Other items of our materials, services and other expenses changed marginally.

General and administrative expenses

In 2020, our general and administrative expenses increased by RR 2,227 million, or 9.1%, to RR 26,795 million compared to RR 24,568 million in 2019.

millions of Russian roubles	Year ended 31 December: 2020	2019	Change %
Employee compensation	17,849	17,905	(0.3%)
Social expenses and compensatory payments	4,128	2,503	64.9%
Legal, audit and consulting services	1,289	975	32.2%
Repair and maintenance expenses	947	228	n/a
Advertising expenses	599	531	12.8%
Fire safety and security expenses	581	509	14.1%
Business travel expense	187	720	(74.0%)
Rent expense	184	189	(2.6%)
Other	1,031	1,008	2.3%
Total general and administrative expenses	**26,795**	**24,568**	**9.1%**

Social expenses and compensatory payments increased by RR 1,625 million, or 64.9%, to RR 4,128 million compared to RR 2,503 million in 2019 primarily due to an increase in compensatory payments. In 2020, these payments mainly related to the development of the Yurkharovskoye and West-Yurkharovskoye fields, and the Nyakhartinskiy and West-Yaroyakhinskiy license areas, and amounted to RR 1,602 million. In 2019, compensatory payments amounted to RR 237 million and mainly related to the development of the Geofizicheskoye and North-Obskoye fields. The remaining expenses represented our social expenses and related to continued support of charities and social programs in the regions where we operate. Social expenses and compensatory payments fluctuate period-on-period depending on the implementation schedules of specific programs we support.

Legal, audit, and consulting services expenses increased by RR 314 million, or 32.2%, to RR 1,289 million compared to RR 975 million in 2019 mainly due to an increase in consulting services related to the expansion of the Group's activities.

Repair and maintenance expenses increased by RR 719 million, or 4.2 times, to RR 947 million from RR 228 million in 2019 mainly due to settling in and furnishing of a new office building for our subsidiaries in Novy Urengoy and due to maintenance and operation of other administrative assets.

Business travel expenses decreased by RR 533 million, or 74.0%, to RR 187 million from RR 720 million in 2019 due to COVID-19 travel restrictions and the precautions taken by the Group to protect safety and health in light of the spread of the coronavirus (see "Recent developments" above).

Other items of our general and administrative expenses changed marginally.

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Exploration expenses

In 2020, our exploration expenses amounted to RR 9,103 million, of which the major part related to exploration works at the Gydanskiy, Shtormovoy, Nyakhartinskiy, and North-Russkiy license areas, as well as at the Soletskoye-Khanaveyskoye field and on an offshore block in Lebanon. In 2019, our exploration expenses amounted to RR 8,386 million and related to exploration works performed at the Gydanskiy, Verhnetiuteyskiy and West-Seyakhinskiy, and Nyakhartinskiy license areas.

Exploration works ensure timely preparation of reserves at our promising fields for development and further progress of the Group's hydrocarbons production projects in line with our long-term strategy. Exploration expenses fluctuate period-to-period in accordance with the approved exploration work schedule at our production subsidiaries.

In accordance with our accounting policies, exploration expenses include geological and geophysical research services, expenditures associated with the maintenance of license areas with non-proven reserves, expenses of our science and technology center associated with the exploration activities at our fields, costs related to exploratory wells drilling when reserves are not found, and other expenditures relating to exploration activity.

Impairment expenses

In 2020 and 2019, we recognized net impairment expenses of RR 254 million and RR 162 million, respectively, which in both periods related to impairments of trade accounts receivables.

Changes in natural gas, liquid hydrocarbons and work-in-progress

In 2020, we recorded a charge of RR 2,613 million to changes in inventory expense mainly due to a decrease in the cost of hydrocarbons purchases as a result of a decrease in benchmark crude oil prices, as well as a decrease in natural gas inventory balances. In 2019, we recorded a charge of RR 5,484 million to changes in inventory expense due to a decrease in our hydrocarbons inventory balances.

In 2020 and 2019, our cumulative natural gas inventory balance decreased by 426 mmcm and 986 mmcm, respectively, due to a seasonal withdrawal of natural gas during the period of higher demand to fulfill our contractual sales obligations. Natural gas inventory balances tend to fluctuate period-to-period depending on the Group's demand for natural gas withdrawals for the sale in the subsequent periods.

In the current year, our cumulative liquid hydrocarbons inventory balances, recognized as inventory in transit or in storage, did not change, while in 2019 they decreased by 268 thousand tons mainly due to a decrease in inventory balances of stable gas condensate refined products in storage at our Ust-Luga Complex and in tankers in transit not realized at the reporting date. Inventory balances of stable gas condensate and refined products tend to fluctuate period-to-period depending on shipment schedules and final destination of our shipments.

The following table highlights movements in our hydrocarbons inventory balances:

Inventory balances in transit or in storage	2020 At 31 December	2020 At 1 January	2020 Increase / (decrease)	2019 At 31 December	2019 At 1 January	2019 Increase / (decrease)
Natural gas (millions of cubic meters)	**797**	**1,223**	**(426)**	**1,223**	**2,209**	**(986)**
incl. Gazprom's UGSF	*698*	*982*	*(284)*	*982*	*2,106*	*(1,124)*
Liquid hydrocarbons (thousand tons)	**801**	**801**	**-**	**801**	**1,069**	**(268)**
incl. stable gas condensate						
refined products	*380*	*331*	*49*	*331*	*578*	*(247)*
stable gas condensate	*238*	*272*	*(34)*	*272*	*276*	*(4)*
crude oil	*81*	*94*	*(13)*	*94*	*109*	*(15)*

Net gain on disposal of interests in subsidiaries and joint ventures

In the fourth quarter 2020, the Group sold a 100% participation interest in OOO Chernichnoye to the its joint venture ZAO Terneftegas and recognized a gain on the disposal in the amount of RR 69 million before income tax. Chernichnoye is a holder of the license for exploration and production of hydrocarbons within the Chernichniy license area located in YNAO.

In 2019, we recognized a gain on the disposal of a 40% participation interest in OOO Arctic LNG 2 in the amount of RR 674,968 million before income tax.

In addition, in 2019, the Group recognized a gain from the reorganization of our joint venture AO Arcticgas in the amount of RR 7,765 million.

Other operating income (loss)

Other operating income (loss) includes realized income (loss) from hydrocarbons trading on the international markets, income (loss) from the change in the fair value of the aforementioned contracts, as well as other income (loss) relating to penalty charges, disposal of materials, fixed assets and other transactions. In 2020, we recognized other operating loss of RR 46,807 million compared to other operating loss of RR 35,484 million in 2019.

In both periods, other operating loss was primarily due to recognizing the non-cash revaluation of fair value of contingent consideration related to the sale of a 40% participation interest in OOO Arctic LNG 2 in 2019, resulting from a decrease in long-term crude oil benchmark prices forecast, which may be revised subject to world market conditions and may or may not reflect actual future cash inflows. We recognized a loss of RR 47,823 million and RR 34,542 million in 2020 and 2019, respectively.

In 2020, we purchased and sold approximately 11.3 bcm of natural gas, as well as various derivative commodity instruments within our trading activities, and recognized an aggregate realized income from trading activities of RR 1,479 million as compared to a loss of RR 1,072 million in 2019. At the same time, we recognized non-cash loss of RR 1,689 million in 2020 as a result of a decrease in the fair value of the aforementioned contracts as compared to a non-cash income of RR 238 million in 2019. The effect of the change in fair value of the commodity contracts fluctuates from period-to-period depending on the forecast prices for hydrocarbons on international markets and other macroeconomic parameters and may or may not reflect actual future cash flows from trading activities.

Profit from operations and EBITDA

Our profit from operations in the current reporting period was negatively impacted by unfavorable macroeconomic conditions that are out of the Group's management control, which led to a decrease in our hydrocarbon prices.

In 2020, our profit from operations and EBITDA including our proportionate share of joint ventures, but excluding the effects from the disposal of interests in subsidiaries and joint ventures (mainly, a net gain on disposal and subsequent non-cash revaluation of fair value of contingent consideration related to the transactions on the sale of a 40% participation interest in OOO Arctic LNG 2 in 2019), amounted to RR 274,718 million and RR 392,008 million, respectively, compared to RR 360,463 million and RR 461,157 million in 2019.

Profit from operations and EBITDA of our subsidiaries, excluding the effects from the disposal of participation interests, amounted to RR 160,766 million and RR 201,947 million, respectively, compared to RR 221,398 million and RR 253,552 million in 2019.

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Finance income (expense)

In 2020, we recorded net finance income of RR 160,565 million compared to net finance expense of RR 15,712 million in 2019.

millions of Russian roubles	Year ended 31 December: 2020	2019	Change %
Accrued interest expense on loans received	(10,051)	(9,112)	10.3%
Less: capitalized interest	6,641	5,903	12.5%
Provisions for asset retirement obligations:			
effect of the present value discount unwinding	(960)	(738)	30.1%
Interest expense on lease liabilities and other expenses	(569)	(544)	4.6%
Interest expense	**(4,939)**	**(4,491)**	**10.0%**
Interest income	25,440	20,699	22.9%
Change in fair value of non-commodity financial instruments	(7,397)	12,827	n/a
Foreign exchange gain (loss), net	147,461	(44,747)	n/a
Total finance income (expense)	**160,565**	**(15,712)**	**n/a**

Interest expense increased by RR 448 million, or 10.0% primarily due to depreciation of the average exchange rate of the Russian rouble relative to the US dollar and Euro by 11.4% and 13.7%, respectively.

Interest income increased by RR 4,741 million, or 22.9%, to RR 25,440 million from RR 20,699 million in 2019 primarily due to loans provided to our joint venture OOO Arctic LNG 2.

In 2020, we recognized a non-cash loss of RR 7,397 million compared to a non-cash gain of RR 12,827 million in 2019 due to the remeasurement of the shareholders' loans issued by the Group to our joint ventures in accordance with IFRS 9 *"Financial instruments"*. The effect of the fair value remeasurement of shareholders' loans may change period-to-period due to the change in market interest rates and other macroeconomic parameters and does not affect real future cash flows of loans repayments.

The Group continues to record non-cash foreign exchange gains and losses each reporting period due to movements between currency exchange rates. In 2020, we recorded a net foreign exchange gain of RR 147,461 million compared to a net foreign exchange loss of RR 44,747 million in 2019 due to the revaluation of our foreign currency denominated borrowings and loans received and provided, trade receivables and contingent consideration related to the transactions on the sale of participation interests in Arctic LNG 2, as well as cash balances in foreign currency.

Share of profit (loss) of joint ventures, net of income tax

In 2020, the Group's proportionate share of loss of joint ventures amounted to RR 143,981 million as compared to the share of profit in the amount of RR 149,238 million in 2019.

millions of Russian roubles (Group's share)	Year ended 31 December: 2020	2019	Change %
Share of profit from operations	**113,952**	**139,065**	**(18.1%)**
Share of finance income (expense) excluding foreign exchange effects	**(71,685)**	**(71,301)**	**0.5%**
Interest income (expense), net	(85,502)	(67,770)	26.2%
Change in fair value of non-commodity financial instruments	13,817	(3,531)	n/a
Share of income tax excluding foreign exchange effects	**(5,303)**	**(11,740)**	**(54.8%)**
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects	**36,964**	**56,024**	**(34.0%)**
Share of foreign exchange gain (loss), net	(254,022)	111,733	n/a
Share of income tax related to foreign exchange gain (loss)	42,832	(18,519)	n/a
Total	**(174,226)**	**149,238**	**n/a**
Unrecognized share of losses of joint ventures [(1)]	30,245	-	n/a
Total share of profit (loss) of joint ventures, net of income tax	**(143,981)**	**149,238**	**n/a**

[(1)] Represents the excess of the Group's proportionate share of accumulated losses in the joint venture over the Group's cost of investment.

The following table presents the Group's proportionate share of profit (loss) of our joint ventures by entities:

millions of Russian roubles (Group's share)	Yamal LNG 2020	Yamal LNG 2019	Arcticgas 2020	Arcticgas 2019	Others 2020	Others 2019
Share of profit from operations	**76,020**	**82,190**	**37,657**	**52,994**	**275**	**3,881**
Share of finance income (expense) excluding foreign exchange effects	**(65,789)**	**(67,836)**	**(1,355)**	**(2,087)**	**(4,541)**	**(1,378)**
Interest income (expense), net	(81,398)	(63,214)	(1,355)	(2,087)	(2,749)	(2,469)
Change in fair value of non-commodity financial instruments	15,609	(4,622)	-	-	(1,792)	1,091
Share of income tax excluding foreign exchange effects	**(3,163)**	**(3,044)**	**(5,691)**	**(8,169)**	**3,551**	**(527)**
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects	**7,068**	**11,310**	**30,611**	**42,738**	**(715)**	**1,976**
Share of foreign exchange gain (loss), net	(222,431)	106,910	(22)	1	(31,569)	4,822
Share of income tax related to foreign exchange gain (loss)	36,700	(17,641)	4	-	6,128	(878)
Total	**(178,663)**	**100,579**	**30,593**	**42,739**	**(26,156)**	**5,920**
Unrecognized share of losses of joint ventures [(1)]	27,763	-	-	-	2,482	-
Total share of profit (loss) of joint ventures, net of income tax	**(150,900)**	**100,579**	**30,593**	**42,739**	**(23,674)**	**5,920**

[(1)] Represents the excess of the Group's proportionate share of accumulated losses in the joint venture over the Group's cost of investment.

In the current year, our proportionate share of profit (loss) of joint ventures was significantly impacted by unfavorable macroeconomic conditions, which led to a decrease in hydrocarbons sales prices and a recognition of substantial foreign exchange effects in our joint ventures. In 2020, our proportionate share of profit of joint ventures excluding foreign exchange effects amounted to RR 36,964 million compared to RR 56,024 million in 2019.

Our proportionate share in the profit from operations of our joint ventures decreased by RR 25,113 million, or 18.1%, from RR 139,065 million to RR 113,952 million mainly due to decreases in LNG and liquids average realized prices.

Our proportionate share in interest expense increased by RR 17.7 billion, or 26.2%, due to the Russian rouble depreciation relative to the US dollar and Euro by 11.4% and 13.7%, respectively, and the finalized process of the marine tankers fleet formation in Yamal LNG with the remaining vessels being received during 2019-2020 under long-term time charter agreements. According to IFRS 16 *"Leases"*, a portion of expenses under such agreements is recognized within interest expense.

In 2020, our share in foreign exchange losses amounted to RR 254.0 billion as compared to our share in foreign exchange gains of RR 111.7 billion in 2019. These foreign exchange gains (losses) in both reporting periods were mainly non-cash and primarily related to the revaluation of foreign currency denominated loans in our joint venture Yamal LNG. We assess that the impact of foreign currency risk relating to the debt portfolio of Yamal LNG is largely mitigated by the fact that all of its products are delivered to international markets and its revenues are denominated in foreign currencies.

As a result of the recognition of foreign exchange losses, the Group's proportionate share of accumulated losses in OAO Yamal LNG and OOO Cryogas-Vysotsk exceeded our cost of investment and the Group's investment in these joint ventures was valued at RR nil in the consolidated statement of financial position. The unrecognized share of losses in 2020 amounted to RR 30.2 billion.

Income tax expense

The Russian statutory income tax rate for both reporting periods was 20%.

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

Without the effect of net profit (loss) from joint ventures and excluding the effects from the disposal of interests in subsidiaries and joint ventures, the effective income tax rate (total income tax expense calculated as a percentage of profit before income tax) for the years ended 31 December 2020 and 2019 was 18.8% and 16.7%, respectively.

Profit attributable to shareholders and earnings per share

As a result of the factors discussed in the respective sections above, profit attributable to shareholders of PAO NOVATEK decreased by RR 797,645 million to RR 67,832 million in 2020 compared to RR 865,477 million in 2019.

The Group's financial results in the current reporting period were significantly impacted by unfavorable macroeconomic conditions, which led to a decrease in our hydrocarbons sales prices and a recognition of substantial foreign exchange effects.

In addition, in both reporting periods, we recorded the effects from the disposal of interests in the Arctic LNG 2 project by recognizing a gain in the aggregate amount of RR 675.0 billion from the disposal of a 40% participation interest in the Arctic LNG 2 project in 2019 and recognizing in 2019 and 2020 losses in the amount of RR 34.5 billion and RR 47.8 billion, respectively, related to the subsequent non-cash revaluation of contingent consideration on these transactions. In 2019, we also recognized a gain from the reorganization of our joint venture AO Arcticgas in the amount of RR 7,8 billion.

Excluding the effects from the disposal of interests in subsidiaries and joint ventures and foreign exchange gains (losses), our profit attributable to shareholders of PAO NOVATEK decreased by RR 75,982 million, or 31.0%, and amounted to RR 169,020 million in 2020 compared to RR 245,002 million in 2019.

Reconciliation of normalized profit attributable to shareholders of PAO NOVATEK is as follows:

millions of Russian roubles	Year ended 31 December: 2020	2019	Change %
Profit attributable to shareholders of PAO NOVATEK	**67,832**	**865,477**	**(92.2%)**
Gain on disposal of interests in subsidiaries and joint ventures, net	(69)	(682,733)	(100.0%)
Income tax expense related to the disposal of interests in subsidiaries and joint ventures	23	92,040	(100.0%)
Changes in fair value of contingent consideration reported within the "Other operating income (loss)"	47,823	34,542	38.4%
Income tax expense (benefit) related to changes in fair value of contingent consideration	(9,565)	(6,908)	38.5%
Normalized profit attributable to shareholders of PAO NOVATEK	**106,044**	**302,418**	**(64.9%)**
including:			
profit from subsidiaries	250,025	153,180	63.2%
share of profit (loss) of joint ventures	(143,981)	149,238	n/a

Reconciliation of normalized profit attributable to shareholders of PAO NOVATEK excluding the effect of foreign exchange gains (losses) is as follows:

millions of Russian roubles	Year ended 31 December: 2020	2019	Change %
Normalized profit from subsidiaries attributable to shareholders of PAO NOVATEK	**250,025**	**153,180**	**63.2%**
Foreign exchange (gains) losses, net	(147,461)	44,747	n/a
Income tax expense relating to foreign exchange (gains) losses	29,492	(8,949)	n/a
Normalized profit from subsidiaries attributable to shareholders of PAO NOVATEK excluding the effect of foreign exchange gains (losses)	**132,056**	**188,978**	**(30.1%)**
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects (1)	36,964	56,024	(34.0%)
Normalized profit attributable to shareholders of PAO NOVATEK, excluding the effect of foreign exchange gains (losses)	**169,020**	**245,002**	**(31.0%)**

(1) See "Share of profit (loss) of joint ventures, net of income tax" above.

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of PAO NOVATEK decreased by RR 264.81 per share to RR 22.58 per share in 2020 from RR 287.39 per share in 2019. Excluding the effects from the disposal of interests in subsidiaries and joint ventures and foreign exchange gains (losses), our weighted average basic and diluted earnings per share decreased by RR 25.09, or 30.9%, to RR 56.26 per share in 2020 from RR 81.35 per share in 2019.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

The following table shows our net cash flows from operating, investing and financing activities for the years ended 31 December 2020 and 2019:

millions of Russian roubles	Year ended 31 December: 2020	2019	Change %
Net cash provided by **operating** activities	171,896	307,433	(44.1%)
Net cash used for **investing** activities	(47,872)	(169,044)	(71.7%)
Net cash used for **financing** activities	(78,075)	(119,448)	(34.6%)

Net cash provided by operating activities

Our net cash provided by operating activities decreased to RR 171,896 million compared to RR 307,433 million in 2019 due to a decrease in profit from operations, excluding the effects from the disposal of interests, net of related income tax, as well as a decrease in interest on loans and dividends received from our joint ventures.

millions of Russian roubles	Year ended 31 December: 2020	2019	Change %
Profit from operations, excluding the effects from the disposal of interests in subsidiaries and joint ventures	160,766	221,398	(27.4%)
Non-cash adjustments (1)	43,121	31,860	35.3%
Changes in working capital and long-term advances given	(10,876)	(4,227)	157.3%
Dividends and cash received from joint ventures	11,420	46,050	(75.2%)
Interest received	8,442	47,413	(82.2%)
Income taxes paid excluding actual payments relating to disposal of interests in subsidiaries and joint ventures	(40,977)	(35,061)	16.9%
Total net cash provided by operating activities	**171,896**	**307,433**	**(44.1%)**

(1) Include adjustments for depreciation, depletion and amortization, net impairment expenses (reversals), change in fair value of non-commodity financial instruments and some other adjustments.

In 2020, profit from operations excluding the effects from the disposals of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration), adjusted for non-cash items decreased due to a decline in hydrocarbon prices on international markets compared to 2019.

Income tax payments, on the contrary, increased in 2020 as a result of the recognition of significant foreign exchange gains in our subsidiaries as compared to foreign exchange losses in 2019.

In the year ended 31 December 2020, we received RR 10,750 million and RR 670 million of dividends and cash distributed in favor of the Group from our joint ventures Arcticgas and Terneftegas, respectively. In the year ended 31 December 2019, we received RR 45,500 million and RR 550 million of dividends from our joint ventures Arcticgas and Nortgas, respectively.

In 2020 and 2019, we received approximately RR eight billion and RR 47 billion, respectively, of interest on loans provided to our joint ventures Yamal LNG and Terneftegas.

Net cash used for investing activities

In 2020, our net cash used for investing activities decreased by RR 121,172 million, or 71.7%, to RR 47,872 million compared to RR 169,044 million in 2019.

millions of Russian roubles	Year ended 31 December: 2020	2019	Change %
Cash used for capital expenditures	(204,577)	(162,502)	25.9%
Proceeds from disposal of interests in subsidiaries and joint ventures, net of cash disposed	195,479	136,541	43.2%
Actual income tax payments relating to disposal of interests in subsidiaries and joint ventures	(23)	(64,540)	(100.0%)
Payments for mineral licenses	(434)	(7,827)	(94.5%)
Loans provided to joint ventures	(120,798)	(29,664)	307.2%
Repayments of loans provided to joint ventures	41,543	20,764	100.1%
Net decrease (increase) in bank deposits with original maturity more than three months	43,057	(58,945)	n/a
Capital contributions to joint ventures	-	(298)	n/a
Other	(2,119)	(2,573)	(17.6%)
Net cash used for investing activities	**(47,872)**	**(169,044)**	**(71.7%)**

In 2020, cash used for capital expenditures increased by RR 42,075 million, or 25.9%, as compared to 2019. A significant part of the capital investments related to our LNG projects (the Arctic LNG 2 project prior to March 2019, the LNG construction center located in the Murmansk region and the Obskiy LNG project), ongoing development of our producing fields, preparation for the commencement of commercial production at our new fields, as well as exploratory drilling (see "Capital expenditures" below).

In 2019, the Group sold a 40% participation interest in OOO Arctic LNG 2 to four new participants. Consideration under these transactions includes cash payments of USD 5.2 billion equivalent (USD 1.3 billion by each participant). The first part of these cash payments in the aggregate amount of RR 152,531 million (the equivalent of USD 2.4 billion) was received in 2019. Excluding the cash balance in OOO Arctic LNG 2 as at the first transaction closing date, the net cash inflow from the transactions amounted to RR 136,541 million. The second part of cash payments in the aggregate amount of RR 195,324 million (the equivalent of USD 2.8 billion) was received in 2020. Income tax accrued in relation to these transactions in the amount of RR 64,540 million was paid in 2019.

In the current year, we also received the first payments in the amount of RR 155 million for the sale of a 100% participation interest in OOO Chernichnoye to our joint venture ZAO Terneftegas and paid income tax accrued in relation to this transaction in the amount of RR 23 million (see "Recent developments" above).

In 2020, we made final payments in the aggregate amount of RR 317 million for the acquisition of the licenses for the East-Ladertoyskiy, the South-Yamburgskiy and the Bukharinskiy license areas, and also made a one-time payment fee to expand the borders of our Ust-Yamsoveyskiy license area in the amount of RR 58 million. In addition, in both periods, we paid a part of a one-time payment fee for the exploration and production license for our discovered Kharbeyskoye field in the amount of RR 59 million. In 2019, we made a final payment in the amount of RR 2,006 million for the acquisition of a license for the South-Leskinskiy license area, paid RR 2,586 million for the acquisition of a license for the license area, which includes the Soletskoye-Khanaveyskoye field, as well as paid RR 3,176 million for participation in the auctions for the right to use the East-Ladertoyskiy, the South-Yamburgskiy and the Bukharinskiy license areas.

In 2020, we provided loans in the aggregate amount of RR 120,798 million compared to RR 29,664 million in 2019. In both reporting periods, we provided loans to our joint ventures for developing their activities, mainly to OOO Arctic LNG 2 and Yamal LNG (only in 2019). At the same time, in both years, the Group received partial repayments of the loans provided to our joint ventures Yamal LNG and Terneftegas in the aggregate amount of RR 41,543 million in 2020 and RR 20,764 million in 2019.

The Group's cash management involves periodic cash placement on bank deposits with different maturities. Deposits are reported in "Cash and cash equivalents" if opened for three months or less, or otherwise in "Short-term bank deposits with original maturity more than three months". Transactions with bank deposits with original maturity more than three months are classified as investing activities in the Consolidated Statement of Cash Flows. In 2020, the net decrease in bank deposits with original maturity more than three months amounted to approximately RR 43 billion compared to the net increase in the amount of RR 59 billion in 2019.

In 2019, we made capital contributions to our joint venture Rostock LNG GmbH in the amount of RR 248 million and to our joint venture OOO SMART LNG in the amount of RR 50 million.

Net cash used for financing activities

In 2020, our net cash used for financing activities decreased by RR 41,373, or 34.6%, to RR 78,075 million as compared to RR 119,448 million in 2019.

millions of Russian roubles	Year ended 31 December: 2020	2019	Change %
Dividends paid to shareholders of PAO NOVATEK	(89,857)	(93,468)	(3.9%)
Dividends paid to non-controlling interest	(11,858)	(16,758)	(29.2%)
Proceeds from (repayments of) long-term debt, net	39,460	(2,176)	n/a
Net increase (decrease) in short-term debt with original maturity three months or less	36	-	n/a
Loan commitment fee	(534)	-	n/a
Purchase of treasury shares	(8,271)	(1,865)	343.5%
Payments of lease liabilities	(4,649)	(2,944)	57.9%
Interest on debt paid	(2,402)	(2,237)	7.4%
Net cash used for financing activities	**(78,075)**	**(119,448)**	**(34.6%)**

In both reporting periods, our major financing cash flows related to payment of dividends.

In addition, in 2020, the Group obtained a long-term loan from a Russian bank under a non-revolving credit line facility in the amount of RR 45,395 million (EUR 500 million). In both periods, the Group also partially repaid a loan obtained from China's investment fund Silk Road Fund in the amount of RR 4,928 million (USD 70 million) and RR 2,176 million (USD 35 million), respectively, and, in 2020, fully repaid a long-term loan obtained under a credit line facility from a Russian bank in the amount of RR 1,007 million.

Other cash flows from financing activities related primarily to purchase of treasury shares and payments of lease liabilities.

Liquidity and working capital

The following table shows the Group's liquidity and credit measures as of 31 December 2020 and 2019:

	31 December 2020	31 December 2019	Change, %
Absolute amounts, RR million			
Net debt [(1)]	39,557	15,106	161.9%
Net working capital position [(2)]	202,938	379,383	(46.5%)
Liquidity and credit ratios			
Current ratio [(3)]	2.27	4.24	(46.5%)
Total debt to total equity	0.14	0.09	55.6%
Long-term debt to long-term debt and total equity	0.09	0.08	12.5%
Net debt to total capitalization [(4)]	0.02	0.01	100.0%
Net debt to normalized EBITDA from subsidiaries [(5)]	0.20	0.06	233.3%
Interest coverage ratio [(6)]	20	28	(28.6%)

(1) Net debt represents total debt less cash, cash equivalents and bank deposits with original maturity more than three months.

(2) Net working capital position represents current assets less current liabilities.

(3) Current ratio is calculated as current assets divided by current liabilities.

(4) Total capitalization represents total debt, total equity and deferred income tax liability.

(5) Net debt to normalized EBITDA from subsidiaries ratio is calculated as Net debt divided by EBITDA from subsidiaries excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration) for the last twelve months.

(6) Interest coverage ratio is calculated as normalized EBITDA from subsidiaries divided by accrued interest on debt, including capitalized interest.

The Group has consistently demonstrated sustainable operating and financial results and had generated cumulative positive free cash flow. Thus, in 2020, the Group had sufficient liquidity to increase investments in our main projects despite unfavorable macroeconomic conditions (see "Current economic environment" above). The Group's management believes that it presently has and will continue to have the ability to generate sufficient cash flows (from operating and financing activities) to repay all its current liabilities as they become due and to finance the Group's capital construction programs.

Capital expenditures

In both reporting periods, our capital expenditures represent our investments primarily relating to developing our oil and gas assets. The following table shows capital expenditures at our main fields, processing facilities and other assets:

	Year ended 31 December:	
millions of Russian roubles	2020	2019
Infrastructure for future LNG projects [(1)]	72,838	43,013
Arctic LNG 2 project [(2)]	-	19,147
North-Russkiy cluster [(3)]	39,692	37,843
Obskiy LNG project	15,816	7,766
Ust-Luga Complex	7,781	3,288
Yarudeyskoye field	5,769	7,013
Geofizicheskoye field	5,723	3,506
Yurkharovskoye field	5,398	3,484
Beregovoye field	5,143	5,923
Gydanskiy license area	4,318	2,618
West-Yurkharovskoye field	4,121	5,213
Ust-Yamsoveyskiy license area	4,066	539
East-Tarkosalinskoye field	3,951	6,333
Yevo-Yakhinskiy license area	2,741	-
Gas condensate pipeline expansion	1,607	4
Novatek Green Energy [(4)]	1,402	875
Nyakhartinskiy license area	1,097	960
NOVATEK-Chelyabinsk	986	1,236
West-Yaroyakhinskiy license area	846	716
NOVATEK-AZK	770	1,034
South-Khadyryakhinskiy license area	752	1,806
Administration facilities	10,147	7,132
Other	13,742	5,477
Capital expenditures	**208,706**	**164,926**

(1) Mainly includes expenditures related to the project for the LNG construction center located in the Murmansk region.

(2) Capital expenditures are reported before the sale of a 10% participation interest in OOO Arctic LNG 2 to TOTAL S.A. group in March 2019.

(3) Includes expenditures related to the North-Russkoye, the East-Tazovskoye, the Dorogovskoye and the Kharbeyskoye fields.

(4) Prior to February 2020 was named Novatek Polska Sp. z o.o.

Total capital expenditures on property, plant and equipment in 2020 increased by RR 43,780 million, or 26.5%, to RR 208,706 million from RR 164,926 million.

In both reporting periods, a significant part of our capital expenditures related to the development of our LNG projects, in particular the Arctic LNG 2 project (before the disposal of a 10% participation interest in March 2019), the LNG construction center located in the Murmansk region and the Obskiy LNG.

In addition, we invested in the development and launch of the fields within the North-Russkiy cluster: further development of the North-Russkoye field, the launch and the development of the East-Tazovskoye and Dorogovskoye fields, as well as the preparation for production commencement at the Kharbeyskoye field (see "Recent developments" above). We also continued the ongoing development of our producing fields (the Beregovoye, Yurkharovskoye and West-Yurkharovskoye fields, development activities at the East-Tarkosalinskoye and the Yarudeyskoye fields' crude oil deposits), the development of the Ust-Yamsoveyskiy license area and exploratory drilling, which in 2020 was mainly conducted at the Kharbeyskoye and Geofizicheskoye fields, as well as at the Gydanskiy and Yevo-Yakhinskiy license areas.

In both reporting periods, we continued to invest in the project for construction of a hydrocracker unit at our Ust-Luga Complex, which will allow us to increase the depth of processing of stable gas condensate and output of light oil products.

In 2020, we invested in "Yurkharovskoye field – Purovsky Plant" gas condensate pipeline expansion to increase its capacity for gas condensate transportation from the North-Russkiy cluster fields.

We also continued to expand the filling stations network at our subsidiary NOVATEK-AZK and to develop our LPG and LNG wholesale and retail network through our subsidiary Novatek Green Energy Sp. z o.o. (prior to February 2020 Novatek Polska Sp. z o.o.).

Capital expenditures of our subsidiary NOVATEK-Chelyabinsk in both reporting periods mainly related to the construction of a small-scale LNG plant in the Chelyabinsk region.

The "Administration facilities" line in the table above represents our capital expenditures of an administrative nature, of which a significant part related to construction of our new office buildings in Moscow and Novy Urengoy (in 2019).

The "Other" line represents our capital expenditures related to other fields and processing facilities of the Group, as well as unallocated capital expenditures as of the reporting date. The allocation of capital expenditures by fields or processing facilities takes place upon the completion of the fixed assets construction stages and depends on the approved fixed assets launch schedule.

The following table presents the reconciliation of our capital expenditures and additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements, and cash used for capital expenditures:

	Year ended 31 December:		Change
millions of Russian roubles	2020	2019	%
Total additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements	**210,037**	**176,985**	**18.7%**
Less: acquisition of mineral licenses	(375)	(7,768)	(95.2%)
Less: right-of-use assets [(1)] additions	(956)	(4,291)	(77.7%)
Capital expenditures	**208,706**	**164,926**	**26.5%**
Less: advance payments under lease agreements	(801)	-	n/a
Add (less): change in accounts payable, capitalized foreign exchange losses and other non-cash adjustments	(3,328)	(2,424)	37.3%
Cash used for capital expenditures [(2)]	**204,577**	**162,502**	**25.9%**

(1) Related mainly to long-term agreements on energy equipment leases and office premises rentals in 2020 and to long-term agreements on time chartering of marine tankers in 2019.

(2) Represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries and joint ventures.

In 2020, we made final payments in the aggregate amount of RR 317 million for the auctions won in December 2019 for the right to use the East-Ladertoyskiy, South-Yamburgskiy and Bukharinskiy license areas (an advance payment of RR 3,176 million was made in the end of 2019). In addition, we paid a one-time fee in the amount of RR 58 million to expand the borders of the Ust-Yamsoveyskiy license area (see "Net cash used for investing activities" above).

In 2019, the Group won auctions for geological research works, exploration and production of hydrocarbons at the Soletsko-Khanaveyskiy, South-Yamburgskiy, East-Ladertoyskiy and Bukharinskiy license areas and paid in the aggregate RR 5,762 million. In addition, in 2019, we made a final payment of RR 2,006 million for the auction won in November 2018 for the right to use the South-Leskinskiy license area.

QUANTITATIVE AND QUALITATIVE DISCLOSURES AND MARKET RISKS

We are exposed to market risk from changes in commodity prices, foreign currency exchange rates and interest rates. We are exposed to commodity price risk as our prices for crude oil, stable gas condensate and refined products destined for export sales are linked to international crude oil prices and other benchmark price references. We are exposed to foreign exchange risk to the extent that a portion of our sales, costs, receivables, loans and debt are denominated in currencies other than Russian roubles. We are subject to market risk from changes in interest rates that may affect the cost of our financing. From time to time we may use derivative instruments, such as commodity forward contracts, commodity price swaps, commodity options, foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks, and we may hold or issue derivative or other financial instruments for trading purposes.

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the Russian rouble relative to the US dollar and the Euro. As of 31 December 2020, all our debt was denominated in foreign currencies. Changes in the value of the Russian rouble relative to foreign currencies will impact the value in Russian rouble terms of our foreign currency-denominated costs, debt, receivables at our foreign subsidiaries and loans provided to our joint ventures. We believe that the risks associated with our foreign currency exposure are partially mitigated by the fact that 43.5% of our total revenues in 2020 was denominated in foreign currencies.

In addition, our share of profit (loss) of joint ventures is also exposed to foreign currency exchange rate movements due to the significant amount of foreign currency-denominated borrowings in our joint ventures, mostly in Yamal LNG. We assess that the impact of foreign currency risk relating to the debt portfolio of Yamal LNG is to a large extent mitigated by the fact that all of its products are delivered to international markets and its revenues are denominated in foreign currencies.

As of 31 December 2020, the Russian rouble depreciated by 19.3% and 30.8% against the US dollar and the Euro, respectively, compared to 31 December 2019.

Commodity risk

Our export prices for natural gas, stable gas condensate and refined products, LPG and crude oil are primarily linked to international natural gas, crude oil and oil products prices and/or a combination thereof. External factors such as geopolitical developments, natural disasters and the actions of the Organization of Petroleum Exporting Countries affect crude oil prices and thus our export prices.

The weather is another factor affecting demand for natural gas. Changes in weather conditions from year to year can influence demand for natural gas and to some extent stable gas condensate and refined products.

From time to time we may employ derivative instruments to mitigate the price risk of our sales activities. In our consolidated financial statements, all derivative instruments are recognized at their fair values. Unrealized gains or losses on derivative instruments are recognized within other operating income (loss), unless the underlying arrangement qualifies as a hedge.

Within our trading activities, the Group purchases and sells natural gas on the European market under long-term contracts based on formulas with reference to benchmark natural gas prices quoted for the North-Western European natural gas hubs, crude oil and oil products prices and/or a combination thereof. Therefore, the Group's financial results from natural gas foreign trading activities are subject to commodity price volatility based on fluctuations or changes in the respective benchmark reference prices.

Pipeline access

We transport substantially all of our natural gas within the Russian Federation territory through the Gas Transmission System ("GTS") owned and operated by PAO Gazprom, which is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in the domestic market. Under existing legislation, Gazprom must provide access to the GTS to all independent suppliers on a non-discriminatory basis provided there is capacity available that is not being used by Gazprom. In practice, Gazprom exercises considerable discretion over access to the GTS because it is the sole owner of information relating to capacity. There can be no assurance that Gazprom will continue to provide us with access to the GTS; however, we have not been denied access in prior periods.

Ability to reinvest

Our business requires significant ongoing capital expenditures in order to grow our production and meet our strategic plans. An extended period of reduced demand for our hydrocarbons available for sale and the corresponding revenues generated from these sales would limit our ability to maintain an adequate level of capital expenditures, which in turn could limit our ability to increase or maintain current levels of production and deliveries of natural gas, gas condensate, crude oil and other associated products; thereby, adversely affecting our financial and operating results.

Forward-looking statements

This report includes forward-looking statements concerning future possible events that can impact operational and financial results of the Group. Forward-looking statements can be identified by words such as "believes", "anticipates", "expects", "estimates", "intends", "plans" and similar expressions. Forward-looking statements are made based on the current situation with definite and indefinite risks and uncertainties. Actual future results could differ materially from those discussed in the forward-looking statements as they are dependent on various factors beyond and under the control of management.

Off balance sheet activities

As of 31 December 2020, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.

TERMS AND ABBREVIATIONS

APR	Asian-Pacific Region
bbl	barrel
bcm	billion cubic meters
boe	barrels of oil equivalent
btu	British thermal unit
CBR	Central Bank of Russian Federation
CIF	"Cost, insurance and freight"
DDA	depreciation, depletion and amortization
FEED	Front-End Engineering Design
FID	Final Investment Decision
Forecast of the Ministry of Economic Development	The document *"Forecast of Socio-economic Development of the Russian Federation for the period till 2024"* prepared by the Ministry of Economic Development of the Russian Federation or the similar document prepared for another period
GTS	Gas Transmission System part of the UGSS
IFRS	International Financial Reporting Standards
List	the OFAC's Sectoral Sanctions Identification List
LNG	liquefied natural gas
LPG	liquefied petroleum gas
mcm	thousand cubic meters
MET	mineral extraction tax
Murmansk yard	LNG construction center located in the Murmansk region
NBP	National Balancing Point
NGL	natural gas liquids
OFAC	U.S. Treasury Department's Office of Foreign Assets Control
PRMS	Petroleum Resources Management System
Purovsky Plant	Purovsky Gas Condensate Plant
Regulator	A federal executive agency of the Russian Federation that carries out governmental regulation of prices and tariffs for products and services of natural monopolies in energy, utilities and transportation. Effective July 2015, Federal Anti-Monopoly Service fulfills the Regulator's role.
RR	Russian rouble(s)
RZD	OAO Russian Railways, Russia's state-owned monopoly railway operator
SEC	Securities and Exchange Commission
Tobolsk Refining Facilities	Tobolsk petrochemical complex of PAO SIBUR Holding group
TTF	Title Transfer Facility
UGSF	Underground Gas Storage Facilities
UGSS	Unified Gas Supply System owned and operated by PAO Gazprom
UPT	unified natural resources production tax
USD, US dollar	United States Dollar
Ust-Luga Complex	Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea
VAT	value added tax
YNAO	Yamal-Nenets Autonomous Region

RESPONSIBILITY STATEMENT

I hereby confirm that to the best of my knowledge:

(a) the set of financial statements, which has been prepared in accordance with International Accounting Standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the consolidation as a whole as required by the Disclosure and Transparency Rule (DTR) 4.1.6R,

(b) the management report includes a fair review of the information required by DTR 4.1.9R-4.1.11R, being a balanced and comprehensive analysis of development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the company faces.

Mark Gyetvay,

Deputy Chairman of the Management Board

APPROVED

by a resolution of the Annual General Meeting of Shareholders of PAO NOVATEK

on 23 April 2021 Minutes No. 136

PRE-APPROVED

by a resolution of the Board of Directors of PAO NOVATEK

on 19 March 2021 Minutes No. 240

DATA ACCURACY CERTIFIED

by PAO NOVATEK's Revision Commission

on 2 March 2021

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